A brief preview of the forthcoming revision of South Africa's national accounts and balance-of-payments statistics

by S S Walters

Introduction

The development of markets and the emergence of new products continuously promote changes in global economic processes. In keeping with the dissemination of relevant and reliable information within these continually changing environments, statistical systems have to adjust accordingly. The latest editions of the *System of National Accounts* (the 2008 SNA) and the *Balance of Payments and International Investment Position Manual,* Sixth Edition (BPM6) provide an international macroeconomic statistical standard for this purpose. This note provides a brief overview of some of the changes that will affect South Africa's national accounts and balance of payments statistics following the partial implementation of the 2008 SNA and BPM6 at the end of 2014.

In addition to the conceptual, methodological and classification changes proposed by these international manuals, the December 2014 *Quarterly Bulletin* of the South African Reserve Bank (the Bank) will also reflect the outcome of other major statistical revisions resulting from, *inter alia*, the five-yearly benchmarking and rebasing of national accounts statistics conducted jointly by the Bank and Statistics South Africa (Stats SA).

Background

The United Nations (UN), the European Commission, the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Co-operation and Development (OECD) jointly released the 2008 SNA in 2009, officially substituting the 1993 SNA compiled under the auspices of the same organisations. The SNA is an internationally agreed, standard, macroeconomic framework for the measurement of economic activity. In accordance with strict accounting conventions, the framework facilitates the compilation of a comprehensive, consistent and integrated set of macroeconomic accounts. National accounts statistics compiled in accordance with the guidelines of the SNA are used for economic analysis, research and policy formulation as they reflect not only changes in the economic landscape but also advances in methodological research, data sources and compilation methods.

The latest edition of the SNA does not differ materially from the 1993 SNA. The main thrust of the 2008 SNA is to elaborate on those aspects of economic activity that have become more prevalent in recent years, simultaneously enhancing the international comparability of national accounts statistics. Owing to resource constraints and the lack of timely, reliable and accurate data in some instances, South Africa has opted to phase in the recommendations of the 2008 SNA. Subject to data availability, further revisions (albeit of reduced scope) will be introduced at a later stage. Users of national accounts statistics will, however, be notified in advance of future changes.

The major changes resulting from the implementation of the 2008 SNA towards the end of 2014 will include the following:

– Research and development (R&D): Expenditure on R&D plays a key role in economies as it increases knowledge, encourages the development of new products, and assists in enhancing production processes. Capital outlays on R&D are similar to investment in capital assets such as machinery and equipment, transport equipment as well as computers and related equipment, as the benefits accrue mainly over time. In the 2008 SNA, R&D is recognised as a capital asset (an intellectual property product) with associated investment flows and capital consumption charges.

In the 1993 SNA, spending on R&D was treated as intermediate consumption. Intermediate goods and services are, however, used only once whereas capital assets are used continuously in production processes. Even though the 1993 SNA acknowledged that spending on R&D comprised essentially investment activity, it was retained as intermediate consumption due to measurement difficulties, including distinguishing R&D activities from other activities in production processes, valuing R&D assets, and depreciating R&D capital to derive appropriate net stock values.

– Information and communications technology (ICT) equipment and computer software: With regard to gross fixed capital formation, the 2008 SNA recommends that ICT equipment and computer software be shown separately. The category 'Computer software' should furthermore be modified to include databases. However, due to a lack of data, not all databases storing data for longer than a year will be included under the category 'Computer software and databases'.

– Capitalisation of military weapon systems: The 2008 SNA recommends that spending on military weapon systems – including vehicles and other equipment such as warships, submarines, military aircraft, tanks and missile carriers – be treated as gross fixed capital formation in the national accounts. Expenditure on military weapon systems is currently classified as government consumption expenditure. Investment in the non-residential structures of the Department of Defence, including military bases and airports, already forms part of fixed investment. It is furthermore recommended that single-use weapons (such as ammunition, missiles, rockets and bombs) be treated as inventories.

– Financial intermediation services indirectly measured (FISIM): The 2008 SNA proposes that FISIM be refined to also include non-bank financial intermediaries. At present, FISIM applies only to loans and deposits extended by or deposited with the domestic banking sector.

Other methodological changes that will affect national accounts statistics include the following:

– The capitalisation of low-cost housing will be revisited starting from the early 1990s. These assets will be incorporated into the balance sheets of the household sector.

– The depreciation period of dwellings will be aligned to international best practice, affecting the consumption of fixed assets.

– Capital expenditure on mineral exploration will be reclassified and shown separately as gross fixed capital formation. These outlays are currently classified as construction works.

– The compilation of the real output of non-life insurance services will be synchronised with the methodology proposed in the 2008 SNA; the treatment of reinsurance and direct insurance services will also be aligned.

Balance of payments and the international investment position

The BPM6 serves as the standard international framework for the compilation of statistics on balance-of-payments transactions and international investment positions between an economy and the rest of the world. The manual, which is consistent with the 2008 SNA, explains concepts, definitions, classifications and conventions for the compilation of balance-of-payments statistics and international investment position data, and enhances data comparability within the broader national accounting statistical framework.

The introduction of BPM6 involves a comprehensive exercise adjusting a wide range of statistical processes. As in the case of national accounts statistics, the December 2014 *Quarterly Bulletin* of the Bank will reflect a number of conceptual and presentational changes alongside a longer-term revision of transactions with the rest of the world. These changes will affect all the sub-accounts of the balance of payments. As with the national accounts, the main thrust of the previous manual is retained; the changes to be made are mainly refinements.

Trade in goods

- Re-exports: These are merchandise goods produced in other economies, imported into South Africa, and thereafter exported again without significant transformation or value added. BPM6 recommends that re-exports be shown as supplementary information. In South Africa's case, these transactions relate primarily to intra-trade between South Africa and some of its neighbouring countries (Botswana, Lesotho, Namibia and Swaziland).
- Merchanting: The purchase of goods from a non-resident party and the resale of the same goods to another non-resident party without crossing the borders of the home economy is known as merchanting. In BPM5, the previous edition of the manual, profit margins were included in the services account of the balance of payments, but according to BPM6, profit margins should be reflected in the trade account as 'Net exports of goods under merchanting'.
- Migrants' personal effects: In contrast to BPM5 which recommended that migrants' personal effects be treated as merchandise transactions, BPM6 recommends that the transfer of migrants' personal effects no longer be included in general merchandise or anywhere else in the international accounts.
- Manufacturing services: The processing, assembling and packaging performed on goods owned by non-resident parties will, according to BPM6, be treated as a service fee. In BPM5, a change of ownership was imputed, which resulted in transactions in merchandise trade: the goods were deemed to be imported and then exported again by the domestic party performing the processing, assembling and packaging.
- Maintenance and repair services: In BPM6, maintenance and repair services performed on goods owned by non-residents are reclassified from 'Trade in goods' to 'Trade in services'.

Trade in services

- International trade in 'Other services': This category will be expanded to show a more comprehensive breakdown of trade in 'Other services' alongside definitional changes affecting some of the categories. The information will be disseminated on an annual basis. The detailed components will include:
  - manufacturing services on physical inputs owned by others;
  - maintenance and repair services performed on movable goods, not included elsewhere;
  - financial and insurance services;
  - charges for the use of intellectual property;
  - telecommunications, computer and information services;
  - personal, cultural and recreational services; and
  - other business and miscellaneous services, including:
    - legal services;
    - accounting services;
    - advertising and market research services; and
    - architectural, engineering and other technical services.

Financial account

- The analytical presentation of the financial account of the balance of payments, which reflects transactions in financial assets and liabilities between residents of South Africa and non-residents, will be modified by renaming and restructuring the classification of assets and liabilities. The modifications, as recommended by BPM6, will affect the functional investment categories as well as reserve assets.

- The sign convention used in the financial account of the balance of payments will be aligned to that of the international investment position. With the use of new terminology, 'Net acquisition of financial assets' and 'Net incurrence of liabilities' instead of 'Credits' and 'Debits', a plus sign in the financial account of the balance of payments will reflect an increase in South Africa's foreign assets while a minus sign will denote a decrease in its foreign assets. (An increase in financial liabilities will still be indicated by a plus sign and a decline in liabilities by a minus sign.)

- Transactions in financial derivatives will be shown as a separate functional category in the financial account of the balance of payments.

- A separate functional category will be created for reserve assets in the financial account.

- Allocations of Special Drawing Rights (SDRs) will be recorded as an increase in gross reserve assets and an accompanying increase in long-term liabilities in the balance of payments and the international investment position.

- All of the above-noted changes to the financial account of the balance of payments will be carried through to the international investment position.

Conclusion

The envisaged changes to the national accounts and balance of payments statistics by the end of 2014 reflect the continuous endeavours of the Bank and Stats SA to improve the quality of official statistics and keep abreast of international best practice. Refinements made to time-series data will retain the main thrust of previous macroeconomic statistical frameworks.