UNITED NATIONS

E

Economic and Social Council

Distr.
GENERAL

ECE/CES/GE.20/2008/16
7 April 2008

Original: ENGLISH

ECONOMIC COMMISSION FOR EUROPE

CONFERENCE OF EUROPEAN STATISTICIANS

Joint UNECE/Eurostat/OECD Meeting on National Accounts

Ninth Meeting
Geneva, 21-24 April 2008
Item 3 of the provisional agenda

STRATEGY FOR THE IMPLEMENTATION OF SNA REV.1

Strategy of implementation of the updated System of National Accounts in the Russian Federation

Note by the Federal Service for State Statistics (RosStat), Russian Federation[1]

Summary

The paper provides an overview of the implementation of the 1993 System of National Accounts (SNA 1993) in the Russian Federation and of the Rosstat plans to introduce the SNA 1993 Rev.1. It focuses on the main recommendations in the SNA 1993 Rev.1 and explores their applicability to the Russian practice and the difficulties that need to be overcome in order to collect the necessary data and compile the required estimates.

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[1] This paper has been prepared at the invitation of the UNECE secretariat.

I. REVIEW OF THE CURRENT SITUATION

1.   Introduction of the System of National Accounts (SNA) into Russian statistical practice was initiated in 1991 on the basis of the SNA 1993. During the years passed since 1991 the fundamentally new informational and technological base of the statistics was set up, major classifications were transformed in accordance with the international standards, problems of juridical foundation of statistics were solved, qualified personnel was prepared. Aggregates of the SNA are widely used for macroeconomic analysis and forecasting. The number of users of national accounts data has increased significantly.

2.   At present time the full sequence of accounts of the SNA 1993 is compiled except for some accounts and tables (financial account, other changes in volume of assets account, revaluation account, balance sheets). Individual elements of the financial account for the general government sector and the household sector are also compiled.

3.   The production account and the generation of income account are compiled by industries. Prior to 2003 the Classification by Branches of the National Economy (CBNE) applied in the former USSR was used and starting from 2003 the national Russian Classification by Kind of Economic Activities (RCKEA) harmonized with the Statistical classification of economic activities in the European Community (NACE, Rev.1) was introduced. Compilation of production accounts and generation of income accounts is carried out at the level of 140 groupings of RCKEA. Data are published at the level of sections of RCKEA. The relatively high level of aggregation of published data is due to the fact that the introduction of RCKEA was not accompanied by introduction of a product classification harmonized with it. For that reason at the detailed level of kinds of activities it was not possible to secure reasonably consistent system of value, volume and price indicators. The work on introduction of the product classification harmonized with the ISIC was initiated in the beginning of 2008.

4.   In the context of compilation of national accounts the following sectors are distinguished: corporations, general government, NPISH and households.

5.   In order to improve the compilation of accounts for the institutional sectors the classification of institutional units by sectors was developed. This classification is used at present time as a basis for the methodological and organizational work aimed at obtaining statistical information needed for compilation of institutional sectors accounts.

6.   During recent years considerable changes have been introduced in the classification of revenue and expenditure of the state budget of the Russian Federation. This required revision of the procedures for compilation of the general government sector accounts which rely on conversion keys from the budget classification of expenditure by functions of the general government (COFOG) to the categories of the classification by kind of economic activities. Some efforts are also needed to secure consistency between the categories of the state budget economic classification of expenditure and the definitions of economic transactions in the SNA. As a result of the work which has been done during recent years the general government sector accounts for 2005-2006 have been developed and the indicators of production and generation of income accounts have been compiled according to the categories of RCKEA, while indicators of expenditure have been presented for the first time according to COFOG.

Considerable changes in the budget classification are expected to be introduced in 2008 and this will require again revision of the methodology for compilation of the general government sector accounts.

7.   As was noted above, commencing from 2003 in Russian statistical practice new classification by kind of economic activities (RCKEA) has been introduced. There were some implications for the construction of input-output tables associated with the need to accommodate new classification groupings. The need to compile input-output tables was obvious but the progress with the work in this area has been hampered by a number of problems. Firstly, the introduction of RCKEA was not accompanied by simultaneous introduction of the product classification harmonized with it and secondly, current statistical observations did not make it possible to obtain data needed to establish the structure of intermediate consumption. Considering the high importance of input-output tables for securing consistency between production accounts and data on disposition of goods and services it was decided to develop experimental input-output tables on the basis of limited information and experts estimates. The tables were compiled for 2005-2006 and in the published version 15 industries and 15 product groupings were distinguished. These tables secure adequate description of the proportions of the economy for 2005-2006.
At present time the preparatory work for compilation of input-output tables for 2010 has been initiated.

8.   The methodology of compilation of all accounts is by and large consistent with the provisions of the SNA 1993. However, due to peculiarities in the organization of the economy of the individual sectors as well as in current juridical norms and acts there are some deviations in the methodology of compilation of individual indicators of the accounts. The major problem areas refer to valuation of housing rentals and treatment of FISIM.

9.   The current methodology for computation of rentals on dwellings is influenced by peculiarities in their exploitation and financing expenditure on maintenance of dwellings. On one hand, the former system of financing expenditure on maintenance of dwellings is used, on the other hand, market of dwellings develops and new methods for their maintenance and its financing are used. Expenditure on maintenance of dwellings irrespective of the type of ownership is partly covered from the state budget. Some categories of households receive subsidies to finance payments of rentals. At present time market rentals can be established only with respect to dwellings rented out by households to other households, but it is not possible to use these market prices for the remaining dwellings since a register of the dwelling fund is not available.

10.   In the national accounts of Russia the mixed method is used for computation of rentals for dwellings. In cases when a household actually rents dwelling out to another household the value of housing services is taken to be equal to the actual payments of rentals; services on living in own private dwellings are valued at cost of their maintenance; services on living in multi-apartment buildings are taken equal to the sum of actual payments of rentals and subsidies. As the market of dwellings develops and reforms in this area are carried out, the methodological principles for valuation of rentals of dwellings will be revised in order to make them more consistent with the SNA 1993.

11.   In national accounts of Russia the use of FISIM is treated as intermediate consumption of a notional industry, whose output is assumed to equal 0.

12.   In accordance with the provisions of the European System of Accounts (ESA) 1995, starting from 1995 some aggregates of the national accounts are computed on a regional basis. For all subjects (regions) of the Russian Federation the following indicators are computed: gross regional product (gross value added in basic prices), actual final consumption of households on the territory of the region, gross fixed capital formation, gross operating surplus and gross mixed income.

II.   STRATEGY FOR TRANSITION TO THE UPDATED SYSTEM OF NATIONAL ACCOUNTS

13.   ROSSTAT considers the process of updating the SNA 1993 as a natural reaction to the changes during last years in the organization of the economy and the social sphere in many countries of the world, as well as to the deepening processes of globalization. These changes and processes also take place in Russia. The last 17 years have witnessed the transformation of the centrally planned economy into market economy which is increasingly integrated into the world economy. Privatization of the state property is actively carried out and this results in changes in the institutional structure of the economy.

14.   At the same time some features of the transition economy are still characteristic for Russia, especially the system of social security, the pension system, insurance and finance. In these areas the transformation and establishing of market economy institutions occur slowly.

15.   The majority of the specific provisions in the updated SNA 1993 are conceptually applicable to Russia, except for those which are not in line with the organization of individual segments of the economy and the social sphere for example, in the field of organization of the pension system.

16.   Implementation of the updated SNA 1993 in Russia will require methodological and organizational efforts on the part of national accountants and, above all, in improving the system of primary information including reorganization of the data sources and improving the interaction between various state agencies involved in the compilation of macroeconomic statistics.

17.   The work on implementation of the updated SNA will start with comprehensive analysis of the new system. It will be carried out in parallel with the introduction in practice of those sections of the current SNA 1993 which have not been implemented yet by ROSSTAT and will require relatively long period of time. Therefore to secure successful realization of this objective it would be desirable to set up priorities and stages of this work.

18.   Establishing priorities should rely upon the analysis of the recommendations of the updated SNA along the following lines:
    (a) Demand of specific types of information from major of data users of the SNA and, above all, from the general government institutions;

(b) Relevance of the specific provisions of the System to the peculiarities in the structure of the economy and the social sphere;

(c) Relative importance of individual provisions for raising the reliability and analytical usefulness of indicators;

(d) The need to improve the informational base;

(e) Availability of resources;

(f) Level of interaction with other economic agencies which also compile related macroeconomic indicators.

19.   The possibilities of obtaining technical assistance from international organizations (organization of seminars, provision of consultations, etc.) should also be taken into account in the process of establishing priorities in the implementation of the updated SNA.

20.   At this stage it is difficult to talk with sufficient degree of confidence about the terms of implementation by ROSSTAT of the recommendations of the updated SNA, which on the basis of the above mentioned analysis will be qualified as priorities. Implementation of individual recommendations may require different periods of time.

21.   ROSSTAT intends to use flexible approach in implementation of the updated SNA. This approach implies a choice of alternative solutions and steps. During the first stage of the work major attention will be paid to the implementation of those provisions of the updated system which may influence the estimation of the volume, structure and rates of growth of GDP. Selected examples of recommendations in the updated SNA 1993 which can be regarded as a priority task at present time are given below:

(a) First of all, it refers to the recommendations on improving estimates of non-observed economy, in particular, to estimates of informal economy which plays an important role in Russia. According to the data received during household surveys more than 40% of households in Russia have small plots in the rural area where they perform production activities aimed at both own consumption and sales on the market. In Russia operates also a considerable number of registered and non-registered unincorporated enterprises owned by households (other than quasi-corporations owned by households) and in this context it is essential to clarify the term "registration".

(b) The other important provision of the updated SNA which is likely to be implemented in the foreseeable future refers to the revised treatment of expenditure on acquisition of military durable goods. Allocation of this expenditure to capital formation will make it possible to improve the data on GDP structure and to avoid certain anomalies which arise in the context of analysis based on the current treatment. It should be noted that the state budget expenditure classification worked out by the Ministry of Finance of Russia contains some elements which are needed for implementing the revised treatment of expenditure on military durable goods.

At present the Ministry of Finance of Russia has started the new round of work on revision of the state budget classifications. This work the Ministry of Finance carries out in cooperation with ROSSTAT and we intend to put forward some proposals

aimed at improving this classification in order to harmonize it with the SNA. These improvements, in particular, will facilitate the estimates according to the new treatment of military goods. Difficulties of practical nature are likely to arise in the context of computation of consumption of fixed capital in respect of military durable goods.

(c) Implementation of the improved treatment of originals and copies as economic assets should be regarded as a priority objective for ROSSTAT.

(d) Implementation of the procedures for allocation of FISIM included in the updated SNA 1993 is also to be considered as a priority objective for ROSSTAT. On this topic ROSSTAT works with the Central Bank of the Russian Federation. The Bank carries out experimental compilations on allocation of FISIM to various categories of GDP according to several scenarios depending on the definition of reference net interest. Clarification of the treatment and the formula for computation of FISIM in the updated SNA will make it possible to solve certain problems and to introduce this method in the regular practice of calculation of GDP.

(e) Implementation by ROSSTAT of the provisions in the updated SNA 1993 dealing with the sectorization of the economy will be essential for the improvement of the national accounts of Russia. This refers, in particular, to compilation of accounts for public sector in addition to accounts for the general government sector. The updated SNA contains clear provisions on the scope of the public sector as compared with the general government sector, on criteria of distinguishing public and private corporations. It appears that the data on the role of the public sector which encompasses units of the general government sector and corporations and quasi-corporations owned and controlled by them will be used by the government of the countries for formulation of the economic policy.

In this context reference should be made to the current situation with external borrowing. While the external debt of the Russian government has considerably decreased during recent years both in absolute terms and relative to GDP the external debt of corporations controlled by the government has considerably increased. Compilation of accounts for the public sector will require strengthening interaction with the Ministry of Finance of Russia which has not yet implemented the international standard in compilation of public finance statistics (which contains definition of the general government sector and the public sector) developed by IMF. Transactions between the government and public corporations are very important for Russia. At present time payments by the government to corporations and quasi-corporations are made in order to compensate capital losses as well as for investment subsidies and they are treated in the Russian national accounts as capital transfers and investments in the authorized capital. However, Russian government finance statistics does not make it possible to draw a distinction as it is suggested in the updated SNA between the capital transfers and additions to the capital of enterprises. There are some other aspects of the relationships between the government and public corporations which are considered in the updated SNA.

(f) It appears that one important provision in the updated SNA refers to drawing a distinction between market and non-market producers which influences the computation of output of the corresponding establishments. At present time in Russia the majority of institutions which provide non-market services in the field of education, health care and science at same time sell considerable amount of services at market prices or at prices which are close to market prices.

(g) Another priority objective for ROSSTAT is to introduce in the regular statistical practice the updated classifications of financial and non-financial assets. Implementation of these classifications will be an important step towards compilation of the financial account and the balance sheet. Updated classification of non-financial assets will be also important for the compilation of the capital account which is an important element of the system of accounts currently compiled by ROSSTAT. The major problem which will arise in the context of implementation of the new classification of non-financial assets will refer to availability of data on stocks of non-produced assets, such as land, subsoil assets, water resources, etc. as well as on contracts, leases, licenses and so on. Obtaining data needed for the valuation of these assets may require a considerable period of time and have to be secured on a step by step principle. It should be noted that business accounts in Russia contain selected data on non-produced intangible assets. However, the scope and underlying definitions of these assets differ from those adopted by the SNA. Considerable efforts and time will be required for development of data sources needed for the estimation of stocks of the new types of non-financial assets introduced in the updated SNA, such as research and development, mineral exploration and valuation.

(h) The implementation in practice of a number of provisions of the updated SNA can be an objective in a more distant perspective. One example is the concept of capital services. It appears that it would be useful to organize a seminar on this topic in order to clarify the underlying concepts and to discuss the problems associated with the implementation of this category in practice. At the same time the task of studying macroeconomic productivity is regarded by ROSSTAT as very important and the preparation for solution of this problem should start in the near future. On the whole we agree with the proposal in accordance with which compilation of the modified scheme of the production account where capital services will be treated as a part of the costs along with traditional intermediate consumption should be carried out outside of the main structure of the accounts.

Another issue which is linked to the above mentioned topic refers to the modification of the formula for computation of the output of non-market services produced by the government by introduction of imputed return on capital. From the conceptual point of view this proposal is not very clear to us and from the practical point of view its implementation in Russia will be difficult to achieve due to the lack of adequate data on market value of the capital of the government bodies.

(i) The proposal to calculate the output of central banks as sum of the outputs of non-market and market establishments (departments) and allocation of the corresponding

elements of output to intermediate consumption of units paying for the market services and to final consumption expenditure of the general government is logical. However, the implementation of this proposal in practice implies availability of data on the costs of each department of the central bank, which is not the case in Russia. At present time ROSSTAT values the output of the Bank of Russia at costs and allocates it entirely to intermediate consumption of commercial banks. In this connection a research for possible approximation to the method proposed in the updated SNA will be required. Solution of this problem should be sought in close cooperation with the Bank of Russia on the basis of reasonable distinguishing market and non-market components of the output of the Bank of Russia.

(j)   Some time will be required for analysis of the applicability to the Russian conditions of the updated concept of output of insurance companies, presented as a sum of costs and "normal profit" computed on the basis of prognostic compilations. In any case, ROSSTAT agrees with the necessity of improvement of the formula of computation of output of insurance because the existing method arises anomalies in the case of significant extraordinary events and considerable insurance claims.

(k)   At present time estimates of illegal economy are not included in the official figures of GDP of Russia, however, there is a general understanding of the importance of such estimates both from the point of view of securing exhaustiveness of GDP figures and for the purpose of analysis of the relevant processes, which is essential for the government. In this context it should be noted that the Bank of Russia has carried out experimental estimates of exports and imports of narcotics during the recent years and thus the first step in this direction has been made.
Along with measurement of the traditional types of illegal activities (narcotics, prostitution, etc.) the estimation of value added received from illegal copying audio- and cinema products, computer programs, production of alcoholic beverages, poaching and illegal wood cutting is very important for Russia.
One of the provisions of the updated SNA 1993 deals with illegal fishing. This type of illegal activity is widely spread in Russia. Estimation of such transactions in practice would require organization of interaction between various agencies and possibly exchange of information between countries.

22.   Another important aspect of the revision is the intention to clarify certain concepts and definitions used in related statistics: government finance statistics and balance of payments.

23.   While discussing the implementation of the updated SNA certain practical aspects of the work should not be neglected. Refining of theoretical concepts and definitions makes it possible to improve economic content of the major aggregates, but their implementation is not always easy to achieve due to problems with availability of the necessary information. From this point of view preparation of some materials containing practical recommendations on solution of various problems would facilitate the implementation of the updated SNA.

24.   It is obvious that the implementation of new recommendations will result in numerous changes in the national accounts data and, in particular, in the data on GDP, capital formation, saving and so on. Changes of the volume indices of the most important macroeconomic

indicators are also likely to occur. In this connection it appears that introduction of the updated SNA in the statistical practice should be carried out by dealing with large sections and by stages rather than by implementing an individual recommendation each at a time. This may help to reduce the number of revisions of statistical series of macroeconomic indicators. In our view, the starting point of this work in Russia should be the compilation of input-output tables for 2010. In the context of the compilation of these tables it would be useful to take into account all possible changes in the updated methodology. The work on the revision of the GDP series and its major components should follow the compilation of input-output tables.

Implementation of the updated SNA will surely ensure improving the quality of statistics, more adequate reflection of the macroeconomic processes in the economy of the country and in the world.

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