



Non-Observed Economy in National Accounts

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Main points in this presentation

- Exhaustiveness of National Accounts
- Non-Observed Economy: underground, illegal, informal, omitted
- Exhaustiveness adjustments – not comparable
- No estimates of actual size of Non-Observed Economy
- GNI inventories
- Eurostat Tabular Approach to exhaustiveness
- Methods: 3 country cases

Exhaustiveness of National Accounts

- National Accounts: needs to be exhaustive and cover both observed and non-observed economy → Non-observed does not mean non-measured
- The Non-Observed Economy: all productive activities that may not be captured in the basic data sources used for National Accounts compilation
- Includes:
 - underground
 - informal
 - illegal
 - other activities (omitted due to deficiencies)

Underground production

- Production activities that are legal but deliberately concealed from public authorities in order to avoid paying tax (e.g. VAT or income tax) or social security contributions; meeting statutory standards; or complying with official procedures and regulations.
- Also called “concealed activities”, “hidden economy” or “black economy”.

Informal activities

- Legal production activities which are characterized by a low level of organization, with little or no division between labour and capital as a factor of production.
- Typically functions on a system of unofficial relationships and does not rely on official agreements. Small-scale production of goods and services with the primary objective of generating employment and incomes for persons concerned.

Illegal activities

- Productive activities which are forbidden by law or which become illegal when carried out by unauthorised persons.
- Both ESA 1995 and ESA 2010 explicitly requires illegal activities to be included in the National Accounts.
- Eurostat Taskforces have identified drugs; prostitution and smuggling as the most significant illegal activities in Europe.

Explicit and implicit exhaustiveness adjustment - no comparable data

- Exhaustiveness adjustments are made implicitly (i.e. the balancing process) as well as explicitly.
- This varies very much between the Member States as they are making explicit exhaustiveness adjustments or implicit ones, at many and different parts of the calculation. Both are equally valid.
- Exhaustiveness adjustments by no means can be seen as being comparable across Member States

No estimates of actual size of Non-Observed Economy available

- Moreover, it should be noted that ensuring the exhaustiveness of GNI data and compiling estimates of the non-observed economy are two very different issues.
- The exhaustiveness adjustments gives no information about the total size of the Non-Observed Economy.
- Therefore, not possible to use Non-Observed economy figures as proxy for the tax gap.

ESA GNI inventories

- Up-to-date inventory of the sources and methods used to calculate GNI and its components according to ESA (the GNI Inventories).
- One of the main instruments enabling Eurostat to assess the comparability, reliability and exhaustiveness of the Member States' GNI data.
- The inventories also include Process Tables showing all stages of the national accounts compilation process.
- Public versions available for 12 European countries (10 EU: RO, MT, AT, SE, FI, EE, DE, FR, NL, DK + NO & CH)

Eurostat Tabular Approach

- The Eurostat Tabular Approach to exhaustiveness was designed to identify potential sources of underestimation of GDP estimates due to omissions from the source data used in compiling National Accounts.
- The seven types of non-exhaustiveness under this framework can be broadly classified into the four categories of: not registered, not surveyed, misreporting and other deficiencies.
- Different exhaustiveness methods can cover one or more types completely or partly, this makes exhaustiveness adjustments incomparable.

Eurostat's Tabular Approach: types of non-exhaustiveness

N1 - Producer deliberately not registering – underground

N2 - Producers deliberately not registering - illegal

N3 - Producers not required to register

N4 - Legal persons not surveyed

N5 - Registered entrepreneurs not surveyed

N6 - Producers deliberately misreporting

N7 - Other statistical deficiencies

Methods: Country case Germany

Country	N2	N6
Germany (2016)	<p>Drugs and tobacco trafficking: Demand based approach</p> <p>Alcohol not relevant (low prices)</p> <p>Prostitution mostly legal (model estimated)</p>	<p>Use of SBS and VAT statistics</p> <p>Tax and fiscal authorities</p> <p>Model to estimate the “real” income, independently of the one declared</p>

Methods: Country case France

Country	N2	N6
France (2016)	<p>No adjustment for alcohol</p> <p>Drugs and tobacco: Demand based approach</p> <p>Prostitution mostly legal and covered by N6 fiscal audits</p>	<p>Fiscal audits results corrected by selection bias</p>

Methods: Country case Estonia

Country	N2	N6
Estonia (2018)	<p>Alcohol, tobacco and fuel smuggling: demand based approach</p> <p>Drugs smuggling: supply based approach</p>	<p>For envelope salaries and profits: data from SBS and administrative sources for estimation</p> <p>For VAT: Commodity flow approach (supply and use tables)</p>