Exhaustiveness in EU countries' national accounts

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Two different approaches to capture Non-Observed Economy (NOE)

- *Exhaustiveness:*
  - **to measure total economic activity and to produce exhaustive macro-economic estimates (GDP/GNI);**
  - **exhaustiveness adjustments can include NOE implicitly and/or explicitly.**
- *Measuring individual areas of NOE e.g. Informal Sector Production:*
  - **to estimate the size of individual areas of NOE explicitly;**
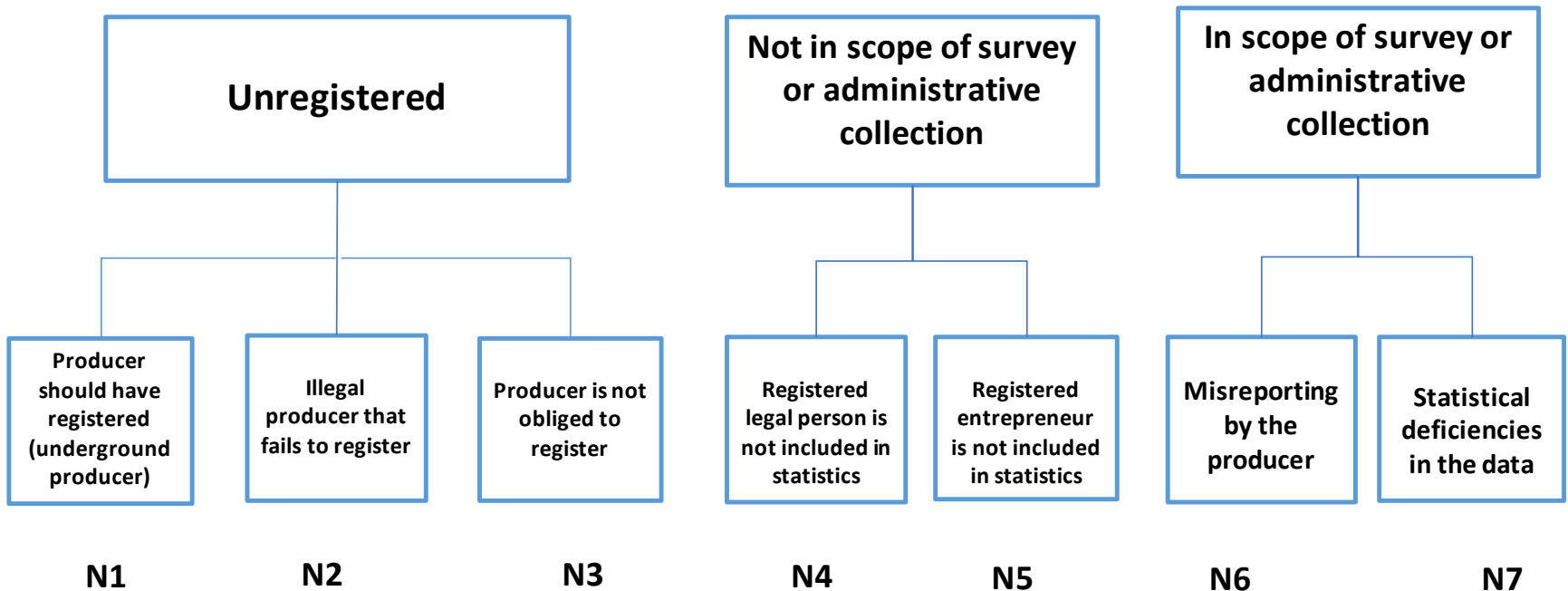 - **to support policy analysis.**

Terminologies, data sources and methods for the two approaches can overlap.

This presentation is on Exhaustiveness.

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Overview

- *Approach to the verification of exhaustiveness*
- *Cross-country comparison (CCC) on exhaustiveness*
- *Work in the future*

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Eurostat Tabular Approach on Exhaustiveness (TAE)

Unregistered			Not in scope of survey or administrative collection		In scope of survey or administrative collection	
Producer should have registered (underground producer)	Illegal producer that fails to register	Producer is not obliged to register	Registered legal person is not included in statistics	Registered entrepreneur is not included in statistics	Misreporting by the producer	Statistical deficiencies in the data
N1	**N2**	**N3**	**N4**	**N5**	**N6**	**N7**

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TAE: key points

- *The non-exhaustiveness types (N-types) are classified by making use of producers' characteristics in combination with the data sources used for the GDP output approach.*

- *The N-types are used to assess systematically potential non-exhaustiveness and to make adjustments to achieve exhaustiveness of the GDP/GNI estimates.*
  - **The individual size of a N-type is not critical. N-types can be implicitly and/or explicitly included in the estimates.**
  - **More than one N-type can be estimated together.**

- *Developed and tested in the context of several Phare projects for EU candidate countries on the improvement of consistency, reliability and exhaustiveness of their national accounts (NA) (mainly in the period between 1998 and 2003).*

- *From 2016, used by all EU Member States (MS) as a general framework for presenting their work on exhaustiveness.*

Detailed information: see guidelines TAE (distributed).

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Verification of exhaustiveness:

- *Performed by: the GNI team of Eurostat.*
- *Timing: during a GNI verification cycle:*
  - **Last: ESA2010 verification cycle 2016-2019.**
  - **Current: ESA2010 verification cycle 2020-2024.**
- *Legal acts:*
  - **GNI Regulation**
  - **Commission Decision on exhaustiveness**
- *GNI Inventories (ESA 2010):*
  - **Chapter 7 Overview of the allowances for exhaustiveness.**
- *The CCC exercise in the cycle 2016 -2019.*

More information: public folder Monitoring GNI for own resource purposes.

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NOE adjustments for the Production Account (as % of GDP) in EU MS (GNI Inventories for the cycle 2016-2019)
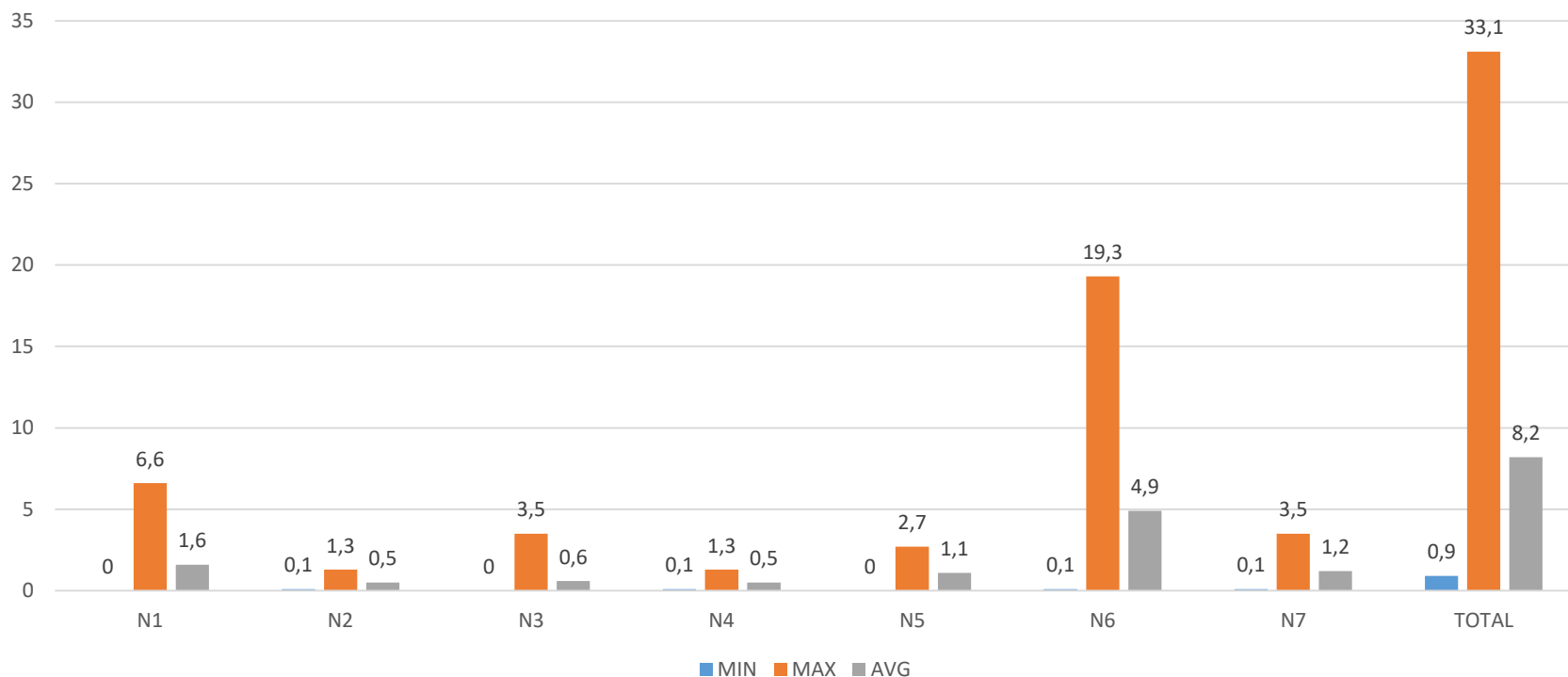
Priority areas investigated

- *Balancing vs NOE adjustments*
- *N6- misreporting*
- *Employment method (=Labour Input Method)*
- *VAT fraud and N6*

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One example of analysis: Employment method

- *Another name: Labour Input Method (LIM).*

- *Important usages:*

  - *Validation of employment underlying GNI estimates required by Commission Decision on Exhaustiveness (94/168).*

  - *Exhaustiveness adjustments (N1, N3 to N6).*

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Employment method: principle

SUPPLY
of Labour
(LFS)
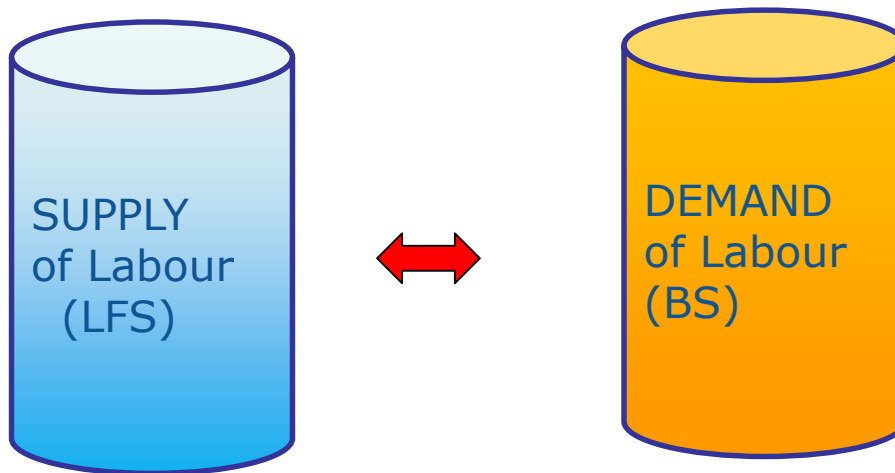
DEMAND
of Labour
(BS)

- *Measurement of labour: FTE or hours worked.*

- *Labour force survey (LFS) is usually more exhaustive than Business Survey (BS).*

- *The supply (S) data are used to 'complete' the demand (D) data (basis for GDP/GNI estimates).*

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Application of labour input method (EU MS)

	Number of MS	Min	Max	AVG
Adjustments made via LIM	12			
Share in % of GDP		0,3	21,6	5,2
Share in % of NOE		6,0	87,0	39,4
Reasons for not making adjustments — S=D	6			
S<D	5			
S>D*	1			
LIM not applied	4			

NB. * Adjustments made via another method (fiscal audit) prevailed.

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Employment method: major findings

- *Diverse application of the method depending on economic character and available data sources in each MS.*

- *Identified issues for follow-up to enhance comparability:*

  - **Harmonisation of data on employment (the precise adjustments needed).**

  - **If S<=D, further investigations: under reporting of LFS, analysis of other labour inputs.**

  - **The transition from extra labour inputs to non-observed output/GVA: define the right comparable segments, productivity ratios and conditions for imputing extra IC.**

- *Current guidance (by European Commission and OECD) provides few practical details on the application of LIM.*

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Exhaustiveness of NA in the EU: conclusions

- *In general, MS have established adequate systems for identifying exhaustiveness gaps and addressing them in their NA.*

- *Practical guidance for individual methods is needed.*

- *Proposal to set up a GNI Expert Group sub-group on exhaustiveness.*

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GNI Expert Group sub-group on exhaustiveness

- *Main objective: develop practical guidance and identify good practices for enhanced comparability.*

- *Scope: 3 priority areas that cover in total 11 issues to be investigated.*

- *Time period: 2021- 2023.*

- *The coordinating body: GNI team of Eurostat.*

- *9 MS volunteered for membership: BE, CZ, DE, ES, FR, HU, IT, PL, SK.*

- *Outcome: guidance in the form of a report for each area.*

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1. Misreporting

- *This area aims at identifying good practices and developing practical guidance for the two selected issues.*
- *Two selected issues will be investigated:*
  - **1.1. Reference income method,**
  - **1.2. Adjustments to IC for misreporting.**

2. Employment method

- *This area aims at identifying good practices and developing practical guidance for the open issues in the application of the employment method.*

- *Five open issues will be investigated:*

  2.1. Scrutinize the basic steps of the employment method by means of country presentations,

  2.2. Harmonisation of data on employment from LFS and BS,

  2.3 Underreporting of LFS,

  2.4 Analysis of other labour inputs,

  2.5 The transition from extra labour inputs to non-observed output/GVA.

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3. Non-collected VAT and exhaustiveness adjustments

- *This area explores the estimations of the theoretical VAT and the links between the non-collected VAT and the underlying exhaustiveness adjustments. Practical guidance will be developed.*

- *Four issues will be investigated:*

  3.1. Estimation of theoretical VAT,

  3.2. Identification of non-collected VAT by non-exhaustiveness types,

  3.3. Implicit coverage of non-collected VAT by exhaustiveness adjustments,

  3.4. Validation of exhaustiveness adjustments through the analysis of the relation between the estimated non-collected VAT.

Thank you for your attention!

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