Session 2. SNA 2008, Satellite Accounts and Environmental Accounts

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Session outline

• Brief introduction system of national accounts (SNA)
• Why extend or modify the national accounts?
• Environmental accounts: what are they and what do they cover?
What are national accounts?

- An integrated set of macro-economic accounts showing relevant flows and stocks related to economic activity
- Accounts are based on relevant international guidelines
What are national accounts *cont*?

### Compiling the Main Sequence of Accounts Using Business Data

<table>
<thead>
<tr>
<th>The Coffee Company Income Statement 2004/05 (’000)</th>
<th>National Accounts Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (including GST collected) 1773</td>
<td>Sales at purchaser’s prices</td>
</tr>
<tr>
<td>less GST collected 51</td>
<td>Taxes on products</td>
</tr>
<tr>
<td>equals Operating income 1722</td>
<td>Market output at basic prices</td>
</tr>
<tr>
<td>less Operating expenditure</td>
<td>Compensation of employees</td>
</tr>
<tr>
<td></td>
<td>Consumption of fixed capital</td>
</tr>
<tr>
<td></td>
<td>Other taxes on production</td>
</tr>
<tr>
<td></td>
<td>Intermediate consumption</td>
</tr>
<tr>
<td></td>
<td>Property income - dividends received</td>
</tr>
<tr>
<td>plus Financial income (dividends) received 545</td>
<td>Property income - interest paid</td>
</tr>
<tr>
<td>less Financial expenses (interest paid) 137</td>
<td>Capital transfers</td>
</tr>
<tr>
<td>plus Investment grant received 899</td>
<td>Taxes on income</td>
</tr>
<tr>
<td>equals Net income before tax 83</td>
<td>Revaluation of fixed assets</td>
</tr>
<tr>
<td>less Corporate income tax 24</td>
<td>Revaluation of inventories</td>
</tr>
<tr>
<td>equals Net income after tax 24</td>
<td>Revaluation of financial assets - other accounts receivable</td>
</tr>
<tr>
<td>plus Extraordinary items:</td>
<td>Revaluation of liabilities - shares &amp; other equity</td>
</tr>
<tr>
<td>Revaluation - fixed assets 153</td>
<td>Output for own final use</td>
</tr>
<tr>
<td>less Revaluation - stocks 3</td>
<td>Property income - dividends paid</td>
</tr>
<tr>
<td>equals Revaluation - financial assets 10</td>
<td>Changes in net worth</td>
</tr>
<tr>
<td>plus Revaluation - liabilities 15</td>
<td></td>
</tr>
<tr>
<td>less Capitalised improvements to equipment 31</td>
<td></td>
</tr>
<tr>
<td>equals Dividends paid 25</td>
<td></td>
</tr>
<tr>
<td>equals Additions to reserves 216</td>
<td></td>
</tr>
</tbody>
</table>
Information system

Key macro economic indicators
GDP, household consumption, industry gross value added, trade balance and government deficit

Detailed macro economic accounts
Supply – use tables, Sector accounts, Financial accounts, Balance sheets

Basic data
SNA: An integrated framework based on accounting identities

- Transaction identity: \( \text{Outlay} = \text{Receipt} \)

- For goods and services
  \( \text{Supply} = \text{Use} \)

- When international trade is included:
  \( \text{Domestic production} + \text{import (Supply)} = \text{Domestic use} + \text{export (Use)} \)
Framework based on accounting identities...

- Based on double entry accounting principle (same as business accounts)

Example: cash sale / purchase of motor car

<table>
<thead>
<tr>
<th></th>
<th>Car seller</th>
<th></th>
<th>Car buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goods and services account</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car</td>
<td>$20,000</td>
<td></td>
<td>$20,000</td>
</tr>
<tr>
<td><strong>Financial account</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$20,000</td>
<td></td>
<td>$20,000</td>
</tr>
</tbody>
</table>
## Supply-Use table

### Supply table  $Bn

<table>
<thead>
<tr>
<th></th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Imports</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural products</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Manufactured products</td>
<td>16</td>
<td>10</td>
<td></td>
<td></td>
<td>26</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td>33</td>
<td></td>
<td>33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10</td>
<td>16</td>
<td>33</td>
<td>10</td>
<td>69</td>
</tr>
</tbody>
</table>

### Use table  $Bn

<table>
<thead>
<tr>
<th></th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Consumption</th>
<th>Capital formation</th>
<th>Export</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural products</td>
<td></td>
<td></td>
<td></td>
<td>8</td>
<td>2</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Manufactured products</td>
<td>2</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>4</td>
<td>26</td>
</tr>
<tr>
<td>Services</td>
<td>6</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>2</td>
<td></td>
<td>33</td>
</tr>
<tr>
<td><strong>Value added (balance)</strong></td>
<td>2</td>
<td>5</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td>26</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10</td>
<td>16</td>
<td>33</td>
<td>22</td>
<td>6</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>
Defining Gross Domestic Product (GDP)

• **Income approach:**
  GDP = Value added (compensation of employees, gross operating surplus, net taxes on production)

• **Production approach:**
  GDP = outputs – intermediate consumption

• **Expenditure approach:**
  GDP = consumption + investment + exports − imports (= C + I + E + M)
Defining GDP volume growth

- GDP growth in current prices =

\[ \text{GDP Current Prices} \times \text{GDP deflator} \]

In practice, it is the various components making up GDP that are individually deflated

(i.e. the GDP deflator is a composite deflator)
SNA Classifications

• Based on the UNSD classifications

• **Industries**
  – International Standard Industrial Classification (ISIC)
  – Agriculture; Mining & Quarrying; Manufacturing etc...

• **Products**
  – Central Product Classification (CPC)

• Consistency between SNA & SEEA
Institutional sector accounts

• **Standard Institutional Sector Classification of Australia**

• Non-financial corporations; Financial corporations; General government; Households NPIs serving households; Rest of the world

• Enables transfers to be identified
Conclusions

• A very brief picture...
  Strength of national accounts:
  * internationally accepted and widely used system

• Links indicators and accounts

• Definitions, concepts and classifications serve mainstream economic analyses well
  – But not necessarily other types of analyses...
General principles of satellite accounting

• National accounts governed by the principles of System of National Accounts (SNA)

• these principles are consistent, coherent

• but, sometimes more appropriate to use different principles
General principles of satellite accounting, cont...

• we prefer not to disrupt the 'core' national accounts

• so we undertake these analyses separate from the 'core' national accounts (i.e. in 'satellite' context)
General principles of satellite accounting, cont...

• Most satellite accounts use re-worked versions of the key SNA tables
  – e.g. GDP account, showing depletion of natural resources

• Many are based on supply and use tables
  – e.g. Tourism, IT

• Some construct new suites of tables
  – e.g. SEEA (Physical Accounts)
SEEA began as a ‘satellite account’ of the SNA
SEEA is one of many satellite accounts
Why satellite accounting?

1. Deepening of specific sectors or functional activities – transport, health, environment...
2. Introduce alternative concepts
3. Supplementary datasets
1. Deepening specific sectors

- E.g. how much does environment protection contribute to employment or to GDP?

  - Main producers of environment protection services: water purification; waste treatment...
  - Environment protection activities on own account
  - Suppliers of environmental protection equipment
Why satellite accounting?

1. Deepening of specific sectors or functional activities – transport, health, environment...

2. Introduce alternative concepts

3. Supplementary datasets
Alternative concepts in the national accounts

• Production boundary
  – Most household production excluded
  – Services provided by the natural environment are excluded
  – Learning is not a productive activity

• Asset boundary
  – A number of environmental assets are not included as part of economic wealth on the national balance sheet
Why satellite accounting?

1. Deepening of specific sectors or functional activities – transport, health, environment...
2. Introduce alternative concepts
3. Supplementary datasets
Supplementary data sets

Monetary data sets: economic accounting (SNA)
Supplementary data sets cont...

Non-monetary data sets: environmental accounting (SEEA)
Why satellite accounting?

Conclusions:
1. Standard national accounts are a powerful tool but are not always appropriate.

2. Alternative concepts, classifications and supplementary datasets may add analytical usefulness to national accounts in specific areas.

3. National accounting is a powerful tool to link indicators to detailed information systems.
Environmental accounting:
The application of national accounts concepts, frameworks and classifications for a statistical description of environmental-economic dependencies
Environmental accounts, what are they and what do they cover?

Economy
- Enterprises
- Households
- Government

Natural inputs (e.g. minerals, energy, timber, fish and water)

Residuals (e.g. air emissions, solid waste, return flows of water)

Environment
- Mineral and energy resources
- Timber resources
- Fish resources
- Water resources
- Soil resources
- Land

Products
The Concept of Stocks and Flows

Stock A = 100
Flows = -30 (Rainfall - Evaporation - Environmental flows - Reticulated Water)
Stock B = 70
Environmental accounting

I. The physical economy (flows)

II. Environmental capital

III. Environment-related changes of the economic system

IV. Adjusting national accounts aggregates
I. The physical economy:

<table>
<thead>
<tr>
<th>Product input ($)</th>
<th>Production in <em>money</em> terms</th>
<th>Product output ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added ($)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product input (kg)</th>
<th>Production in <em>physical</em> terms</th>
<th>Product output (kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource inputs (kg)</td>
<td>Residual outputs (kg)</td>
<td></td>
</tr>
</tbody>
</table>
The physical economy: Decoupling environmental pressures from economic growth
II. Environmental capital:

- Capital in the **national accounts**:
  - Fixed assets (produced: machinery, equipment, dwellings)
  - Non-produced assets:
    - Tangible (land, subsoil assets, non-cultivated biological assets, water resources)
    - Intangible (goodwill)
  - Financial assets (currency, loans, bonds, shares)
II. Environmental capital:

• Include AEEA Capital Estimates in graph format.
II. Environmental capital:

• Capital in the Integrated Environmental-Economic Accounts (SEEA):

• Expansion of the non-produced tangible assets in detail and in number of categories, for example:

• Different types of land and water bodies

• Additional asset types, for example:
  ⇒ Soil resources
  ⇒ Ecosystems (terrestrial, aquatic)
II. Environmental capital:

McKelvey diagram for coal or gas reserves

<table>
<thead>
<tr>
<th>IDENTIFIED RESOURCES</th>
<th>UNDISCOVERED RESOURCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demonstrated</td>
<td>Inferred</td>
</tr>
<tr>
<td>Economic</td>
<td></td>
</tr>
<tr>
<td>reserves</td>
<td>inferred reserves</td>
</tr>
<tr>
<td>Subeconomic</td>
<td></td>
</tr>
<tr>
<td>demonstrated</td>
<td>inferred</td>
</tr>
<tr>
<td>subeconomic resources</td>
<td>resources</td>
</tr>
</tbody>
</table>

SNA Scope – Economic Demonstrated Resource

SEEA Scope – Subeconomic Demonstrated Resource
III. Environment-related changes of the economic system:

- Environment related economic activities
- Environment related services
  ⇒ Environmental Protection Expenditure Accounts (EPEA)
- Environmental taxes and subsidies
- Clean up costs and environmental costs related to the disposal of fixed assets
IV. Adjusting national accounts aggregates:

• How can the costs of using up or damaging the environment be reflected in national accounts aggregates (GDP, Saving)?


• What are the underlying concepts and what are their policy uses?
Conclusions

Domains of environmental accounting:
1. Accounting for the physical economy and its industrial metabolism
2. Accounting for environmental assets
3. Accounting for environment related transactions
4. Valuation of environmental damages and the adjustment of national accounts balancing items
Questions?