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Report by the Group of Experts on National Accounts

Note by the secretariat

Addendum

I. First module: special session for transition economies

A. Towards an implementation strategy for the 2008 System of National Accounts (SNA) in the Eastern Europe, Caucasus and Central Asia (EECCA) and South East Europe (SEE) countries

Documentation: ECE/CES/GE.20/2010/8, ECE/CES/GE.20/2010/16, ECE/CES/GE.20/2010/26, ECE/CES/GE.20/2010/30 and ECE/CES/GE.20/2010/31

1. The session was organised by UNECE and chaired by EFTA. It was based on invited papers by UNSD, UNECE and The former Yugoslav Republic of Macedonia and supporting papers by Mexico and Croatia. The session discussed the need for an implementation strategy for the 2008 SNA at the global, regional and national level.

2. The first part of the discussion focused on the international efforts and coordination of the implementation of the 2008 SNA. The SNA implementation programme is a global statistical initiative, which is supported by the Statistical Commission. The purpose is to encourage countries to implement and improve the detail and quality of national accounts and related basic statistics. The concrete challenges in implementation of the SNA in the EECCA and SEE countries were discussed based on a survey conducted by UNECE in early 2010. The survey also reveals the countries' priorities for further work and the need for technical assistance.

3. The second part of the discussion dealt with country experiences. National strategies, practical problems and the need for new statistical tools for the improvement of national accounts were addressed. It was noted that the new user needs and new

international standards and methodologies require a clear strategy and sufficient resources from the national statistical offices.

4. The following points were made in the discussion:

- The UNECE survey provides a very good analysis of the present situation with implementation of the 1993 SNA in the region and suggests the areas for future work. In addition to the mentioned areas, the problems related to reflecting quality changes in the consumer price indices should be mentioned;
- Imputed rent for owner occupiers is a general problem for CIS countries. A recent seminar in Moscow agreed on steps for further research and development of recommendations which could help countries deal with the issue;
- Measurement of financial services as one of the serious problem areas where further methodological assistance is needed;
- Late 2012: Meeting on lessons learned from the 2010 round and the start of preparatory work for the 2020 round;
- Participants reminded the secretariat of the importance of a Russian translation of the 2008 SNA. The efforts of Rosstat and CIS-STAT to ensure the translation were highly appreciated;
- The pending improvements towards the 1993 SNA in SEE and EECCA countries make the task of 2008 SNA implementation very challenging;
- Regional training programs or workshops on the implementation of 2008 SNA are important in order to learn from the experiences of more developed statistical offices;
- Countries stressed the need for more detailed recommendations for the implementation of the 2008 SNA. A clear vision of what is required is still missing;
- Continuing work with the 1993 SNA versus starting the implementation of the 2008 SNA were discussed. The work towards implementation of the SNA should be seen as one common goal. The 2008 SNA does not contradict the principles of the 1993 SNA;
- The first priority is attached to changes that directly impact GDP;
- Global milestones, outputs and priorities should be determined by the ISWGNA. Countries could build their national strategies around these targets;
- It was highlighted that one of the goals of the implementation strategy is the global coherence of national accounts.

5. In conclusion, participants stressed the need of international guidance and setting of priorities for the implementation of the 2008 SNA. The provision of such guidance by the ISWGNA is a major prerequisite that would help to streamline the regional and country implementation plans. The meeting also recommended that UNECE further develop the paper on the challenges and priorities in SNA implementation in EECCA and SEE countries and Mongolia to include more detailed country sheets. Using the international guidance, countries should build their strategies for the development of national accounts, taking into account the specific national circumstances. Finally, it was noted that international support in the form of workshops, seminars and training is important for the coordinated progress towards coherent national accounts in the UNECE region.

B. Government finance statistics and national accounts

Documentation: ECE/CES/GE.20/2010/19

6. The session was organised by EFTA and was based on a presentation by EFTA and on an invited paper by CIS-STAT. It dealt with compilation of accounts for the government sector. The general themes of the session were the role of government sector in view of the financial crisis and challenges of compiling national accounts using the government budget data in the economies in transition.

7. The first part of the discussion focused on the new chapter 22 of the 2008 SNA on government financial statistics. The chapter clarifies the sectorisation, introduces a new financial presentation framework of the general government and clarifies some accounting issues. It proposes a decision tree for delineation between private/public/government sectors and introduces new concepts for measuring sustainability of government policies.

8. The second part of the discussion dealt with the problems of EECCA countries in applying the recommendations of the IMF Manual on government finance statistics (GFSM). The differences between the classification of expenses of the Ministry of Finance of the Russian Federation (CEMF) and the GFSM recommendations were discussed. The major ones relate to the sectoral delineation, to the coverage and to the valuation of current and capital transactions. The EECCA countries should continue towards implementing GFS on the basis of IMF recommendations. In the meantime, the reconciliation table between GFSM and CEMF could provide useful guidance to the countries.

9. The following points were made during the discussion:

- Quality of government financial statistics depends on cooperation between Financial Ministries and National Statistical Offices. Experts from the financial ministries and national accountants should be brought together to discuss the GFS. A special seminar including representatives of both institutions is seen as the best way forward;
- The paper provides an excellent overview of the problems faced on the country level and is a good base for planning technical assistance activities;
- IMF is currently working towards the update of the government financial statistics manual to align it with the 2008 SNA. A technical advisory group will be appointed to support the update and to finalise the work in two years time;
- Guide on public sector debt is about to be published by IMF. It will provide practical guidance on the flows and stocks related to the public sector debt;
- Compliance with IMF recommendations is especially important for formulation of sound macroeconomic and financial policies;
- The assistance of IMF and other international organizations is very important for the countries. A special seminar including representatives from ministries of finance and national statistical could be organized next year.

10. It was concluded that GFS and national accounts are closely linked together. There are significant problems in the transition economies in relation to GFS and need for support and practical advice. This work will also lead to improved national accounts. IMF, UNECE and EFTA agreed to organise a seminar on the use of GFS for national accounts in 2011. Representatives of both National Statistical Offices and Ministries of Finance will be invited.

II. Second module: expert group on national accounts

A. National accounts and natural resources

Documentation: ECE/CES/GE.20/2010/5 and ECE/CES/GE.20/2010/6

11. The session was organised and chaired by Statistics Netherlands and IMF acted as a discussant. The discussion was based on invited papers by Statistics Netherlands and Australian Bureau of Statistics, and a presentation by UNSD. The general themes were environmental accounting and measuring of natural assets, in particular land and subsoil assets.

12. The first part of the session presented the experiences in measuring of natural resources, in particular the sources and methods used in compiling data on land and subsoil assets. The delineation of natural assets between environmental and economic assets was addressed as well as the measurement of volume changes.

13. The second topic was the system approach to environmental information which is used to monitor the interactions between the economy and the environment. The new requirements following the update of the system of environmental and economic accounting (SEEA) manual were discussed.

14. The following points were made in the discussion:

- The example of estimating land degradation was considered important due to its impacts on productivity and sustainability. However, separating the changes in quality of land from price changes is demanding;
- It was noted that valuation of natural resources differs between countries. The main problem for the comparison of the results is the lack of suitable purchasing power parities;
- The SNA was not considered completely clear in defining ownership of natural resources. Depending on the type of contract the owner of mineral assets could be the government, extractor or lessee;
- Stock taking of international work on measurement of sustainability and climate change will be done in preparing the SEEA Volume three.

15. In conclusion, it was noted that further progress in measuring land assets is needed. The comparability between countries must be taken into account. The inclusion of environmental assets does not yet appear to be widespread. It was agreed that the System of environmental and economic accounting (SEEA) manual will provide important guidance in the future.

B. Financial accounts and balance sheets

Documentation: ECE/CES/GE.20/2010/23, ECE/CES/GE.20/2010/24 and ECE/CES/GE.20/2010/29

16. The session was organised and chaired by Statistics Canada. The Central Statistics Office of Ireland and the Bank of Spain served as discussants. The session was based on invited papers by Czech Statistical Office; Magyar Nemzeti Bank of Hungary and Bank of Italy.

17. The main focus of the session was on the new requirements for financial accounts and balance sheets resulting from recent developments and the financial crisis. Attention

was drawn to their relevance in the analysis of the vulnerabilities of the financial systems. Financial accounts are a strong analytical tool, but still many data gaps have to be solved in order to make use of their full potential. Measurement of holding gains and losses as part of the revaluation account was also addressed. This integral part of the system of national accounts is compiled by few countries due to the difficulties to quantify them. The high volatility of holding gains and losses should not be seen as a reason for exclusion as it usually reflects reality.

18. The following points were made in the discussion:

- The problem of using a nominal sector in financial accounts to preserve consistency of historical data was addressed. It is advisable to try to distribute it among the other sectors;
- Volume changes and revaluation accounts should not be viewed as residuals. They should be produced in an integrated way at the international and country levels;
- As a result of the international work to identify data gaps related to financial stability, improvements of sectoral balance sheets and financial statistics have been recommended. This work will be continued by IMF and partners;
- Most countries publish only unconsolidated data on holdings of assets and liabilities. Only some countries consolidate the banking sector to analyze the stability of the financial system. This is not the case for the non-financial corporations;
- Regular cooperation between the national authorities working with data on financial and non-financial sectors is recommended in order to limit discrepancies

19. In conclusion, the importance of cooperation between the NSOs and Central Banks was emphasised. Due to the financial crisis there are new requirements for the financial accounts. The IMF conference in January 2011 will discuss them in depth. It is important to have an integrated view of financial and non-financial sectors. Participants agreed on the need to focus on good quality of balance sheets and improved analysis of volume changes.

C. Measuring and recording of pensions

Documentation: ECE/CES/GE/20/2010/7, ECE/CES/GE/20/2010/18 and ECE/CES/GE/20/2010/12

20. The session was organised by the Bureau of Economic Analysis, whereas Statistics Finland and Statistics Netherlands acted as chair and discussant. The session was based on invited papers by BEA, Statistics Canada, National Statistical Institute of Spain and ECB. Employment pension schemes were among the most important issues in the SNA revision due to the rising share of ageing population in many industrial countries. The session dealt with the differences in pension schemes across countries and the corresponding recording in national accounts.

21. The first part of the session focused on research of the economic effects of benefit pension plans. The differences of cash and accrual accounting, and its impact on household income, savings and wealth were addressed. It was recognised that accrual estimates have many benefits over cash estimates, e.g. less volatility, even though they are more sensitive to assumptions and applied methods. In addition, dynamic longitudinal micro simulation models for analysis of individuals' expected standard of living after retirement were presented.

22. The second part of the discussion dealt with methods for estimating the overall pension liabilities. It was agreed that it is important to assess sustainability of pension liabilities due to aging of population.

23. The following points were made in the discussion:

- The question of appropriate discount rates for the calculations was discussed. It was pointed out that stable discount rates make more sense for the purpose of comparing pension liabilities between countries
- Micro simulation models were seen as an interesting tool for investigating the impacts of possible policy choices on the people with low expected retirement income
- The role of statistical offices in researching the effects of policy making to population groups was addressed. This kind of research requires an extremely wide access to data, which is not granted for other authorities;
- The participants agreed that the accrual based method used by ECB produces more reliable results than other tested methods;
- The new requirements on pension calculations were considered challenging for the statistical offices. There is a need for cooperation between the statistical offices and the pension authorities.

24. It was concluded that the micro simulation methods match with the Stieglitz report's emphasis on micro data. It was noted that the current solution to have a supplementary table in chapter 17 of the 2008 SNA provides a complete picture of the pension liabilities independent from institutional differences between countries. The countries were encouraged to take note of the available calculations of pension liabilities and other material provided, e.g. by the EU task force on pensions. The software used by ECB is available to all countries and can facilitate the estimation of pension liabilities. ECB is planning to prepare a practical compilation guide in order to help the compliance of pensions data with the new SNA.

III. Third module: impact of globalisation on national accounts

A. Labour mobility

Documentation: ECE/CES/GE/20/2010/28

25. The session was organised and chaired by the Central Bureau of Statistics of Israel and the Federal Statistical Office of Germany and WTO acted as discussants. The session was based on an invited paper by the Central Bureau of Statistics of Israel. This paper will form a chapter in the publication on the Impact of Globalisation on National Accounts. The session dealt with movement of labour across country borders, and the challenges it poses both to measurement and to analysis of national accounts.

26. The difficulty to establish employer-employee relationships, the existence of non-registered workers, the difficulties to capture flows related to migrants, the weak coverage of self-employed labour and blurred information on export and import of services impact the measures of GDP, productivity, income and consumption. Part of labour mobility in the host country can be captured from pension funds and other administrative data. Measuring the outflow of labour using household surveys can provide better information for national accounts purposes. Therefore, there is merit in mirror comparisons of data collected in the

host and in the partner countries. Finally, an analytical framework linking labour statistics with national accounts was presented.

27. The following points were made in the discussion:

- Labour mobility should be distinguished from trade in services, e.g. to separate employee contracts and service contracts. It is important that the chapter pays attention to this issue;
- The inflow of self-employed persons increased rapidly in Europe in the last years and administrative data sources do not provide sufficient coverage;
- Illegal immigrants are often missed not only from labour surveys, but also from censuses and household surveys. Consistent adjustments for this population have to be made throughout all the accounts;
- There are many practical problems in separating resident and foreign labour. According to BPM6 and the 2008 SNA, a resident is a person who resides or intends to reside one year in the place of arrival. However, short-term immigrants may end up staying longer than intended and all related income flows have to be reclassified;
- Benchmarking of data between countries is important for statistical quality and for streamlining the production of statistical data;
- While it is useful to go through the analytical details, the main focus of the paper should remain on how labour mobility impacts national accounts;
- It would be useful to add more country examples to the paper. Part of the Ukrainian case study on remittances could be allocated to this chapter.

28. The meeting approved the chapter and recommended that the comments given during the session be incorporated in the final version. The chapter would benefit from country examples, and the participating countries are invited to contribute. There should be tighter focus on how labour mobility impacts national accounts and on the distinction between trade in services and labour mobility.

B. Impact of the Financial Crisis

Documentation: ECE/CES/GE.20/2010/17

29. The session was organised and chaired by the European Central Bank. IMF, the Bureau of Economic Analysis and the United States acted as discussants. The session was based on an invited paper by the European Central Bank and a presentation by UNSD. The invited paper will be presented as an annex in the publication on the Impact of Globalisation on National Accounts.

30. The session discussed why the crisis spread more globally than before, the data gaps identified during the crisis and the work needed to close these gaps. The revisions of 2008 SNA and BPM6 will respond to some of the data gaps revealed by the financial crisis. But the revision will pose challenges in retaining stable macroeconomic series, while updating the system at the same time. The session also discussed the ability of national accounts to deal with globalisation, and the usefulness of national accounts in revealing turning points or vulnerabilities in the economies. There are concerns that, despite improvements, national accounts cannot fully meet the requirements of a global economy. However, they can reveal vulnerabilities of asset categories and institutional sectors.

31. The following points were made in the discussion:
- Expert groups are working on many of the identified data gaps. International interconnectedness among large institutions presents a very difficult problem, where coordinated effort is needed. Other areas are the exposure to international risks and data on multinational corporations at the global level;
 - Globalization creates complex organizational structures that are hard to survey, e.g. cross-border structures, no physical presence, and dispersed transactions among a high number of units. Use of counterparty data is needed;
 - The description of the origins of the financial crisis and the transmission mechanism can be developed;
 - The national accounts framework alone may not be sufficient to monitor all issues of globalization as it is built on the concept of residents and non-residents. There is a need for a set of global indicators in order to draw policy makers' attention to relevant changes and to monitor global developments;
 - It was proposed to move the text on Europe to an appendix and present it as a case study rather than as the focus of the paper;
 - Detection of turning points from flash GDP and other short-term indicators is very difficult due to problems with volatile seasonal adjustment. Practical guidance on applying seasonal adjustment during large changes in the economy is needed. Eurostat/ECB group is currently preparing training in the area of seasonal adjustment with linkages to the crisis.
32. The meeting expressed support for the paper and proposed that it becomes an annex to the publication. More description on the origins and transmission mechanism of the crisis will be added. The linkages between the sections on data gaps and on the revisions of international statistical standards responding to those should be strengthened. The text should be focused on the impact of the crisis on national accounts. The paper could also incorporate information on the set of high frequency indicators presented by UNSD and on the discussions at the G20 summit.

B. Second homes

Documentation: ECE/CES/GE.20/2010/11 and ECE/CES/GE.20/2010/15

33. The session was organised and chaired by Statistics Norway and the United Kingdom acted as a discussant. The session was based on invited papers by Statistics Norway and the United Nations World Tourism Organization. These papers will be combined to form a chapter in the publication on the Impact of Globalisation on National Accounts.

34. The session discussed the main principles of recording economic stock values and flows related to second homes abroad. The methods used and assumptions made were presented. There are various problems in measuring vacation homes, both on the supply and use side. Some of them could be overcome by close cooperation between tourism statistics, balance of payments and national accounts.

35. The following points were made in the discussion:
- It was pointed out that the definitions for second homes and vacation homes require careful thinking and explicit practical guidance;

- There is need of more practical guidelines on what is possible to achieve with existing data sources, and what questionnaires to be developed to improve the quality and coverage of the data;
- Data gaps were discussed, in particular, with regard to vacation homes owned by foreigners in the reporting economy. Several data sources should be used to come up with consistent figures;
- The valuation of non-occupied dwellings creates conceptual difficulties. Using the average annual price implicitly accounts for the periods when the dwelling is not occupied.

36. The meeting approved the idea of having such a chapter in the final report. Both the practical approach and the comprehensive description of the scope of second homes were considered very helpful for the readers. The chapter should integrate the two papers presented at the meeting, taking the UNWTO paper as a basis and the general part of the Statistics Norway paper to clarify the main issues. Participants agreed that more relevant and accurate source data are needed to improve the quality. In particular, data exchange between countries related to dwelling activities could improve the results. Furthermore, Ireland, Mexico and the United States proposed to provide case studies.

D. E-commerce

Documentation: ECE/CES/GE.20/2010/27

37. The session was organised and chaired by Statistics Netherlands and the Bureau of Economic Analysis and the United States acted as discussants. The session was based on an invited paper by Statistics Netherlands. This paper will form a chapter in the publication on the Impact of Globalisation on National Accounts. The session discussed definitional and conceptual issues related to electronic commerce. In addition to conceptual issues, the statistical challenges in measurement of e-commerce and their implications on different areas of national accounts were addressed.

38. Due to lower transaction costs and increased competition, e-commerce brings gains to consumers and promotes international reorganization of production processes. While the growth of cross-border e-commerce is widely acknowledged, the statistical guidance in international manuals is very limited. There are many difficulties in capturing e-commerce in statistics, which may indicate underestimation of trade flows. A possible survey collecting data on e-commerce using the experience of Statistics Netherlands was presented.

39. The following points were made in the discussion:

- There is need to change surveys and data collection methods to capture small value transactions. Advice about survey design could be added to the paper;
- There are many grey areas related to e-commerce. Challenges are encountered especially with foreign suppliers, who cannot be reached by surveys in the economy in question. On the other hand, households may not recall or report all of their activities in e-commerce;
- E-commerce should be seen more as a distribution channel and means of marketing. E-commerce does not always result in less costs or reorganization of production;
- Measurement of e-commerce suffers not only from under coverage but also from possible double counting. E-commerce, as a distribution channel, is

included in the output and sales of the business in question. Possible failures in coverage or double counting will impact GDP, consumption expenditure, savings, transport margins, etc.

- The chapter should use the OECD definition of e-commerce as it is a commonly accepted definition. Some further work may be needed to elaborate cross-border e-commerce;
- The general difficulties of measuring imports of services make e-commerce a very challenging area for statisticians.

40. The meeting recognised that the ideas and proposals in the paper were useful reference for the measurement challenges related to e-commerce. The main problems of measuring e-commerce are related to capturing small value transactions, possible double counting, difficulties in measuring import of services and identifying foreign suppliers. It was proposed that the OECD definition for e-commerce be considered for adoption with further elaboration of cross-border e-commerce. More advice on survey design, in particular for trade in services, was requested.

E. Review of the first draft of the publication “Impact of Globalisation on National Accounts: Practical Guidance”

Documentation: ECE/CES/GE.20/2010/3/Rev.1, ECE/CES/GE.20/2010/4, ECE/CES/GE.20/2010/9, ECE/CES/GE.20/2010/10, ECE/CES/GE.20/2010/13, ECE/CES/GE.20/2010/14, ECE/CES/GE.20/2010/20, ECE/CES/GE.20/2010/22 and ECE/CES/GE.20/2010/25

41. The session was organized by the Leadership Group of the GGNA and chaired by Statistics Netherlands. The participants reviewed the first draft of the publication “Impact of Globalisation on National Accounts: Practical Guidance”. The draft was based on an introduction and eight chapters that had already been presented at previous meetings of the GGNA and which reflect the outcomes of these meetings. The comments by chapter are presented below.

Introduction

42. The introduction by Robin Lynch, United Kingdom, presents the purpose and the structure of the publication. It also includes a table that lists the major factors of globalization and the affected national accounts estimates. Expanding this table to include reference to the chapters where the factor is addressed and to give an indication of its impact would be very useful for the reader.

Chapter I - MNEs and the Allocation of Output and Value Added to National Economies

43. The chapter is prepared by the Bureau of Economic Analysis and the United States and discusses a number of measurement challenges presented by multinational enterprises for national and balance and payments accounts and suggest solutions for improving the estimates. Most of them arise from the fact that MNEs take a world wide view of their operations – they do not try to maximize profits in individual countries but to maximize their global results. Among the issues addressed in the chapter are transfer pricing, the shift of intellectual property rights, off-shoring of intermediate services and import pricing.

44. The following points were made during the discussion:

- Although the distortions could level out for GNI they do affect GDP estimates. Like Ireland, the Netherlands have created a consistency unit which looks at the

largest enterprises in order to deal with the inconsistencies in the source data, e.g. between domestic production and foreign trade statistics;

- In Ireland, the large cases unit (consistency unit) would take ownership of the data so that they could make the necessary corrections directly. There will be one survey for monthly, quarterly and annual data, as a consequence of which the reporting burden can be reduced as well;
- The chapter is very good and clearly explains three different problems: under coverage of services and imports; non-comparable imports; and allocation of profits to offshore units. In the last case it is not clear what the solution is. Actual taxes and receipts remain in the low tax country and they cannot be transferred to the accounts of the country where the parent company is. However, supplements on both sides could be made to clarify relationships in national accounts;
- The chapter should clearly address the two different perspectives: the one of the MNE and the needs of the macroeconomic analysis. On one hand, information is needed on the real tax structures and how companies are organized and function. On the other hand, the data should present the overall macroeconomic relations;
- The survey questionnaires have to take into consideration the accounting applied at the corporate international level and by the individual subunits;
- In the case of royalties payments, the chapter should provide reference to the description in the chapter dealing with international transactions in intellectual property products.

45. In conclusion, the meeting approved the text of the chapter. It will be slightly revised to reflect the comments made. The national accounts perspective versus the perspective of the MNEs should be more clearly spelled out. The consistency with the chapter on international transactions in intellectual property products should be ensured. Statistics Netherlands would provide an additional case study.

Chapter II - Multinational enterprises, Foreign Direct Investment and Related Income

46. FDI is important for national and international economic accounts, but its measurement is difficult as presented in the chapter prepared by IMF. The most common problems are the identification of units that are in such relationships, differences in consolidation, and challenges of ensuring data from the books of direct investment enterprises. The chapter presents possible approaches and international initiatives to improve the quality and the availability of FDI data.

47. The following points were made during the discussion:

- The chapter should include case studies from countries, e.g. on the design of a questionnaire in order to collect good data. Information from the Coordinated Direct Investment Survey could be used;
- Another problem that could be addressed in the chapter or in the case studies is the data capture of reinvested earnings in indirectly owned affiliates and their integration in the total values;
- The chapter could add more on the valuation principles of FDI. Despite the fact that there are sound accounting principles on the consolidated MNE level, the assets values between the separate entities within the MNE structure may not apply such valuation principles;

- The chapter should be expanded to include more information on the European experience with the FDI network and Euro groups register. The G20 report also touched upon these issues.

48. The participants expressed satisfaction with the content of the chapter. They recommended that it be expanded with the EU experience on the FDI network and Euro Groups Register (either in section VI or in an annex). The chapter should be more explicit on the valuation principles and add further detail on capturing reinvested earnings from indirect investment. A country case study to the chapter would be welcomed.

Chapter III - Special Purpose Entities

49. Globalization gave rise to the activities of special purpose entities (SPEs) and thus to the need of adequate statistical treatment. The chapter, prepared by Statistics Netherlands, describes the types of SPEs and the reasons for their creation. The 2008 SNA gives more guidance on SPEs, but still leaves room for interpretation and as a result countries apply different approaches. A major advancement in the area is the Eurostat Task Force on the recording of certain activities of MNEs, which provides a decision tree for recording the activities of SPEs. Taking this decision tree as a starting point, the chapter introduces the experience of four countries: Hungary, Ireland, the Netherlands and the Russian Federation. Although country practices differ, they provide useful insights into dealing with practical difficulties when compiling national accounts. If resources allow, it would be useful to present the national accounts with and without SPEs.

50. The following comments were made during the discussion:

- It is important to harmonize the definitions and methods for treating SPEs in the national, financial and balance of payments accounts. Often these statistics are compiled by different institutions. Therefore extending the chapter to cover BoP issues will be very useful.
- There are two major practical issues related to SPEs: identification of these companies and establishing a data collection mechanism (reaching the accountants/advisors acting on behalf of the company);
- The legislation of the ECB on financial vehicle corporations and the cooperation between the NSOs and the central banks to exchange data on these SPEs is a key issue for Euro-area countries;
- The specific arrangements in the countries lead to different decisions for recording SPEs. It was suggested that the chapter makes an attempt to address the differences, but at this stage it is difficult to come to a uniform definition of SPEs;
- The Technical Expert Group on the Directional Principle has finalized its work and proposed a definition of SPE that bridges the definitions in BPM6 and BD4. It is also consistent with the decision tree provided in the chapter. The definition will be provided to the European Groups Register;
- The chapter should make clearer the distinction between domestic and foreign SPEs and be explicit that the recommendations refer to foreign SPEs;
- The decision tree is very important, not only for SPEs but generally for classification of units in the business register. It ensures consistency and transparency of the statistical production.

51. The participants expressed general support for the chapter. It was suggested that it should be extended to cover BoP issues. Currently a single proposal on how to deal with SPEs cannot be identified from the country studies, but the definitions and guidelines that

were agreed at the EU level will be included in the chapter. A clear distinction should be made between domestic and foreign SPEs. The chapter would benefit from more practical examples and country case studies.

Chapter IV - Goods for processing

52. The chapter, prepared by Statistics Canada, aims to provide guidance for the implementation of the new treatment of goods for processing as reflected in BPM6 and the 2008 SNA. It describes the impact of the switch from the 1993 SNA to the 2008 SNA on the supply and use framework and the measures derived from them such as input-output models, multifactor productivity indices, and other structural indicators. It also outlines the changes that need to be introduced in data collection and in statistical estimation techniques. It is recognized that there is relatively little actual experience described in the chapter as countries are still looking into approaches to operationalize the new recommendations. Finally, the analytical aspects of the change are also addressed.

53. During the written consultation and the discussion at the meeting a number of comments were made:

- The chapter could be extended further by presenting goods for processing as part of global manufacturing;
- It is still early for strict operational guidelines, much more experience needs to be gathered before hand;
- The chapter would profit from examples showing the size and impact of the problem;
- In a number of countries, the impact of goods for processing on the economy is huge, e.g. it may come to 50 percent of exports and imports of goods. The impact of the change on productivity and other analytical measures will be substantial and this is not well perceived by the users. Consensus for the implementation of the new standards should be sought;
- Only now have the statistical offices started to deal in depth with processing. There is inconsistent coverage of processing in the source data. The new treatment is difficult, but it turns out that there were many problems and possibilities for double counting or undercounting with the old standards;
- Only now have the statistical offices started to deal in depth with processing. There is inconsistent coverage of processing in the source data. The new treatment is difficult, but it turns out that there were many problems and possibilities for double counting or undercounting with the old standards;
- Not every standard can be fully adopted in the countries for practical reasons. But those that are important for the economy should be implemented in order to ensure international comparability. If needed, for specific national needs, gross recording could be provided as supplementary information;
- There were many problems with the old treatment of goods for processing, because there were many imputations and likely profits were wrongly allocated to the processor and not to the owner of the goods;
- Trade statisticians favour the presentation of additional information in supply and use tables to allow calculation of gross values;
- There could be misinterpretation regarding supply and use tables. In measuring contribution of imports to the export of particular products, gross or net measurement does not make a difference.

54. The meeting participants expressed appreciation for the chapter that provides very useful insights into the implementation of the revised treatment of goods for processing and stressed the importance of application of internationally agreed guidelines. The authors should stress the impact of goods for processing on countries in order to raise awareness. The difference between domestic versus foreign processing of goods should be addressed. The chapter should focus on the narrow case of processing and add a special section exploring the measurement challenges when processing is part of global manufacturing chain. Additional case studies could be added. Once more experience is gained, the chapter could be extended with more concrete examples and guidance on how to address the problems in practice.

Chapter V - Merchanting

55. The chapter, prepared by CSO Ireland, describes the impact of globalization and the evolution of international accounting standards with respect to measuring merchanting activities. It focuses on the 2008 SNA recommendations on the treatment of international merchanting of goods. These transactions are very difficult to capture as the goods never cross the border of the country of the merchant. Therefore, merchanting in all countries is considered under-reported. The chapter provides guidance on how merchanting activities could be identified in the country of residence of the merchant. The issue of recognition of merchanting of services is also raised.

56. During the written consultation and the discussion at the meeting a number of comments were made:

- The chapter should better elaborate on the calculation of the merchanting margin from national accounts and BoP perspective;
- The presentation of the data in the examples could be improved
- The chapter should expand more on the approaches used to identify merchanting. Comparing customs data with tax records could be used to spot such activities
- Inclusion of goods for processing into the merchanting examples complicates the presentation. The chapter could present the narrow definition of merchanting as international wholesaling. The mixture of merchanting and processing into a global manufacturing chain could be presented later. Statistics Netherlands can contribute to such a section;
- Large international turnkey projects could also be addressed in the global manufacturing section. A paper by Statistics Finland, prepared for the IARIW-conference, can be used in the section;
- Israel can provide a case study for global manufacturing;
- It would be useful to include an impact story at the beginning of the chapter showing the growth of the phenomenon. The list of countries that do not record merchanting has to be verified;
- Geographical aspects of merchanting should be added to the chapter;
- The 2008 SNA seems to include global manufacturing under merchanting. The possibility to distinguish the old type of international wholesaling from international manufacturing within MNEs has to be considered;
- Presentation of merchanting activities in supply and use tables would be useful.

57. The meeting approved the chapter on merchanting and recommended taking on board the comments made. It should start with an impact statement to introduce the issue.

It should elaborate on the geographical aspect of merchanting for monetary or customs unions, and on the treatment in supply and use tables. Similarly to processing, the chapter should focus on the narrow case of merchanting and leave the more complicated cases for a further section on global manufacturing. A case study from Israel on global manufacturing would be welcome.

Chapter VI - Quasi transit trade

58. The chapter, prepared by Eurostat, focuses mainly on the measurement issues related to quasi transit trade – a new phenomenon that causes problems to the accounts of the European Union. Quasi transit trade is linked to the activity of traders or MNEs that import goods in a country where they are not residents and then export them to a third country within the union. At the first point of entry in the union, the goods are cleared for circulation with the customs and recorded in international trade statistics. There is often a significant difference in the value declared at the point of entry to the economic union, and the value observed on entry to another country within the union. This creates problems not only for the accounts of the union, but also for the individual national accounts. The chapter suggests including these transactions under a specially introduced item “branding” and provides recommendations on their consistent recording. The emergence of global manufacturing arrangements can possibly increase the relevance of quasi transit trade and related phenomena in all countries.

59. The following comments were made during the discussion:

- The paper presents a very comprehensive illustration of a concrete problem. It could start with a more condensed presentation of the issue and the proposed solution;
- The chapter could more clearly address the issue of transit trade and what are the exact differences with quasi transit trade;
- Further improvement of the examples in order to relate them to the new standards is needed;
- A specific situation in the EU is that goods are declared at the border of the union. Therefore a unit can have a VAT registration without being a resident of the same country and this augments the problem with quasi transit trade;
- It is not easy to discover cases of quasi transit trade. It is important to cross-check data sources.

60. The meeting found the chapter very informative for a problem that is important to the EU, but could also relate to other customs unions. The chapter should clarify from the start the EU situation with VAT residents. The authors could try to concise the text and present the problem of quasi transit trade in the context of transit trade.

Chapter VII - International transactions in Intellectual Property Products

61. The chapter is prepared by OECD and deals separately with issues related to trade in Intellectual Property Products (IPPs) between affiliates and trade between non-affiliated enterprises. Recent improvements in international trade classification systems will facilitate the collection of data between non-affiliated enterprises. But the measurement difficulties related to transfers of IPPs within the MNEs remain substantial: it is often not possible to identify such transactions or, even if observable, their recording does not correspond to the guidelines of the 2008 SNA. The chapter proposes a pragmatic solution that could minimize international incomparability in major aggregates, such as GDP and GNI. It implies that transactions between affiliates are treated as transactions in pre-existing assets. The proposal is subject to further research.

62. The following comments were made in the discussion:
- The chapter could add more concrete examples and tables to illustrate the proposed treatment;
 - The chapter should first give a recommendation for an ideal measurement and then present various alternatives. The alternative presented is a possible solution that offers a possibility to solve many practical problems associated with IPP arrangements within MNEs which are aimed at reducing the tax burden. But it has to be looked into how it aligns with the 2008 SNA;
 - The difficulties related to the proposed pragmatic approach should be carefully studied;
 - The National Accounts meeting in 2012 could serve as a forum, where the proposed treatment is further discussed and elaborated;
63. The meeting expressed support for the chapter and suggested that it should include a better description of the problems associated with transfers between affiliates and add examples/tables to present the issues and the proposed solution. The revised text will be circulated for comments to Ireland and Israel. The GGNA could consider a possible way forwards and discuss the issue again at the 2012 Meeting of the Group of Experts on National Accounts. The work should be coordinated with the EU Task Force on recording of IPP.

Chapter IX - Remittances

64. Remittances are households' income from foreign economies arising mainly from the temporary or permanent movement of people to these economies. They grew rapidly in recent years and for some receiving nations they play an important role for the economy, accounting to up to 30 per cent of their GDP. The chapter, prepared by the BEA and the United States, describes the concepts, practical difficulties and the impact of mismeasurement of remittances on national and international accounts. It takes as a starting point the recommendations in the new international standards – BPM6 and the Compilation Guide. The chapter then discusses the measurement challenges related to remittances (small transactions that are often below reporting thresholds, the legal status of the senders, the variety of channels, formal and informal, for money transfer, etc.) and the potential data sources. The possible approaches for estimating remittances are illustrated by four country case studies.
65. The meeting approved the text of the chapter. The case studies should be revised in order to avoid overlap with the chapter on labour mobility.
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