

**Nineteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Frankfurt, Germany, October 23–26, 2006**

The Update of the 1993 SNA: Progress Report of ISWGNA

Prepared by the United Nations Statistical Division



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Meeting of IMF Committee on Balance of Payments Statistics
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European Central Bank, Frankfurt



Outline of Presentation

- Milestones of the update of *1993 SNA Rev.1* (since BOPCOM, Washington, June/July 2005)
- Descriptions and outcomes of selected BPM relevant issues from the AEG meetings at:
 - UN ESCAP in Bangkok (July 2005)
 - ECB in Frankfurt (February 2006)



Milestones of Update *1993 SAN Rev.1*

- AEG meeting, Bangkok July 2005
- AEG meeting, Frankfurt, February 2006
- Statistical Commission, New York, March 2006
- Full Set of Provisional Recommendations
- Follow-up on individual issues
- Draft chapters posted for comments
- Statistical Commission 2007 and 2008



Bangkok and Frankfurt AEG Meetings

- Issues oriented
- Reached agreement on most issues, but some more work needed mainly on
 - Leases and licenses
 - Pensions schemes
- Opened discussion of consistency
- Global consultations on recommendations (in total 100 responses from countries (NSOs and CBs) and international agencies)



Statistical Commission, 2006

- Focus on process
 - Commended progress on issues
 - Attributed progress to project management approach and use of the project website
- On substance:
 - Welcomed chapter on informal sector
 - Raised concerns with recommendation on unfunded government pension schemes
- Accepted ISWGNA offer to prepare a program of implementation



FSPR

- Brought together all recommendations
 - Called for in the work programme
 - Serves as a basis to examine the consistency and overall robustness of the recommendations
- Circulated in late April
 - On 1993 SNA update website
<http://unstats.un.org/unsd/nationalaccount/snarev1.asp>
 - Countries invited to comment (closed by mid-September)
 - Discussion at several meetings



Follow-up on individual issues

- Pension schemes
- Leases and licenses
- Classification of financial assets and sectoring of financial corporations
- Treatment of standardized guarantees
- Freely available R&D
- Consistency issues
- ...



Draft Chapters

1. Introduction
2. Overview

3. Flows, stocks, and accounting rules
4. Institutional units and sectors
5. Establishments and industries

- 6-13: Accounts

14. Summarising and presenting the accounts
15. Supply and use and ...
16. Prices and volume measures



Draft Chapters

17. Role of capital services...
18. Cross-cutting and other special issues

19. Measuring corporate activity
20. Government and public sectors
21. NPIs
22. Households
23. Informal sector
24. ROW account
25. Link to financial and monetary statistics
26. Population and labour inputs
27. Satellite accounts and other extensions



Statistical Commission 2007 and 2008

- Statistical Commission 2007
 - Seek agreement on the Consolidated Set of Recommendations
- Statistical Commission 2008
 - Adopt the 1993 SNA Rev.1.



Selected BPM relevant issues

- Goods for processing
- Merchenting
- The right and use/exploit non-produced resources between residents and non-residents
- Impact of non-performing loans on FISIM
- Retained earnings of mutual funds, insurance corporations and pension funds
- Financial instruments –non monetary gold
- Granting and activation of loan guarantees



Goods for processing

- Description

The 1993 SNA and the Balance of Payments Manual treat the goods sent abroad for processing differently. The 1993 SNA only records gross flows in the case of substantial processing (reclassification of the good at three-digit CPC). The Balance of Payments Manual, as a practical matter, suggests a convention that all processing be assumed substantial and therefore gross flows are recorded. Further, the position is that when goods are sent abroad for processing, no change in ownership takes place and thus there are no actual transactions.



Goods for processing

- Outcome

Recording of imports and exports should follow a change of ownership recording rather than the recording of physical movement. This is a change from the *1993 SNA* and *BPM5*. This change affects the recording of transactions within the national economy as well as international transactions. The decision to record on a pure change of ownership basis implies that no transactions will be recorded for intra-enterprise (inter-establishment) deliveries, contrary to practice up to the *1993 SNA*.



Merchanting

- Description:

Merchanting is a term used in *BPM5* for the activity of trading in goods that do not enter the territory of the trader. In such a case, the treatment is to report only the margin earned in the territory of the trader. If the trade is not concluded during the accounting period, changes in inventories are shown as imports (negative if inventories decrease). The issue is not covered in *1993 SNA*.



Merchanting

■ Outcome

"The acquisition of goods is recorded as an import (shown as a negative export) by the global manufacturer, global wholesaler/retailer or commodity dealer (merchant). The subsequent resale of the goods is recorded as exports by the merchant. The difference between the two is shown as net exports of goods by the merchant. The merchant's output is recorded as a wholesale/retail service within the national accounts, exclusive of holding gains/losses while the goods are held (in inventory) by the merchant."



The right and use/exploit non-produced resources between residents and non-residents

■ Description

Except for land, transactions of the right to use or exploit non-produced resources between residents and non-residents have not been fully elaborated by the 1993 SNA. For land a notional resident unit is created which is deemed to purchase the land while the non-resident is deemed to purchase a financial asset (equity) of the notional unit. Should the treatment of land be extended to other non-produced resources such as water, fish, etc. or should there be alternative treatments?



The right and use/exploit non-produced resources between residents and non-residents

■ Outcome

For land:

- (a) All land must be owned by a resident unit, whether it is natural land or land improvements
- (b) The lessor of land or buildings held under a financial lease must be a resident unit, notional if necessary

For mineral deposits (or static natural resources subject to multi period extraction),

- (c) The issue of a licence establishes a sufficient centre of economic interest for the holder of the licence to be regarded as resident (the BOPCOM view) or must production start to establish this (the CG view)? BOPCOM view

For radio spectra (where there is no change in the asset brought about by usage),

- (d) the holder of a licence to use the spectra would normally be resident but exceptions may occur in certain cases such as geographically small countries covered by facilities in neighbouring countries?



The right and use/exploit non-produced resources between residents and non-residents

■ Outcome

For logging (or static natural resources subject to short-term extraction),

- (e) extraction must take place for more than a year to establish a resident unit
- (f) A fee for one-time extraction represents the sale of an asset
- (g) Illegal extraction should be recorded as uncompensated seizure

For fish:

- (h) A fishing vessel becomes resident only if the operator establishes a base in the country in question, otherwise the residence of the vessel remains that of the operator, regardless of the area in which it is fishing
- (i) Fish beyond the EEZ may be treated as assets if allocated by international agreement
- (j) Permits to catch fish may represent assets in their own right
- (k) Illegal fishing should in principle be recorded as uncompensated seizure



Impact of non-performing loans on FISIM

- Description

The treatment of non-performing loans is a topic on which the Thai authorities had asked the ISWGNA for clarification as to what extent unpaid interest should be accrued (considering that the financial intermediation services indirectly measured on such interest may affect GDP). The purpose of the review is to determine what criteria should be applied to the writing-off of non-performing loans and to make sure that they are consistent with the other major macroeconomic statistical systems (balance of payments, government finance, and money and banking statistics).



Impact of non-performing loans on FISIM

- Outcome

any FISIM associated with unpaid interest must also be accrued as part of the principal outstanding. It is consistent with the decision to record the even nonperforming loans at nominal value. It is operationally feasible and would lead to no change in GDP



Retained earnings of mutual funds, insurance corporations and pension funds

- Description

In the 1993 SNA, retained earnings of an entity are generally treated as the income and saving of the entity, rather than the owner. However, exceptions are made for life insurance companies, pension funds and foreign direct investment companies, where there is an imputed flow to the policyholders, beneficiaries, and owners, with an equal financial account flow. The ESA95 introduces an imputed transaction for the retained earnings of the mutual funds where income is attributed to the investors and then reinvested in the fund. That treatment brings about some consistency with the treatment of life insurance and pension funds, which are other types of collective investment schemes. Other symmetrical applications of the treatment of retained earnings have been suggested that either expand or reduce the imputations. Moreover, the issue of negative earnings has to be addressed.



Retained earnings of mutual funds, insurance corporations and pension funds

- Outcome

adopt the concept of an "investment fund" which would include mutual funds but not pension funds or money market funds. For these funds there would be a distribution of property income to the shareholders in the fund with subsequent reinvestment in the fund. New categories of property income payable and receivable would be introduced, distinguishing dividends distributed to, and retained earnings attributed to investment fund shareholders.



Financial instruments –non monetary gold

- Description

Again it is raised whether non-monetary gold should be classified as a financial asset rather than under valuables in the asset classification. Non-monetary gold being a financial asset would allow for the gold transactions to be netted, in line with financial transactions. Moreover, as a consequence, fee payments to owners of gold loans would be classified as property income rather than a service.



Financial instruments –non monetary gold

- Outcome

It is proposed that unallocated gold accounts should be treated as financial assets and liabilities and classified with deposits in foreign currency.. Allocated gold accounts would continue to be treated as valuables or inventories as at present. Unallocated accounts in other precious metals should be treated similarly to unallocated gold. If the treatment extends to other commodities, a review would be necessary to consider if the treatment should be extended further.



Granting and activation of loan guarantees

- Description

Loan guarantees have a significant impact on economic behaviour, especially when issued by government. The 1993 SNA treats guarantees as contingent liabilities and thus has no record of the existence of the guarantee until it is activated. Further, the treatment of flows arising at the activation is not explicit. Should obligations arising from guarantees be recognized when guarantees are granted, particularly regarding those guarantees for which it is possible to make reasonable estimates of expected future claims?



Granting and activation of loan guarantees

- Outcome

Three classes of government guarantees be recognized: (a) by means of a financial derivative recorded in the core accounts, (b) standardized guarantees recorded as non-life insurance in the core account, and (c) one-off guarantees whereby the granting of a one-off guarantee is considered a contingency and is not recorded as a financial asset/liability but as supplementary information. (As an exception, one-off guarantees granted by governments to corporations in certain well-defined financially distressed situations and with a very high likelihood to be called might be treated as if these guarantees were called at inception.)