Towards BPM7 and 2025 SNA

# Glossary of Terms and Definitions for Macro-economic Statistics

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Meeting of the Advisory Expert Group (AEG) on National Accounts (Paris, 16 – 18 October 2023), and Meeting of the Balance of Payments Statistics Committee (Bali, 24 – 26 October 2023)

1

## Introduction

- The latest version of the glossary of terms and definitions has been sent to the AEG and BOPCOM on the 20th of September, with a request to provide feedback by the 6th of October
- This was followed by an issues note, presenting recommendations for resolving a limited number of issues, distributed on the 3rd of October, with a request to provide feedback by the 13th of October
- This presentation includes the following:
  - Outcome of the consultation of the AEG and BOPCOM
  - Overview of recommendations for resolving issues

2

## Outcome of the consultation of AEG and BOPCOM

- **Very good response** to the consultation: 20 (11 from AEG and 9 from BOPCOM)
- **General feedback**:
  - Glossary is excellent, comprehensive and well presented
  - Need for a well-structured electronic version to allow easy and quick access
  - Importance of keeping the definition column short and focused
  - Consider including links to the relevant BPM/SNA chapters or paragraphs—it will enhance the usability of the glossary => Could be considered in a separate column at a later stage, after finalization of the index
  - Introduce a new column titled "compilation practices," to explain the methodologies relevant to the compilation or use of each term => The primary objective is to provide conceptual guidance, not compilation guidance; it is also not considered feasible, because of different and changing practices across countries
  - Allow for a more in-depth review of the terms and definitions as part the ongoing process of drafting chapters => This is foreseen, although we do not want to delay the publication of a (provisional) glossary; in a way, the glossary is a living document until the end of drafting

3

## Outcome of the consultation of AEG and BOPCOM

- **More specific comments**:
  - Concrete proposals for changing deleting and adding terms and definitions, related to, for example, units, direct investment, "digital assets", classifications
    - The proposals will be reviewed in the near future
    - If needed, relevant members will be contacted
    - However, the editorial teams reserve the "right" to take decisions on including/excluding minor edits, to avoid endless iterations
  - Alternative terms should separately appear in the column A in the spread sheet (and the definition simply refers to the main term)
    - When preparing the publication version, we will proceed according the decisions made

4

## Recommendations for resolving issues: GN CM.2

- Quite a number of recommendations for changing terminology have been accepted, and will be included in the glossary, if not already done
- Other recommendations generating problems of consistency and coherence:
  - *Allocation of primary income account* => *Allocation of income account*, while not changing the term "primary income(s)":
    - Not precise enough, as needs to specify which income is allocated. Preference is given to the term **"earned income"**, as recommended at an earlier stage in the process
  - *Secondary distribution of income account* => *Current income transfers account*:
    - Again, not precise enough, as one needs to specify to which account reference is made
    - Preference is given to the term **"transfer income"** as a denominator for the two accounts involved, as recommended at an earlier stage in the process; the two accounts for the redistribution of income would then be labelled as **"income transfers other than social transfers in kind account"** and **"social transfers in kind account"**
    - For the balancing item of the latter account, one may consider either the term **"adjusted disposable income"** or **"disposable income adjusted for social transfers in kind"**

5

## Recommendations for resolving issues: GN CM.2

- Other recommendations generating problems of consistency and coherence:
  - *Use of disposable income account* => *Use of income account*
    - Again, not precise enough, as one needs to specify to which account reference is made
    - It is recommended to use the term **"use of income accounts"** as a denominator for the two accounts involved; the two accounts for the use of income would then be labelled as **"use of disposable income"** and **"use of disposable income adjusted for social transfers in kind account"** (or "use of adjusted disposable income account")
  - "Current accounts" => "income and expenditure accounts"
    - Both editorial teams feel quite hesitant about such a change, mainly because the term **"current accounts" is more concise**, and appropriately **reflects the content of the relevant accounts**, as distinct from the accumulation (of economic assets) accounts
    - Further, changing the term "current account" **would also imply changing the term "current account balance"**, which is a well-established terminology from the user perspective

6

## Recommendations for resolving issues: GN CM.2

- Other recommendations generating problems of consistency and coherence:
  - *Net errors and omissions => statistical discrepancy*
    - Three possible options are considered for aligning these terms (see note)
    - In the end, it is recommended to have a **broader definition of "statistical discrepancy", with a clear reference to the way in which this term is most frequently used**, as follows: "*Statistical imbalances stemming from imperfections in source data and compilation. In the balance of payments (and most frequently in the national accounts), it is used to show the difference between net lending/net borrowing derived from the financial account and net lending/net borrowing from the current and capital accounts*"
  - *"Financial intermediation services indirectly measured" => "financial services on loans and deposits"*
    - Not considered precise enough, as one may also have explicit charges on loans and deposits
    - As an alternative, one could use **"implicit financial services on loans and deposits", or simply refrain from changing the current term**

7

## Recommendations for resolving issues: GN CM.2

- Other recommendations generating problems of consistency and coherence:
  - *"Net exports of goods and services (under merchanting)" => "Exports, less imports, of goods and services (under merchanting)"*
    - This proposal is not considered appropriate, as the **treatment of the acquisition of goods by merchants as negative exports** is necessary to assure a global balance of the accounts; if these purchases were considered as imports and exports in the merchant's economy, the global flows of the traded goods would be double counted. Further, it was also agreed to remove the reference on "services merchanting" from BPM
  - "Output for own final use" => "goods and services produced for own final use"
    - Looking at this change in isolation, it has an intuitive appeal
    - However, in combination with "market output", "other non-market output", one wonders about the merits of such a change
    - Here, it is recommended **not to change the term**

8

## Recommendations for resolving issues: environmentally related terms and definitions

- As it stands now, the **glossary contains the following set of terms, including definitions consistent with this hierarchy**:
  - Natural capital
    - Natural resources
    - Ecosystem assets
  - Produced assets (excluding natural capital)
  - Non-produced assets (excluding natural capital)
- In addition, the term **"environmental assets"** has been used as the overarching term for all relevant "assets", including "assets" from which no monetary benefits can be derived
- The definitions are **consistent with those used in the 2008 SNA or SEEA**, sometimes with a little tweak at the end, to provide more information in the context of national accounts
- No such definition for **"natural capital"** ; here, it denotes the sum of natural resources and ecosystem assets, as recommended in Guidance Note WS.12
- Despite various divergent views, it is recommended to use the proposed terms and definitions
- Defining ESG and green financial instruments: proposals in the context of DGI-3

9

## Recommendations for resolving issues: ownership and control

- Control and ownership are two different concepts:
  - Regarding the potential of exercising control, a **distinction** should also be made **between the ways in which private units can exercise control versus the ways in which government and other public units can control other units**
  - Another relevant **distinction concerns the way in which incorporated enterprises are controlled versus the control of non-profit institutions**
  - For the purpose of **classifying institutional units** as either public corporations or foreign-controlled corporations, the **definition of control is the determining factor**
- For **foreign-controlled corporations**, it has been agreed that control and ownership coincide; foreign control is different from the definition of (foreign) direct investment where **ownership of 10 percent or more of the voting power is evidence of a direct investment relationship**
- For **public corporations**, the concept of control is more ambiguous. In general terms, it is defined as **"the ability to determine the general corporate policy of the corporation"**. Paragraph 4.80 of the 2008 SNA and also GFSM 2014, lists eight indicators which will normally be the most important and likely factors to consider

10

## Recommendations for resolving issues: ownership and control

- Based on the notions presented in the previous slide, various terms have been defined (see issue note)
- In the case of **"control of a corporation"**, one may consider **adding a sentence** to account for cases in which government, or another public unit, controls a corporation without owning more than 50% of the voting power, as follows: "*In the case of control by government, or another public unit, control can also be exercised in other ways than owning more than half of the voting power"*
- In the case of **"direct investment relationship (relevant for BPM)"** and **"direct investor (relevant for BPM)"**, one may want to add the following sentence, in line with the definition of "direct investment (relevant for BPM)": *"Ownership of 10 percent or more of the voting power is evidence of a direct investment relationship"*

11

## Recommendations for resolving issues: other

- *"Claims of pension funds on pension manager"*
  - **Term is one-sided**, in the sense that it represents a claim of the pension fund towards its pension manager, and not the other way around
  - However, **in the case of overfunding**, it is the pension manager who has a claim towards the pension fund, and the current term suggests a recording of **a negative claim** in these cases
  - However, the **definition currently included in the glossary is formulated in such a way that it could also represent a claim of the pension manager**, as follows: "claims of defined benefit pension funds on the relevant pension managers (and vice versa), to cover any shortfalls (or surpluses) on the value of accumulated assets compared to pension entitlements"
  - It is recommended to **revise the definition**, as follows: *"claims of defined benefit pension funds on the relevant pension managers, to cover any shortfalls on the value of accumulated assets compared to pension entitlements. In the case of surpluses, the claim is recorded as a negative asset"*
  - Although the claim may be negative in individual cases, it is expected that the aggregate of all claims is positive

12

## Recommendations for resolving issues: other

- *"Other capital transfers (additional breakdown)"*
  - **Currently, the following definition is included**: "capital transfers other than investment grants, capital taxes, and debt forgiveness"
  - **Differs from the current breakdown of capital transfers in the 2008 SNA**, which makes a distinction between (i) capital taxes (D.91); (ii) investment grants (D.92); and (iii) other capital transfers (D.99)
  - BPM6 provides no definition of other capital transfers, although for balance of payments reporting **BPM6 distinguishes two standard sub-components of capital transfers**: (i) debt forgiveness; and (ii) other capital transfers (of which capital taxes (D91))
  - It is recommended to **align the sub-components of capital transfers in SNA/BPM** as follows: capital taxes (D91), investment grants (D92), debt forgiveness (D93), and other capital transfers (D99)
- *"Emission permits"*: Pending outcomes of the workshop
- *"Central bank" and "monetary authorities"*: Updated definitions agreed with MFS
- *Different levels of general government*: Updated definitions agreed with GFS

13

## Questions to the AEG

- **To agree with the assessment of the outcome of the consultation, including the proposals for handling the comments and suggestions**
- **To endorse the recommended solutions**
- **To provide any other feedback which members consider relevant**

14

# Thank you for your attention!


15