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SNA Update: Background on the Process, Issues, and Recommendations

By
Carol S. Carson
Project Manager, SNA Update

1. This paper provides background information about the ongoing process of updating the *System of National Accounts, 1993 (1993 SNA)*. Briefly, it describes the process, presents a summary of the issues, and links to the recommendations.

Key Features of the Update Process

2. ***Motivation and organization.*** In 2003, the United Nations Statistical Commission called for an update of the *1993 SNA*. The purposes of the Update Project were to bring the accounts into line with the new economic environment, advances in methodological research, and needs of users. The Commission mandated that the Update would not recommend fundamental changes to the *1993 SNA* that would impede its implementation, and it identified consistency with related manuals as an important consideration.

3. The Inter-secretariat Working Group on National Accounts (ISWGNA)—comprising Eurostat, International Monetary Fund, Organisation for Economic Co-operation and Development, the United Nations, and the World Bank—coordinates and manages the Update Project. The timetable, set by the Statistical Commission, called for a set of recommendations to be ready for endorsement by the Statistical Commission in 2007. The Commission adopted the proposed set of recommendations. The *1993 SNA, Rev. 1* is to be ready for endorsement in two stages: the framework with the recommendations in early 2008 and the extensions in early 2009. (See the draft report of the 2007 commission at <http://unstats.un.org/unsd/statcom/sc2007.htm> .)

4. The Statistical Commission emphasized the need for transparency and the broadest possible involvement of the global statistical community. In line with this emphasis, the Advisory Expert Group (AEG), including 20 country experts from all regions of the world, was established in 2003 to take a key role in the Update. The AEG considered the proposals for change and expressed its views, both in meetings and in written consultations. Most proposals for change came from standing and short-term expert groups, which cut across the areas of macroeconomic statistics.

5. ***Differences from past revisions.*** Since the first SNA, published in 1953 as *System of National Accounts and Supporting Tables*, revisions and modifications have been published in the 1950s, in 1968, and in 1993. In several ways, the organization of this current review was different from that of earlier reviews of the SNA. One important way was with respect to how the scope of the review was defined. The SNA's coverage and structure had been overhauled in the decade-long review that led up to the *1993 SNA*, and at the outset of the current review it was confirmed that the *1993 SNA* was comprehensive and robust so that fundamental change was not called for. The scope of the review was defined by agreeing on the issues to be considered. The ISWGNA compiled a list of issues; it included those that were put on the research agenda following the *1993 SNA* and some that had ripened since. This list was endorsed by the Statistical Commission in 2003. Expert groups on balance of payments and government finance suggested additional issues that cut across the macroeconomic accounts. After discussion by the AEG and consolidation by the ISWGNA, a list of 44 issues emerged to be considered during the review.

6. The research of issues and the formulation of recommendations also were carried out somewhat differently. Issues were, as a rule, first discussed in topical expert groups. These included the Canberra II Group on the Measurement of Non-financial Assets, the IMF Committee on Balance of Payments Statistics, the Task Force on the Harmonization of Public Sector Statistics, and several special-purpose EDGs and task forces. These groups prepared issues papers, including recommendations, for consideration by the AEG. The AEG met four times over 2004-2006, making recommendations on each of the 44 issues.

7. Most significant perhaps are the changes in the way consultations on the recommendations were conducted. The internet has made it possible to keep statistical offices around the world more informed of the AEG's progress and to invite their active involvement in commenting on the recommendations. After each set of AEG recommendations was posted, 40 – 60 countries commented; overall, almost 100 different countries commented.

8. ***1993 SNA, Rev. 1.*** Chapters of the updated SNA, *1993 SNA, Rev. 1*, are being posted on the web as they become available. A 60-day comment period follows the posting, during which countries are invited to comment. As of end March 2007, there are 10 chapters available, including the eight that covers the sequence of accounts.

Sources of information

Papers considered by the AEG, reports of AEG meetings, country comments on AEG recommendations, draft chapters of the updated SNA, comments on the draft chapters, and other information are available at the project website maintained by UNSD:
<http://unstats.un.org/unsd/nationalaccount/snarev1.asp> .

Issues Considered in the Update

8. As noted above, 44 issues were considered during the Update. A brief description of the issues is shown in the Annex. In addition, almost as many clarifications, proposed by national accountants, were considered. (See the project website for a list of clarifications.)

Recommendations for *1993 SNA, Rev. 1*

9. The document “The Full Set of Consolidated Recommendations” served as a background document for the 2007 meeting of the Statistical Commission. (It is available at <http://unstats.un.org/unsd/statcom/sc2007.htm>.) This document will soon be updated to include the Statistical Commissions action on two recommendations (issues 9, research and development, and issue 16, capital services on assets used in non-market production). Until the drafting of the *1993 SNA, Rev. 1* is completed, it will serve as a reference document. It is expected that it will be translated in Russian. In the meantime, a theme-based summary of some key recommendations may be useful.

10. **Globalization** in its various facets is, arguably, one of the most important forces shaping social and economic developments in the world today. Several recommendations tackle the problems of statistics in an increasingly globalized world, and most were worked out in coordination with the ongoing revision of the IMF’s *Balance of Payments Manual*. For example, recommendations deal with the allocation for statistical purposes of the activities of enterprises that operate in several countries and the recording of activities of persons who do not have a permanent residence in any one country. Other recommendations deal with two forms of activity that are of increasing importance: goods crossing borders (e.g., for processing) without a change in ownership, and goods being purchased from and sold to foreign residents without crossing the new owner’s borders.

11. Responding to developments and innovations in financial markets since the *1993 SNA*, several recommendations update definitions and treatments of **financial instruments and institutions**. These include recommendations on the accounting for non-performing loans, index-linked debt instruments, and retained earnings of mutual funds. Another recommendation is to expand the definition of a financial corporation to give recognition to services other than intermediation—specifically risk management and liquidity transformation. As well, there are recommendations to update the classifications of financial assets and institutions.

12. The need for guidance on the accounting for new policy tools and institutional arrangements in **government and the public sector** and the goal to harmonize with the IMF’s *Government Finance Statistics Manual 2001* were the motivation for several recommendations and clarifications. For example, tax credits and public-private partnerships, which had become more common, are not discussed in the *1993 SNA*. Tax credits are policy instruments that provide subsidies or social benefits via the tax system, and a treatment was sought that would bring out the economic reality of the credits. Public-private partnerships are complex legal arrangements in which a private enterprise

builds a facility (such as a highway or prison) in return for the right to operate it and charge a fee for the services provided for an agreed period, at the end of which the facility is transferred to the government. The recommendation was designed to give general guidance to be applied case-by-case until the public accountants reach some conclusion on some key aspects. Government loan guarantees have a significant impact on economic behavior, but the *1993 SNA* treats a guarantee as a contingent liability and thus takes no account of it until it is activated. A recommendation identifies three different types of guarantees, two of which qualify to be treated within the core accounts.

13. The growing awareness of the lengthening research agenda related to the “new economy” was one of the factors that prompted an update of the *1993 SNA*. A number of recommendations touch on features of the “**new economy**” and **non-financial assets**. Several clarify treatments introduced in the *1993 SNA*. For example, recommendations clarify the scope and valuation of databases and the handling of originals and copies such as software. The treatment of R&D had been placed on the research agenda when the *1993 SNA* was brought to conclusion, and subsequent experience, such as in satellite accounts, paved the way for further consideration. A recommendation to include a return to capital used by market producers in addition to depreciation (in supplementary tables) is in line with a large body of methodological research and responsive to user needs in analyzing productivity. There is interest in an update of the OECD manual on *Measuring Capital (2001)*, which had led to a much better understanding of capital-related measures, and for the update to include more guidance for developing statistical offices in working toward an integrated set of estimates of capital.

14. The recommendation to include a chapter on the **informal sector** responds to a long-standing call for guidance on measurement in a national accounting framework.

15. For the **environment**, several recommendations will lead to harmonization of the classifications and terminology with that in the *System of Environmental and Economic Accounting 2003 (SEEA 2003)*. For example, it is recommended that the category “mineral exploration,” which was new in 1993, be renamed to be consistent with SEEA and in line with International Accounting Standards Board criteria.