

# Module 1: National Accounts Framework and Classification

Regional Training Workshop on the Compilation of Price Expenditure Weights and Guidelines  
for the Compilation of National Accounts Expenditure Data During the Pandemic Period

21-22 June 2021

# Objectives of the Training



**National Accounts Framework and Classification**

**Expenditure Data Compilation**

**Compilation of Expenditure Data during the Pandemic**

**Expenditure Data Validation**

# Objectives of Module 1: National Accounts Framework and Classification

- ➔ **Expenditure Data Requirements for PPP Computation**
- ➔ **National Accounts Framework and the System of National Accounts (SNA)**
- ➔ **ICP and other International Classifications**

# What are the Data Requirements for PPP Computation?



1. Detailed breakdown of final GDP expenditures that covers the whole range of goods and services included in the GDP
2. Set of national annual average purchaser's prices for a selection of goods and services included in the GDP

We use these two data sets in the calculation of PPPs.



# Expenditure Data Requirements for PPP Computation

- National expenditure data supplied by countries are essential for comparison and estimation of PPPs. **Why are they important?**



**They are the expenditures that will be deflated and expressed as real expenditures**

**They are the weights used to aggregate basic heading PPPs to the various levels of aggregation up to the GDP**


Elementary PPPs are aggregated by using national account expenditures as weights to obtain PPPs for each aggregation level up to GDP.

	Country 1	Country 2	Country 3	Country 1	Country 2	Country 3
BH 1 (e.g. <i>rice</i> )	PPP	PPP	PPP	weight	weight	weight
BH 2 (e.g. <i>cereals</i> )	PPP	PPP	PPP	weight	weight	weight
BH 3 (e.g. <i>bread</i> )	PPP	PPP	PPP	weight	weight	weight

A Matrix of PPPs and Weights

	Country 1	Country 2	Country 3
Aggregate (e.g. <i>bread and cereals</i> )	PPP	PPP	PPP

The aggregation of PPPs is undertaken separately for each level of expenditure up to the level of GDP.



# Expenditure Data Requirements for PPP Computation (cont'd)


However, neither the real expenditures nor the aggregated PPPs will be reliable unless the national expenditures provided by countries are comparable.

## How to ensure comparability?

- The expenditure data should be compiled under the same definitions of GDP and its component expenditures.
- Equally exhaustive in their measurement of economic activity.
- Using weighted average on basic headings for each country to ensure the reliability of PPPs.

## How to ensure reliability?

- PPP computation requires:
  1. Common national accounts framework
  2. Detailed classification



# National Accounts Framework and the System of National Accounts (SNA)

GDP measures a country's economic output. This is calculated as the market value of all final goods and services produced within a specific period of time by the enterprises resident in the country.

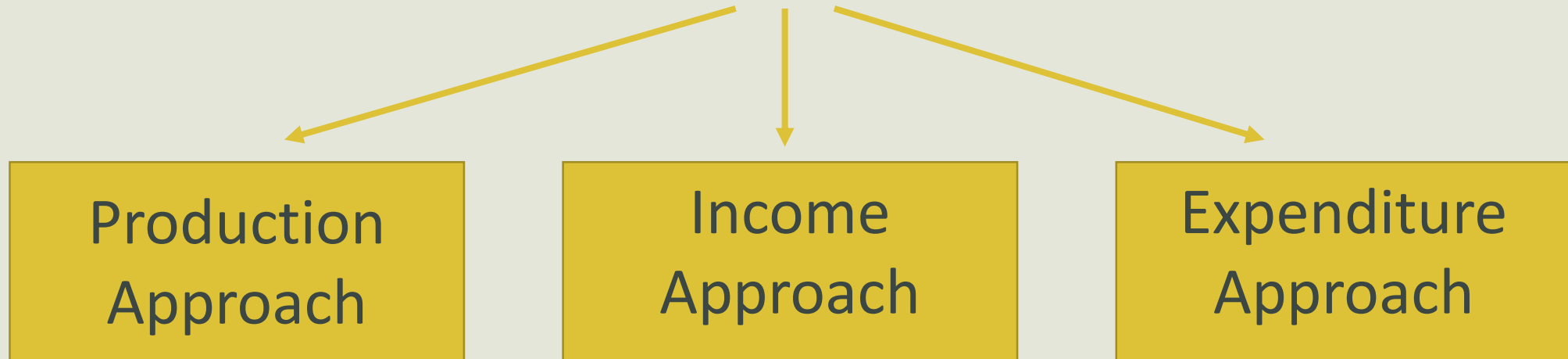
GDP includes out-of-country production of a resident producer and excludes in-country production by nonresident producers.

**We use a one-year accounting period for PPP calculation for a given reference year.**




# National Accounts Framework and the System of National Accounts (SNA) (cont'd)

- GDP can be estimated using *3 different approaches*:



Conceptually, each of these approaches results in the same estimate of the GDP. But in practice, data deficiencies can lead to different results.



# National Accounts Framework and the System of National Accounts (SNA) (cont'd)

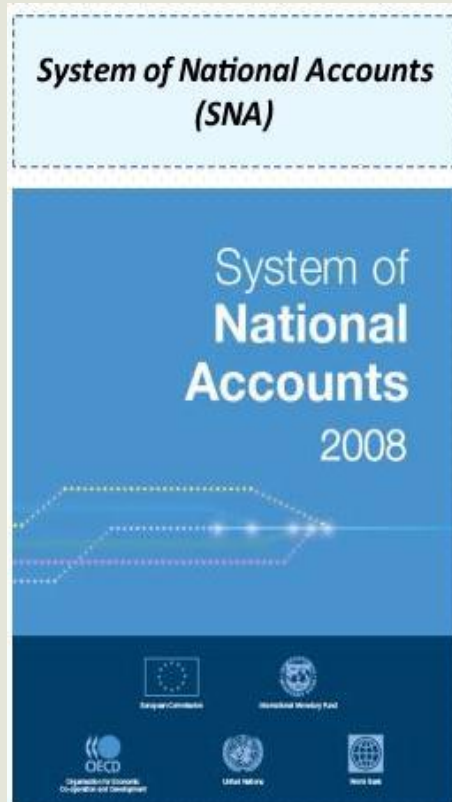
Since it is easier to obtain underlying prices for the components, the Expenditure Approach for estimating detailed breakdown of final expenditures on GDP is used in PPP computation.

Using the Expenditure Approach also supports the users of PPPs.

For example, a major use of PPPs is to estimate poverty lines, which rely on PPPs for household consumption expenditures.

# National Accounts Framework and the System of National Accounts (SNA) (cont'd)


- **Framework for GDP:** In order to have consistent GDP expenditure data for PPP calculation, a common framework is needed.
- National Accounts measure a country's economic activities. The System of National Accounts (SNA) is the internationally agreed standard set of recommendations on how to compile measures of economic activity. The most current edition is the 2008 System of National Accounts.
- **The SNA is followed for compiling and validating GDP expenditure data.**



**System of National Accounts (SNA)**

The SNA is the internationally agreed standard set of recommendations on how to compile measures of economic activity.

- The SNA consists of a coherent, consistent and integrated set of macroeconomic accounts, balance sheets and tables based on a set of internationally agreed concepts, definitions, classifications and accounting rules.
- Many countries follow the SNA to compile GDP.



# National Accounts Framework and the System of National Accounts (SNA) (cont'd)

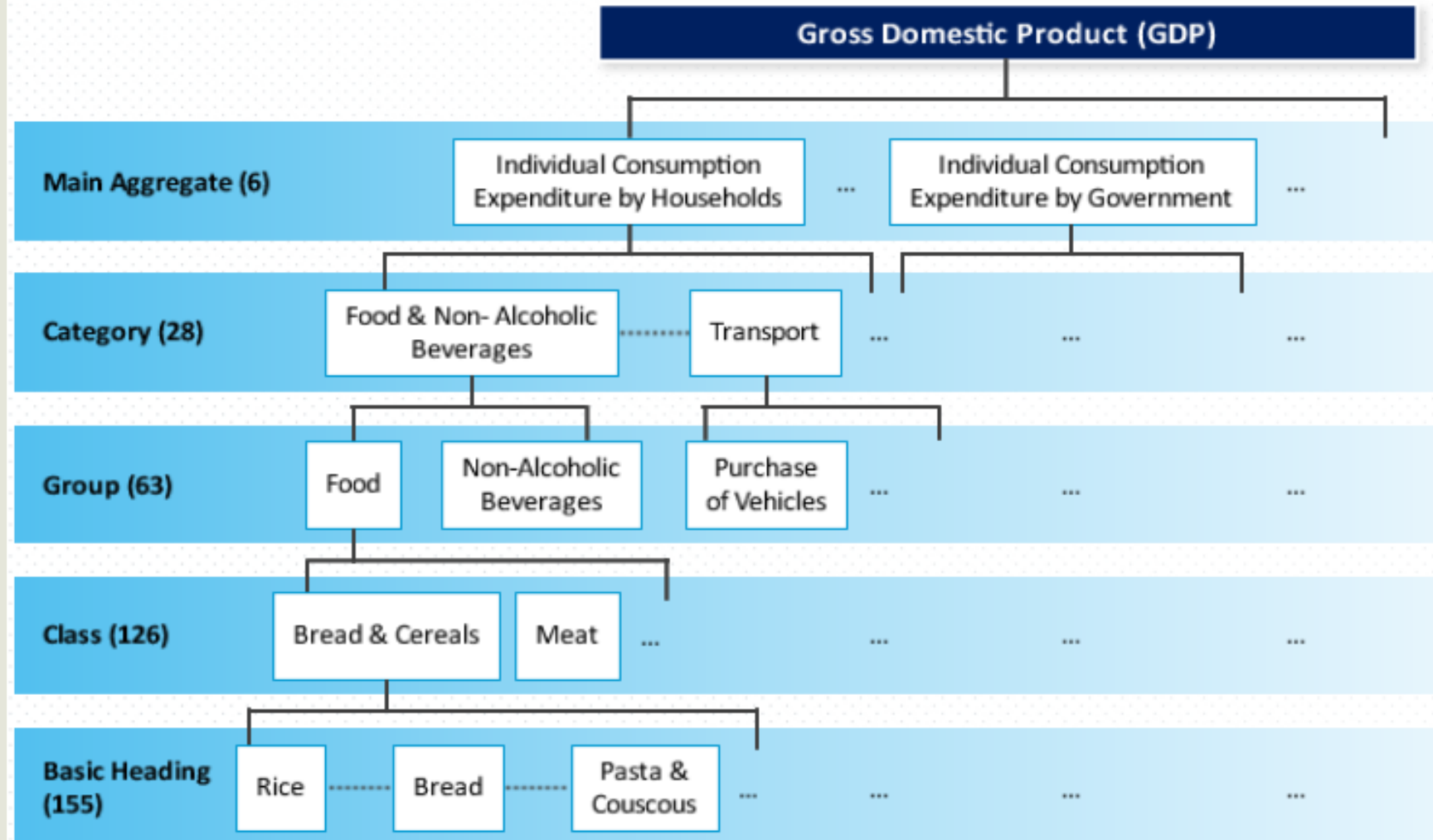
## ICP Classification

- The ICP expects countries to estimate their expenditure data for the reference year broadly in line with the SNA and to disaggregate their GDP into the component expenditures.
- These expenditures comprise different levels of aggregation, identified in the ICP classification.

# National Accounts Framework and the System of National Accounts (SNA) (cont'd)



Current  
ICP  
Classification



# National Accounts Framework and the System of National Accounts (SNA) (cont'd)

The ICP calls the lowest level of aggregation the *Basic Heading*, which is the building block for the comparisons.



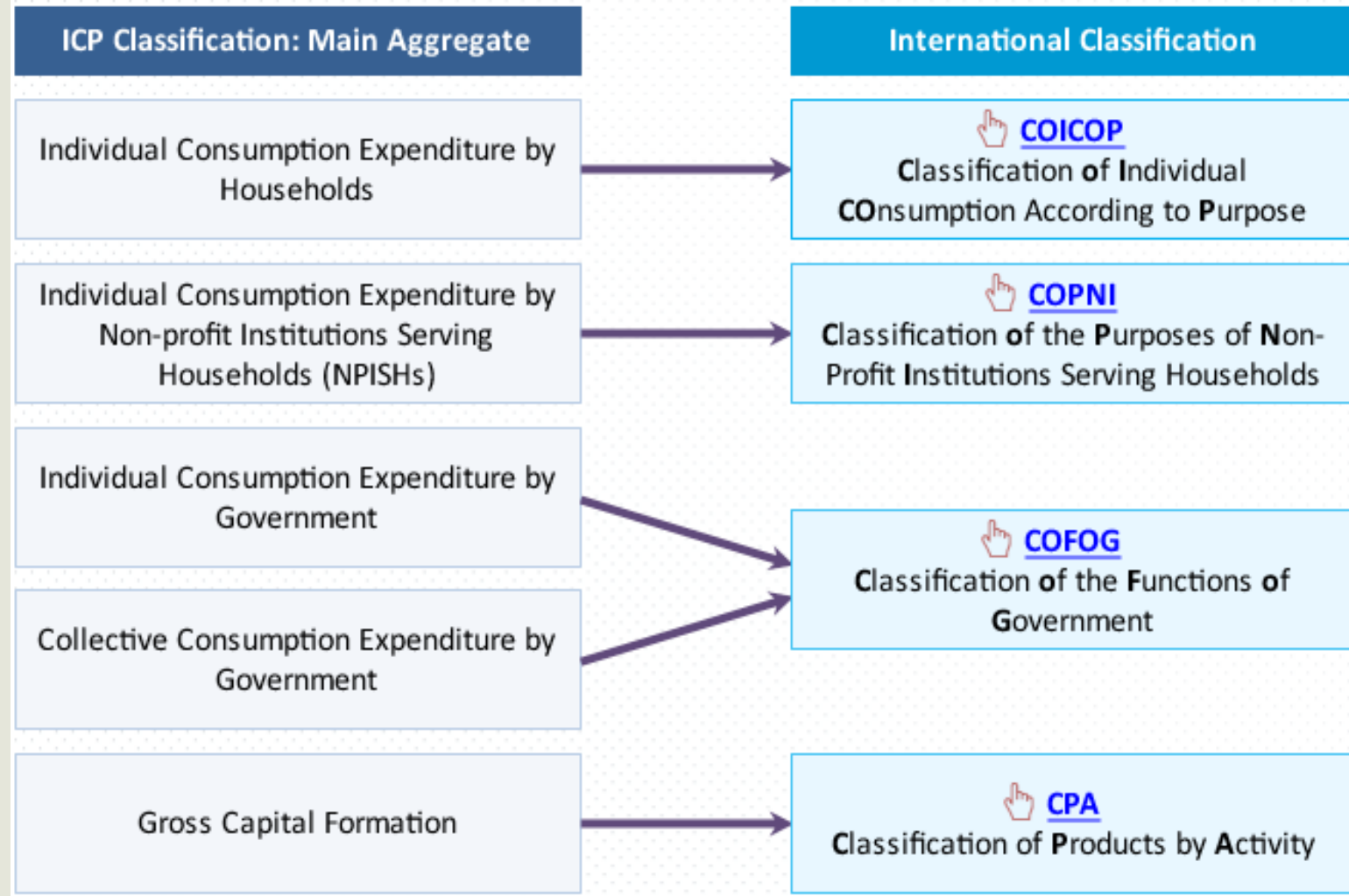
## At the *Basic Heading* level:

- ✓ Expenditures are defined and estimated
- ✓ Goods and services items are selected for pricing
- ✓ Prices are collected and validated
- ✓ PPPs are first calculated and averaged



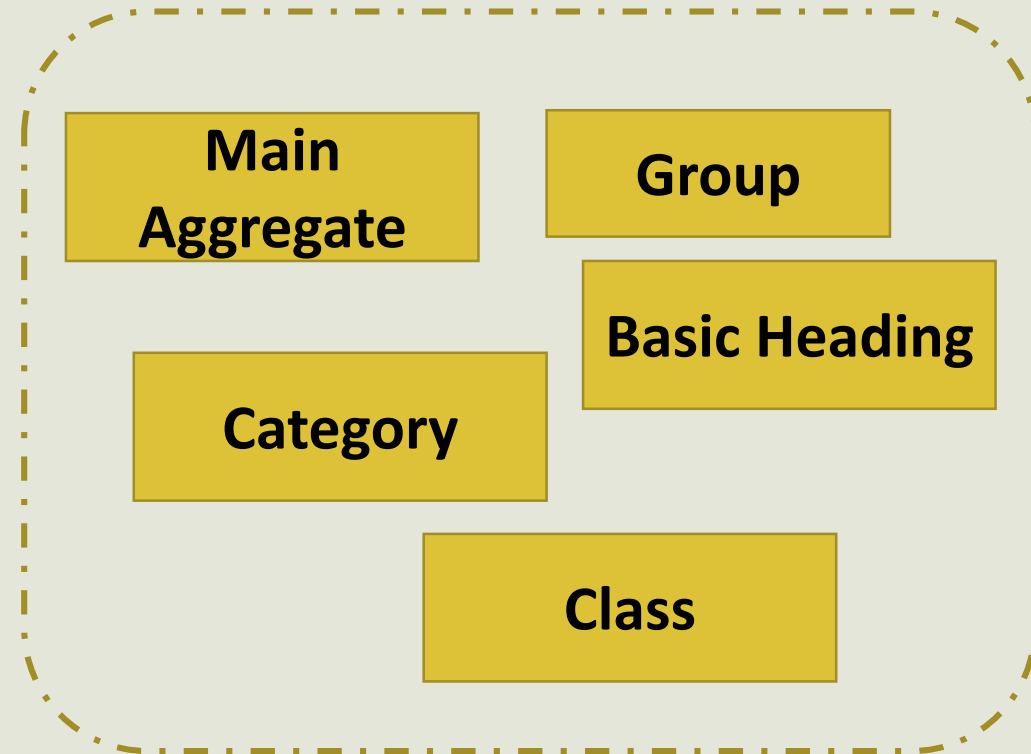
# ICP and other International Classifications

- ✓ The **ICP Classification** is not random.
- ✓ The **Basic Headings** under the **Main Aggregates** are defined in terms of widely accepted **International Classifications**.



# Quiz Time

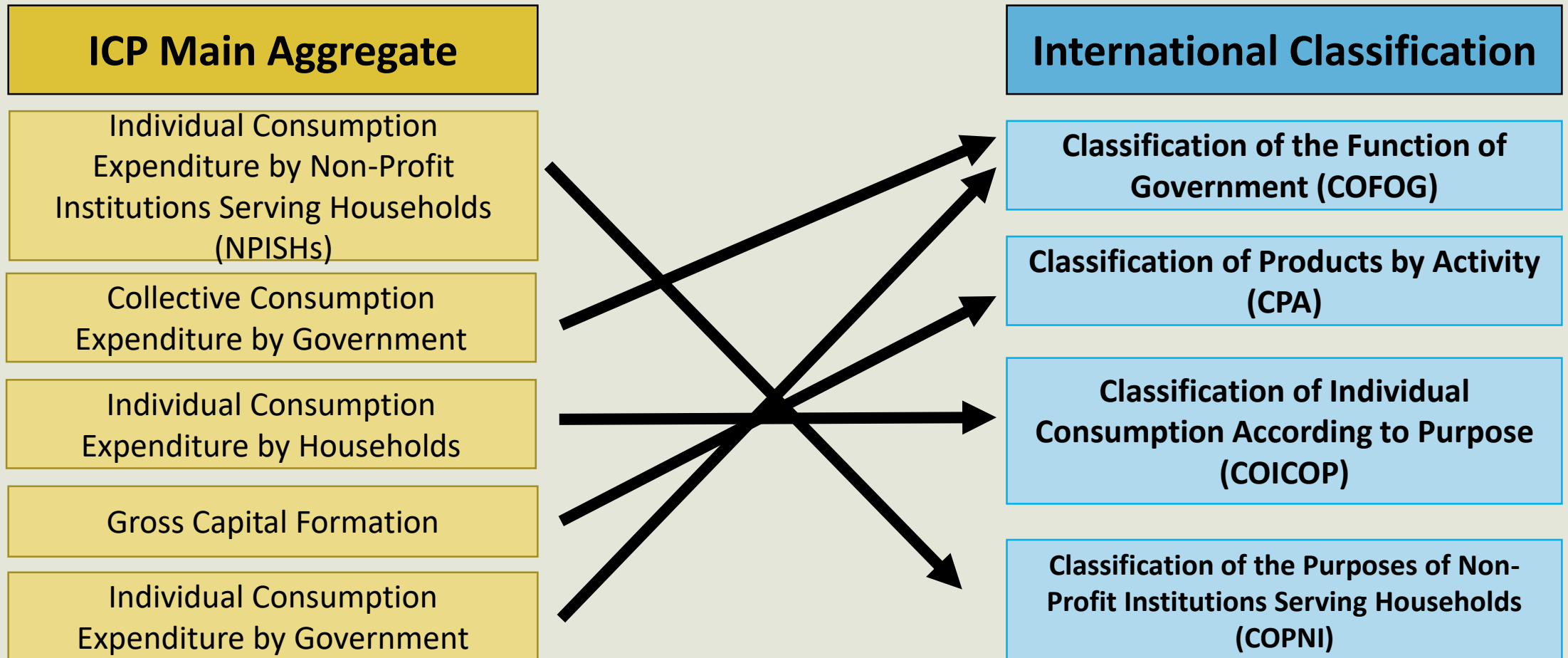
- In the ICP Classification, **GDP** consists of:





# Quiz Time

- Match the ICP Main Aggregates with their respective International Classification



The background is a dark green chalkboard with various white chalk sketches. On the left, there is a globe on a stand. Above it are several circular diagrams, possibly representing orbits or data points. In the center, there are several rectangular shapes, some resembling books or papers. On the right, there is a detailed drawing of a microscope. The overall theme is educational and scientific.

**Thank You**