

# Towards BPM7 and 2025 SNA

## Agenda Item 9: SNA/BPM Update

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# Overview of the presentation

- **Context**
- **Developing the consolidated list of recommendations**
- **Response to general questions in the global consultation**
- **Concerns arising from the global consultation**
- **Main issues:**
  - **Natural resources**
  - **Data and marketing assets**
  - **Sum-of-costs method**
- **Task Teams developing implementation guidance**
- **Way forward**
- **Questions to DMES**

# Context

- It has been **15 years** since the SNA was last updated
- During this time, there has been **striking changes** in the way that economies operate
  - **Digitalization and globalization** in particular have had a profound impact
  - Furthermore, there is increasing concern that economic decisions need to be considered within a broader framework of **wellbeing and sustainability**, including **environmental sustainability**
- It could be expected that there should be substantive **change to the SNA** to reflect these changes
  - It is essential that the national accounts **remain relevant** in a changing world
  - This will ensure that national accounts **are credible** in the eyes of policy makers and the broader community
  - We all want to maintain, and ideally increase the **support for national accounts statistics**, and the statistical organizations that produce them

# Context (continued)

- It is recognised that significant changes to the SNA can be **challenging to implement**
  - For this reason, it is critical that the update of the SNA is accompanied by a **well thought-out implementation strategy**, which includes **developing guidance** for countries to produce robust, high quality and internationally comparable statistics
  - **Advocating** for the resources to make the requisite changes to the national accounts is also a critical element of this
- The SNA update is proceeding **in parallel with the updated of the IMF's Balance of Payments Manual**, with the aim of achieving maximum harmonization

# Developing the consolidated list of recommendations

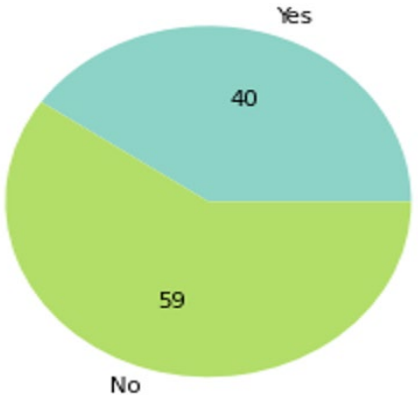
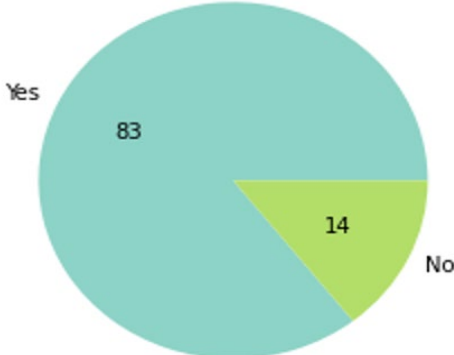
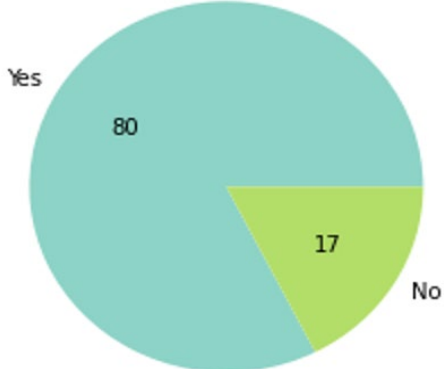
- **Changes to the 2008 SNA** have been mainly derived from Guidance Notes and Issue Notes, but also from SNA News & Notes, guidance provided in past AEG-meetings, etc.
- The **Guidance Notes** were the result of extensive research undertaken by Task Teams comprised of experts in relevant fields
  - Those that considered substantive change also underwent a **feasibility assessment** of the practicality of making the changes
- There was extensive consultation on the Guidance Notes (and other substantive issues relating to the update), including global consultation
- The **Advisory Expert Group (AEG) on National Accounts** carefully deliberated on the Guidance Notes and Issue Notes in determining the recommendations for changes to the 2008 SNA, taking into account the outcome of the global consultations

# Developing the consolidated list of recommendations (continued)

- The recommendations were consolidated into an **accessible and concise document** on the changes to the 2008 SNA, **which was put forward for global consultation for six weeks during August and September 2023**
- **The document is being updated for consideration and formal endorsement by the United Nations Statistical Committee (UNSC) in its March 2024 meeting**

# Outcome of global consultation: overview

- Q1A. Are the recommendations clear, straightforward, and unambiguous?
  
  
  
  
  
  
  
  
  
  
- Q2A. Are the recommendations consistent?
  
  
  
  
  
  
  
  
  
  
- Q3A. Do you have any other concerns about the recommendations?



# Concerns expressed about the recommendations: general overview

- **Several requests for clarification:** These requests have been either addressed in the updated version of the consolidated list of recommendations, or they will be taken into account while drafting
- **Individual respondents, or few respondents, expressing disagreement on certain issues:** In general, these could not be fully addressed, except for further clarifications in some cases
- **Some countries expressed concerns about the (feasibility of) recording emission permits:** Still awaiting outcome of workshop
- **Some countries not happy with parking the treatment of the atmosphere as an asset, one country even suggesting to postpone the update with one year to resolve this issue:** This issue is rather complex, and may have far-reaching consequences, also beyond BPM/SNA, therefore put on the post 2025 SNA Research Agenda



# Concerns expressed about the recommendations: main issues

- Four issues where a more substantial number of countries (6 – 8), mainly from Europe, have expressed concerns:
  - Accounting for natural resources
  - Accounting for data
  - Accounting for marketing assets
  - Consistent application of the sum-of-costs method
- **Topic of the remainder of this presentation**, thereby trying to make a distinction between conceptual concerns versus concerns about feasibility and practical implementation
- **Note: In view of time, discussion is presented in a concise, and perhaps sometimes less nuanced, way**

# Natural resources: main changes

1. Explicit recognition of **renewable energy resources**
2. Change in the **delineation between cultivated and non-cultivated biological resources** yielding once-only products (timber, fish and the like), and **clarification on accounting for work-in-progress**
3. The application of the **split-asset approach**
4. Accounting for **depletion as a cost of production**

# Natural resources: conceptual concerns

- **Renewable energy resources:**
  - Wind, sun, etc. are not scarce and do not have an economic owner
  - Profitability of wind and solar extraction is in many countries highly influenced by taxes and subsidies
  - Potentially leading to double-counting, as it is already captured in the value of land
- **Response:**
  - Wind, sun, etc. are not scarce, but the exploitation of these resources may be restricted to certain economic agents having relevant permissions, or having ownership of e.g., land favourable for exploiting these resources
  - Other two concerns are acknowledged, and will be clarified in the guidance
  - Double-counting is probably relatively small, because the relevant land is not valued, or no land is involved; an exception being privately owned land, the value of which is based on actual transaction values

# Natural resources: conceptual concerns (continued)

- **Biological resources yielding once-only products:**
  - Animals and plants should not be considered as producers of output
  - Eliminating the distinction between cultivated and non-cultivated resources leads to **GFCF for resources that are not actively managed**
  - **Regeneration to be recorded as GFCF, implying that inventories are excluded**
  - **Distinction between inventories and underlying asset not clear**
- **Response:**
  - The guidance continues to take **human involvement** as a starting point
  - Discretionary choice regarding degree of management difficult to apply in practice; **treating all growth of trees intended for timber production is easier to implement**
  - **Regeneration relates to the future potential of the underlying asset** (i.e., forest land), not to the growth of trees
  - Clarification: valuation of work-in-progress in line with the current guidance may result in the **implicit inclusion of the value of forest land**, if not properly accounted for

# Natural resources: conceptual concerns (continued)

- **Split-asset approach:**

- Actual rents/royalties received represent the whole value

- **Response:**

- Overwhelming evidence that in many countries a significant part of the resource rent is captured by the extractor
- The entity having the right to extract clearly owns an income generating asset of some kind => split-asset approach provides an elegant way to account for the appropriation of income by the legal owner and the extractor

- **Accounting for depletion as cost of production:**

- Hardly any conceptual concerns; only one respondent noting that depletion is a kind of opportunity cost, and not in line with the concept of current actual costs

- **Response:**

- Depletion can be considered as an actual cost related to the exploitation of the resources, leading to a decrease of net worth, similar to consumption of fixed capital

# Natural resources: concerns of feasibility

Several respondents expressed **reservations about the measurement of mineral and energy resources**: general concerns about the **valuation of (changes in) stocks**, including depletion, by applying **NPV-method**, which requires several assumptions : with a **potentially significant impact on the estimates => also impacting on NDP adjusted for depletion**

- **Not accounting for stocks of natural resources in the sequence of economic accounts:**
  - would involve **a dramatic change to the current guidance of the 2008 SNA; asset boundary has hardly been extended**
  - would give a **very poor signal to users, potentially decreasing the relevance of national accounts**
  - **may result in a very awkward set of accounts**, because actual transactions taking place need to be reflected in the sequence of accounts
- Important clarification for mineral and resources: **In practice the measurement will be restricted to class A (commercially recoverable resources)**, to be approximated by those resources for which permissions to exploit have been granted, and/or those for which the existence is explicitly recognised by (past) monetary transactions

# Natural resources: concerns of feasibility (continued)

- NPV-method is the only feasible method; if actual transaction values would be available, these would clearly constitute the preferable valuation method; however, **hardly any transactions take place in stocks of mineral and energy resources**, which are also very heterogeneous
- Already now, the **2008 SNA recommends the use of the NPV-method** for natural resources
- **Using assumptions is relatively limited**: most important assumption relates to the future path of resource rents, for which a longer-term average of actual resource rents in the past can be used as an approximation
- Importantly, **implementation guidance for the measurement of mineral and energy resources in an internationally comparable way** is in the process of being developed; this should also resolve the issue around the measurement of depletion
- **Several countries already have practical experience** in compiling estimates

# Data and marketing assets: conceptual concerns

- Most respondents expressing concerns seem to **explicitly agree with the conceptual soundness** of the recommendation to treat especially data and marketing assets as produced assets
- Also considered **highly relevant** to account for e.g., the role of data
- **However, individual respondents noted the following conceptual concerns:**
  - **Value of data is related to its use** rather than the dataset itself
  - **Doubts whether capitalized marketing expenditure can truly reflect the brand value/marketing assets of a company**
  - Marketing assets are **not used to increase the volume of output, only the value of output**
- **Response:**
  - **Value of data being related to its use is not inconsistent with the notion of an asset**, but perhaps the argument is misinterpreted
  - Second point not entirely clear: does this relate to **whether or not marketing assets can be actively produced?**
  - Future benefits **not necessarily restricted to an increase in the volume of output**



# Data and marketing assets: concerns of feasibility

- **Most concerns** are expressed around the **feasibility of compiling internationally comparable estimates**:
  - Reliance on **assumptions** regarding occupations, service lives, etc., thereby **introducing model-based components in GDP**
  - **Major challenge to implement** for most countries around the world
  - **Lack of implementation guidance**
- **Response**:
  - **Two task teams are working on the development of practical implementation guidance**, one for data and another one for marketing assets
  - Including data and marketing assets may actually **simplify estimation of IPPs as a whole**
  - Estimating marketing assets by **capitalizing expenditures is a prudent approach to measuring its approximate value**, and may indeed not fully reflect the “true” value of these assets, certainly at an individual level

# Sum-of-costs method: conceptual concerns

- **Market and non-market producers are fundamentally different from each other:** while market producers set their supply and prices in order to maximize profits, non-market producers base them on political and social considerations and may be required to provide services to areas of the economy that would not be covered otherwise; **difference in treatment of market and non-market production is not an inconsistency but a reflection of reality**
- **Opportunity costs should not feature in the system of national accounts,** but only actual costs should be recorded
- May possibly have an **impact on government deficit**

# Sum-of-costs method: conceptual concerns

## Response:

- **Sum-of-costs is a method to approximate a market-equivalent price**, in the absence of observed market prices, by summing up all costs involved in the production of the relevant goods or services; the **costs of using capital in production do not only concern consumption of fixed capital, but also the cost of borrowing funds to invest in capital**; as such, it is not about making profits, but about **recovering all costs involved**
- **The concept of opportunity costs (return on capital) is already applied to market production**
- Change in the measurement of government output, by adding a return on capital, **does not directly change government deficit**; however, possible secondary impact in the application of the 50% rule for distinguishing between market producers and non-market producers

# Task Teams developing implementation guidance

- **Eurostat/IMF Task Team on Measuring Data as an Asset in the National Accounts**

- January 2024: Annotated outline of handbook available (to be submitted as background document to the 2024 UNSC)
- January 2025: Final version of the handbook (to be submitted as background document to 2025 UNSC)

- **IMF Marketing Assets Task Team**

- January 2024: Annotated outline of handbook (to be submitted as background document to the 2024 UNSC)
- March 2025: Final version of the handbook (to be submitted as background document to 2025 UNSC)

- **OECD Expert Group on Natural Capital**

- January 2024 to May 2024: First drafts of short practical guides for priority topics
- May 2024: Annotated outline of the handbook available
- February 2025: Publication of the final version of the handbook by the OECD

# Way forward

- **The recommendations for the update of the 2008 SNA** will be put forward in the ISWGNA-report to the United National Statistical Commission (UNSC) in March 2024, for endorsement
- **A more detailed response to the feedback** from the global consultation on the recommendations will be provided in a background document to the ISWGNA-report to the UNSC (to be published at the latest by **end of January 2024**)
- The Task Teams will work during 2024 to **develop compilation guidance** in the key areas of concern, which will be subject to **global consultation** in due course
- An **implementation strategy** for the 2025 SNA is being developed. This will also be subject to global consultation and will be **submitted to the UNSC for its endorsement in 2025**, along with the 2025 SNA

## Way forward (continued)

- The ISWGNA, with the assistance of the update team, will **continue to listen to the concerns** of countries and work with them on ways of addressing them
- While there will undoubtedly be challenges in implementing the 2025 SNA, it is likely to be **several years** before countries will actually implement it, thus giving a **substantial time period to prepare for the implementation**

# Questions to the EU DMES

- To **express their views on the outcome of the global consultation**, particularly regarding the main issues of concern:
  - **Accounting for natural resources**
  - **Accounting for data and marketing assets**
  - **Consistency in the application of the sum-of-costs approach**
- To provide **feedback on ways in which the main concerns can be addressed**

Thank you for your attention!

