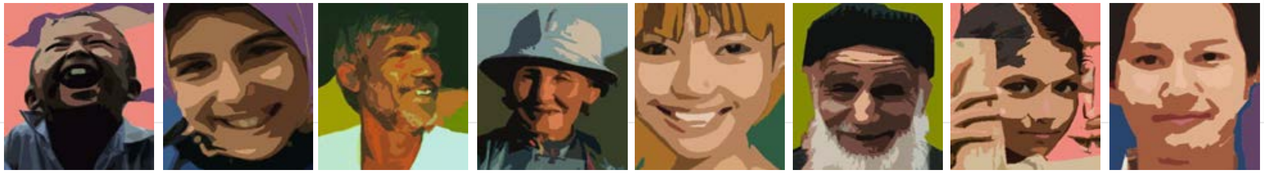


SNA 2008 Changes Impact on GDP

Alick Mjuma Nyasulu

Sub-Regional Training Workshop on Changes in SNA 2008 affecting GDP Compilation.

Astana, Kazakhstan.
June 2014.

Outline

- Key Considerations in Implementing SNA 2008
- Impacts on GDP
- Conclusion

Learning Objectives

- Discuss key principles to be considered in implementing SNA 2008;
- Explain the impact of changes in SNA 2008 on GDP;

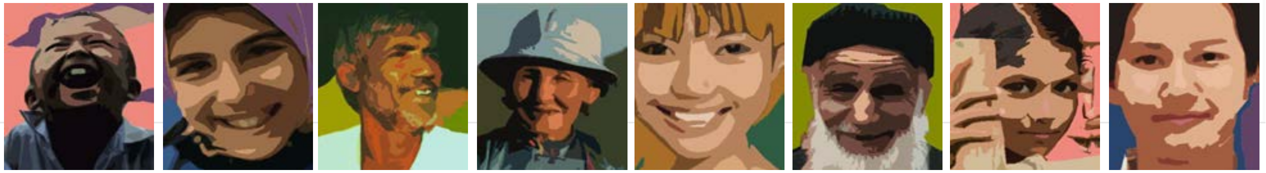
Key Considerations in Implementing SNA 2008

- Principals behind implementation
  - Standards – Interpretation, and decisions where to depart
  - Discuss, document and critically analyse these decisions
  - Ensure that these decisions are consistent and coordinated
  - Governance to aid these principles

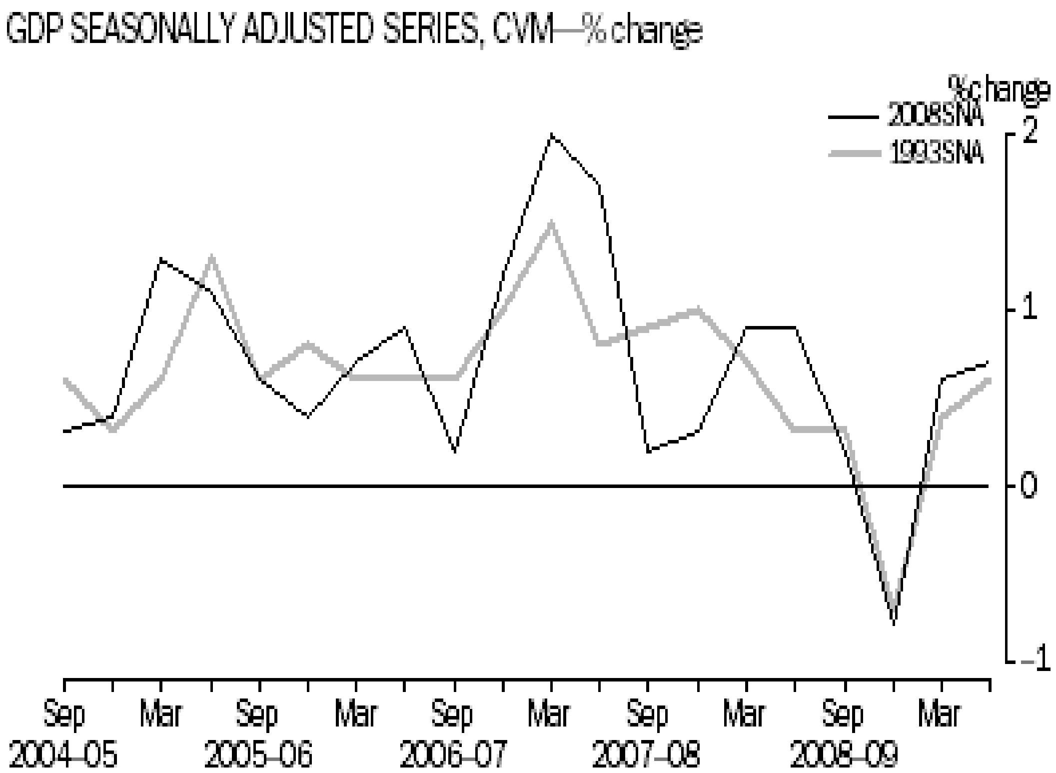
Key Considerations in Implementing SNA 2008

- **Issues and complications**
  - Timing issues – delays to key publications
  - Revisions to key estimates

- **An environment of volatility**
  - Large discrepancy between measures developed
  - Large changes to FISIM
  - GFC related uncertainty - Lead to additional stress on models
  - Staff turnover



Key Considerations in Implementing SNA 2008



Revisions-Some Experiences from Australia

- Created significant change to GDP growth and levels
- Made interpreting GFC by users more difficult
- Combined with other problems to undermine confidence

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Impact of changes in SNA 2008 on GDP

Capitalization of R&D

- The activity of R&D is no longer treated as ancillary
- Expenditure on R&D is treated as capital formation (except those made available free)

Impacts

- Move R&D from intermediate consumption to gross capital formation. This changes GDP by the same amount.
- Require adding consumption of R&D fixed capital stock to non-market output: **increase GDP**

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Impact of changes in SNA 2008 on GDP

Output for own final use by households and corporations is valued with a return to capital

- Valuation of market producers only.
- Not applicable to non-market producers like government and NPISH.

Impacts

- Output valued by cost increases by an imputed value of return to capital (Need total stock of assets for the calculation of return to capital).
- **GDP increases by the same amount of imputed value.**

Impact of changes in SNA 2008 on GDP

Capitalisation of weapon systems

Military Expenditure

- Fixed assets (Transports and weapons delivery systems, inter-continental missiles, etc.).
- Change in inventories (bullets, bombs, etc.)

Impacts

- Move expenditure on military equipments from final consumption to gross capital formation: **This does not change GDP**
- Require adding consumption of military fixed capital stock to government output: **increase GDP**
- Need to separate:
  - Military GCF
  - Non-military GCF (only this will affect economic growth)

Impact of changes in SNA 2008 on GDP

Measurement of FISIM

Measurement

- Measurement relies only on interest receivable on loans and interest payable on deposits, ignoring all other investment incomes.
- Own funds are also treated as generating output.

Impacts

- **Depends on the structure of financial instruments, but tends to increase output of FISIM & GDP.**
- For example, loans of own funds and other forms of equity will only generate high output as interest payable is nil.
- Money lenders output recognized

Impact of changes in SNA 2008 on GDP

Unfunded pension funds

Imputation

- Unfunded pension benefits to be imputed to compensation of employees at the time the employees are employed so as to allow for the future payment of pensions.
- Apply to both market and non-market producers.
- For government apply when obligation is legally certain.

Impacts

- Change Compensation of employees of market and non-market producers.
- **Change value added of non-market producers, and thus GDP.**
- Change net borrowing/lending of government, and government debt.

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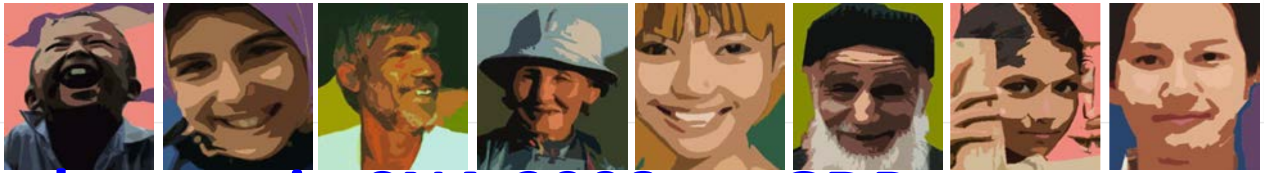


Impact of changes in SNA 2008 on GDP

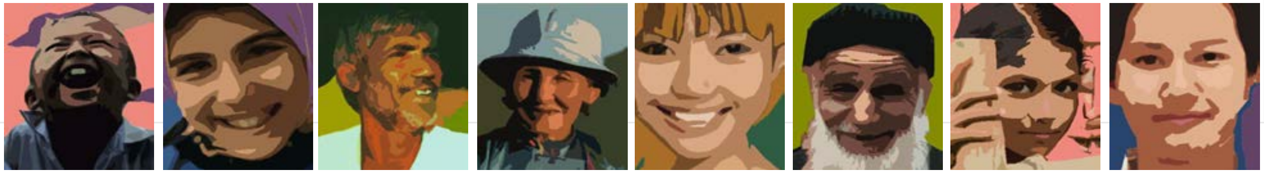
Treatment of stock of options

Treatment of employee stock options as compensation of employees (in kind)

- It is equal to the difference between the market price and strike price at the vesting date (only when positive).
- It should be spread between the grant date and the vesting date.
- Treatment has been approved by International Accounting Standards (IAS) and the US Financial Accounting Standards Board (FASB)

Impacts

- **Increase compensation of employees of corporations**
- **Reduce operating surplus of corporations**
- **Do not change GDP but change household income**



Conclusion

- SNA 2008 adoption should not be an end goal
- Goal should be improving data quality of national accounts
- Governance structures should advise compilers
- Users should be engaged on likely impacts of adopting SNA 2008 on GDP
- Documenting methods and assumptions.

Thank You