

Distr.  
GENERAL

CES/AC.68/2000/3  
11 February 2000

Original: ENGLISH

STATISTICAL COMMISSION and  
ECONOMIC COMMISSION FOR EUROPE  
(OECD)

ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT

CONFERENCE OF EUROPEAN STATISTICIANS

COMMISSION OF THE EUROPEAN  
COMMUNITIES (EUROSTAT)

Joint ECE/Eurostat/OECD  
Meeting on National Accounts  
(Geneva, 26-28 April 2000)

When can a country claim it has "implemented SNA93"?

Invited Paper submitted by OECD\*

## Introduction

1. It is now becoming more and more common to hear comments from national accountants that "we have implemented SNA93". Unfortunately, it is not uncommon to hear the view expressed that "we cannot implement SNA93 because we do not have data relating to .....". A question which then arises is "what actually constitutes implementing SNA93".

2. In practice, no country has completely implemented SNA93 in the sense that its accounts match the framework set out in SNA93 in all respects. Inconsistencies between a country's accounts and SNA93 can vary from the trivial, such as using different names for items, to the critical, such as not including everything that should be included in the production boundary.

3. This paper describes the more important elements of SNA93 that would have to be included in a country's accounts for them to be considered broadly as "SNA93 compliant".

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**Boundary of production**

4. A critical element is the boundary of production, for which there are only minor differences between the old and new SNAs. They relate mainly to the inclusion in SNA93 of own-account production of goods not made from primary products, the processing of primary products by those who do not produce them, the production of goods by households which do not sell any of them on the market, and the inclusion of illegal activities. Like its predecessor, SNA93 excludes the production of services by households for their own final consumption. Therefore, any country which considers that it had largely implemented SNA68 should have only relatively minor changes to make to its accounts for them to comply with the production boundary set out in SNA93.

**Extension of the assets boundary**

5. Two areas which have a potentially significant upwards impact on the level of GDP under SNA93 are the extension of the assets boundary and the extension of consumption of fixed capital on government assets to include roads, harbours, breakwaters etc.

6. The major issues associated with extending the assets boundary are the inclusion of a number of items with the more important being: computer software, mineral exploration, literary and artistic originals, certain parts of defence expenditure, cultivated natural growth, some services with a long production period, valuables, and historical monuments. There are conceptual problems involved in implementing some of these and some major data problems in other cases, particularly software, originals, cultivated natural growth and historical monuments.

**Chain volume indexes**

7. Annual chain volume indexes are recommended by SNA93 as the "best single measure of changes in the volume of GDP". While SNA93 recommends the use of a "symmetric" chain index (eg, Fisher or Törnqvist) it also indicates that Laspeyres' chain indexes provide an acceptable alternative to the symmetric chains. The advantage of the Laspeyres' chain volume index is that it is easier to calculate than the Fisher equivalent. Most countries which have published chain volume indexes so far have opted for the Laspeyres' version.

**Social insurance**

8. The scope of social insurance was widened in SNA93. Under SNA68, the status of the provider of the insurance determined whether it was classified as social insurance or as private insurance. In SNA93, the definition was changed so that the purpose of the scheme now determines its classification. Any organised insurance schemes that provide for needs arising from events

such as sickness, unemployment, retirement etc are now considered to be providing "social insurance" no matter how they are funded. There are potentially large differences in the scope of social insurance in some countries caused by this change in concept. In addition, paragraph 8.71 of SNA93 states that "An entry is needed in the secondary distribution of income account for the imputed social contributions payable by employees when employers operate unfunded social insurance schemes.....". The amounts involved in such schemes are very large in some countries, particularly for the government sector, because many governments have operated unfunded social insurance schemes in the past and some continue to do so. In cases where significant amounts are involved, it would be necessary for countries to adopt the treatment described in paragraphs 8.71 to 8.74 of SNA93.

#### **Institutional sector accounts**

9. SNA93 puts a much heavier emphasis on institutional sector accounts than was the case in SNA68, which tended to have a stronger emphasis on estimates classified by industry. The main reason is that, in times of business restructuring (such as contracting out etc), units are less likely to change their sector classification than they are to change their kind of activity classification (this is often referred to as "industry" or "branch"). However, the traditional means of classifying business units in statistical surveys has been by their kind of activity rather than by sector. As a result, it is necessary to restructure surveys of businesses to collect data classified by sector as well as by kind of activity. In addition, in many countries the lack of historical data classified by sector means it will not be possible to build up time series for the sectoral accounts. While it is very useful to have accounts classified by sector, not having such accounts should not preclude a country from implementing other critical parts of SNA93.

#### **Allocating FISIM**

10. The level of GDP will be raised in most countries by allocating FISIM to final demand components of the accounts (although there is provision in SNA93 for FISIM to be not allocated if there are too many data problems involved, SNA93 also recommends that accounts based on allocated FISIM be shown as supplementary accounts if it is not allocated in the "official accounts"). Not allocating FISIM potentially distorts a country's accounts in two ways. First, in most countries, it will lead to an understatement in the level of GDP. Second, in many countries, financial institutions are moving more and more to directly charging for some services, such as operating cheque accounts, rather than indirectly charging through interest rate differentials. Not allocating FISIM would result in an overstatement in the growth rate of GDP for those countries in which financial institutions are moving to directly charging for a higher proportion of their services.

**Conclusion**

11. There is no simple answer to the question posed at the start of this paper. For example, very few countries which claim to have implemented SNA93 actually have balance sheets. Does this mean they are wrong in their claims? The answer probably is "no" because there is no precise way of defining what point has to be reached before such a claim is justified. A judgement has to be made, based on issues such as how well the critical parts of an economy have been covered in the accounts, the main interests of the major users of the accounts and the length of time series on the basis of SNA93. For example, a country which has fully complied with SNA93 for only one year would be able to claim to have "implemented SNA93". However, its accounts would be rather less useful than those from a country which has followed the major recommendations but which was not able to produce sectoral accounts or balance sheets. At a minimum, for a country's accounts to be SNA93 compliant, it would seem to be essential to implement the recommendations relating to:

- the extensions to the assets boundary
- consumption of fixed capital on government assets
- chain volume indexes
- allocating FISIM (even if only as supplementary information)
- the changes in "social insurance".

12. The experience of countries which have implemented SNA93 is that a significant amount of work is involved and that a range of new data sets have to be established. However, it is apparent that the quality of SNA93 implementation varies from one within a country from one part of the accounts to another and also between countries depending largely on the data available. A major lesson from SNA93 implementation so far is that commencing the move as soon as possible is important; in other words a move to SNA93 should not be put off on the grounds that data sets are not available for all aspects that should ideally be included, even if the resulting accounts are not fully "SNA93 compliant".