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Leaving no one and nowhere behind

Trade margin in national accounts: effectiveness of commodity flow approach

Action Area B.
Assuring quality and instilling trust in economics

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Introduction

- My paper is an explicit description of the national accounts aggregates derived through two approaches. Establishment approach and commodity flow approach.

- Commodity flow approach measures the trade margin on the basis of supply of goods in the market rather than the output of establishments

- The approach to derive the value added though differ from both approach, some insights and inferences has been obtained from the analysis.

Commodity flow approach

- Three major data sources: domestic agriculture production, domestic manufacturing production and import.(Ministries and Custom department)

- Sales weight (NLSS, CME &SSME)

- Trade margin and Intermediate consumption (DTS or trade margin survey)

Establishment approach

- The estimates of the establishment approach are analyzed through income approach.

- National Economic Census of Nepal (NEC-2018) is the data source

- The operating surplus or Mixed income(OS/MI) is derived as a difference between the Revenue obtained from the sales and cost incurred(excluding COE). The OS/MI hence obtained is added to the Compensation of employee(COE) to derive the value added of the trade establishments as per the identity of income approach.

Data Analysis

Table 3.1. Aggregates from the establishment approach

ISIC Rev4 (G)	Sub-division	Number of establishments	Revenue	Expenses excluding CE	CE	OS/MI	GVA
45	Sale of Motor vehicles, repairs and parts	16835	234873	128336	6322	106536	112858
46	Wholesale trade	14933	347569	195236	7290	152333	159623
47	Retail trade	466297	1813087	2056921	270678	-243834	26843
	Grand total	498065	2395529	2380494	284289	15035	299324

(Author's calculation based on economic census dara 2018)

Table 3.2 Aggregates from the commodity flow approach (Mediums of supply)

Mediums of supply	output	IC	GVA	OS
Agriculture trade	132122.6	21845.3	110277.3	61162.9
Manufacturing trade	72433.2	11976.2	60457.0	33531.2
Import trade	251996.8	41665.4	210331.4	116655.7
Total	456552.5	75486.8	381065.8	211349.8

Findings and recommendations

- It is observed that the GVA of commodity flow approach is greater by 27.31%. Similarly, the OS/MI from the commodity flow model is greater than by 1305%.

- Also, there is significant difference between the ratio of OS/MI to GVA from both approach. If we observe the ratio from establishment approach, it is about 5%. But, when we observe the ratio from commodity flow approach, it is about 55%.

- This shows that the corporate sector are highly reluctant to provide the company profit or income as provided by the information from economic census. It is observed that they have the tendency to exaggerate expenses side and lesser income side.