

## SUMMARY OF DISCUSSION

Special session on National Accounts for CIS countries and other transition economies,  
Geneva, 27 April 2004

### Item 3: Methods used to estimate the non-observed economy in the UNECE region

Presentation: UNECE

1. The presentation by UNECE summarised the survey of national practices used to measure the Non-Observed Economy (NOE) in National Accounts (NA). The survey was carried out by the UNECE secretariat in 2001/2002 and published in 2003. The aim was to identify common issues in measuring the NOE in countries and to try to standardise the terminology. The OECD *Handbook for Measurement of the Non-observed Economy*, published in 2002, and the Eurostat tabular framework were used as background documents for analysing and presenting the countries' contributions. The OECD Handbook identified the following types of activities: underground,

informal (those undertaken by households for their own final use), illegal, and

other activities omitted due to deficiencies in the basic data collection programme. 29 countries from western and eastern Europe and North America participated in the survey.

2. The analysis of the results of the survey showed that the underground economy is most highly developed in industries that supply the major part of their output to individuals. Most adjustments for non-observed activities are made to the Non-financial corporations and the Households sectors.

The largest contribution to non-observed activities can be attributed to economic causes: the deliberate underreporting of revenue and output of producing units. The largest contribution to the NOE from the expenditure side is accounted for by Households Final Consumption Expenditure.

From the production side, the most significant contributors are trade, construction, transport, hotels and restaurants, and other community, social and personal services. The informal economy seems to be more important in CIS and EU Candidate Countries. The illegal activities are particularly difficult to measure and, in most cases, these estimates can only be regarded as indicative.

3. In the discussion that followed, the usefulness of a publication that presents countries' practices was underlined. It helps to harmonise the terminology and the approaches, and to improve the international comparability of the NOE and GDP estimates.

4. Several countries commented on their contributions to the NOE publication. There have been new developments (e.g. use of new data sources, surveys, methods, etc.) in measuring the NOE. For example, Romania has changed the way tax evasion is estimated, Lithuania has made a new survey on NOE in 2003 (the results will be presented at the NA meeting in St. Petersburg in June 2004), Poland plans to investigate large enterprises and to conduct a survey of Household Time Use and a new modular LFS, Israel has introduced NOE adjustments in its NA, Albania has started several activities to measure the NOE and to improve the basic data, Bulgaria is focusing on the use of data from LFS and labour cost survey and reconciliation of data by input and expenditure side. Furthermore, some countries who did not contribute to the previous publication expressed their wish to contribute to a new updated publication on NOE.

5. Other issues raised were the need for more resources to improve the basic statistics and a recommendation to create a toolbox of methods to measure the NOE that can be used by different countries.

6. A question was raised whether the countries with advanced statistical systems include NOE in their GDP estimates. It was highlighted that accurate GDP estimates (including the NOE) are very important for policy makers. It was explained that, with improving the basic statistics and the compilation of GDP,

it is increasingly possible to capture more economic activities within the framework of NA. Therefore, for several developed countries, the share of NOE in GDP is very small.

7. The following conclusions were drawn from the discussion:
- i) the quality of NA estimates depends on the availability of data, therefore more attention should be paid to improving the quality of basic statistics; in order to achieve that, it is desirable to increase the resources for conducting statistical surveys;
  - ii) publication of summaries of country practices is very useful to share experiences; it is important to use common terminology to achieve international comparability;
  - iii) more work needs to be done on measuring the illegal activities, which is now the weakest point in estimating NOE.

8. The meeting recommended that the UNECE Statistical Division undertake a new survey of country practices in measuring the NOE in 2005. In the next round, countries will have the possibility to update the information on their practices in estimating the NOE in their NA. It is also expected that more countries will contribute to the next survey.

#### **Item 4: Financial intermediation services indirectly measured (FISIM)**

##### **Presentations: Israel, UNECE**

9. The ECE secretariat informed participants about recent developments related to the allocation of FISIM. Attention was drawn to the main outcome of the discussion on the allocation of FISIM at the UNECE session on NA issues of concern to transition economies, held in Paris in October 2003: (i) FISIM is generally much higher in transition economies as interest margins tend to be quite high, and may therefore have a greater impact on GDP than in developed economies; (ii) while data for calculating FISIM are generally available, it has proven difficult to allocate FISIM across institutional sectors, with a particular difficulty to split FISIM allocated to households between intermediate and final consumption; (iii) problems of calculating imports of FISIM are particularly acute; and (iv) the definition of units in sub-sectors "Other monetary financial institutions" (S.122) and "Other financial intermediaries, except insurance corporations and pension funds" (S.123) presents some problems.

10. The ECE secretariat informed participants about recent developments in the discussion on the measurement and allocation of FISIM in national accounts. A draft Final Report of the OECD Task Force on Financial Services in National Accounts has been considered by the Advisory Expert Group (AEG) on the updating of the SNA93 at its first meeting in February 2004. The AEG largely supported the conclusion of the Task Force that the use of a reference rate (not necessarily a single one) would be a good working tool for measuring the output of FISIM. Nevertheless, it was also agreed that there is a need to consider alternative approaches as well, since the reference rate approach may not be applicable in many developing countries.

11. The Central Bureau of Statistics of Israel presented a paper on non-performing loans, interest arrears and FISIM estimates. The paper argues that, due to the current treatment of non-performing loans in the SNA93, FISIM may be overvalued and, as a consequence, the output, value added and operating surplus of the financial intermediaries may also be overvalued. The paper concludes that an adjustment to the estimated value of FISIM should be made.

12. It was emphasised in the discussion that the financial services have gained a growing importance in economies in transition and therefore deserve greater attention from national accountants. Some countries, such as Croatia, stressed that there are still a number of problems in obtaining data. The difficulty of having data for estimating imports of FISIM was pointed out, and some simplifying assumptions for the allocation of FISIM were proposed, especially between intermediate and final consumption of households. Some countries, on the other hand, noted that they did not have difficulties in measuring and allocating FISIM across institutional sectors.

13. Concerning the issue of non-performing loans, the group was divided about the proposal from Israel. While Korea expressed interest in this issue and suggested that clarification be sought in the updating of SNA93, Kazakhstan and France expressed reservations about the analysis made by Israeli statisticians of the risk premium included in interest rates by financial intermediaries, and did not support Israel's proposal.

**Item 5: National Accounts data submitted to international organizations**

**Presentation: UNECE**

14. The UNECE presented its comparison of the NA data from EU accession countries submitted to international organizations. Discrepancies between data submitted directly to UNECE and data available in the Eurostat New Cronos database were analysed. The aim of the exercise was to find out if UNECE could end its macroeconomic data collection from these countries and use NewCronos data instead. At the moment, this is not feasible as there are differences in data. Some of the difficulties are purely technical but some are more substantive (e.g. use of different base years, different methods of calculating reference series of quarterly constant price data, dealing with methodological breaks, lack of complete series in the New Cronos database). It was agreed that the Excel sheets with detailed comparison of data from the two sources will be sent to countries. Countries can then contact Serguei Malanichev directly (e-mail: [serguei.malanichev@unece.org](mailto:serguei.malanichev@unece.org), tel. no. +4122 917 4146) to clarify the problems.

**Item 6: Future work**

15. In the discussion on future work, it was pointed out that a special seminar dealing with the problems of transition countries is interesting and useful as there are still issues that are more specific to this group of countries. The following issues were mentioned as examples: problems related to non-observed economy which has a bigger share in GDP than in more developed countries, measuring GDP in constant prices under the conditions of high inflation and different base years used in different sectors, etc.

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