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What is in the Update for Russia and the CIS region

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Abstract

The paper reviews the proposals for updating SNA 93 from the standpoint of their relevance for CIS countries (Russia, in particular) and their implication for national accounts of these countries in the foreseeable future. It discusses the problems which will apparently require solution in the context of implementation of those proposals which are deemed to be particularly relevant for the CIS countries. This relevance depends on current stage of implementation of the SNA 93, available sources of information, existence of certain institutional arrangements and mechanisms. One section of the paper contains brief overview of the current stage of implementation of the SNA 93 in the CIS region; this section is used as a background for discussion of the suggested changes in the System. The proposals for updating SNA1993 are not homogeneous in terms of their potential impact on national accounts of the CIS countries, the complexity of problems which will apparently require solution in the course of implementation, the burden on statistical offices and therefore the latter will have to set priorities in their work on introduction of the adopted changes into regular statistical practices. Implementation of some proposals is likely to require assistance to national statistical offices from international organizations. The paper also discusses at some length selected issues which seem to be important for the CIS countries but have not been covered by the proposals.

1. Introduction

The purpose of this paper is to review the proposals for updating SNA 93 from the standpoint of their <u>relevance</u> for the CIS region in the foreseeable future and to consider implications for the work of these countries in the field of national accounts. This implies discussion of the prospect of implementation in this region of specific proposal for updating the System and the problems which will apparently require solution in this context. The relevance of the proposals for updating the SNA 93 for the CIS countries depends on the current stage of implementation of the SNA 93 in this region and immediate plans in this area, harmonization of national accounts with other systems of macroeconomic statistics and business accounting, plans of countries to improve their statistical systems on the basis of the international standards, the type of data used by the governments to take decisions on economic policies and expected changes in this area. The other factors which seem to require attention in this context refer to peculiarities in organization of the economies, availability and development of certain institutions and mechanisms, the degree of transformation of centrally planned economies into market - oriented economies.

It appears that implementation of the updated SNA in the CIS region will have to be stretched over a number of years and will require considerable efforts on the part of statistical offices and some other agencies responsible for compilation of macro economic statistics. They will apparently have to introduce certain changes in some definitions and classifications, in the design of the reports submitted to them by the enterprises, as well in the design of sample surveys used to collect the data; in some cases the changes in business accounts will be required. The statistical offices will have to intensify their interaction with ministries of finance and central banks and in

this context they will have to pay special attention to implementation by the above agencies of the suggested changes in compilation of BOP and GFS. For example, the Bank of Russia is currently involved in computation of FISIM and output of this bank and therefore the changes in the methodology of computation of these indicators will require close consultations and interaction between the Rosstat and the Bank of Russia and coordination of their efforts.

The forthcoming changes in the SNA93 are not homogeneous from the point of view of the CIS region in terms of the impact on: i) problems which will require solution in the course of implementation ii) burden on statistical offices and resources and iii) major accounts and aggregates which are expected to be compiled in the CIS region in the foreseeable future. Therefore the statistical offices will have to establish **priorities** in the process of implementation of updated SNA 93, to identify the issues which could be dealt with within relatively short periods of time and secure improvements in compilation of major accounts. It some cases implementation of selected proposals for updating in the CIS region will require technical assistance from the international organizations.

It is from this point of view the proposals for updating the SNA are reviewed and commented in this paper.

The tentative list of the issues which seem to be particularly relevant for the CIS countries and could be dealt with on a priority basis is as follows:
- Measuring of nonobserved economy, including informal and illegal economy
- Measuring and allocating FISIM
- Treatment of activities of central banks, including valuation and allocation of their output
- Valuation of non-market services produced by general government
- Capital services
- Military expenditure
- Expenditure on research and development
- Mineral exploration
- Non-life insurance services
- Employees stock option
- Land
- Obsolescence and depreciation
- Units
- Cost of ownership transfers
- Delineation between the general government, public sector and private sector
- Changes in classification of non-financial assets
- Treatment of originals and copies
- Definition of economic assets
- Government dividends and capital transactions with public corporations
- Payment for use of natural resources, leases and licences
- Public/ private/ government sectors delineation
- The right to use non-produced resources between residents and non-residents
- Tax revenues, uncollectable taxes and tax credits
- Debt reorganization
- Globalization
- The treatment of employer pension schemes.

Brief comments on some other proposals for updating will also be given. In addition it is intended to touch upon some issues which, in our view, deserve clarification but were not covered in the current proposals for updating.

The next section of the paper contains brief review of the current stage of implementation of the SNA 93 in the CIS region with the emphasis on problems which await their solution. This section is intended to be used as a background for discussion of proposals for updating SNA 93 and their relevance for CIS region in the foreseeable future.

2. Current stage of implementation of the SNA 93 in CIS region

The summary of the evaluation of the current stage of implementation of the SNA 93 in CIS countries can be presented as follows:

- All CIS countries compile all current accounts using the SNA 93 underlying concepts, definitions and classifications. The current accounts are compiled for institutional sectors and industries This makes it possible compute major aggregates both in current and constant prices (where relevant): GDP, GNI, GNDI and major components of these indicators.
- All CIS countries compile goods and services account and this makes it possible to compute GDP by final use data in addition to compilation of GDP by production and distribution of income methods.
- All CIS countries compile capital account but not a single country compiles two other accumulation accounts and the balance sheet.
- Some countries compile resources and use tables while some countries compile periodically symmetric input-output tables.
- All countries compile GDP on a quarterly basis.
- All countries include in the GDP the estimates of underground and informal economy, but not illegal economy.
- Majority of countries compile estimates of regional domestic product.
- Not a single country compiles SAM or any satellite account.

The major problems with current stage of implementation of SNA 93 in CIS countries in addition to those which are obvious from the above text (missing accounts and balance sheet) can be briefly described as follows:

- lack of harmonization of national GFS which is used for compilation of relevant flows in national accounts with the IMF GFS Manual: this creates serious problems with securing desirable accuracy of figures on government final consumption expenditure and related flows;
- incomplete harmonization with statistics of selected industries in terms of underlying definitions and classifications;
- the methods of compilation of estimates of unobserved economy remain rather crude;
- FISIM is not allocated to the relevant categories of disposition and therefore the GDP is somewhat underestimated;
- there are some practical problems with compilation of GDP in constant prices; some countries are not in a position to use double deflation procedure, the deflators for net exports are not adequate;
- statistics of non-produced assets (both tangible and intangible) is not sufficiently developed;
- statistics of financial assets and liabilities is underdeveloped;
- some classifications (such as COICOP, COFOG) have not been introduced in national accounts on a systematic basis.

It is worth noting that major SNA aggregates and, above all the GDP, are used by the governments for formulation of economic policies, the recent years witnessed the growth of interest in regional accounts, however, little attention has been paid so far to such aggregates as national saving, net lending/net borrowing, national wealth.

Although the CIS countries intend to address the above mentioned shortcomings, it is difficult to say when they manage to do it.

3. Review of the proposals for updating SNA 93 which are relevant for CIS countries in the foreseeable future

This section of the paper is intended to review briefly selected proposals for updating SNA 93 which appear to be particular relevant for the CIS countries and possibility of their implementation, if adopted, in the foreseeable future. Discussion of some proposals is omitted because they imply specific arrangements in organization of the economy which are not yet important for the CIS countries (e.g. public-private partnerships, SPE s and so forth). In some cases only certain aspects of proposed changes are discussed.

- <u>Clarification of treatment of nonobserved economy (informal sector)</u>

Treatment of nonobserved economy (NOE) in national accounts is very important topic for CIS countries because of the size of NOE and implications on reliability of GDP figures. The estimates of output produced in underground and informal economies are included in the official figures of GDP. The major objective has been so far to secure exhaustiveness of GDP. The compilations are largely based on provisions of the Handbook of measurement of NOE but the general feeling is that the quality of these estimates is far from being satisfactory. The data on the share of NOE in the GDP of the CIS countries collected recently by the CIS Statcommittee show a considerable disarray among the countries and it is difficult to say whether this disarray is a result of inadequate methods of measurement in individual countries or it does reflect the reality. The prevailing view is that the methods used by the CIS countries for estimation of NOE require considerable improvements. Therefore recommendations on the methods of measurement of NOE (reflecting progress and innovations in this area during recent years) in the updated SNA would be very useful for this region.

Up till now there has been no considerable interest in the data on informal sector as a separate grouping of the households sector in the context of formulation of policies and no attempts have been undertaken to identify output of informal sector <u>separately</u> from other types of unobserved output of unincorporated enterprises of the households. However the demand on the data on informal sector is likely to develop in not so distant future and clarification of definition of informal sector and other groupings of unincorporated enterprises owned by the households will be useful. Clarification of the scope of informal sector seems to imply the need for segmentation of the entire universe of unincorporated enterprises into some specific groupings; at present time it is nor sufficiently clear whether this universe consist of two or three or even more groupings. In the context of this segmentation a clarity should be secured on such issues as definition of market producers, (all or some vs. all or most), criterion of registration/non-registration, employment. In Russia 60 percent of households own personal plots where they grow vegetables and fruits and some of them sell small part of the output at the market whereas the others sell predominant part of output and so the guidance would be useful on which of them should be

considered as market producers and allocated to the informal sector. In the CIS region there are many unincorporated enterprise owned by households (other than quasi-corporations) which are registered and therefore clarification of the criterion of registration is essential for the CIS countries; the very term registration needs to be specified. The individual labour activities are common phenomena (various services provided to households by the individuals – painters, cleaners, construction workers, drivers, dentists, typists, photographers and so forth), some of them are registered and some of them are not registered and so it is essential for the CIS region to get some guidance on allocating them to the appropriate grouping. At present time the CIS countries include in the informal sector both registered and non-registered unincorporated enterprises of households.

The majority of the CIS countries do not publish separate data on informal employment but make some adjustments on it in the context of compilation of figures on overall employment; the explicit estimates of informal employment are made in Russia and Ukraine but no attempts have been undertaken to relate the estimates of informal output and informal employment and it is not clear whether these estimates are consistent in principle. So elaboration of this topic in the updated SNA will be useful for the CIS region.

- Clarification of treatment of illegal economy

At present time CIS countries do not include the illegal economy in the official GDP figures, (except for Belarus which includes estimates of illegal production of liqueurs), but at their request the CIS Statistical Committee has prepared recently a document which describes the methods of estimation of activities in this sector. It is suggested in this document (which is the adaptation of the above mentioned Handbook on NOE) to show the output and value added in this sector as a memorandum item until the time when more reliable figures could be obtained. It is worth noting that Bank of Russia has started recently making estimates of illegal exports and imports of narcotics; for the time being these estimates are shown only as a memorandum items, but there is an understanding that they will be eventually incorporated in the official figures on exports and imports and consequently will be included in the GDP. The list of illegal activities important for CIS countries in addition to traditional illegal activities it should include production of unauthorized copies of artistic originals, poaching, illegal tree cutting, illegal production of alcohol.

It is proposed to treat in the updated SNA illegal fishing (which is a widespread phenomena in Russia and in some other CIS countries) as uncompensated seizure in the context of relationship between the residents and non-residents. It appears that it should be clarified that a distinction should be made between the two aspects of illegal fishing: i) productive activity carried out by using the stocks of assets owned by foreign countries, the results of which have to be measured and recorded in the production account of the given country and ii) changes in stocks of assets to be recorded in the other changes in assets account. It appears that it should also be clarified that the entry on uncompensated seizure in the other changes in assets account should be matched by the entry on depletion since the illegally obtained resources will be used one way or another and the closing stock of these resources will be equal to zero. This comment also refers to proposal to treat illegal extraction of minerals as uncompensated seizure.

It is not clear whether the same approach has to be used in respect of illegal fishing/illegal mineral extraction which occur between the sectors of the economy.

But in any case it is unlikely that the CIS countries will be in a position to implement all the suggested modifications on this topic in the immediate future.

It appears that in the updated SNA treatment of theft and bribes will not be consistent with the recommendations of the Handbook on measurement of NOE, nevertheless this topic should not be omitted from the updated document in order to avoid misinterpretation and vagueness since there are different views on this topic in the literature (see, for example, the paper by the UNSD ECE/CES/ GE.20/2006/9 submitted for national accounts meeting in Geneva at the end of April of 2006). It should be noted in this context that in many cases it is difficult to make a clear distinction in practice between misreporting and theft. For example some part of the output of fishing in Russia is stolen and misreported (the stolen part of output can be sold to both the residents and non-residents). The practice of "envelope salaries" is widespread in the CIS countries (a special case of misreporting) and specific suggestions would be useful to deal with this practice. At present time most of the CIS countries do not make any adjustments in their accounts to take care of this misreporting.

- Obsolescence and consumption of fixed capital

A range of issues pertaining to computation of consumption of fixed capital, including concepts of depreciation and obsolescence, is very important for the CIS countries. The general understanding is that the quality of the estimates of this flow is far from being satisfactory in this region. and they do not meet the SNA requirements; in many cases these estimates are based on incomplete scope of fixed assets and their value is estimated at historic rather than at replacement costs. In Russia the reports submitted by the enterprises to statistical office contain data on depreciation of fixed assets but these data do not meet the SNA requirements. The CIS countries do not have experience in using the PIM, and the balance of fixed assets which they continue to compile and which contains some relevant data does not meet the important SNA requirements both in terms of the scope and valuation of assets. The national accountants of the CIS countries are not familiar with the intricacies of the integrated approach to compilation of capital services, consumption of fixed capital and stocks of capital.

In the CIS countries premature scrapping of fixed assets is a widespread phenomena and it can be the result of i) unforeseen obsolescence, ii) poor maintenance and iii) accidental damage; and drawing a distinction between them is difficult to achieve in practice; in some cases premature scrapping due to poor maintenance may result in a considerable residual value of scrapped fixed assets; therefore it would be useful to clarify the treatment of premature scrapping due to different reasons, including a distinction between the foreseen and unforeseen obsolescence (in the past in the former republics of the USSR in the context of compilation of the MPS so called underdepreciated (residual) value of prematurely scrapped assets was added to consumption of fixed assets on the assumption that depreciation rates were not established sufficiently correctly).

The CIS countries will apparently need technical assistance from the international organizations in order to be able to master and to implement in practice the procedures suggested in the OECD manual on "Measuring capital" for estimation of consumption of fixed capital.

▪ Treatment of military expenditure

At present time the CIS countries rely on recommendations of the SNA93 on this topic and make a distinction between the expenditures on durable goods which can be used for civilian purposes and are allocated to capital formation and those that are used for military purposes and allocated to intermediate consumption of general government.; as a result of this treatment military durable goods are not to be shown on the balance sheets (which is not compiled in the CIS countries but will be eventually compiled). The problems with interpretation of certain flows and stocks which arise in connection with the current approach can be illustrated by reference to the situation in the CIS region: several years ago Ukraine paid the debt to Russia by delivering military ships. As a result of this transaction the national wealth of Ukraine as shown in the balance sheet (if it is compiled) increases because the entry on reduction of liabilities is not matched by the entry on reduction of stocks of military assets while the national wealth of Russia diminishes because the reduction of the financial assets is not matched by the increase in stocks of military assets; this transaction also requires some entries (and adjustments) on external trade and final consumption expenditure of the government so that this transaction does not affect the GDP of the either country. Thus, the proposal to modify treatment of military durable goods is very sound and will be implemented in the CIS region at least in the context of compilation of capital account and goods and services account and eventually in the balance sheet. The other practical problem which the CIS countries will have to deal with in this context refers to computation of consumption of military fixed assets. The solution of this problem will apparently require obtaining data on stocks of different types of military durable goods which are not immediately available and estimation of the service life of military equipment will have to be done.

It is worth noting in this context that in the latest version of economic classification of expenditure of general government sector adopted by the Ministry of finance of Russia in 2005 the purchases of durable weapons and military equipment are treated as acquisition of fixed capital. It is a step in the right direction and other CIS countries are expected to adopt similar approach in not so distant future. Though from conceptual point of view the increase in stocks of bombs and bullets should be considered as a separate category of changes in inventories, in would be difficult to obtain data for this item in practice and the CIS countries are likely to continue in the foreseeable future allocating purchases of these items to intermediate consumption without adjusting them by the change in inventories.

▪ Classification and terminology of non-financial assets

The proposed classification of non-financial produced assets is in principle acceptable for the CIS countries. This refers, in the first place, to the general structure of classification, the high level structure for produced and non-produced assets, breakdown of fixed assets, inventories and valuables, though in practice it may take some time before the data can be obtained in for compilation of balance sheet for some items, such as military assets, military inventories, breakdown for valuables, mineral exploration, research and development (it is proposed to classify unallocated metal accounts as financial assets, is any clarification needed here with respect to valuables). More difficult for the implementation in the CIS region are the categories of non-produced assets, especially at the level of detailed categories. At present time the reports submitted by the enterprises to statistical offices contain some data on stocks of selected non-produced intangible assets, (e.g. patents, trade marks,

goodwill), however, the scope and classification of these assets is not the same as recommended now for the SNA, besides non-produced assets are often shown together with some intangible produced assets (computer software, for example). The same relates to the data contained in business accounts which are the source for compilation of the reports to statistical offices. Thus the statistical offices will have to undertake considerable efforts to organize this statistics in line with the SNA requirements, to introduce changes in the reports and business accounts to achieve consistency with the updated SNA.

The suggested format for compilation of capital account is acceptable for the CIS countries and can be implemented in practice.

- <u>Valuation of non-market services produced by the general government.</u>

The logic of the proposal on this issue is clear but preliminary discussion of this issue with national accountants of some CIS countries (of Russia, in particular) shows that they have some reservations on it. They argue, among other things, that it will be difficult to explain to the users in the government the origin of enlarged income and related flows (saving, net lending, acquisition of financial assets etc.) in the government sector accounts. It is not clear whether the ministries of finance of the CIS countries will agree to adopt this approach in compilation of national GFS, and if not, there will be a discrepancy between the two types of macro statistics. In any case it would be useful to clarify in the updated SNA the impact of the imputed operating surplus in question on the above mentioned related flows and stocks in the general government sector accounts and whether some imputations or adjustments will have to be made to these flows and stocks in order to secure a consistent picture in the general government accounts and balance sheet.

On practical side of the matter in the CIS region, mention should be made of the problems with obtaining data on stocks of fixed assets owned by the government needed for the imputation; the ministries of finance of the CIS countries do not compile balance sheet as suggested in the IMF Manual on GFS and this balance is not yet a part of national accounts either. It appears that the solution of these problems will require some time.

As soon as a decision is made in principle to modify the formula of computation of value of non-market services produced by the government, the questions on the scope of assets to be covered and the rate of return to be applied appears to be of the secondary importance. We are of the view that conceptually all produced assets (except for valuables) used by the units of general government sector should be taken into account in this context; the second option is to cover only stocks of fixed assets, excluding the work in progress in construction.

- <u>Capital services and modified production account</u>

There is a general understanding in the CIS countries that it is essential to compute indicator of productivity of capital (and total productivity) and compilation of capital services seems to be essential in this context. However, at present time statistical offices are not familiar with the concept of capital services and the procedures to be used for integrated calculation of capital services, stocks of capital and consumption of fixed capital. The OECD manual on measuring capital where this concept is explained has not been yet translated into Russian. It appears that this topic should be presented to statisticians from the CIS countries at special international seminar organized for their benefit. It would be unrealistic to expect that

implementation of this proposal will be on a priority list in the CIS countries. On practical side of the matter data on stocks of fixed assets owned by government (which meet the SNA requirements) are not available in CIS countries, however the data on consumption of fixed capital are contained in the special reports submitted to the ministries of finance by the budgetary units; these data, however, do not meet the SNA standard requirements and so it is not clear whether they can be used to derive some estimates of capital services in the immediate future. The proposal to introduce modified production account, where capital services are shown as an item of input to production, outside of the main accounting structure appears to be reasonable

- Valuation and allocation of FISIM

At present time the CIS countries compute the FISIM on the assumption that intermediation services are generated only by transactions with loans and deposits, interest on lending of own capital is not excluded from estimates of FISIM. The latter is not allocated to specific categories of disposition but included in the intermediate consumption of a notional industry the output of which is taken equal to zero. Some countries, such as Russia for example, carry out experimental calculations pertaining to allocation of FISIM using different assumption of the reference interest rates, but the results of these calculations are not included in official figures on GDP. Clarification of various aspects of computation and allocation of FISM both to the sectors and industries and, in particular, with respect to the choice of the reference rate or rates, treatment of expected holding gains /losses will stimulate the efforts in this area. The procedures to be used for computation of FISIM of the central banks are also essential in this context. A particular attention require the methods of computation of FISIM in constant prices.

- Treatment of activities of central banks

At present time Russia and other CIS countries value output of central banks at cost and allocate it to the intermediate consumption of commercial banks. The proposal formulated in the context of updating SNA 93 to estimate separately output of market and non-market establishments of the central banks and allocate collective final consumption expenditure of government to final consumption expenditure signifies a considerable departure from SNA 93. Conceptually it is attractive. (It appears that in principle the central banks of CIS countries produce three types of output: non-market output, sale of services and FISIM). However, it would be useful to clarify certain practical aspects of implementation of new approach. The experts of central bank of Russia point out that the data on costs associated with the activities of various departments are not immediately available and obtaining these data will apparently require some complicated calculations and possibly adopting some conventions; they also maintain that some departments may produce different mix of services, some department serve other departments; treatment of the auxiliary units of the central banks and their costs should be explained. Some suggestions are essential on treatment of payments for services of the central banks which may cover only a small fraction of the costs. Some guidance would also be useful on whether the income earned by the central banks from investment of international reserves in different types of financial assets (securities, deposits) should or should not be taken into account in the context of computation of output.

- <u>The treatment of employer pension schemes</u>

The employer funded pension schemes (other than social security scheme) are not yet a widespread phenomenon in the CIS countries; for example, in Russia in 2004 pensions paid out from employer funded pension schemes accounted for less than 1 percent of total pensions. Nevertheless both funded and unfunded schemes are in principle covered in national accounts of the CIS countries; only output of the autonomous employer pension funds is computed. However, no adjustment is made for the change in the net equity of households in pension funds in the use of disposable income account because the amounts are relatively small; no entries are made on financial assets and liabilities either.

The proposal to modify the treatment of these transactions in the updated SNA 93 seems to require further discussion, however, computation of associated economic flows using actuarial methods may present a considerable practical problem for statistical offices of many CIS countries which did not have experience with this method; introduction of some imputations associated with new method will also be a problem.

The proposal to adopt for treatment of unfunded pension schemes the approach similar to that recommended for treatment of the employer funded schemes seems to be a rather controversial one and require further discussion; its implementation, if adopted, will present a considerable practical difficulties for CIS countries.

In Russia as a result of recent pension reform, a new arrangement introduced in the framework of social security system stipulates allocation of specified portion of social security contributions to the fund of so called "accumulated pensions" (held by state pension fund) the payments from which are intended to supplement basic pensions paid out irrespectively of the amounts of social contributions, years of work and so forth and as well as some other pension benefits which depend on above mentioned factors. The resources obtained by the pension fund for accumulated pensions are invested in the securities in order to earn income on them to be added to accumulated contributions; the latter can be transferred to private pensioned funds or inherited It appears that this new arrangement has a characteristic of the saving scheme. It is worth noting that the report of the pension fund submitted to statistical office makes it possible to identify contributions for accumulated pensions, payments of accumulated pensions and income from investment; in addition it shows the major components of costs. This new arrangement has not yet had any impact on national accounts of Russia but it appears intuitively that there should be some entries in accounts similar to those which are recommended for treatment of employer funded schemes. It seems that clarification of this particular issue in the updated SNA would be useful.

All in all, implementation of the proposed modifications in question, if they are adopted, probably will not be considered as a priority task in the CIS countries because these transactions are not yet important in this region and also because of the complexity of changes in the methodology.

- <u>Government transactions with public corporations: earnings from equity investment and capital injections</u>

This topic is very relevant for CIS countries because in many of them there are large flows of income and capital between the government and public corporations and public quasi- corporations. The government payments both to public corporations

and public qausi-corporations intended to i) compensate for the capital losses or large operating deficits accumulated over two or more years and ii) to provide investment grants are treated in the CIS countries as capital transfers in compliance with the SNA 93. Other aspects of this topic are less clear. It is worth noting that data of the national GFS make it difficult to draw a distinction between the payments to be treated as capital transfers and as additions to equity and it national accountants in the CIS countries have not paid attention to this distinction partly because the financial account is not yet compiled.

It appears that suggestion to treat exceptional payments by public corporation and quasi-corporation to government from accumulated reserves or sales of assets as transaction with equity should be supplemented by clarification of implication of this transaction on other government transactions with financial instruments. Also it would be useful to clarify the situation (quite common in the CIS region) when public quasi-corporations finance purchases of assets from their saving. It appears that this transaction should result in acquisition of equity by the government (since by definition, for quasi-corporations, all net worth is assumed to be held by the owners, par. 11.87 of SNA 93) but it is not immediately clear what entries are needed to reflect it and how to reconcile capital account, financial account and balance sheet. It appears from the first sight that increase in the government equity (and in corresponding change in equity of quasi-corporation) implies the need of some imputations which would affect saving and net lending/net borrowing of both government and public quasi-corporations. It seems, one possibility would be imputation of property income payable by public quasi-corporations to the government which would invest this income in acquisition of equity.

Investment grants from government to public quasi-corporations are also very common transactions in the CIS region. As mentioned above, this transaction is recorded in the capital account as capital transfers (payable and receivable). What is not clear is whether these capital transfers should result in transactions with equity to be recorded in the financial account of government and quasi- corporation and, if yes, what entries are needed to reconcile capital account, financial account and balance sheet.

We support the suggestion to introduce in the future "reinvested earnings" approach to payments between the government and public corporations and quasi-corporations. The introduction of this category would make it possible to secure a more realistic picture on distribution of primary income among the institutional sectors. It would also improve consistency in the overall accounting structure and, in particular, between the flows and stocks of the public sector.

Another topic which seems to be relevant for the CIS countries in this context refers to a distinction between payments of rent to the state budget for using sub-soil assets and land owned by the government and severance taxes because both rent and severance taxes are paid by the enterprises. It appears that description of this distinction is not sufficiently clear in SNA 93. For example, in par.5.93 of this manual and in par.7.133 of the SNA 93 it is stated that rent may be computed on the basis of volume or value of extracted assets and therefore it is not entirely clear how to distinguish the rent payable to the government from severance tax. There is no specific reference to severance tax in the SNA 93 classification of taxes. In practice this distinction is often blurred in national GFS of the CIS countries and the terminology and definitions used to describe these payments are not always consistent with the international standards. For example, the latest classification of revenue of state budget of Russia contains the heading "Taxes, fees and regular payments for

using mineral resources" which includes both taxes and royalties (rents). In addition there is a heading "Payments for using mineral resources" which also includes a variety of payments of different nature. Thus some clarifications on this topic would be useful in the updated SNA.

- Debt reorganization

During recent years debt reorganization has become an important element of the economic life in Russia and other CIS countries. Particularly important have been the transactions of the government with the Rest of the World; the most common among them refer to the debt forgiveness, debt conversion and debt prepayment (for example, Russian government has been involved recently in all these transactions with the Rest of the World). However this development has had very marginal impact on national accounts: at present time the debt forgiveness is probably the only transaction of this type which is recorded in capital account of national accounts as capital transfer. Data on debt reorganization transactions are apparently recorded in the BOP of the CIS countries, however, the explanatory notes are usually not sufficiently detailed to understand the coverage of these transactions and where exactly they are shown (under which headings). The capital transfer explicitly shown in the BOP includes not only debt forgiveness but some other flows. The degree of detalization of data contained in the official publications of the BOP makes it difficult to identify all the debt reorganization transactions.

In general the external debt statistics is not sufficiently developed and transparent in CIS region: the definitions and classifications are not described in sufficiently detailed manner; majority of CIS countries have not implemented the IMF Manual on GFS and ministries of finance do not compile government balance sheet; the data on external debt of the units (other than government) are not explicitly identified in sufficiently detailed manner in many CIS countries. In some countries such as the Russia, Kazakhstan, Belarus the external government debt data are published by the central banks, however, the methodological notes are not sufficiently detailed to understand the impact of the reorganization debt transactions; in other words it is difficult to understand to what extent the change in stocks and structure of external debt is caused by various debt reorganization transactions.

Therefore elaboration of the SNA93 text on this topic will help the national accountants of the CIS countries to understand better the intricacies of these transactions, their impact on some important items of national accounts including national wealth; it would be useful to clarify the links between the BOP and national accounts with respect to treatment of debt reorganization transactions; it would be useful to explain the links between various types of debt reorganization transactions (both domestic and external) and the relevant SNA accounts (capital account, financial account, other changes in assets account). It is clear that this is the area where cooperation between the statistical offices and the central banks would be essential if the national accountants of the CIS countries attempt to record properly debt reorganization transactions.

- Employees stock option

This transaction is not a widespread phenomenon in the CIS countries but nevertheless it is included in the statistical reports on wages and salaries submitted by the enterprises to statistical office of Russia and some other CIS countries in accordance with the recommendation by the CIS Statistical Committee; as a result it

is included in compensation of employees in national accounts which use the above mentioned reports as a source of data. However, no specific recommendations were made on the mode of valuation of these stocks and the decision is left to accountants of the enterprises. Therefore clarification on this issue in the updated SNA would be useful.

▪ Units

The proposal to identify ancillary activities of the enterprises as separate establishments and to compute output of these establishments seems to be a rather radical departure from the SNA 93. It should be noted that at present time in the CIS countries the design of the reports submitted by the enterprises to statistical offices (which are the major source of data for compilation of national accounts for corporations) do not make it possible to identify the ancillary establishments and their costs. Suggested procedure for valuation of output of ancillary activities and its allocation implies using some conventions and arbitrary assumptions. Particularly difficult for CIS countries will be implementation of the recommendation to include in the valuation of output of ancillary units the cost of capital and corresponding part of operating surplus of relevant market establishments. The implementation of this proposal would result in considerable change in the structure of GDP by industries and this will affect the comparability of time series, unless some retrospective calculations are made. In the CIS countries implementation of this proposal would require considerable work needed to redesign the reports of the enterprises and therefore, in our view, it can not be considered as a first priority task if it is adopted in the updated SNA.

▪ Mineral exploration

At present time the CIS countries allocate expenditure on mineral exploration to gross fixed capital formation to comply with the provisions of the SNA 93. The suggestion on valuation of this flow (market prices for assets which are purchased and costs plus marks up when produced on own account) can be implemented by the CIS countries though the problem with estimation of imputed marks up will have to be dealt with. As mentioned above, the CIS countries do not compile the balance sheet and there are no reliable estimates of stocks. It appears that it would be unrealistic to expect such data in the immediate future and this also refers to data on stocks of mineral deposit as non-produced assets. Valuation of these assets on the basis of future receipts of rent might be problematic for the CIS countries because they did not use this approach in the past.

▪ Non-life insurance services

The proposals to modify the formula of computation of output of non-life insurance is in principle relevant for CIS countries. These refer, in particular, proposal to use the concept of adjusted claims in order to avoid volatility of flows which may result from exceptional claims in cases of major calamities. In the CIS region there were many cases in the recent past when exceptional claims exceeded the premiums and it led to some awkward results which were difficult to interpret. In the past the losses of the insurance companies due to exceptional claims were covered occasionally from the state budget and the subsidies were added to arrive at output at basic prices. At the same time implementation of proposal to calculate expected claims (expectation approach) by using past smoothed data may require some time

and efforts needed for systematization of the relevant data and carrying out experimental exercises to test new methodology before this approach can be introduced into regular statistical practices.

- Expenditure on research and development.

    At present time the CIS countries follow the SNA recommendation on this topic and allocate this expenditure to intermediate consumption of the relevant units. If the proposal to treat this expenditure as capital formation is adopted, the CIS countries in principle will be able to implement it in the context of compilation of capital account and goods and services account. A more difficult problem exists with respect of estimation of stocks of these assets. In Russia and other CIS countries the reports submitted by the enterprises to statistical offices do not include data on stocks of these expenditure and they will have to develop some procedures to obtain the estimates of stocks in order to meet the SNA new requirements. Some data on stocks of the expenditure on research and development are contained in the business accounts in Russia but it is not immediately clear whether the definition of this item is in line with the SNA requirements. The problem of estimation of consumption of these assets will also have to be solved and statistical offices of the CIS countries will need assistance on this matter from international organizations.

- Land

    At present time the CIS countries record outlays on improvement of land as fixed capital formation in compliance with the SNA 93. In principle there should be no problems with treatment of this expenditure as a separate item of assets in the balance sheet. In Russia the report submitted by the enterprises to statistical office dealing with stocks and flows of assets (form №11) includes the investment in improvement of land at the beginning and at the end of the year, however, as indicated above, the balance sheet is not presently compiled in the national accounts in the CIS region and data on value of land are not available and it is therefore difficult to discuss at this stage the practical problems which will arise in connection with suggested splitting the value of land into two components: value of improvements of land and value of land reduced by value of improvements.

- Globalization

    Treatment of globalization in national accounts is relevant topic for the CIS countries, the economies of which are increasingly affected by this process; the economies of the former republics of the USSR were very interdependent during very long period of time and a considerable degree of this interdependence still exists: the countries combine their resources for production of certain goods, exchange investments, there is a substantive flow of migration between them, they are engaged in international trade and in cross-border trade, in particular. At the same time CIS countries actively participate in internalization of economic activities in a broader context. The most relevant aspects of this process for the CIS countries at present time refer to i) foreign direct investments, ii) movement of workers across national borders and international migration, iii) internationalization of production, iv) activities of multinational companies, v) international trade and international tourism, vi) the activities of foreign banks and insurance companies. Some aspects of globalizations are covered in the balance of payments and the Rest of the world account whereas

some others require clarifications and elaboration; these refer, for example, to merchanting, goods sent abroad for processing, multiterritorial enterprises.

- Delineation of the sectorization boundaries

The proposals to clarify delineation issues are important for the CIS countries Particularly important would be clarifications of the distinction between market and non-market producers which is essential for sectorization of economy and valuation of output. In this context a proposal to clarify the general definition of economically significant prices is relevant.

It should be reminded that SNA93 recommends to treat establishments of the enterprises in the transition economies which provide social and cultural services to their employees free of charge or at prices which are not economically significant as notional NPISH. It should be noted that at present time in many cases these establishments are reorganized into market ones selling their services to population at large and therefore they should not be considered as notional NPISH; perhaps the updated SNA should include clarification on this issue and, in particular, on whether some entries are needed in the other changes in assets account to reflect the changes in classification (reorganization). Introduction of a distinction between individual and collective consumption of NPISH would make sense for Russia and some other CIS countries, and it would be possible to implement this distinction in practice. Introduction of subdivision of the NPISH into those units financed by residents and non-residents would be relevant for the CIS countries in the light of the ongoing discussion of the role of these organizations.

- Payments for permission to use natural resources, leases and licences

At present time the CIS countries make a clear distinction in their national accounts between operational and financial leases using the SNA 93 provisions, (in practice only some transactions associated with financial lease are recorded in their national accounts because the financial account is not yet compiled) but additional clarification on this topic will be useful. This refers, in particular, to treatment of the resource lease which is important in the CIS region. Suggested clarifications on various aspects of treatment of government permits, leases and licences are also useful, for example, on treatment of mobile phone licences, on fishing permits and quotes, on emission permits etc.

Clarifications are needed in respect of treatment of transactions associated with the special arrangement which exists in Russia with foreign enterprises which get permission to use natural resources (known as agreement on sharing the output) and are paid in kind with a part of the output produced for their investments (but are supposed to pay both rent and taxes).

- Public/ private/ government sectors delineation

The clarification of the concept of economically significant prices and classification of government units serving government will be useful for CIS countries. Some CIS countries use 50 percent of cost covered by sales as a criterion for sectorization of the units. There is no clarity how the government units serving other governments units are classified in the CIS region.

Until recent times there were no attempts undertaken in the CIS region to compile the statistics for public sectors but the interest in this statistics may develop in not so distant future and clarifications on delineation of this sector will be useful.

- Tax revenues, uncollectable taxes and tax credits

Clarification of a distinction between the taxes, rent and payments for services provided by the government is essential for national accounts of the CIS countries, and, in particular, because national GFSs are not fully harmonized with national accounts in terms of definitions and terminology. The updated SNA should also explain treatment of uncollected taxes which are rather common phenomena in the CIS region. The situation when tax relief exceeds liability of tax payers is not common in the CIS countries (and it is not clear how these flows are treated in the government accounts), but clarification on this topic would be useful. It appears intuitively that recording these flows on the gross basis is preferable. In some CIS countries the enterprises have to sell to the government a part of their foreign currency earned from the exports so the question may arise what transaction, if any, should be recorded if the exchange rate used for the above transaction deviates from the market exchange rate.

4. Comments on some other issues of updating SNA93

Implementation of some proposals for updating the SNA 93, which imply some institutional arrangements and mechanisms that are not yet important in the CIS countries or the improvements in some accounts which are not compiled yet in this region, can be postponed until the later periods and they are unlikely to be regarded as the first priority task. These proposals refer, for example, to treatment of employer pension schemes, treatment of index linked debt instruments, debt concessionality.

At the same it appears that some issues important for the CIS region are not covered by the current proposals for updating. For example, treatment of privatization is not sufficiently clarified either in the SNA 93 or in IMF GFS (2001) and this treatment seems to require entries in different accounts of the system depending on the nature of transactions: capital account, financial account, other changes in assets account, balance sheet; some guidance is needed to reflect the situation when government property is sold at the prices which are clearly considerably below the market prices and later the property is resold with huge profit; there some suggestions in the literature to treat the difference between the market price and actual low price of the privatized assets as capital transfers, but there are different views on this matter assets. The process of privatization is far from being completed in Russia and in other CIS countries and there is a demand on this data. Several years ago the paper on this topic was prepared by the OECD and it could provide a starting point for clarifications on this topic in the updated SNA.

The methods of computation of GDP in constant prices could be elaborated in the light of recommendations of the Manual on compilation of the CPI released in 2004. CPIs currently used for deflation purposes are subject of a number of biases (outlet type bias, for example, is a rather common one in CIS countries) and the use of CPIs for this purpose may result in some distortions. At least national accountants should be aware of the limitations of the CPIs used for deflation purposes. Some guidance would be useful on deflation of exports and imports considering the particular problems with the existing price indices in this area. The methods used for computation of output of non-market producers in constant prices continue to result in biased measures. When they are used in international comparison of GDP, the results are biased in favour of less developed countries. The need of elaboration of methods of computation of relevant flows of the national accounts in constant prices in updated

SNA is noted in the paper "System of price indices and supporting frameworks", submitted by David Fenwick, the representative of Office for National Statistics of the United Kingdom at the meeting of experts on CPI, held in Geneva from 10 to 12 of May 2006.

Another topic which could be dealt with in this context refers to compilation of regional accounts. Many CIS countries have started recently computation of gross regional product and elaboration of the text on this topic in the SNA 93 would be useful. For example, how to reconcile the GDP figures obtained for the country as a whole and the sum of gross regional products. Some CIS countries show explicitly the discrepancy between the above two estimates while some other countries achieve complete identity between these two figures but whether the methods they use for this purpose are conceptually sound is not entirely clear and there is a reason to believe that these methods are rather crude in practice.

There was a general understanding when the SNA93 was released that a distinction between the subsidies and social transfers in kind requires further discussion and clarification. It appears that there is a slight difference between the SNA 93 and ESA 95 in drawing the borderline between subsidies on products and social benefits in kind; a possibility of this difference is noted in the paper «Differences between SNA 93 and ESA 95» discussed at the OECD-Eurostat meeting of national accounts experts, held in Paris in 1997. This issue continues to be important for the CIS countries. For example, in Russia some groups of population can obtain medical products free of charge (in this case the medical products are assumed to have been purchased by the government for transfer to households and the transaction is to be treated as social transfer in kind) whereas some other groups of population have to pay 50 percent of the market price and the difference is covered by the government from the regular budget and it is not immediately clear whether the government payment in this latter case should be treated as subsidies to producers or as the social transfer in kind, and decision on this issue has implications on measuring GDP (for the time being both payments are treated in the CIS countries as social benefits in kind and this seems to be in line with ESA 95). There are many other cases which seem to require clarification in this context, for example, there exist different arrangements which make it possible for different groups of people to travel free of charge and there are different methods of financing associated expenditures; some groups of population pay for housing services and communication services at reduced rate and the balance is paid by the government to the units providing services whereas in some other cases the government gives specified amount of money directly the households so that the latter could pay a fraction of the rent and communication costs.

It would be useful to clarify in the updated SNA the procedure of reconciliation of the data on output of the general government sector and its final consumption expenditure. This procedure should take into account that the government units may have market establishment (in addition to the secondary market output) and they may also produce construction on own account. In both cases these items should not enter the computation of final consumption expenditure of general government. It appears that some clarifications would be useful with regard to treatment of secondary market output: in some cases when the amounts are relatively large the notional market establishments should be set up and a part of the costs of the institution should be allocated to these notional establishments. For example, in Russia some budgetary institutions earn a considerable income by renting out a part of their premises and a deduction of this income from the costs of this institution to arrive at value of non-market output may result in a distortion.

Another area important for national accounts of the CIS countries refers to measuring holding gains/losses. Though the concept of this category is clear, the methods of obtaining reliable estimates in conditions of high rates of inflation and limited information on movement of stocks and price indices are not sufficiently elaborated and as a result the degree of accuracy of the relevant figures is difficult to assess.

5. Conclusion

The above comments on prospect of implementation of suggested changes in the SNA in the CIS region are of tentative nature because more time is needed for digesting intricacies of many proposals and their implications, for consultation with the national accountants of the CIS countries to find out their views; also some proposals seem to require further elaboration and clarifications. Nevertheless it can be concluded that the CIS countries will benefit from updating the SNA even in those cases when the national statistical offices will not be able to implement the adopted changes immediately or within relatively short period of time; the understanding of proposals for updating the SNA will help national accountants to get familiarized with new ideas and concepts, to assess the possibilities for further improvements of the accounts.

Implementation of some specific proposals for updating the SNA 93 which are particularly relevant for the CIS region will help to improve national accounts of these countries in not so distant future, will help to achieve progress in a number of important areas, such as measuring nonobserved economy, computation and allocation of FISIM, computation and allocation of output of central banks, treatment of military durable goods, treatment of expenditure on research and development. Implementation of updated SNA will require closer cooperation between the statistical offices and other agencies responsible for compilation of macro economic statistics. The progress with implementation of some proposals in national accounts will depend on ability of central banks and ministries of finance to introduce relevant modifications in BOP and GFS. Implementation of some proposals is likely to require assistance to national statistical offices of the CIS countries from the international organizations on a number of topics. This refers, for example, to introduction of the concept of capital services with which the statisticians in the CIS region are not sufficiently familiar yet, introduction of integrated computation of stocks of capital, consumption of fixed capital and capital services. It is clear that implementation of the updated SNA93 in the CIS region will have to be stretched over a number of years and will require considerable efforts on the part of the statistical offices and other agencies responsible for production of macroeconomic statistics. It is therefore essential for them to set priorities in this work, to identify the issues which could be dealt with within relatively short period of time and would secure relatively fast improvements in compilation of major accounts and aggregates. Considering complexity of many issues dealt with in the context of updating, the series of the seminars explaining new features of the SNA will be necessary for national accountants of the CIS countries and the involvement of international organizations in this process will be indispensable.

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