

New international standards for economic statistics

Beginning in September 2014, Statistics Iceland and the Central Bank of Iceland will publish new statistics for external trade in goods and services, balance of payments, and national accounts in accordance with updated international standards. The purpose of the update, in addition to harmonising terminology between standards, is to ensure that statistics reflect more accurately the economic variables measured in the domestic economy (in part by taking into consideration illegal activities), as well as to facilitate international comparison. Several countries in Europe have adopted the new standards, as have Australia, the US, and Canada. These same standards will also be implemented in other European countries this September.

External trade in goods and services

New standards for external trade in goods and services, prepared under the auspices of the United Nations, will be adopted in Iceland in August and September 2014. The following is a summary of the principal methodology changes incorporated into the new standards.

Changes due to the new standards for trade in goods:

- **Purchase of fuel abroad by national vessels and aircrafts.** Such purchases have been included with services imports. Effect in 2013: +5% (imports).
- Other changes due to the new standards for trade in goods will not be implemented now but will be adopted in September 2015; however, they are not considered to have a major impact on the results.

Changes due to the new standards for trade in services :

- **Financial intermediation services indirectly measured (FISIM)** are added to trade in services. Included in FISIM are borrowing and lending services, where the price of the service is determined from the interest rate spread on each type of deposit and loan. Effect in 2013: +1% (exports) and +1% (imports) of trade in services.
- **Manufacturing services** are added to trade in services. Manufacturing services are the value added by residents by producing goods for non-residents, or the value added by non-residents by producing goods for residents, without a change in the ownership of the goods concerned. Effect in 2013: +12% (exports).
- **Merchanting services** are no longer included in trade in services but have been added to trade in goods in the balance of payments. Intermediation services are the value added by residents by buying and selling goods abroad. Effect in 2013: - 3% (exports).
- **Purchases of fuel abroad by national vessels and aircraft** are no longer included in trade in services but have been added to trade in goods. Effect in 2013: -8% (imports).

Changes in publication of services trade:

Services have been published in three main categories: transport, travel, and other services. As of September 2014, services will be divided into 12 categories for 2014, and comparable figures will be published for 2013.

Changes in goods trade in the new balance of payments standards:

- **It is no longer possible to apply Statistics Iceland's results for trade in goods directly in the balance of payments.**
- **Smuggling of goods** (alcoholic beverages, tobacco, and illegal substances) shall be added to trade in goods as published by Statistics Iceland. Effect in 2013: +0.4% (imports) of trade in goods as published by Statistics Iceland.
- When **goods for processing** are imported to Iceland for further processing (or exported from Iceland for further processing) and then re-exported (or re-imported) after processing, and there is **no change in ownership of the goods concerned**, such transactions shall not be included in trade in goods. Instead,

they shall be included with value-added services trade (manufacturing services) for this processing. Effect in 2013: -10% (exports) and -3% (imports).

- **Goods resented** abroad or goods resented from abroad shall be deducted from trade in goods as published by Statistics Iceland. Effect in 2013: Negligible (exports) and +1% (imports)
- Imported and exported **non-monetary gold** shall also be deducted from goods trade. Effect in 2013: Negligible (exports and imports).
- These changes combined constitute **goods trade on a balance of payments basis**.
- **Trade in goods in the balance of payments** is therefore as follows:
 - Trade in goods on a balance of payments basis
 - plus **merchandise**. Effect in 2013: +2% (exports).
 - plus **non-monetary gold**. Effect in 2013: Negligible (exports and imports).
- The result is that **the balance of trade in goods and services in the 2013 balance of payments will be about 6% more favourable with these changes, partly because of FISIM and partly because of differences in timing for recording of trade in goods and trade in services**.

Statistics Iceland will publish a bridge table showing the changes in trade in goods and services figures as published by Statistics Iceland and in trade in goods and services figures as published in the balance of payments.

Further information can be obtained from **Auður Ólína Svavarsdóttir** and **Vésteinn Ingibergsson**, Statistics Iceland.

Balance of payments and external position of the economy

- **Interest on financial institutions' deposits and loans** will be measured as net interest in factor income, net of financial intermediation services indirectly measured (FISIM).
- **Assets and liabilities** have been re-ordered so that the position and transactions between a direct investor and a company owned by that investor (the direct investment enterprise) are handled on a gross basis instead of a net basis.
- Furthermore, **transactions between fellow enterprises** – i.e., enterprises that are not connected by direct ownership but are connected, for instance, through the same parent company – are segregated out.
- Positions and transactions are classified according to whether the **end investor** is a resident or a non-resident.
- **Insurance, pension, and standardised guarantee schemes** are now included in financial assets and liabilities.
- Also mentioned are items that have not previously been included, such as **special purpose vehicles, derivatives, and other share capital**.
- It is estimated that the changes will **improve the balance of payments by 13%** (in 2013 terms).
- It is also estimated that the changes will **erode the external position of the economy by 0.4%** (in 2013 terms).

Further information can be obtained from **Ríkarður Bergstað Ríkarðsson**, Central Bank of Iceland.

National accounts

The methods used in the compilation of the national accounts have been under review for some time. The new standard differs from the previous one as regards scope and methodology, reflecting the changes that have taken place in the economy and the business environment in recent years. In September 2014, Statistics Iceland and the National statistical institutions of other EEA member countries will implement the new standards, the European System of National Accounts 2010 (ESA 2010), in preparing their national accounts. The ESA 2010 is the European version of the UN's international System of National Accounts 2008 (SNA 2008).

Concurrent with the adoption of the standards, Statistics Iceland has made improvements to Iceland's national accounts. Illegal operations have been included, among other items, and methods for accounting for financial intermediation services indirectly measures (FISIM) have been revised thoroughly.

The main changes affecting GDP (2013) in Iceland are as follows:

- **Research and development costs** will be recognised as capital formation and not company inputs, with a corresponding increase in GDP. The effect on GDP is estimated at 1.3%.
- The revision of FISIM increases GDP by 0.7-1%. The effect varies greatly from year to year.
- **Illegal activities have been included**, with an effect on GDP of just under 0.5%.
- Other changes in investment, public consumption, and private consumption, plus changes in the goods account balance, could increase GDP by 0.5-1%.

Further information can be obtained from **Guðrún Ragnheiður Jónsdóttir**, Statistics Iceland.