

# GDP Expenditures Requirements for the 2009 PPP Updating

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# Outline of the Presentation

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- National accounts statistics
  - national accounts and the 2009 PPP updating
  - main expenditure aggregates
  - valuation
- Expenditure classification
  - general framework
  - basic headings

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# National Accounts and the 2009 PPP updating

# 1993 System of National Accounts

- GDP is the starting point of the ICP
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- ICP comparisons are made from the expenditure side ( & not from the production or income side)
    - Inherent usefulness of such comparisons to economic research and policy analysis
      - studies of poverty; tradeables vs non-tradeables; etc
    - Difficulties of organizing comparisons from the production side
      - Double deflation requires data on both intermediate consumption and gross output
    - Values of income aggregates cannot be divided into meaningful price and volume measures

# 1993 System of National Accounts

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- The identity underlying an expenditure aggregate is
  - Price x Volume = Value
  - Price and volume comparisons can be made by:
    - Either observing volumes directly and estimat
  
- The 2009 updates will be based on the 1993 SNA

# Key requirements (1)

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GDP must cover:

- Crops and livestock for own consumption
- Significant illegal activities
- Goods and services sold by informal or unregistered producers
  - Eg. food and drinks sold by vendors, etc
- All government expenditures
  - Eg. Military expenditures, state of local government expenditures

# Key requirements (2)

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- Dwellings built for own occupancy
- Software and mineral exploration (as capital formation)
- Significant NPISHs
  - religious, international funded organizations/NGOs
- Foreign trade, including shuttle trade and smuggling

# 1993 System of National Accounts

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- But some approximations are inevitable. For example:
  - Non-profit institutions not distinguished
  - No estimates for valuables, patented entities
  - No work in progress for agriculture
  - FISIM not allocated to users
  - No estimates for illegal activities

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# Main expenditure aggregates

# Expenditure on GDP

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## **There are 7 main expenditure aggregates:**

- ❑ Individual consumption expenditure by households
- ❑ Individual consumption expenditure by NPISHs
- ❑ Individual consumption expenditure by government
- ❑ Collective consumption expenditure by government
- ❑ Gross fixed capital formation
- ❑ Change in inventories & acquisitions less disposals of valuables
- ❑ Balance of exports and imports
  - Further divided into
    - ❑ 26 Categories
    - ❑ 61 Groups
    - ❑ 126 Classes
    - ❑ 155 Basic Headings

# Individual consumption expenditure by households

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- Actual expenditures:
  - food, clothing, transport, rent, services
- Imputed expenditures:
  - rents of owner-occupiers
  - food and other goods for own consumption
  - goods and services provided as income in kind
  - FISIM (if allocated to consumers)

# Individual consumption expenditure by NPISHs

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- Non-Profit Institutions Serving Households (NPISH) are mainly funded by households - either residents or foreign households.
- Examples:
  - religious organizations (mosques, temples, churches, schools, clinics, hospitals)
  - trade unions
  - political parties in multi-party states
  - UNICEF, OXFAM, Red Crescent

# Individual consumption expenditure by government

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- Most expenditures on *housing, health, recreation and culture, education and social protection* are individual.
- Two kinds:
  - production of services by government for the benefit of individual households
  - purchase of goods and services by government from other producers which are then passed on to households, either free or at low cost (health and education only)

# Collective consumption expenditure by government

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- Mainly fall under the COFOG headings of *general public services, defense, public order and safety, economic affairs and environment protection*
- Only one kind - the production of services by government. Collective consumption does not involve the purchase of goods and services for delivery to households.

# Gross fixed capital formation (GFCF)

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- Goods that are expected to be used in production for several years
- GFCF is always measured net of sales:
  - sales for scrap, sales to abattoirs, exports of second-hand assets
- 1993 SNA includes expenditures on software and on mineral exploration in GFCF

# Change in inventories

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- Work in progress - construction, ships
- Stocks of raw materials, finished goods, goods for resale, goods stored by government as strategic reserves, such as food and fuel.
- Estimates may not be comprehensive but should cover important items such as food and fuel stocks, stocks of mining companies, large retailers.

# Actual final consumption

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- 2009 PPP updates will compare actual final consumption between countries
- Actual final consumption consists of:
  - actual individual consumption of households
  - actual individual consumption of government
  - actual individual consumption of NPISH

## But expenditure weights will refer to final consumption expenditure

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- ❑ Participating countries will need to supply weights for final consumption expenditure (both household and government).
- ❑ Conversion to actual final consumption will be done by ADB.
- ❑ Participating countries will need to distinguish between individual and collective consumption expenditures of government.

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# Valuation

# Valuation - general rule

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- General rule is to use the prices at which sales of goods and services are transacted - “purchasers” (or “market”) prices.
- These prices may be reduced by discounts or rebates:
  - bargaining, sales, bulk purchases
- Note that price data for the PPP updating must also reflect discounts or rebates.

# Valuation - imputed rents

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- Imputed rents of owner occupiers
  - use rents actually paid for similar kinds of dwellings, in similar locations and with similar facilities
  - if not possible, rents are valued at cost - consumption of fixed capital, return on capital, regular maintenance, and insurance

# Valuation – Consumption of Own-produced goods

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- Goods produced for own consumption (crops, livestock)
  - Prices in local markets for livestock, vegetables, fruits

# Valuation – Income –in-kind

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- Goods and services provided as income in kind.
  - at purchasers' prices if the employer has purchased the goods or services and at producers' prices if they have been produced by the enterprise itself.

# Valuation - NPISH

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- Individual consumption expenditure of NPISH
  - Valued at cost of production - compensation of employees, intermediate consumption, consumption of fixed capital, taxes less subsidies on production *minus* any payments received from households for services provided.

# Valuation – Individual consumption expenditure by Government

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- Goods and services purchased by government from other producers which are then passed on to households:
  - purchasers' prices
- Production of goods and services by government itself
  - at the costs of production (see valuation of NPISH)

# Valuation – Collective consumption expenditure by Government

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- Valued at cost i.e as sum of compensation of employees, intermediate inputs, consumption of fixed capital, taxes on production (eg.business license) less subsidies minus payments paid by household for services and goods provided
  - at the costs of production (see valuation of NPISH)

# Valuation - GFCF

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- GFCF is valued at purchasers' prices but note that these should include not only the cost of transport but also the cost of installation and any fees or taxes for transfer of ownership.
- Own-account production of fixed capital assets is valued at basic prices which are equal to producer price or, if not available, at the cost of production.

# Valuation - Change in Inventories

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- The change in inventories must reflect only the physical change - not holding gains or losses due to changes in prices during the year.
- The physical quantities of inventories at the beginning and end of the year are usually valued using the average prices over the year or, failing that, mid-year prices.

# Valuation - Exports and Imports

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- Exports of goods and services
  - Free-on-board (f.o.b.) prices
  
- Imports of goods and services
  - Cost, insurance, freight (c.i.f.) prices

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# Expenditure Classification

# The Expenditure Classification

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- ▣ The Expenditure Classification for the 2009 PPP updating is based on four international classifications:
  - COICOP for household expenditure
  - COPNI for NPISH
  - COFOG for government
  - CPA/CPC for gross fixed capital formation

# Broken down into

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- GDP is broken into 7 main aggregates
- Further divided into
  - 26 Categories
  - 61 Groups
  - 126 Classes
  - 155 Basic Headings

# Structure of the Classification

Main Aggregates	Categories	Groups	Classes	Basic Headings
11.00 Individual consumption expenditure by households	13	43	90	110
12.00 Individual consumption expenditure by NPISHs	1	1	1	1
13.00 Individual consumption expenditure by government	5	7	16	21
14.00 Collective consumption expenditure by government	1	1	5	5
15.00 Gross fixed capital formation	3	6	11	12
16.00 Change in inventories and acquisitions less disposals of valuables	2	2	2	4
17.00 Balance of exports and imports	1	1	1	2
GDP	26	61	126	155

# Examples of basic headings: Food

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Code		Level
11.00.000.0	INDIVIDUAL CONSUMPTION EXPENDITURE BY HOUSEHOLDS	Main aggregate
11.01.00.0	FOOD AND NON-ALCOHOLIC BEVERAGES	Category
11.01.10.0	FOOD	Group
11.01.11.0	Bread and cereals	Class
<b>11.01.11.1</b>	<b>Rice</b>	<b>Basic heading</b>
<b>11.01.11.2</b>	<b>Other cereals, flour and other cereal products</b>	<b>Basic heading</b>
<b>11.01.11.3</b>	<b>Bread</b>	<b>Basic heading</b>
<b>11.01.11.4</b>	<b>Other bakery products</b>	<b>Basic heading</b>
<b>11.01.11.5</b>	<b>Pasta products</b>	<b>Basic heading</b>

# Examples of category, group, class, BH

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15.00.00.0	GROSS FIXED CAPITAL FORMATION	Main aggregate
15.01.00.0	MACHINERY AND EQUIPMENT	Category
15.01.10.0	METAL PRODUCTS AND EQUIPMENT	Group
15.01.13.0	Special purpose machinery	Class
<b>15.01.13.1</b>	<b>Agricultural and forestry machinery</b>	<b>Basic heading</b>
<b>15.01.13.2</b>	<b>Machine tools</b>	<b>Basic heading</b>
<b>15.01.13.3</b>	<b>Machinery for metallurgy, mining and construction</b>	<b>Basic heading</b>
<b>15.01.13.4</b>	<b>Machinery for food, beverage and tobacco processing</b>	<b>Basic heading</b>
<b>15.01.13.5</b>	<b>Machinery for textile, apparel and leather production</b>	<b>Basic heading</b>
<b>15.01.13.6</b>	<b>Other special purpose machinery</b>	<b>Basic heading</b>

# Examples of basic headings: Government

13.00.00.0	INDIVIDUAL CONSUMPTION EXPENDITURE BY GOVERNMENT	Main aggregate
13.02.00.0	HEALTH	Category
13.02.10.0	HEALTH BENEFITS AND REIMBURSEMENTS	Group
13.02.11.0	Medical products, appliances and equipment	Class
<b>13.02.11.1</b>	<b>Pharmaceutical products</b>	<b>Basic heading</b>
<b>13.02.11.2</b>	<b>Other medical products</b>	<b>Basic heading</b>
13.02.20.0	PRODUCTION OF HEALTH SERVICES	Group
13.02.21.0	Compensation of employees	Class
<b>13.02.21.1</b>	<b>Physicians</b>	<b>Basic heading</b>
<b>13.02.21.2</b>	<b>Nurses and other medical staff</b>	<b>Basic heading</b>
13.02.22.0	Intermediate consumption	Class
<b>13.02.22.1</b>	<b>Pharmaceutical products</b>	<b>Basic heading</b>
<b>13.02.22.2</b>	<b>Other medical goods</b>	<b>Basic heading</b>
13.02.23.0	Gross operating surplus	Class
<b>13.02.23.1</b>	<b>Gross operating surplus</b>	<b>Basic heading</b>
13.02.24.0	Net taxes on production	Class
<b>13.02.24.1</b>	<b>Net taxes on production</b>	<b>Basic heading</b>
13.02.25.0	Receipts from sales	Class
<b>13.02.25.1</b>	<b>Receipts from sales</b>	<b>Basic heading</b>

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**Thank you!**