

International conference on International Outreach and Coordination in National Accounts for Sustainable Growth and Development

Session 2 – International commitments and frameworks

Title: SNA 93 Update

Institution: Inter-Secretariat Working Group on National Accounts (ISWGNA)

I. Background

1. The **update of the System of National Accounts, 1993 (SNA 1993)** represents currently one of the most important projects in the area of national accounts. The results from this project will set up the national accounts standards for many years.
2. The Inter-secretariat Working Group on National Accounts (ISWGNA) - comprising European Commission (Eurostat), International Monetary Fund, Organization for Economic Co-operation and Development, the United Nations and the World Bank - was mandated to coordinate and manage the SNA 1993 Update Project. An Advisory Expert Group (AEG), with 20 country experts from all regions of the world, was set up to assist the ISWGNA and make recommendations.
3. A list of 44 issues was identified for the SNA 1993 Update. These recommendations were posted on the Project website at the UN, for comments by countries, international organizations and individual experts worldwide. The ISWGNA reviewed in depth the comments received on the website and found wide acceptance of a large majority of the recommendations.

II. Main substantive changes in the new SNA

4. Country comments were divided on only a few main topics: unfunded pension schemes, research and development, capital services on assets owned by non-market producers, goods for processing and military expenditures.
5. **On pension schemes**, a compromise solution developed by an ad-hoc Eurostat/ECB Task Force was endorsed by UNSC in 2007. The compromise provides that unfunded government pension schemes will be recorded "flexibly" in national accounts. Countries may choose whether or not to include liabilities in the core accounts, but must clearly state the criteria they have used to make their choice. A compulsory Supplementary Table will transparently show all pension schemes on an actuarial basis, thus providing the basis for comparable national accounts data between countries.
6. There is a conceptual agreement that Research and Development (R&D) expenditures have the inherent characteristics of investments and explain the growth and productivity in an economy. Consequently, the Commission agreed that it should be recorded as gross fixed capital formation in the core of the national accounts. Like with other new elements in the updated SNA, there are measurement difficulties to be resolved for which the ISWGNA has been requested by the Commission to draft practical guidelines in Handbook based on the experience gained by countries in preparing R&D estimates in satellite accounts including the treatment of asset lives, price indexes, etc.
7. The AEG had recommended including in the value of government output a return to capital on non financial assets used in non-market production. The country comments, however, highlighted both the conceptual and measurement difficulties with this inclusion. In particular, it was considered that the nature of the non-market production was fundamentally different from the nature of the market production. More specifically, the full pricing of capital used by government in its production of its goods and services by including the rate of return to capital in addition to depreciation was considered inappropriate. The recommendation will not be included in the updated SNA.
8. The recording of imports and exports should follow a change of ownership basis principle and no more the physical movements. **Goods for processing**, in the context of globalisation, will not anymore inflate both imports and exports figures, which is important for international trade analysis.
9. Considering that destructive weapons have characteristics of investments, **military expenditure** will be treated as capital formation (and no more as intermediate consumption) when they meet the

definition of being used in production over a period in excess of one year, regardless of the nature of the expenditure or the purpose intended for it.

10. First studies suggest that the changes might lead to a total increase of GDP of about 3% mainly due to the capitalisation of military expenditure and of R&D.

III. Two volumes for updated SNA 1993

11. Updated SNA 1993 is split in two volumes:

- Volume 1 (chapters 1 to 17) comprises the full set of chapters that represent the SNA framework in terms of accounting conventions, the accounts and the integration of the accounts. This first volume was submitted to the UN Statistical Commission (26-28 February 2008)

- Volume 2 (chapters 18 to 29) comprises mainly the interpretation of the accounts and various extensions such as satellite accounts, and will be submitted to the UNSC in February 2009.

IV. Outcome of the UN Statistical Commission discussion on the SNA update (26-28 February 2008)

12. The Statistical Commission accepted the proposal in the ISWGNA report to the Commission that Volume 1 of the updated SNA be approved in principle, but with an extra two months being allowed for countries to comment on the revised draft chapters. As a result, the evaluation period for Volume 1 has been extended until 30 April.
13. The Commission emphasised that this extended review period was to allow countries to examine the conceptual coherence and consistency of the System with the recommendations on the 44 issues, together with the clarifications and consistency issues flowing from them. The Commission stressed that the decisions made on the 44 issues were not to be reopened during this extended consultation period, nor were pure drafting changes to be suggested.
14. The UNSC mandated the ISWGNA to proceed with the finalisation and publication of volume 1, after advising the Bureau of the Commission, in pre-edit electronic and paper version, taking into account the substantive observations made during the two months review period.
15. The UNSC requested that the ISWGNA takes appropriate measures to ensure that volume 2 of the updated 1993 SNA is fully completed and presented for adoption to UNSC in 2009.
16. The UNSC also requested the ISWGNA to present a strategy for the implementation of the updated 1993 SNA, reflecting the need for regional and sub-regional coordination given the different levels of statistical development, and elaborate on the advocacy strategy to engage users, especially those engaged in policy formulation and analysis.

V. Preparation of Volume 2 of the updated 1993 SNA

17. Key points in the timetable for this year are:

Until July, drafts of the chapters of Volume 2 will progressively be posted for countries comments.

Mid September will be the deadline for comments on the last draft chapter(s).

The revision of Volume 2 chapters will be finalised at end October.

Mid December, the revised Volume 2 will be ready for submission to the UNSC meeting (24-27 February 2009).