

STATISTICAL OFFICE OF THE EUROPEAN COMMUNITIES

EUROPEAN SYSTEM
OF
INTEGRATED ECONOMIC ACCOUNTS

- E S A -

1970

Brussels, November 1971

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Orig. F

(provisional English version)

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FOREWORD

The Commission of the European Communities welcomes the achievement, after several years of work by the Statistical Office of the European Communities in collaboration with the national statistical offices of the member countries, of a common system of national accounts which meets the needs of the economic and social policies of the European Communities.

The new "European System of Integrated Economic Accounts" (ESA), which represents the Community version of the United Nations revised system of national accounts, will make it possible to obtain, on the basis of uniform definitions and classifications, a coherent quantitative description of the economies of the member countries. It will thus provide the common economic language which is indispensable for the various kinds of work on analysis and projection required for the review and the orientation of economic policies.

The ESA differs in a number of respects from the former United Nations and O.E.C.D. system of national accounts which has been utilised up to the present at a Community level. The ESA provides additional information in respect of transactions involving production (the input-output tables) and finance (the financial accounts); it goes into the distribution and re-distribution of income in more detail; and, throughout, its concepts and definitions are more precise and rigorous.

These characteristics should lead to a more complete and detailed knowledge of the economic and financial structure and development of each member country, and should also improve the comparability of figures between countries.

Following the decisions taken by the Conference of the Directors General of the national statistical offices, the new system will come into operation starting with the figures relating to the year 1970.

The evolution and completion of the system has required several years of work and the Commission is well aware that its introduction will necessitate some effort on the part of member countries. This may involve collecting necessary basic statistics which may still be lacking, and also implementing agreed concepts which, for some countries, involve some innovations. The Commission emphasises that in some cases, which are really extremely rare, national experts have been obliged, or prepared, to agree to common solutions about which they had some reservations. The final form of the system remains the responsibility of the Statistical Office of the European Communities.

For its own part, the Commission, in the interests of efficiency, will take care to ensure that its services make use in their work of the concepts, definitions and classifications of the ESA as well as of the data established by countries in the framework of the new system.

The Commission wishes to express its thanks to the experts who, by their perseverance and competence, have assisted it in its task.

Raymond BARRE

Vice-president of the Commission

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N.B. : In addition, many other national experts have occasionally participated in meetings of the working party on "National Accounts".

WORK OF THE UNITED NATIONS AND
STUDIES IN PREPARATION FOR THE ESTABLISHMENT OF THE ESA

- United Nations "A System of National Accounts", Studies in Methods, Series F, No. 2, Rev. 3, United Nations, New York 1968.
- A. Vanoli "Proposals for a Community System of National Accounts", (in French)
Informations statistiques, 1964, no. 4
- J. Mayer "Methods Used in the Countries of the European Economic Community to Establish Economic Accounts for Agriculture" (in French)
Informations statistiques, 1963, no. 3
- G. Aubanel "The 'Rest of the World' Account in the Scheme of National Accounts of the Statistical Office of the European Communities", (in French)
Informations statistiques, 1965, no. 4
- G. Hamer "Capital Consumption in the National Accounts of the EEC Countries" (unpublished)
- J.P. Lamouche "Scientific Research and National Accounts" (in French)
Etudes et enquêtes statistiques, 1968, no. 1
- B. Billaudot "Corporate Saving in the National Accounts of the EEC Countries" (unpublished)
- V. Siesto "The Recording of Transactions over Time" (unpublished)
- O. Olislaegers "The Estimation at Constant Prices of the Output and Consumption of General Government and of Exports and Imports of Goods and Services" (unpublished)

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(1) The English translation of these sections will be circulated as a separate document.

CHAPTER I

THE GENERAL FRAMEWORK OF THE SYSTEM

101. The European System of Integrated Economic Accounts (ESA) consists of a coherent and detailed set of accounts and tables designed to provide the fullest possible systematic and comparable picture of economic activity in each member country of the European Communities.

In practice, this activity takes the form of an enormous number of flows of all kinds among a multitude of units belonging either to the country's own economy or to the rest of the world. The essential task of any system of national accounts is to classify the immense variety of units and economic flows into a limited number of fundamental categories and to establish these categories within an overall framework in such a way as to obtain a representation of the economic system which is meaningful and suitable for purpose of economic analysis, forecasting and policy.

102. In recent years, this goal has been approached from a number of different directions. In addition to the disaggregation of traditional national accounts, attention must be drawn to the more or less parallel development of input-output tables for the detailed analysis of flows of goods and services and also of financial accounts for the analysis of flows of funds.

The ESA achieves a synthesis of these different lines of approach : it encompasses input-output tables, traditional economic accounts and financial accounts, and integrates them as closely as possible.

103. The general structure of the ESA must be outlined from this wider point of view; this will be done by stressing its essential features, namely :

- the choice of units and their grouping
- the grouping of transactions
- the system of accounts and the balancing items
- the aggregates
- the classifications
- the accounts and tables.

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THE CHOICE OF UNITS AND THEIR GROUPING

104. The ESA is characterised by the use of two types of unit and two ways of breaking down the economy, each of which is quite different and meets specific analytical needs. Chapter II deals with the definition of these units and the criteria which govern their grouping.
105. In order to represent processes of production and the balance between the resources and uses of goods and services, the most important breakdown is that by branches. These group together units termed units of homogeneous production which are exclusively engaged in the production of a single product or group of products. The choice of such units brings out relationships of a technico-economic nature in the process of production, irrespectively of the institutional context in which this takes place.
106. In order to describe flows of income and expenditure, and financial flows, on the other hand, the system is based on a breakdown of the economy into sectors. These group together, with respect to all their activities, units termed institutional units. The choice of this type of unit is dictated by the need to bring out behavioural relations which are important in the field of income, final expenditure and financial transactions.
107. The use of two types of analytical units, each corresponding to a different type of breakdown, leads to the distinction in the system between one part concerned with the analysis of flows by branches (the input-output table) and another part concerned with the recording of transactions by sector (sector accounts).

In the case of certain transactions, namely those involving production and the income generated in the course of production, the ESA provides for a breakdown both by branch and by sector. To the extent that this double breakdown is used, the two parts of the system overlap.

THE GROUPING OF TRANSACTIONS

108. In contrast with the provisions for the grouping of units, the ESA employs a single basic classification of transactions. This means that when a given transaction (e.g. subsidies) is broken down both by branch and by sector, its definition is the same in the two parts of the system; thus, the total of the subsidies received by branches is identical with the total of the subsidies received by the different sectors. .../...

109. The ESA distinguishes a fairly large number of transactions according to their nature. They can, however, be grouped together under three main headings :

- transactions in goods and services (Code P)

These relate to the production, exchange and use of goods and services by the branches or sectors. They include not only transactions in goods and services produced during the relevant period but also transactions in existing goods. The detailed definitions of the various transactions in goods and services are given in Chapter III.

- distributive (1) transactions (Code R)

These consist of transactions by which the value added generated by resident or non-resident producers is distributed, and also transactions involving the redistribution of income and wealth. The various distributive transactions are defined in Chapter IV.

- financial transactions (Code F)

In the system, they refer to changes in financial assets and liabilities of the different sectors. The definitions of the various financial items are the subject of Chapter V.

THE SYSTEM OF ACCOUNTS AND THE BALANCING ITEMS

110. The systematic double-entry of transactions with the groups of units distinguished at the different levels of the system, such as is carried out in the general table of transactions (Table 2) and in the input-output table (Table 4), provides, in principle, all the elements of information needed to complete the accounting system. It is not sufficient, however, for the economic analysis of the activities of each grouping of units, nor for macro-economic analysis at a national level.

It is for this reason that, in addition to the breakdown of the economy into branches and sectors and a classification of transactions, the ESA provides for a regrouping of transactions in several accounts. Each of these accounts relates to one aspect of the economic circuit, with total transactions on both sides of the account balancing each other, either because of the definitions adopted, or through a balancing item which is significant for economic analysis and is carried forward to the next account.
.../...

(1) Throughout the ESA, the adjective "distributive" is used exclusively with reference to transactions involving the distribution or redistribution of income or wealth; it is never used with reference to wholesale or retail trade.

111 - 113

111. The following are the accounts and the balancing items distinguished in the ESA with their code numbers:

Code	Account	Balancing items	Code
<u>I. Domestic Accounts</u>			
C 0	Goods and services account	- (account balanced by definition)	-
C 1	Production account	Value added at market prices	
		- gross	N 1
		- net	N 11
C 2	Generation of income account	Operating surplus	
		- gross	N 2
		- net	N 12
C 3	Distribution of income account	Disposable income	
		- gross	N 3
		- net	N 13
C 4	Use of income account	Saving	
		- gross	N 4
		- net	N 14
C 5	Capital account	Net lending (+) or net borrowing (-)	N 5
C 6	Financial account	Net change in financial assets and liabilities	N 6
<u>II. Rest of the World Accounts</u>			
C 7	Current transactions account	Balance of current transactions with the rest of the world	N 7
C 5	Capital account	Net lending (+) or net borrowing (-) of the nation	N 5
C 6	Financial account	Net change in financial assets and liabilities towards the rest of the world	N 6

112. The goods and services account (C 0) shows, for the economy as a whole and for branches, the total resources (output and imports) and uses of goods and services (intermediate consumption, final consumption, gross fixed capital formation, change in stocks, exports). It balances by definition and therefore involves no residual or balancing item.

113. The production account (C 1) shows the transactions constituting the production process proper. It is drawn up for branches and for sectors,

.../...

- Its resources consist of output and its uses of intermediate consumption. The balancing item of the account is gross value added at market prices (N 1). The deduction of the consumption of fixed capital gives the net value added at market prices (N 11).
114. The generation of income account (C 2) records distributive transactions directly linked with the production process, which can therefore be broken down both by branches and by sectors. The resources consist of gross value added at market prices and subsidies; the uses consist of taxes linked to production and imports and of compensation of employees. The balancing item is the gross operating surplus (N 2). Deducting from it the consumption of fixed capital gives the net operating surplus (N 12) which corresponds to property and entrepreneurial income arising out of production.
115. The distribution of income account (C 3) records the various transactions involving the distribution and redistribution of income (interest, distributed profits, current transfers) among the different sectors of the economy. The compensation of employees, which appears among uses in the generation of income account of employers, reappears, adjusted for the flows of wages and salaries to and from the rest of the world, among resources in the distribution of income account of households; taxes linked to production and imports and subsidies, which are shown in the generation of income account of producers, appear, adjusted for the flows of taxes linked to production and imports and of subsidies to and from the rest of the world, among resources and uses respectively in the distribution of income account of general government, for whom these flows constitute transfers of income. The balancing item of the distribution of income account is gross disposable income (N 3). Deducting from it the consumption of fixed capital gives the net disposable income (N 13).
116. The use of income account (C 4) shows, for sectors which have some final consumption, how gross disposable income is allocated between final consumption and saving. It also includes an adjustment to bring into the saving of households the increase in the actuarial reserves for pensions. The balancing item of the use of income account is gross saving (N 4). Deducting from it the consumption of fixed capital gives net saving (N 14).

117 - 121

117. The capital account (C 5) records for the different sectors transactions linked to investment in non-financial assets and also capital transfers involving the distribution of wealth. It includes among uses the various types of investment in non-financial assets and capital transfers made; included among resources are gross saving and capital transfers received. Its balancing item is net lending (+) or net borrowing (-) (N 5).
118. The financial account (C 6) records for the different sectors the changes in the different types of financial assets and liabilities. Its balancing item, called the net change in financial assets and liabilities (N 6) should, in principle, be identical with the balance of the capital account. In practice, it is necessary to introduce an item to adjust for the discrepancy between the balance of the capital account and the balance of the financial account.
119. To illustrate the general structure of the system, it is sufficient at this stage to specify for which groups of units these accounts are established. In practice, they may refer :
- to the national economy as a whole
 - to sectors or sub-sectors
 - to branches.
120. For the national economy as a whole, the ESA provides for the establishment of all the accounts listed. Together these constitute the simplified accounts for the nation (see Table 1). They record, on the one hand, the relationships between the national economy and the rest of the world, and, on the other hand, the interrelationships between the different aggregates of the system (see 126-135).
121. For each of the sectors of the national economy, the ESA provides, in principle, for a set of accounts ranging from the production account to the financial account (see Table 3). An exception is made to this rule for the sector non-financial corporate and quasi-corporate enterprises and for the households sector, for which a single production account is established and also a single generation of income account. The reason for this exception is that, so far as production activities are concerned, it is extremely hard from a statistical point of view to distinguish transactions linked to production according to whether they appertain to the sector the non-financial corporate and quasi-corporate enterprises or to the households sector (which includes sole proprietorships and partnerships which do not constitute non-financial quasi-corporate enterprises).
- .../...

122. For the rest of the world, a sector sui generis, which groups together non-resident units, the ESA provides for three accounts only :
- a current transactions account (C 7) which, in principle, covers all the transactions of the rest of the world with resident units which appear in accounts C 0 to C 4 for the latter
 - a capital account (C 5)
 - a financial account (C 6).

123. For the different branches of the economy, the ESA provides for the establishment of goods and services accounts, production accounts and generation of income accounts. These accounts form part of the annual input-output table (see Table 4).

In the ESA, the breakdown by branches stops at the level of the operating surplus, which represents the balancing item of the generation of income account. Any decomposition of the operating surplus is carried out solely within the institutional framework of the sectors.

Economic analysis also requires a breakdown of gross fixed capital formation by branch of use, i.e. according to the branch. This breakdown is provided in Table 7 b, but it does not amount to the establishment of a proper capital account by branch.

124. The requirements of economic and financial analysis sometimes call for a finer institutional breakdown of the national economy than that into sectors.

It is for this reason that the ESA provides for the establishment of certain accounts for sub-sectors. This is the case for :

- the general government sector, where a set of accounts, ranging from the production account to the financial account, is provided for the sub-sectors, central government, local government and social security funds
- the credit institutions sector, where separate financial accounts are established for the sub-sectors, central banking authorities, other monetary institutions and other credit institutions
- the rest of the world, which is sub-divided geographically between member countries of the European Communities, institutions of the European Communities, third countries and international organisations.

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Other sectors of the economy (e.g. the sector non-financial corporate and quasi-corporate enterprises and the households sector) will be broken down into sub-sectors at a latter stage.

125. The following table gives a general summary of the annual accounts at present included in the ESA. These accounts are indicated by a cross.

GENERAL SUMMARY OF THE ANNUAL ACCOUNTS OF THE ESA

Accounts	C 0	C 1	C 2	C 3	C 4	C 5	C 6	
	Goods and services	Production	Generation of income	Distribution of income	Use of income	Capital	Financial	
Groupings of units	C 7 Current transactions (rest of the world)							
NATIONAL ECONOMY	X	X	X	X	X	X	X	
REST OF THE WORLD	← X →							
<u>SECTORS AND SUB-SECTORS</u>								
S 10. Non-financial corporate and quasi-corporate enterprises	-)		(X	X	X	X	
S 80. Households	-)	X	(X	X	X	X	
S 40. Credit institutions	-	X	X	X	X	X	X	
Sub-sectors	-	-	-	-	-	-	X	
S 50. Insurance enterprises	-	X	X	X	X	X	X	
S 60. General government and sub-sectors	-	X	X	X	X	X	X	
S 70. Private non-profit institutions	-	X	X	X	X	X	X	
S 90. Rest of the world and sub-sectors	-	← X →					X	X
<u>BRANCHES</u>	X	X	X	-	-	-	-	

THE AGGREGATES

126. The aggregates are synthesized magnitudes which measure the results of the activity of the economy as a whole considered in a certain context, for example, output, value added, disposable income, final consumption, saving, capital formation, net indebtedness towards the rest of the world, etc. Although the calculation of the aggregates is neither the sole nor the main purpose of the ESA, the system does recognise their importance as composite indicators and summary magnitudes for purposes of macro-economic analysis and comparisons over time and space.
127. It is in the simplified accounts of the nation (see Table 1) that the principal aggregates of the system, and the interrelationships between them, are to be seen. Two categories of aggregates can be distinguished :
- aggregates which refer directly to transactions in the system, such as the output of goods and services, final consumption, gross fixed capital formation, compensation of employees, etc.
 - aggregates which represent balancing items in the accounts, such as gross domestic product, gross operating surplus for the economy, gross national saving, etc.

The definition of the aggregates in the first category coincides directly with that of the corresponding transactions and will therefore be found in Chapters III, IV or V. The aggregates in the second category are defined below; they can, in principle, be obtained by summing the balancing items of the branch accounts or of the sector accounts.

128. Gross domestic product at market prices (N 1)

Gross domestic product at market prices represents the final result of the production activity of resident producer units. It corresponds to the economy's total output of goods and services, plus taxes linked to imports and less intermediate consumption.

Gross domestic product at market prices is equal to the sum of gross value added at market prices for all the different branches, plus taxes linked to imports.

It is also equal to the sum of gross value added at market prices for all the different sectors, less the intermediate consumption of banking services which is not allocated by sector.

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By deducting the consumption of fixed capital from gross domestic product at market prices, net domestic product at market prices (N 11) is obtained.

129. The ESA does not show gross (or net) national product at market prices as an actual aggregate of the system. However, this can always be calculated by adding to gross (or net) domestic product at market prices the compensation of employees and the property and entrepreneurial income received from the rest of the world and by deducting the corresponding flows paid to the rest of the world.

130. Gross operating surplus of the economy (N 2)

This aggregate corresponds to gross domestic product at market prices, after deducting the net taxes levied at the stages of production and importation by general government and by the rest of the world (taxes linked to production and imports less subsidies) and deducting the compensation of employees paid by resident employers. It includes all other income generated in the course of production, i.e. property and entrepreneurial income as well as the consumption of fixed capital.

The gross operating surplus of the economy is equal to the sum of the gross operating surpluses of all the different branches or different sectors.

By deducting the consumption of fixed capital from the gross operating surplus of the economy, the net operating surplus of the economy (N 12) is obtained. This corresponds to total property and entrepreneurial income derived from productive activity.

131. Gross national disposable income (N 3)

This aggregate corresponds to gross domestic product at market prices plus or minus the netbalance between the national economy and the rest of the world of taxes linked to production and to imports, subsidies, compensation of employees, property and entrepreneurial income, accident insurance transactions and current transfers n.e.c. It measures the income available to the nation for purposes of final consumption and saving.

The gross national disposable income is equal to the sum of the gross disposable incomes of all the different sectors.

By deducting the consumption of fixed capital from gross national disposable income, the net national disposable income (N 13) is obtained.

132. Gross national saving (N 4)

This aggregate measures that part of the gross national disposable income which is not absorbed by final consumption. It includes, moreover, the net change, positive or negative, in the actuarial reserves for pensions held by resident or non-resident households with non-resident or resident insurance institutions. Gross national saving is equal to the sum of the gross saving of all the different sectors.

By deducting the consumption of fixed capital from gross national saving net national saving (N 14) is obtained.

133. Balance of current transactions with the rest of the world (N 7)

This aggregate represents the national economy's surplus or deficit on its current transactions in goods and services (exports and imports) and its current distributive transactions (R 10 - R 69) with the rest of the world.

134. Net lending (+) or net borrowing (-) of the nation (N 5)

This aggregate shows the net amount of resources which the nation places at the disposal of the rest of the world - or which the rest of the world provides to the nation. It corresponds to the excess of gross national saving over gross capital formation and net purchases of land and intangible assets by the nation, plus the net balance (positive or negative) of capital transfers with the rest of the world.

The net lending (+) or net borrowing (-) of the nation is equal to the sum of the net lending or net borrowing of all the different sectors of the national economy.

135. Net changes in financial assets and liabilities towards the rest of the world (N 6)

This aggregate corresponds to the difference between the change in all the financial assets held by the national economy against the rest of the world and the change in all the liabilities which the economy has incurred with the rest of the world.

136, 137

The net change in financial assets and liabilities towards the rest of the world is equal to the sum of the net changes in financial assets and liabilities of all the different sectors of the national economy.

In principle, the net lending (+) or net borrowing (-) of the nation (N 5) should be equal to the net change in financial assets and liabilities towards the rest of the world (N 6). But as these two aggregates are calculated in different ways and on the basis of different statistical data, a discrepancy will usually be found between them. This discrepancy is recorded as an adjustment item which is shown at the foot of the financial account.

136. Certain aggregates can be calculated per head of population, per person engaged in production or per employee. The definitions of total population, total persons engaged in production and total employees, which should be used for such calculations, are given in Chapter VIII.

THE CLASSIFICATIONS

137. The ESA makes use of a series of classifications, listed below with appropriate references to the text.

- Classification of sectors and sub-sectors (Code S)

The classification and definitions of sectors and sub-sectors are provided in Chapter II - paragraphs 217 onwards.

- Classification of branches (Code B)

The classification of branches is based on the Nomenclature of Economic Activities in the European Communities, version used for the establishment of input-output tables (NACE/CLIO) (1). Each branch corresponds to one or several of the groups of the NACE/CLIO. A list of these groups is given in the annex entitled "Classifications, accounts and tables".

The description of the activity and the list of goods and services, which define each group of the NACE/CLIO, are given in a special document.

.../....

(1) The other version (NACE/GEM) is used for the collection of basic statistics.

- Classification of transactions

The classification and definitions of transactions in goods and services (Code P) are provided in Chapter III - paragraphs 302 onwards.

The classification and definitions of distributive transactions (Code R) are provided in Chapter IV - paragraphs 403 onwards.

The classification and definitions of financial transactions (Code F) are provided in Chapter V - paragraphs 502 onwards.

- Classification of the objects of the final consumption of households (Code D).

The classification of the objects of the final consumption of households is provided in the annex "Classifications, accounts and tables". Each object of final consumption is defined by listing the goods and services which it covers (see the special document on the NACE/CLIO).

- Classification of the purposes of general government (Code G)

The classification of the purposes of general government is given in the annex "Classifications, accounts and tables".

THE ACCOUNTS AND TABLES

138. The set of accounts, as described above (see 110-125), can be regarded as the skeleton of the ESA. The system also includes a series of tables, which are intended in particular :

- to provide a finer breakdown of certain flows shown in the accounts (e.g. compensation of employees)
- to provide supplementary data not shown in the accounts (e.g. total persons engaged in production and total employees by branches)
- to cross-classify certain transactions described in the accounts using a functional classification (e.g. expenditures of the general government sector according to purpose and type of transaction)
- to show how to pass from certain aggregates shown in the accounts to other aggregates (e.g. purchases and sales of goods and services by the general government sector)
- to regroup, or present in a different manner, certain items in the accounts (e.g. the table of financial intermediates).

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139. A list of the accounts and tables of the ESA is given below. They are grouped together in four parts :

- accounts
- tables relating to transactions in goods and services
- tables relating to distributive transactions
- tables relating to financial transactions.

The contents of the various accounts and tables of the ESA, as well as all the classifications, are given in the annex "Classifications, accounts and tables".

LIST OF THE ACCOUNTS AND TABLES OF THE ESA

I. Accounts

T 1. Simplified accounts for the nation

- National economy
- Rest of the world

T 2. General table of transactions

T 3. Sector and sub-sector accounts

- Non-financial corporate and quasi-corporate enterprises (S 10)
- Credit institutions (S 40)
- Insurance enterprises (S 50)
- General government (S 60)
 - Central government (S 61)
 - Local government (S 62)
 - Social security funds (S 63)
- Private non-profit institutions (S 70)
- Households (S 80)
- Rest of the world (S 90)
 - Member countries of the European Communities (S 91)
 - Institutions of the European Communities (S 92)
 - Third countries and international organisations (S 93)

T 4. Input-output table

II. Tables relating to transactions in goods and services

T 5. Total persons engaged in production and total employees by branch

T 6. Final consumption of households on the economic territory

- a) by object
- b) by branch and by object

.../...

- T 7. Gross fixed capital formation
 - a) of principal producer sub-branches
 - b) by branch of use
 - c) by producer branch and by branch of use
- T 8. Breakdown of change in stocks
- T 9. Purchases and sales of goods and services by the general government sector

III. Tables relating to distributive transactions

- T 10. Compensation of employees and its components
- T 11. Actual social welfare contributions by collecting sector and by type of contributions
- T 12. Social welfare benefits by providing sector and by type of benefit
- T 13. General government expenditure by purpose and by type of transaction
- T 14. Total premiums earned by and total claims due from the insurance enterprises sector

IV. Tables relating to financial transactions

- T 15. Summary table of financial transactions (1)
 - a) consolidated
 - b) non-consolidated
- T 16. Detailed table of financial transactions
 - a) consolidated
 - b) non-consolidated
- T 17. Long term bonds and medium and long term loans (recorded gross)
- T 18. Breakdown by sector of the different types of technical insurance reserves
- T 19. Table of financial intermediates.

.../...

(1) The financial accounts of the sub-sectors of the sector credit institutions (S 40) are shown in this table.

140.

140. All the accounts and tables are established at the current prices of the relevant period. The following tables are also established at constant prices (1970 prices) (1)

- T 1. Goods and services account for the national economy (C 0)
- T 4. Row 19 - Gross value added at market prices by branch
- T 6.a) Final consumption of households on the economic territory, by object
- T 7.a) Gross fixed capital formation of principal producer sub-branches
- T 7.b) Gross fixed capital formation by branch of use.

(1) The Community methodology for calculations at constant prices will be the subject of a special document.

CHAPTER II

THE UNITS AND THE GROUPINGS OF UNITS

201. The economy of a country is the outcome of the activity of a very great number of units which effect very many transactions of different kinds for purposes of production, finance, insurance, redistribution and consumption.
202. The units and groupings of units to be taken into consideration in the framework of national accounts must be defined in relation to the economic analysis for which they are intended, and not in terms of the types of unit habitually used for statistical enquiries. These latter units (enterprises, holding companies, establishments, local units, technical units, government departments, private institutions, households etc.) may not always satisfy the definitions of units required for the purposes of national accounts, since they are generally based on traditional criteria of a legal, administrative or accounting nature.

Statisticians should take account of the definitions of units of analysis used in the ESA, in order to ensure that surveys in which actual data are collected from statistical units gradually come to include all the elements of information needed to evaluate the data in terms of the units of analysis used in the ESA.

203. A feature of the system is the use of two types of unit of analysis which correspond to two very different ways of sub-dividing the economy. For the analysis of flows entering into the production process, it is essential to select units which bring out relationships of a technico-economic character; for the analysis of flows affecting, in particular, income, capital and financial transactions, it is essential to select units which make it possible to study behavioural relationships among economic agents.

Given these two objectives institutional units appropriate for the analysis of economic behaviour and units of homogeneous production appropriate for the analysis of technico-economic relations are defined later in this chapter. In practice, these two types of unit will be established by the grouping or subdivision of the basic units of statistical enquiries. Before giving precise definitions of these two types of

analytical unit used in the ESA, it is necessary to fix the limits of the national economy.

THE LIMITS OF THE NATIONAL ECONOMY

204. The units, whether institutional or of homogeneous production, which constitute the economy of a country and whose transactions are recorded in the ESA, are those which have a centre of interest on the economic territory of that country. These units, known as resident units, may or may not have the nationality of that country, may or may not be legal entities, and may or may not be present on the economic territory of the country at the time they carry out a transaction. Having thus fixed the limits of the national economy in terms of resident units, it is necessary to define the meaning of the terms economic territory and centre of interest.

205. The term economic territory means :

- a) the geographic territory within which goods circulate freely
- b) any free zones, including bonded warehouses and factories under customs control
- c) the national air-space, territorial waters and the continental shelf lying in international waters, over which the country enjoys exclusive rights (1)
- d) territorial enclaves, namely geographic territories situated in the rest of the world and used, under international treaties or agreements between States, by general government agencies of the country (embassies, consulates, military bases, scientific bases)(2).

(1) Fishing boats, other ships, floating platforms and aircraft are treated in the ESA just like any other mobile equipment, whether owned and/or operated by units resident in the country, or owned by non-residents and operated by resident units. Transactions involving the ownership (gross fixed capital formation) and use (renting, insurance ...) of this type of equipment are attributed to the economy of the country of which the owner and/or operator respectively are resident.

(2) The territorial enclaves, however, are not considered part of the country's economic territory for transactions relating to land and buildings existing within these enclaves, unless these are owned by the government agencies (see 211 a).

- e) deposits of oil, natural gas etc. in international waters outside the continental shelf of the country, worked by units resident in the territory as it is defined in the preceding sub-paragraphs.
206. The economic territory, on the other hand, excludes extra-territorial enclaves, that is to say those parts of the country's geographic territory used, under international treaties or agreements between States (1), by governments of other countries, by Institutions of the European Communities or by international organisations.
207. The term centre of interest indicates the fact that economic transactions have been carried out on the economic territory of a country for a fairly long period (one year or more). It follows from this that a unit which carries out transactions under these conditions on the economic territory of several countries is deemed to have a centre of interest in each of those countries.
208. On the basis of these definitions, the units deemed to be residents of the country can be listed, distinguishing between :
- a) units which are principally engaged in production, finance, insurance or redistribution, in respect of all their transactions except those relating to ownership of land and existing buildings
 - b) units which are principally engaged in consumption, in respect of all their transactions except those relating to ownership of land and existing buildings
 - c) all units in respect of their activities as owners of land and existing buildings.
209. In the case of units which are principally engaged in production, finance, insurance or redistribution, in respect of all their transactions except those relating to ownership of land and existing buildings, the two following cases may be distinguished :

(1) The territories used by the Institutions of the European Communities and international organisations thus constitute the territories of States sui generis, in addition to those of other States.

- a) activity exercised exclusively on the economic territory of the country : the units which carry on this activity are resident units of the country
- b) activity carried on for one year or more on the economic territories of several countries : only that part of the unit which has a centre of interest on the economic territory of the country is deemed to be a resident unit. It may be :
 - either an institutional resident unit (see 212) whose activities carried on for one year or more in the rest of the world are excluded and treated separately (1);
 - or a notional resident unit (see 214), in respect of the activity carried on in the country for one year or more by a unit resident in another country (1).

210. In the case of units which are principally engaged in consumption, except for their activities as owners of land and existing buildings, households which have a centre of interest in the country are deemed to be resident units, even if they go abroad for short periods (less than one year). This includes in particular, the following :

- a) border workers, i.e. people who cross the frontier daily to work in a neighbouring country
- b) seasonal workers, i.e. people who leave the country for a few months, but less than one year to work in another country in sectors in which additional manpower is needed periodically
- c) tourists, spa patients, students, visiting officials, businessmen, salesmen, artists and crew members who travel abroad
- d) the locally recruited unestablished staff working in the extra-territorial enclaves of foreign governments
- e) the staff of the Institutions of the European Communities and of civil or military international organisations which have their headquarters in extra-territorial enclaves
- f) the official representatives of the government of the country (including their households) established in territorial enclaves.

(1) It is only where such activity is carried on for less than a year that it should not be separated from the activities of the producer institutional unit. This may also be done where the activity, though carried on for a year or longer, is insignificant.

211. In the case of units carrying on activities as owners of land and existing buildings, two cases may be distinguished :

- a) government agencies are deemed to be residents of the economic territory on which they operate, i.e. residents of the country which they represent
- b) all other units are deemed - in respect solely of transactions relating to their ownership of land and existing buildings - to be an institutional or notional resident unit of the country in which the land or building in question are located.

THE INSTITUTIONAL UNITS

212. Definition : In general, a resident unit is said to be institutional, if it keeps a complete set of accounts and enjoys autonomy of decisions in respect of its principal function.

- In order to be said to keep a complete set of accounts, a unit must keep accounting records covering all its economic and financial transactions carried out during the accounting period, and also a balance sheet of assets and liabilities.
- In order to be said to enjoy autonomy of decision in respect of its principal function, a unit must be free to decide, within the institutional framework within which it finds itself, how to make use of its own current resources, capital resources and financial resources.

213. Given these criteria, the following principles apply whenever entities do not clearly possess the two characteristics of an institutional unit :

- a) households, which always possess autonomy of decision in the exercise of their activities, must be institutional units, even though they do not keep a complete set of accounts
- b) entities which do not keep a complete set of accounts are combined with the institutional units in whose accounts their partial accounts are embodied
- c) entities which, while keeping a complete set of accounts, have no autonomy of decision in the exercise of their principal function, are combined with the units which control them
- d) entities which satisfy the definition of an institutional unit are treated as such, even if they do not publish their accounts in any form

e) entities forming part of a group of enterprises and keeping a complete set of accounts are deemed to be institutional units even if they have surrendered part of their autonomy of decision to the central organisation (the holding company) responsible for the general direction of the group; the holding company itself is deemed to be an institutional unit distinct from the units which it controls.

214. Notional resident units are defined as :

- those parts of non-resident units which have a centre of interest, that is which carry out economic transactions for a period of a year or more, on the economic territory of the country;
- non-resident units which are the owners of land or existing buildings on the economic territory of the country, but only in respect of transactions affecting such land or buildings.

Notional resident units, even if they keep only partial accounts, and although, in general, they may not enjoy autonomy of decision, are treated as institutional units.

215. Where an institutional unit carries out transactions involving redistribution of income or financial transactions on behalf of another institutional unit, these transactions should be shown once only, in the accounts of the latter.

216. In conclusion, the following are deemed to be institutional units :

- units which have a complete set of accounts and autonomy of decision :
 - a) private and public companies, public corporations
 - b) co-operatives or partnerships recognized as independent legal entities
 - c) public enterprises which by virtue of special legislation are recognized as independent legal entities
 - d) non-profit institutions recognized as independent legal entities
 - e) agencies of the general government.
- units which have a complete set of accounts and which, by convention, are deemed to have autonomy of decision :

f) quasi-corporate enterprises : sole proprietorships, partnerships, public enterprises, other than those shown under a), b) and c), so far as their economic and financial behaviour can be separated from that of their owners and resembles that of corporate enterprises (see 222 e), 225 e) and 235 e)).

- units which do not necessarily keep a complete set of accounts, but which are deemed to have autonomy of decision :

g) households

h) notional resident units (see 214).

THE INSTITUTIONAL SECTORS

217. The need for aggregation means that it is impossible to consider individual institutional units separately; the latter must be combined into groups called institutional sectors or simply sectors, which may in turn be subdivided into sub-sectors.

The ESA distinguishes the following sectors and sub-sectors (1) :

Sectors and sub-sectors	Code
Non-financial corporate and quasi-corporate enterprises	S10
Credit institutions (1)	S40
Central banking authorities	S41
Other monetary institutions	S42
Other credit institutions	S43
Insurance enterprises (1)	S50
General government	S60
Central government	S61
Local government	S62
Social security funds	S63
Private non-profit institutions serving households	S70
Households	S80
Rest of the world	S90
Member countries of the European Communities	S91
Institutions of the European Communities	S92
Third countries and International Organisations	S93

(1) In the tables referring to financial transactions, the sector credit institutions and the sector insurance enterprises are further aggregated into a super-sector called credit institutions and insurance enterprises (SS).

218. Each of the sectors and sub-sectors groups together the institutional units with a similar type of economic behaviour.

The institutional units are grouped in sectors on the basis of their principal function, this being considered as representative of their economic behaviour; if the principle function of the unit is not evident, it is clarified by reference to the principal resources of the unit. A sector is divided into sub-sectors according to the criteria relevant to that sector; this permits a more precise description of the economic behaviour of the units.

The accounts for sectors and sub-sectors record all the activities, whether primary or secondary, of the institutional units covered.

219. When the principal function of the unit is to produce goods and services, it is necessary, in deciding the sector to which it should be allocated, to distinguish first of all whether the goods and services are market, that is to say, sold on the market, or non-market, that is to say, distributed free of charge or virtually free of charge.

The following conventions are adopted to decide whether products are market or non-market :

- a) the production of goods is always deemed to be market production
- b) the production of certain services (see 308 a) is always deemed to be market production
- c) the production of certain services (see 313 a) is always deemed to be non-market production
- d) the production of certain services (see 308 b) and 313 b)) is deemed :
 - to be market production if the resources of the producer unit are mainly (1) derived from the sale of its production at a market price, whatever this price may be called in practice :
 - selling price, inclusive charge
 - fee, rate, toll, duty
 - voluntary or compulsory contributions of a quasi-fiscal nature levied on enterprises by units whose principal activity is to render them services in exchange (see 308 b)

(1) "Mainly" must be understood to mean about 50 % or more of the total current resources.

- to be non-market production if the resources of the producer unit are mainly (1) derived from other sources than the sale of production, i.e. from public transfers, voluntary contributions from households in their capacity as consumers, or from property income (see 313 b).

220. The following table shows the principal functions and the nature of the principal resources which are characteristic of each sector :

Sector	Type of economic behaviour	
	Principal function	Principal resources
Non-financial corporate and quasi-corporate enterprises (S10) (see 221)	To produce goods and non-financial market services	Receipts from sales
Credit institutions (S40) (see 224)	To finance, i.e. to collect, convert and distribute available funds	Funds derived from liabilities incurred; interest
Insurance enterprises (S50) (see 234)	To insure, i.e. to convert individual risks into collective risks	Contractual premiums
General government (S60) (see 239)	To produce non-market services for collective consumption and to carry out transactions intended to redistribute national income and wealth	Compulsory levies on units in other sectors, received directly or indirectly
Private non-profit institutions serving households (S 70) (see 246)	To produce non-market services for particular groups of households	Voluntary contributions made by households in their consumer capacity; income from property
Households (S80) - as consumers	To consume	Remuneration of factors of production; transfers from other sectors
	- as entrepreneurs (see 249)	To produce non-financial market goods and services
Rest of the world (S90) (see 252)	This sector is not characterised by a principal function or principal resources; it groups together non-resident units in so far as they carry out transactions with resident institutional units	

(1) "Mainly" must be understood to mean about 50 % or more of the total current resources.

Non-financial corporate and quasi-corporate enterprises (S 10)

221. Definition : The sector non-financial corporate and quasi-corporate enterprises (S 10) consists of enterprises which are institutional units - i.e. enterprises whose financial transactions and transactions relating to distribution of income are separated from those of their owners - and whose principal function is to produce goods and non-financial market services. The principal resources of these units are derived from the sale of their production, whatever the price charged may be called (see 219 d).
222. The institutional units included in the sector S 10 are the following :
- a) private companies, public companies and public corporations whose principal function is to produce goods and non-financial market services
 - b) co-operatives and partnerships recognized as independent legal entities whose principal function is to produce goods and non-financial market services
 - c) public enterprises, which by virtue of special legislation are recognized as independent legal entities, whose principal function is to produce goods and non-financial market services
 - d) non-profit institutions or associations serving enterprises recognized as independent legal entities whose principal function is to produce goods and non-financial market services (1)
 - e) non-financial quasi-corporate enterprises :
- In general, sole proprietorships, partnerships and public enterprises other than those included under a), b) and c), even if they keep a complete set of accounts, are not institutional units because they do not enjoy autonomy of decision, their management being under the control of the households or governments which own them.
- However, where these units have a complete set of accounts and are very important at local level, it is recognized that their economic and financial behaviour can be distinguished from that of their owners and resembles that of companies. Units of this kind, whose

(1) Including institutions financed by voluntary or compulsory contributions of a quasi-fiscal nature, these contributions being considered as purchases of market services (see 219 d).

principal function is to produce goods and non-financial market services, are treated as institutional units and called non-financial quasi-corporate enterprises

- f) holding companies directing a group of companies the majority of which are classified as non-financial corporate and quasi-corporate enterprises
- g) notional resident units which are producers of goods and non-financial market services.

223. The ESA provides for the breakdown of the sector non-financial corporate and quasi-corporate enterprises into sub-sectors; these will be defined at a later stage.

Credit institutions (S 40)

224. Definition : The sector institutions (S 40) consists of all institutional units whose principal function is finance, i.e. which collect, convert and distribute available funds. The main resources of these units consist of funds derived from liabilities incurred (demand and time deposits, cash certificates, bonds etc.) and of interest received.

225. The institutional units comprising the sector S 40 are the following :

- a) private companies, public companies and public corporations which are principally engaged in finance
- b) co-operatives and partnerships recognized as independent legal entities which are principally engaged in finance
- c) public enterprises, which by virtue of legislation are recognized as independent legal entities, which are principally engaged in finance
- d) non-profit institutions recognized as independent legal entities which are principally engaged in finance
- e) quasi-corporate credit institutions :

As the activity of institutions which are principally engaged in finance is subject to regulations, they are deemed, whatever their importance, always to have autonomous management, independent of their owners. Their economic and financial behaviour is similar to that of corporate credit institutions. It is for this reason that all sole proprietorships, all partnerships and all public enterprises other than those mentioned under a), b) and c), with a complete set

of accounts, which are principally engaged in finance, are treated as institutional units under the name of quasi-corporate credit institutions

f) holding companies directing a group of companies the majority of which are classified as credit institutions.

226. In the tables of financial transactions the sector S 40 is sub-divided into three sub-sectors :

- central banking authorities (S 41)
- other monetary institutions (S 42)
- other credit institutions (S 43).

Central banking authorities (S 41)

227. Definition : The central banking authorities consist of all central agencies whose principal function is to issue legal tender and/or to be responsible for maintaining the internal and external value of the national currency by appropriate intervention.

228. The institutional units included in the sub-sector S 41 are the following :

- a) the central bank
- b) central monetary agencies, essentially of public origin, (e.g. agencies managing the foreign exchange, agencies operating with a view to stabilizing the bond market or influencing the money supply), provided they keep a complete set of accounts and are autonomous in relation to the central government. In practice, most of the general government agencies engaged in monetary activities are not institutional units; it is for this reason that the issue of currency by the State, its transactions with the IMF and its management of portfolio investments designed to influence the money supply, remain assigned to the sub-sector central government (S 61).

Other monetary institutions (S 42)

229. Definition : The other monetary institutions consist of credit institutions, an important part of whose liabilities towards the non-banking sector are in the form of transferable demand deposits, and also their central clearing institutions.

230. On the basis of this definition, the main units included in this sub-sector are the following (1) :

- a) clearing banks
- b) regional and local banks
- c) popular banks
- d) credit co-operatives
- e) certain savings banks (see 232 a)
- f) post office giro agencies (2).

Other credit institutions (S 43)

231. Definition : The other credit institutions consist of those credit institutions which are not classified as belonging to either of the two previous sub-sectors.

232. On the basis of this definition, and by reference to the composition of their liabilities to the non-banking sector (transferable demand deposits must not constitute an important part of these liabilities) the following units, in particular, will be classified in this sub-sector :

- a) certain savings banks : the nature of the liabilities of these institutions is generally characteristic of other credit institutions. However, if it happens that a large part of their resources consists of transferable demand deposits made by customers other than banks, they must be classified with other monetary institutions (S 42). Furthermore, if deposits are accepted on behalf of another unit, such transactions must be included with the transactions of the agency on whose behalf they are carried out.

(1) Not all these types of institutions are found in every country.

(2) If the post-office giro agencies are not institutional units, they remain part of the post-office and are to be included with the latter in the sector non-financial corporate and quasi-corporate enterprises (S 10).

However, if the financial transactions relating to the giro service are carried out on behalf of the Treasury (sub-sector central government, S 61), or on behalf of an agency which, though not an institutional unit, is itself part of the Treasury, these financial transactions are included only in the financial accounts of the sub-sector central government, under the rule concerning transactions carried out on behalf of another (see 215).

- b) hire-purchase and other consumer credit institutions
- c) building societies or other mortgage credit institutions
- d) agricultural credit agencies (local, regional and central) : all these agencies possess resources which are essentially financial, even if the resources of certain local agencies are primarily monetary
- e) investment companies : these are institutional units whose principal function is to convert into financial investments the funds entrusted to them for that purpose without seeking, as in the case of holding companies, to maintain control of the enterprises in which they have acquired interests
- f) building and loan associations
- g) those security brokers and dealers principally engaged in providing finance.

233. The following are not part of the credit institutions sector (S 40) :

- a) those security brokers and dealers who do not incur financial liabilities towards their clients because their principal activity is the selling of a service by acting as an intermediary between buyers and sellers of securities. They must be treated as non-financial enterprises and classified, according to their characteristics, in the sector non-financial corporate and quasi-corporate enterprises (S 10) or in the household sector (S 80)
- b) agencies which endorse bills : their principal function is to guarantee by endorsement bills intended for discounting. These units are included according to their characteristics in the sector non-financial corporate and quasi-corporate enterprises (S 10) or in the sector general government (S 60).

Insurance enterprises (S 50)

234. Definition : The sector insurance enterprises consists of all institutional units whose principal function is to insure : i.e. to convert individual risks into collective risks, which normally involves establishing technical reserves for insurance (see 569). The principal resources of the sector come from contractual premiums (1).

- (1) Contractual premiums include two elements :
- one which represents payment for the service of insurance
 - the other which covers the indemnities incurred (see 315 k) note 2 and 453) and the technical reserves for insurance (see 569 to 579).

235. The institutional units included in the sector S 50 are the following :

- a) private companies, public companies and public corporations principally engaged in insurance
- b) co-operatives and partnerships recognized as independent legal entities which are principally engaged in insurance
- c) public enterprises, which by virtue of special legislation are recognized as independent legal entities, which are principally engaged in insurance
- d) non-profit institutions recognized as independent legal entities which are principally engaged in insurance
- e) quasi-corporate insurance enterprises

As institutions principally engaged in insurance are subject to regulations, they are deemed whatever their importance, always to have autonomous management, independent of their owners. Their economic and financial behaviour resembles that of insurance companies. It is for this reason that sole proprietorships, partnerships and public enterprises other than those mentioned under a), b) and c) which keep a complete set of accounts (1) and which are principally engaged in insurance, are treated as institutional units and called quasi-corporate insurance enterprises

- f) holding companies directing a group of companies, the majority of which are classified as insurance enterprises.

236. The principal activity of these units (life and risk (accident) insurance enterprises, friendly societies, autonomous pension funds (2)) is to administer individual or group contracts⁽³⁾, whether or not participation

(1) Since non-autonomous pension funds do not keep a complete set of accounts, they are not institutional units.

(2) Pension funds are allocated to sectors as follows :

Autonomous pension funds (institutional units)

- if for each insured person the premium is proportional to the risk insured, autonomous funds are to be classified in the sector insurance enterprises (S50)
- if the premium is applied to the insured persons without reference to their individual exposure to risk, autonomous funds must be classified in the sector general government, sub-sector social security funds (S 63).

Non-autonomous pension funds

Since there is no complete set of accounts, they are not institutional units and remain part of the institutional unit which set them up.

(3) A contract is said to be a group contract if the parties (e.g. insurance enterprises on the one side and employees represented by their authorised agent on the other) are bound solely by the contractual obligations entered into, even if these are compulsory for all the parties represented by the agent.

results from a general obligation imposed by the government. A contract exists when, in the case of each insured person, the premium is proportional to the risk insured (individual financial balance). If the premium is applied to the insured persons without reference to their individual exposure to risk (collective financial balance), units principally engaged in this type of insurance do not belong to the sector insurance enterprises, but to the sub-sector social security funds (S 63) (see 245).

237. Insurance brokers are not part of the insurance enterprises sector, as their main activity is to provide a market service as intermediaries between insurance enterprises and insured persons. They must be treated as non-financial enterprises to be classified, according to their characteristics, in the sector non-financial corporate and quasi-corporate enterprises (S 10) or in the households sector (S 80).
238. The ESA does not at present envisage a breakdown of the sector insurance enterprises into sub-sectors.

General government (S 60)

239. Definition : The sector general government (S 60) includes all institutional units whose principal function is to produce non-market services intended for collective consumption and/or to redistribute national income and wealth. The main resources of these units are derived directly or indirectly from compulsory payments made by units belonging to other sectors.
240. The institutional units included in the sector S 60 are the following :
- a) general government agencies (excluding public enterprises established as public corporations or, by virtue of special legislation, recognized as independent legal entities, or classified as quasi-corporate enterprises) which administer, finance and are accountable for a group of activities, principally of a non-market nature, carried on for the benefit of the community.

- b) non-profit institutions recognized as independent legal entities whose principal function is to produce non-market services and whose main resources, other than the proceeds of sales, are derived from payments made by the government departments specified in a) above
- c) autonomous pension funds, if the premium charged is not based on the individual exposure to risk (see 236 and 245).
241. The general government sector is divided into three sub-sectors :
- central government (S 61)
 - local government (S 62)
 - social security funds (S 63).
242. Central government (S 61)
- Definition : The central government sub-sector includes the administrative departments of the State (1) and other central agencies whose competence extends over the whole economic territory, with the exception of the central administration of the social security funds.
243. Local government (S 62)
- Definition : Local government includes those types of public administration whose competence extends to only part of the economic territory (1), apart from local agencies of the social security funds.
244. Social security funds (S 63)
- Definition : Social security funds include all central and local institutional units whose principal activity is to provide social welfare benefits and whose main resources are derived from compulsory social welfare contributions paid by other units.
245. This sub-sector includes, in particular, autonomous pension funds and other insurance institutions whose premiums are fixed without reference to the individual exposure to risk of the insured persons (see 236).

(1) The central administration of the Länder of the Federal Republic of Germany are part of the Central government sub-sector and not of the Local government sub-sector.

Private non-profit institutions serving households (S 70) (1)

246. Definition : The sector private non-profit institutions consists of private institutions serving households and recognized as separate legal entities which are principally engaged in producing non-market services intended for particular groups of households; their main resources, apart from those derived from occasional sales, are derived from voluntary contributions from households in their capacity as consumers, and from property income.
247. Where these institutions are very unimportant, they are not included in this sector, their transactions being consolidated with those of households (S 80).
248. The ESA does not at present envisage the subdivision of this sector into sub-sectors.

The household sector (S 80)

249. Definition : The sector households (S 80) covers households in their capacity as consumers and, occasionally, as entrepreneurs whenever, in the latter case, the income or financial transactions relating to the business cannot be separated from those of their owners.
250. The households sector includes :
- a) all households in the sense of individuals or groups of individuals, considered as consumers, whose main resources are derived from the remuneration of factors of production and transfers received from other sectors
 - b) individual enterprises, and partnerships not recognized as independent legal entities, provided the latter do not keep complete accounts or, if they do, are not very important at a local level (see 222 e, 225 e, 235 e); their principal function is to produce goods and non-financial market services and their main resources are derived from the proceeds of their sales

(1) The term private non-profit institutions will be subsequently used as an abbreviation for private non-profit institutions serving households.

c) private non-profit institutions serving households not recognized as independent legal entities, together with those recognized as independent legal entities but which are very unimportant (see 247). The main resources of these institutions come from voluntary contributions from households, considered as consumers, and from property income.

251. The ESA envisages the subdivision of this sector into sub-sectors; these will be defined at a later stage.

Rest of the world (S 90)

252. Definition : The rest of the world (S 90) is a sector without any characteristic functions and resources; it consists of non-resident units in so far as they are engaged in transactions with resident institutional units. Its accounts give an overall view of the economic relations linking the national economy with the rest of the world.

253. It should be noted that the rule whereby the accounts for the rest of the world include only transactions carried out between resident institutional units and non-resident units, is subject to the following exceptions :

- a) the services of transport and insurance provided by resident units in respect of imported goods are shown in the rest of the world accounts with c.i.f. imports, even though they are produced by resident units (see 384)
- b) industrial gold, whenever it is sold on the financial market of the country by one resident to another becomes financial gold (see 510) and gives rise to the recording, in the rest of the world accounts, of an increase in the gold reserves and also of an export of industrial gold. Similar accounting procedures are followed, but in the reverse direction, whenever a transaction between residents results in the transformation of financial into industrial gold
- c) transactions in foreign assets between residents belonging to different sectors are shown in the detailed financial accounts for the rest of the world; although they do not affect the country's financial position vis-a-vis the rest of the world, they affect the financial position of individual sectors with the rest of the world

d) transactions in the country's liabilities between non-residents belonging to different geographical zones are shown in the rest of the world accounts, broken down geographically; although these transactions do not affect the country's overall liability to the rest of the world, they affect its liabilities to different parts of the world.

254. The sector rest of the world is subdivided into :

- the member countries of the European Communities; the Federal Republic of Germany, France, Italy, the Netherlands, Belgium, and Luxembourg (S 91)
- the Institutions of the European Communities (S 92)
- third countries and international organisations (S 93).

Sectoral classification of standard legal types of producer units

255. The following paragraphs summarise the principles underlying the classification of producer units into sectors using the standard terminology for describing the main types of institutions.

256. Private companies, public companies and public corporations are classified as follows :

- a) those principally engaged in the production of goods and non-financial market services : in the sector S 10, non-financial corporate and quasi-corporate enterprises (see 222 a)
- b) those principally engaged in finance : in the sector S 40, credit institutions (see 225 a)
- c) those principally engaged in insurance : in the sector S 50, insurance enterprises (see 235 a).

257. Co-operatives and partnerships recognized as independent legal entities are classified as follows :

- a) those principally engaged in the production of goods and non-financial market services : in the sector S 10, non-financial corporate and quasi-corporate enterprises (see 222 b)
- b) those principally engaged in finance : in the sector S 40, credit institutions (see 225 b)
- c) those principally engaged in insurance : in the sector S 50, insurance enterprises (see 235 b).

258. Public enterprises, which by virtue of special legislation, are recognized as independent legal entities are classified as follows :
- a) those principally engaged in the production of goods and non-financial market services : in the sector S 10, non-financial corporate and quasi-corporate enterprises (see 222 c)
 - b) those principally engaged in finance : in the sector S 40, credit institutions (see 225 c)
 - c) those principally engaged in insurance : in the sector S 50, insurance enterprises (see 235 c).
259. Public enterprises not recognized as independent legal entities are classified as follows :
- if they are quasi-corporate (see 216 f) :
 - a) those principally engaged in the production of goods and non-financial market services : in the sector S 10, non-financial corporate and quasi-corporate enterprises (see 222 e)
 - b) those principally engaged in finance : in the sector S 40, credit institutions (see 225 e)
 - c) those principally engaged in insurance : in the sector S 50, insurance enterprises (see 235 e)
 - if they are not quasi-corporate : in the sector S 60, general government, as they remain an integral part of the units which control them (see 240 a).
260. Non-profit institutions (associations, foundations) recognized as independent legal entities are classified as follows :
- a) those principally engaged in the production of goods and non-financial market services : in the sector S 10, non-financial corporate and quasi-corporate enterprises (see 222 d)
 - b) those principally engaged in finance : in the sector S 40, credit institutions (see 225 d)
 - c) those principally engaged in insurance : in the sector S 50, insurance enterprises (see 235 d)
 - d) those principally engaged in the production of non-market services :
 - in the sector S 60, general government, if their resources come mainly from the departments of general government (see 240 b)

- in the sector S 70, private non-profit institutions, if their resources, other than those derived from occasional sales, come mainly from voluntary contributions made by households, in their capacity as consumers, or from property income (see 246).

261. Sole proprietorships and partnerships not recognized as independent legal entities are classified as follows :

- if they are quasi-corporate (see 216 f) :
 - a) those principally engaged in the production of goods and non-financial market services : in the sector S 10, non-financial corporate and quasi-corporate enterprises (see 222 e)
 - b) those principally engaged in finance : in the sector S 40, credit institutions (see 225 e)
 - c) those principally engaged in insurance : in the sector S 50, insurance enterprises (see 235 e)
- if they are not quasi-corporate they are classified in the sector S 80, households (see 250 b).

262. Holding companies (i.e. companies which direct a group of companies) are classified as follows :

- a) in the sector S 10, non-financial corporate and quasi-corporate enterprises, when most of the companies which they control are classified in this sector (see 222 f)
- b) in the sector S 40, credit institutions, when most of the companies which they control are classified in this sector (see 225 f)
- c) in the sector S 50, insurance enterprises sector when most of the companies which they control are classified in this sector (see 235 f).

263. The accompanying table illustrates in schematic form the various cases which are enumerated above.

SECTORAL CLASSIFICATION OF PRODUCER UNITS FOR MAIN STANDARD LEGAL FORMS OF OWNERSHIP

PRINCIPAL FUNCTION (otherwise, principal resources)		STANDARD LEGAL DESCRIPTION	THE PRODUCTION OF GOODS AND NON-FINANCIAL MARKET SERVICES	FINANCE	INSURANCE	THE PRODUCTION OF NON-MARKET SERVICES		
						Compulsory Payments made by the other units	Voluntary contributions made by households, in their capacity as consumers, and from property income	
Private companies, public companies and public corporations			S10 non-financial enterprises, corporate and quasi-corporate (see 222 a)	S40 credit institutions (see 225 a)	S50 insurance enterprises (see 235 a)			
Co-operatives and partnerships recognized as independent legal entities			S10 non-financial enterprises corporate and quasi-corporate (see 222 b)	S40 credit institutions (see 225 b)	S50 insurance enterprises (see 235 b)			
Public enterprises which by virtue of special legislation are recognized as independent legal entities			S10 non-financial enterprises, corporate and quasi-corporate (see 222 c)	S40 credit institutions (see 225 c)	S50 insurance enterprises (see 235 c)			
Public enterprises not recognized as independent legal entities	those with the characteristics of quasi-corporate enterprises		S10 non-financial enterprises corporate and quasi-corporate (see 222 e)	S40 credit institutions (see 225 e)	S50 insurance enterprises (see 235 e)			
	the rest				S60 general government (see 240 a)			
Non-profit institutions recognized as independent legal entities			S10 non-financial enterprises corporate and quasi-corporate (see 222 d)	S40 credit institutions (see 225 d)	S50 insurance enterprises (see 235 d)	S60 general government (see 240 b)	S70 private non-profit institutions (see 246)	
Partnerships not recognized as independent legal entities	those with the characteristics of quasi-corporate enterprises		S10 non-financial enterprises corporate and quasi-corporate (see 222 e)	S40 credit institutions (see 225 e)	S50 insurance enterprises (see 235 e)			
	Sole proprietorships	the rest	S80 households (see 250 b)					
Holding companies		The sectoral classification of these units is not based directly on their principal function, but on that of the majority of companies controlled by them: they should be allocated, as appropriate, to S10 non-financial corporate or quasi-corporate enterprises (see 222f), S40 credit institutions (see 225f), S50 insurance enterprises (see 235f).						

UNITS OF HOMOGENEOUS PRODUCTION AND BRANCHES

264. In order to analyse flows occurring in the process of production and in the use of goods and services, it is necessary to choose units which bring out relationships of a technico-economic kind.

Units of homogeneous production are intended to meet this requirement.

The unit of homogeneous production

265. Definition : The characteristic feature of a unit of homogeneous production is a unique activity which is identified by its inputs, a particular process of production and its outputs. The products which constitute the inputs and outputs are themselves distinguished not only by their physical characteristics and their degree of processing but also by the technique of production used. The inputs and outputs can be identified by reference to a classification of products.

266. The unit of homogeneous production may correspond to an institutional unit or a part thereof; on the other hand, it can never belong to two different institutional units.

267. In practice, most producer units are engaged in a combination of activities at the same time. They may be engaged in a principal activity, some secondary activities - namely, activities appertaining to other branches - and some auxiliary activities such as administration, purchase, sale, storage, repairs, etc. (1). If a producer unit contains a principal activity and also one or several secondary activities, it will be subdivided into the same number of units of homogeneous production, and the secondary activities will be classified under different headings from the principal activity. On the other hand, the auxiliary activities of the producer unit are not separated from the principal or secondary activities.

(1) A productive activity must be considered as auxiliary if it satisfies the three following conditions :

- a) it produces services
- b) by its nature, it occurs with varying degrees of importance in every producer unit
- c) it provides services only for that particular producer unit.

The branch

268. Definition : The branch consists of a grouping of units of homogeneous production. The set of activities covered by a branch is identified by reference to a product classification. The branch produces those goods and services specified in the classification, produces all the products specified and only those products.
269. At the level of the national economy, the entire set of units of homogeneous production, which are grouped into branches, corresponds to the entire set of institutional units, which are grouped into sectors. This means that unit of homogeneous production is considered as a resident unit, when the national economy is subdivided into sectors, in as much as a unit of homogeneous production corresponds to a resident institutional unit or to a part of such a unit (see 212, 214).
270. Branches are units of analysis which cannot usually be observed directly; data collected from the units used for purposes of statistical enquiries have to be reconstituted to form the branches.
271. Branches may be classified into four categories :
- a) branches producing goods and market services : namely, market branches
 - b) branches producing the non-market services of general government : namely, non-market government branches
 - c) branches producing the non-market services of private non-profit institutions : namely, non-market private non-profit institutions branches
 - d) the branch consisting of non-market services produced by households : namely, domestic services.
272. The market branches consist of all units of homogeneous production of whatever institutional sector, which are entirely engaged in the production of goods and market services. Activities within the sectors general government or private non-profit institutions, which consist of producing goods and market services (including those intended for themselves), constitute units of homogeneous production and should

be classified in some market branch or other (1).

The non-market government branches consist of all units of homogeneous production in the sector general government which produce non-market services (see 312, 313).

The non-market private non-profit institutions branches consist of all units of homogeneous production in the sector private non-profit institutions which produce non-market services (see 312, 313).

The branch non-market domestic services consists of the productive activity of households in so far as they are employers of paid domestic staff.

THE CLASSIFICATION OF BRANCHES

273. The classification of branches used in the input-output tables is based on the NACE - that is, the version used for the establishment of the input-output tables (NACE/CLIO) - each branch corresponding to one or several groups of the NACE.

The NACE/CLIO, which is the version of the NACE used for the input-output tables, is a classification of mutually exclusive activities applied to the units of homogeneous production.

Each group of the NACE/CLIO (2) is defined as follows

- in the case of goods, by reference to the NIMEXE (Harmonised Nomenclature for the foreign trade statistics of the EEC-countries)
- in the case of services, by the listing given in the NACE/GEN (the version used for the collection of basic statistics).

(1) Very occasionally, the non-market branches of government and private non-profit institutions may sell market products to the other branches, but only exceptionally (see 314 and 616).

(2) See the special issue NACE/CLIO (1970).

OTHER GROUPINGS OF UNITS

274. In the tables of financial transactions, another grouping, called financial intermediaries, has been utilised as well.

This ~~grouping~~ consists of all institutions whose principal or secondary function is finance and which keep complete sets of accounts relating to their financial transactions. This makes it possible to bring together in a single table all transactions of a financial nature which, in the basic accounts, are distributed over several sectors because of the institutional criteria used (see table 19).

CHAPTER III

TRANSACTIONS IN GOODS AND SERVICES

301. Transactions in goods and services are those directly involved in the production process of resident economic units which gives rise to Gross Domestic Product; and those relating to external trade and the use of goods and services.

302. The ESA distinguishes the following transactions in goods and services :

Transactions	Code
Output of goods and services	P10
Output of goods	P11
Output of market services other than the imputed output of bank services	P12
Imputed output of bank services	P13
Output of non-market services	P14
Intermediate consumption	P20
Final consumption	P30
Final consumption of resident units on the economic territory	P31
Final consumption of resident households in the rest of the world	P32
Final consumption of non-resident households on the economic territory	P33
Final national consumption (P31 + P32)	P3A
Final consumption on the economic territory (P31 + P33)	P3B
Gross capital formation	P40
Gross fixed capital formation	P41
Change in stocks	P42
Exports of goods and services	P50
Exports of goods	P51
Exports of services	P52
Imports of goods and services	P60
Imports of goods	P61
Imports of services	P62
Net purchases of land and intangible assets	P70
Net purchases of land	P71
Net purchases of intangible assets	P72

303. These transactions are recorded in the following accounts of the ESA:

- a) the goods and services account (C 0)
- b) the production account (C 1)
- c) the use of income account (C 4)
- d) the capital account (C 5)
- e) the current transactions account of the rest of the world (C 7).

OUTPUT OF GOODS AND SERVICES (P 10)

304. Definition : The result of the economic activity of resident units which consists of producing goods and services during a given period is termed output

The total output recorded is that shown in the input-output table (see 606). This table determines how far, in the ESA, one should show in the accounts the output of goods and services which are utilised within (institutional and homogeneous production) units without passing through the market.

The following types of output are distinguished :

- the output of goods (P 11)
- the output of market services (P 12, P 13)
- the output of non-market services (P 14).

Output of goods (P 11)

305. All goods are, by convention, deemed to be market goods. However, certain goods which represent a by-product of the output of the non-market services of general government or private non-profit institutions are not included in the effective output of goods. These goods are, nevertheless, included in the distributed output of goods by means of transferring their sales value (see 616, 617). (For example, the output of timber obtained as a by-product of government road works is excluded from the effective output but included in the distributed output of the products of forestry group.

306. The ~~output~~ of goods, corresponding to the production of groups 011-504 of the NACE/CLIO, includes the following items:

- a) the ~~output~~ of new goods for sale on the market
- b) the ~~output~~ of new goods for internal consumption by institutional units whose activity spans several groups of the NACE/CLIO, and the ~~output~~ of certain specified goods (see NACE/CLIO) for their own consumption by the groups which produce them
- c) the ~~output~~ of agricultural and food products for own-account consumption by farm households
- d) the ~~output~~ of agricultural and food products for own-account consumption by non-farm households
- e) the ~~output~~ of goods other than agricultural and food products for own-account consumption by households (1)
- f) the own-account ~~output~~ of fixed capital goods
- g) the ~~output~~ of their own goods which producer units furnish to their employees as a supplement to their remuneration.

Output of market services, (P 12 and P 13)

307. Market services are all services which can be the object of buying and selling on the market and which are produced by a unit whose resources are mainly⁽²⁾ derived from the sale of its ~~output~~ whatever the price charged may be called :

- selling price, inclusive charge
- fee, rate, toll, duty
- voluntary payments or compulsory levies of a quasi-fiscal nature made by enterprises to units whose principal activity is to provide services in exchange for these payments (see 308b).

In addition to services effectively sold on the market, market services include services produced for internal consumption by institutional units whose activity spans several market groups of the NACE/CLIO.

(1) The total value of this ~~output~~ being marginal and impossible to measure statistically in the member countries of the European Communities, it has been decided not to include it in the accounts.

(2) Mainly must be understood to mean about 50% or more of the total current resources.

The output of market services is broken down into two operations:

- the output of market services other than the imputed output of bank services (P 12)
- the imputed output of bank services (P 13).

308. The output of market services other than the imputed output of bank services (P 12) includes :

a) the output of the following services which, by convention, are always deemed to be market services :

- NACE/CLIO: - 610 : Wholesale trade services
- 620 : Recovery services
 - 630 : Services of commercial intermediaries
 - 640 : Retail trade services
 - 660 : Lodging and catering services
 - 670 : Repair services
 - 710 : Railway transport services
 - 720 : Other land transport services
 - 730 : Inland navigation services
 - 740 : Maritime transport and coastal services
 - 750 : Air transport services
 - 760 : Services of activities associated with transport
 - 770 : Services of travel agencies and transport intermediaries, warehouse and storage services
 - 790 : Communication services
 - 810 : Banking and finance services
 - 820 : Insurance services (except for compulsory social insurance schemes)
 - 830 : Services of auxiliaries in finance, insurance and real estate (except for the renting of own immovable fixed capital goods) services provided to enterprises
 - 840 : Services of renting of movable goods, without permanent staff
 - 850 : Services of renting of own immovable fixed capital goods

- 92 C 3 : Cleaning services
- 93 C 5 : Private teachers
- 93 C 6 : Driving schools, flying schools (except for air-line pilots)
- 95 C 3 : Doctors' practices
- 95 C 4 : Dental practices and clinics
- 95 C 5 : Midwives, independent nurses and the like
- 97 C 1 : Production of films
- 97 C 2 : Distribution of films
- 97 C 3 : Cinema halls
- 97 C 4 : Radio and television
- 97 C 6 : Liberal, artistic and literary professions
- 98 C 1 : Laundries, dyers and cleaners and similar services
- 98 C 2 : Hairdressing and beauty salons
- 98 C 3 : Photography studios
- 98 C 4 : Personal services n.e.c.

b) the output of the following services which are deemed to be market services if the resources of the producer unit come mainly⁽¹⁾ from the sale of its output (whatever the price charged may be called - see 307):

- NACE/CLIO: - 921 : Refuse disposal services, disinfection services and the like
- 930 : Teaching (except for 93 C 5 and 93 C 6, mentioned in 308 a)
 - 940 : Research and development
 - 950 : Health and veterinary services (except for 95 C 3, 95 C 4 and 95 C 5, mentioned in 308 a)
 - 962 : Social hospitality
 - 963 : Professional associations and economic organisations
 - 964 : Employers' federations
 - 975 : Entertainments (except for cinema and sport)
 - 977 : Libraries, public archives, museums, botanical and zoological gardens
 - 978 : Sports grounds or halls, sports clubs, and independent sports teachers or coaches
 - 979 : Recreational services n.e.c.

(1) 'Mainly' must be understood to mean about 50% or more of the total current resources.

309. The production of market services excludes :
- a) the renting of agricultural land (farm tenancies, share-cropping) and of non-agricultural land (see 436 a and b)
 - b) the renting of intangible assets (patent royalties, copyrights, concession rights) (see 436 c).

This type of renting is treated not as the output of services but as the remuneration of a factor of production.

310. The imputed output of bank services (P 13)

is the output realised by credit institutions in their capacity as financial intermediaries; whose function is the collection, conversion and distribution of financial resources⁽¹⁾.

The imputed output of bank services is, by convention, measured by the excess of the property income of credit institutions (other than income from investment of their own funds) over the amount of interest paid to their creditors.

311. Although the value of the imputed output of bank services can be measured in this way, it is in practice impossible, at present, to determine how the use of these services is distributed among the various units who are the customers of the credit institutions. The imputed output of bank services is therefore deemed to be wholly absorbed by the intermediate consumption of a special unit. This special unit thus has zero output and an intermediate consumption equal to the imputed production of bank services, so that its value added is negative and equivalent to this imputed output with the sign reversed. In this way, value added is reduced in total by an amount which ought to be allocated to the intermediate consumption of the various users of bank services (and should therefore be deducted from their respective values added) and to final consumption⁽²⁾.

(1) The imputed output of bank services excludes the output of services rendered by credit institutions to their customers and paid for at a market price. This is included in the output of market services other than the imputed output of bank services (P 12).

(2) Under this solution, that part of bank services consumed by final users is also deducted from gross value added so that gross domestic product is thereby arbitrarily reduced.

Output of non-market services (P 14)

312. Non-market services are :

- the domestic services produced for themselves by households in so far as they are employers of paid domestic staff⁽¹⁾ (see class 99 NACE/CLIO)
- collective services, i.e. those provided without charge or with a nominal charge to the community or to particular groups of households.

313. The output of collective services covers:

a) the following services which, by convention, are always deemed to be non-market:

- NACE/CLIO: - 91 A : General administration, national defence and compulsory social security
- 92 A 2 : Administration of cemeteries
 - 96 A 1/96 B 1 : Social work
 - 96 B 5 : Trade unions
 - 96 B 6 : Religious organisations, philosophic and learned societies
 - 96 A 7/96 B 7 : Tourist associations, tourist information offices
 - 96 B 8 : Services supplied to the community n.e.c.

b) the following services, which are non-market if the resources of the producer unit are mainly⁽²⁾ derived from sources other than proceeds of sale, i.e. from the voluntary contributions of households in their capacity as consumers, from government transfers and from property income:

- NACE/CLIO: - 921 : Refuse disposal services, disinfection services and the like
- 930 : Teaching (except for 93 C 5 and 93 C 6, mentioned in 308 a)
 - 940 : Research and development
 - 950 : Health and veterinary services (except for 95 C 3, 95 C 4 and 95 C 5, mentioned in 308 a)

(1) Domestic services produced by households not employing paid staff are excluded from production.

(2) 'Mainly' must be understood to mean about 50% or more of the total current resources.

- 962 : Social hospitality
- 963 : Professional associations and economic organisations
- 964 : Employers' federations
- 975 : Entertainments (except for cinema and sport)
- 977 : Libraries, public archives, museums, botanical and zoological gardens
- 978 : Sports grounds or halls, sports clubs, and independent sports teachers or coaches
- 979 : Recreational services n.e.c.

Collective services are produced by the non-market branches general government or private non-profit institutions according as the institutional producer unit belongs to the sector general government or to the sector private non-profit institutions.

314. When the non-market branches of general government or of private non-profit institutions offer the services which they produce with only a nominal charge, or when, in the course of producing non-market services they also occasionally produce goods and market services on a small scale, the amount received is treated as an incidental sale of these branches (see 616).

Valuation of the output of goods and services

315. The output of goods and market services (other than the imputed output of bank services) is valued, for each sector or branch, at ex-works prices (see 629) subject to the following exceptions and explanations⁽¹⁾:
- a) intermediate goods and services produced for their internal consumption by institutional units are valued at production prices plus any taxes linked to production which may be incurred on the exchange of these goods within the unit
 - b) the own-account output of agricultural and food products consumed by households is valued at the production prices of similar products sold on the market
 - c) the own-account output of fixed capital goods is valued at production prices

(1) This paragraph applies to the input-output table with transactions valued at ex-works prices; for the valuation of the input-output table at production prices, see 635.

- d) the output of their own goods and services furnished by producer units to their employees as a supplement to their remuneration is valued at production prices
- e) recovery material is valued by the difference between, on the one hand, the value of the goods recovered and of the material demolished used by the market branches or exported, and, on the other hand, the value of the existing goods, including non-durable consumer goods, surrendered by all units for demolition or scrap (see 618 to 625)
- f) services produced by retail and wholesale trade are measured by the trade margins which represent the difference between the value of the goods sold by traders and the value of the goods bought for resale which are in fact sold in the relevant period
- g) the services of hotels, restaurants and cafes include the value of the food, drink and tobacco consumed
- h) services produced by transport are measured by fares or freight charges
- i) services produced by the ownership of dwellings are measured by the value of the rents if rented, or by the value of the rents of similar dwellings if owner-occupied
- j) services produced by the renting of non-residential buildings are measured by the value of the rents⁽¹⁾
- k) the services produced by insurance institutions and pension funds are measured by the excess of the gross premiums earned⁽²⁾ over the sum of the following items :
 - indemnities due⁽³⁾
 - supplementary payments to policy holders in the form of distributed profits (see 453)

(1) The value of the notional renting of non-residential buildings directly used by the owner units is not taken into account.

(2) Premiums earned are the part of the premiums paid intended to cover risks during the relevant period.

(3) Indemnities due are those to which policy holders are entitled during the relevant period. By convention, right to indemnity is deemed to begin from the same moment when the insured risk occurs.

- variations in the actuarial reserves covering current risks and variations in reserves and in liabilities towards insured parties with respect to their entitlement to benefits, less:
 - imputed interest on liabilities resulting from insurance contracts (see 432)
 - realised capital gains which are in fact distributed (see 4112 h).
316. The value of the imputed output of bank services is measured, by convention, by the excess of the property income received by credit institutions (other than income from investment of their own funds), over the amount of the interest paid to their creditors (see 310, 311).
317. The value of the output of collective services (non-market) is, by convention, measured by the costs incurred, that is to say, by the sum of the intermediate consumption, remuneration of employees, consumption of fixed capital and indirect taxes on output paid by general government and private non-profit institutions.
318. The value of the output of domestic services (non-market) is, by convention, measured by the amount of remuneration paid to domestic staff employed by households.
319. The output of goods and services appears in the following accounts of the ESA :
- among resources in the goods and services account (C 0)
 - among resources in the production account (C 1).

INTERMEDIATE CONSUMPTION (P 20)

320. Definition : The intermediate consumption of resident producer units represents the value of all goods (other than fixed capital goods) and of all market services consumed during the course of the relevant period in order to produce other goods and services.

321. For the non-market branches general government and private non-profit institutions, intermediate consumption is diminished by the net sales (or augmented by the net acquisitions) of existing consumer goods (see 624).
322. Intermediate consumption includes the following elements:
- a) goods bought on the market and actually consumed by the unit which buys them during the relevant period, i.e. current purchases of goods, augmented by the value of similar goods withdrawn from stocks existing at the beginning of the period and decreased by the value of similar goods added to stocks during the period. These changes in stocks do not form part of the intermediate consumption and are treated as capital formation (see 347). The stocks of goods held by the non-market branches of general government relate only to strategic stockpiles and emergency stockpiles, as well as to stocks held by market regulatory organisations insofar as these are included the general government sector; other products are, by convention, consumed immediately upon purchase
 - b) services purchased during the relevant period⁽¹⁾ with the exception of:
 - services connected with the transfer of ownership of land, existing buildings, other existing fixed capital goods and intangible assets; such services are part of gross fixed capital formation
 - services of transport and distribution affecting goods put into stocks held by the users. Only services relating to goods actually consumed during the relevant period are counted as intermediate consumption⁽²⁾.

(1) The value of insurance services will be allocated among branches or sectors in proportion to the amount of the gross premiums earned, for each type of insurance.

(2) In the input-output tables, final uses are valued both at ex-works prices and at purchasers' prices. When changes in stocks by product are valued at ex-works prices, the services of distribution and transport relating to products stocked by the users must be included in the changes in stocks so that the total of the services may be valued at purchasers' prices. When changes in stocks are valued at purchasers' prices the services of distribution and transport are allocated to each of the products to which they relate, and the total for changes in stocks is identical with that in the table measured at ex-works prices (see 636).

- c) the goods and market services produced for the internal consumption by institutional units whose activity spans several groups of the NACE/CLIO (see 608) and certain goods produced for their own consumption within the groups which produce them.
- d) the imputed output of bank services; this is not allocated to sectors or branches but is treated globally as the intermediate consumption of a special unit (see 310, 311).

323. The following expenditures must, in particular, be included in intermediate consumption:

- a) the purchases of goods and services made by producer units and which benefit the unit as well as its employees, such as:
 - allowances or reimbursement of employees for travelling, separation, removal and entertainment expenses incurred in the course of their duties
 - expenditures on providing amenities at the place of work, medical examinations, supplying working clothes (other than military uniforms)
 - current expenditures devoted to sporting or recreational facilities intended for employees
 - current expenditures on the transport of employees to and from work organised by the employer
- b) the purchases by households of tools, equipment or special clothing needed for their work
- c) purchases of goods and services made by general government and intended for the production of non-market services, with the exception of social welfare benefits in kind paid to households by these organisations under social security or social assistance arrangements (see 330 g)
- d) purchases by producer units of small tools, working clothes, spare parts and durables of small value (less than about 100 A.U.) or with a normal life of less than a year, as well as purchases of goods and services needed for maintenance and repair intended to keep fixed capital goods in good working order
- e) rents paid for the renting of non-residential buildings and other fixed capital goods
- f) purchases of durable goods for military purposes; military buildings (except dwellings for the households of servicemen) (see 340 c), constructions of a military nature and other military equipment

- g) purchases of services of scientific research, advertising, market research etc.
- h) purchases of foodstuffs, drink and tobacco consumed in hotels, restaurants and cafes, hospitals and other medical institutions and in educational establishments.

324. Intermediate consumption, on the other hand, excludes:

- a) goods and market services distributed by producer units to their employees free or at reduced prices, in so far as such distribution is manifestly and principally for the benefit of the employees. Goods and services thus distributed are treated as final consumption of households (see 330 e)
- b) the travelling expenses of employees in commuting between home and work, except where the producer units themselves organise the transport; these expenditures are treated as final consumption of households
- c) social welfare benefits in kind granted to households by general government and private non-profit institutions under social security or social assistance arrangements; these benefits are treated as final consumption of households (see 330 g)
- d) purchases by general government of food and military clothing for the armed forces, which, by convention, are treated as final consumption of households (see 330 f)
- e) purchases of equipment (excluding military equipment, see 323 f) whose normal working life exceeds one year: these goods are considered as gross fixed capital formation (see 337)
- f) expenditures for the purpose of rebuilding or reconstructing immovable fixed capital goods (roofs, gutters, aerials, or electrical and heating installations in buildings) and expenditures on the repair and improvement of movable fixed capital goods which are intended to prolong their normal lives or to improve their capacity or their performance. These expenditures are considered as gross fixed capital formation (see 338 b and 342)

- g) costs incurred in connection with the transfer of ownership of land, existing buildings, other existing fixed capital goods or intangible assets which are considered as gross fixed capital formation (see 338 d)
- h) the rents paid for the use of land or intangible assets which are treated as income from land or intangible assets (see 436 a).

325. Valuation of the various elements of intermediate consumption

The total intermediate consumption of each sector or branch⁽¹⁾ is valued as follows:

- a) for goods and services bought, at purchasers' prices
- b) for goods and market services produced and consumed within institutional units whose activity spans several groups of the NACE/CLIO, and for certain specified goods (see NACE/CLIO) produced for their own consumption by the groups which produce them, at producer prices plus any taxes linked to production which happen to be incurred in respect of these goods
- c) for the intermediate consumption of the special unit which, by convention, consumes the whole of the imputed output of bank services, by the excess of the property income of credit institutions (other than income from the investment of their own funds) over the amount of interest they pay to their creditors (see 310).

326. Intermediate consumption appears in the following accounts of the ESA:

- among uses in the goods and services account (C 0)
- among uses in the production account (C 1).

(1) This paragraph applies to valuation in the input-output table at ex-works prices; for valuation in the input-output table at producers' prices, see 635.

FINAL CONSUMPTION (P 30)

327. Definition: Final consumption represents the value of the goods and services used for the direct satisfaction of human wants, whether individual (final consumption of households) or collective (collective consumption of general government and private non-profit institutions).
328. Final consumption may take the form of:
- a) the final consumption of resident units on the economic territory (P 31)
 - b) the final consumption of resident households in the rest of the world (P 32)
 - c) the final consumption non-resident households on the economic territory (P 33)
329. The following types of final consumption are shown in the system of accounts:
- final national consumption (P 3A) which groups together flows P 31 and P 32 and is shown among the uses in the use of income account (C 4)
 - final consumption on the economic territory (P 3B) which groups together flows P 31 and P 33 and is shown among the uses in the goods and services account (C 0)
 - final consumption by resident households in the rest of the world (P 32) which is shown among the resources in the current transactions account with the rest of the world (C 7)
 - final consumption by non-resident households on the economic territory (P 33) which is shown among the uses in the current transactions account with the rest of the world (C 7).

Final consumption of households

330. Final consumption of households includes the following items:
- a) purchases on the market of new durable and non-durable goods, except for houses, apartments etc. (see 339 a) and for purchases by households of tools, equipment or special clothing needed for their work
 - b) purchases of market services, including the transfer costs incurred when purchasing antiques and existing consumer durables
 - c) agricultural and food products produced for their own household consumption by farmers, and also the products of private gardens
 - d) goods, other than agricultural and food products, produced by households for their own consumption⁽¹⁾
 - e) benefits in kind provided by employers to their employees (see 324)
 - f) clothing and food provided for the armed forces and purchased by general government
 - g) social welfare benefits in kind granted to households by general government or private non-profit institutions under social security or social assistance arrangements
 - h) the imputed rent of owner-occupied dwellings
 - i) gifts in kind made by the rest of the world to households, less gifts in kind made by households to the rest of the world
 - j) domestic services produced for themselves by households in so far as they are employers of paid domestic staff
 - k) net acquisitions by households of antiques and existing consumer durables (see 620 a and c)
 - l) incidental sales treated in the accounts as direct deliveries to households from the non-market branches general government and private non-profit institutions (see 616).
331. The final consumption of households does not include:
- a) purchases of land, which are included under the heading net acquisition of land (P 71) (see 399)
 - b) purchases of houses, apartments etc. which are included in gross fixed capital formation (see 339 a and 620 b)

(1) Since the value of this consumption in the member countries of the European Communities is negligible and impossible to collect the relevant statistics, it has been agreed not to include it in the accounts.

- c) purchases by households of tools, equipment or special clothing needed for their work
- d) expenditures by producer units which benefit themselves as well as their employees (see 323 a).

332. In the case of the households of sole proprietors, it often happens that certain goods and services are used both for business and for household purposes (e.g. cars, rent, heating, lighting, etc.). The value of goods and services purchased by the households must then be broken down between intermediate and final consumption in proportion to their use for business purposes and for the satisfaction of household wants.

333. Collective consumption of general government and private non-profit institutions

General government and private non-profit institutions produce non-market services from which all economic units derive some benefit, but, the value of the services rendered to individual units cannot be reliably assessed; non-market services are, therefore, not divided between intermediate consumption and final consumption of households, and these services are treated in the accounts as final consumption of general government or private non-profit institutions.

334. Valuation of final consumption

- a) the final consumption of households is valued in the accounts and in the input-output table at mixed prices: ⁽¹⁾
 - at purchasers' prices for products bought on the market
 - at the purchasers' prices of similar products for goods received as gifts from the rest of the world
 - at production prices for agricultural and food products produced for own consumption
 - at production prices for products received by employees from their employers as supplementary remuneration
 - by the amount of compensation of employees for domestic services.

(1) This paragraph applies to the input-output table at mixed prices; for valuation in the input-output table at production prices and at ex-works prices, see 635 and 636.

b) collective consumption is valued on the basis of the costs incurred in the production of the non-market branches of general government and private non-profit institutions, less the incidental sales of these branches (see 314, 616). The value of these sales is included in transfers to branches or in the final consumption of households (see 616).

335. Final consumption appears in the following accounts of the ESA:

- among uses in the goods and services account (C 0) in respect of final consumption on the economic territory
- among uses in the use of income account (C 4) in respect of final national consumption
- among uses in the account current transactions with the rest of the world (C 7) in respect of final consumption of non-resident households on the economic territory
- among resources in the account current transactions with the rest of the world (C 7) in respect of final consumption of resident households in the rest of the world.

GROSS CAPITAL FORMATION (P 40)

336. Gross capital formation covers both gross fixed capital formation and change in stocks.

Gross fixed capital formation (P 41)

337. Definition : Gross fixed capital formation represents the value of durable goods intended for non-military purposes (see 323 f), each of more than about 100 units of account in value, which are acquired by resident producer units and are meant to be used for a period of more than one year in their process of production, including the value of any services embodied in the fixed capital goods acquired.

However, the purchase of a group of durable goods needed for an initial installation is considered to be gross fixed capital formation even if the value of each individual good is less than 100 units of account.

338. Gross fixed capital formation consists of:

- a) new durable goods bought on the market or produced by themselves by producer units during the relevant period and intended to be used, for a duration of more than one year, in the process of production
- b) goods and services incorporated into existing fixed capital goods, for the purpose of
 - improving them
 - prolonging their working life, increasing their production capacity or improving their performance
 - rebuilding or reconstructing them
- c) the goods and services incorporated in land
- d) the costs incurred in the transfer of ownership of land, existing buildings and other existing fixed capital goods and intangible assets
- e) net purchases, by producer units, of antiques and existing fixed capital goods (see 620).

339. The new durable goods which enter into gross fixed capital formation include, in particular:

- a) immovable fixed capital goods:
 - residential buildings, including accommodation for the households of members of the armed forces
 - non-residential civil buildings
 - other civil construction and works
- b) movable fixed capital goods (including used imported goods)
 - transport equipment
 - machinery and other equipment
 - changes in producers' livestock⁽¹⁾ in respect of:
 - adult cattle (2 years old or more)
 - goats, sheep, horse and other equine animals
 - zoo and circus animals
 - works of art created during the year and acquired by producer units.

(1) To avoid treating slaughtered animals as farming part of existing fixed capital, only the net change in the animals intended for slaughter is treated in the accounts as gross fixed capital formation.

340. The following items, on the other hand, are not included in gross fixed capital formation:

- a) small tools, working clothes, spare parts and equipment of small value (less than about 100 units of account) even if they have a normal life of more than one year; because they are renewed regularly, and to conform with business accounting practice, these items are treated as intermediate consumption (see 323 d)
- b) durable goods acquired by households for the satisfaction of their domestic wants; as these goods are not used for purposes of production, they are treated as final consumption (see 330 a)
- c) durable goods acquired by general government for military purposes (buildings for military use - except accommodation for the households of members of the armed forces -, military construction or works, military equipment). These items are treated as intermediate consumption of general government (see 323 f)
- d) services of scientific research, advertising, market research etc. Purchases of these services are included in intermediate consumption (see 323 g)
- e) land and intangible assets. The net balance of transactions in these items is included under the heading net purchases of land and intangible assets (see 398).

341. In the case of construction or equipment whose production extends over several periods, it is necessary to specify whether the value of the work carried out during the period should be recorded in the accounts under gross fixed capital formation or change in stocks.

In the case of work in progress on immovable fixed capital goods (residential buildings, non-residential civil buildings, other civil construction and works), the value of work carried out during the period is treated as gross fixed capital formation, except for dwellings for which a buyer has not yet been found (see 351); in the latter case, the value of work carried out is recorded in the accounts under change in stocks.

In the case of work in progress on movable fixed capital goods (transport equipment, machinery and other equipment), the value of the work carried out during the period is not included in gross fixed capital formation but in change in stocks (see 351).

344. The costs incurred when purchasing land, buildings, other fixed capital goods and intangible assets include the value of the services rendered by lawyers, estate agents and other intermediaries, together with any duties and other taxes payable in connection with such transfers. If they relate to new goods, these costs are already included in the value of the fixed capital goods measured at purchasers' prices. If they relate to existing goods, these costs constitute the only production taking place during the relevant period and are similarly treated as gross fixed capital formation.

345. Valuation of gross fixed capital formation

The goods and market services which enter into gross fixed capital formation are valued in the accounts and in the input-output tables at mixed prices, ⁽¹⁾ at purchasers' prices if they are bought or at production prices (see 628) if they are produced on own account.

346. Gross fixed capital formation appears in the following accounts of the ESA:

- among uses in the goods and services account (C 0)
- among uses in the capital account (C 5).

Change in stocks (P 42)

347. Definition: Stocks, whose change constitutes item P 42, consist of all goods, other than fixed capital goods, held at a given moment of time by resident producer units.

(1) This paragraph relates to the input-output table at mixed prices; for valuation in the input-output table at production prices and ex-works prices, see 635 and 636.

342. The value of goods and services incorporated into existing fixed capital goods for the purpose of improving them, prolonging their life, increasing their production capacity or performance, or rebuilding or reconstructing them, includes the value of all replacement or spare parts of a value of more than about 100 units of account, with a life of more than one year and which are not subject to regular renewal. For example, in the case of a motor lorry, the replacement of the engine involves a transaction which constitutes fixed capital formation, while the replacement of the tyres constitutes intermediate consumption. Similarly, in the case of a building, the replacement of central heating boiler or of the roof constitutes fixed capital formation, while the replacement of a boiler component or the repair of part of roof is intermediate consumption.

343. The value of goods and services incorporated into land includes expenditures for improving the land and preparing it for other productive uses, excluding the costs of current maintenance. It includes:

- a) expenditures on clearing, draining, irrigation, or on regrouping of holdings of land; expenditures on improving land for building or industrial purposes; expenditures incurred drilling wells or shafts when prospecting for, or extracting, oil and natural gas and for the purpose of exploiting mineral deposits
- b) expenditures on planting new forests or woodland; by convention, only the expenditures incurred during the first five years are taken into account
- c) expenditures on planting new orchards and vineyards; by convention, only the expenditures incurred during the first three years are taken into account.

348. By convention, households, in their capacity as consumers, are deemed to consume immediately all the goods which they buy, and the general government and private non-profit institutions branches to consume immediately all the goods which they purchase, with the exception of goods held as strategic or emergency stocks or for purposes of regulating the market in so far as the institutions concerned are classified in the general government sector.
349. Stocks of goods may refer to
- industrial products
 - harvested agricultural products
 - cattle under 2 years old, pigs fowl and other small farm animals.⁽¹⁾
350. It is not possible for services to form part of stocks, except for those which are included in the value, at purchasers' prices, of goods put into stocks (see 354).
351. In the case of construction or equipment whose production extends over several periods, it is necessary to specify whether the value of the work carried out during the period should be recorded in the accounts under change in stocks or under gross fixed capital formation.
- In the case of work in progress on movable fixed capital goods (transport equipment, machinery and other equipment), the value of the work carried out during the period is recorded under change in stocks. The accumulated value of these goods is transferred to gross fixed capital formation when their users assume control of them.
- In the case of work in progress on immovable fixed capital goods (residential buildings, non-residential civil buildings, other civil construction and works), only the value of work carried out during the period on dwellings for which a buyer has not yet been found is recorded under change in stocks. The value of work carried out during the period on dwellings for which a buyer has been found and on other immovable fixed capital goods is treated as gross fixed capital formation (see 341).

(1) Other animals form part of fixed capital (see 339 b).

352. Stocks of goods do not include the value of reserves of mineral resources, standing timber or standing crops; these reserves enter into the economic circuit only from the time when the minerals are worked, the timber felled or the crops harvested.
353. Only changes in stocks during the relevant period are shown in the accounts of the ESA. These changes are measured by the difference between the volume of stocks and work in progress at the beginning and the end of the period.
354. Valuation of change in stocks

In the accounts and in the input-output tables at mixed prices, (1) the goods which are included in change in stocks are valued on the basis of:

- production prices averaged over the relevant period, in the case of stocks held by producers
- purchasers' prices averaged over the relevant period in the case of stocks held by users.

Work in progress on fixed capital goods is valued on the basis of the costs of production incurred during the relevant period.

355. Change in stocks appears in the following accounts of the ESA:
- among uses in the goods and services account (C 0)
 - among uses in the capital account (C 5).

(1) This paragraph applies to the input-output table at mixed prices; for valuation in the input-output tables at production prices and at ex-works prices, see 635 and 636.

EXPORTS OF GOODS AND SERVICES (P 50)

Exports of goods (P 51)

356. Definition: Exports of goods include all goods⁽¹⁾ (national or nationalised⁽²⁾, new or existing) which whether payed for or free, permanently leave the economic territory of a country for some destination in the rest of the world.⁽³⁾
357. In this definition, the basic criterion used is when the goods actually cross the limits of the economic territory; in the case of exports of transport equipment, however, transfer of ownership from resident to non-resident units is always used as the criterion.
358. Exports of goods include the following items:
- a) special exports⁽⁴⁾ shown in the customs statistics of foreign trade, subject to the adjustment affecting goods shipped for repairs, described in paragraph 359 below
 - b) goods which, coming from the economic territory of the country, enter extra-territorial enclaves

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- (1) It is worth noting that, in the terminology currently used in foreign trade statistics, goods are generally called merchandise.
- (2) In this context, a 'national good' refers to a good produced on the country's economic territory; a 'nationalised good' is a good which, having been imported, has been cleared by customs and has therefore been admitted to free circulation on the country's economic territory.
- (3) In the input-output tables, goods repaired in specialist workshops and the products of the group salvage and recovery are always included in the branches which produce services; in the accounts, however, these same products when exported or imported are treated as exports and imports of goods, since they are included in special trade.
- (4) In the member countries of the European Communities special exports include:
- national (or nationalised) merchandise which, having been in free circulation on the country's economic territory, leaves it to be permanently exported to the rest of the world
 - national (or nationalised) merchandise exported for the purpose of processing abroad (refining, blending, finishing, assembling, packaging, or for various minor modifications etc.), or which is to be repaired abroad and then re-imported again
 - foreign merchandise which is re-exported from the country after it has been subjected to processing or repair, having been temporarily imported for this purpose.

- c) goods leaving territorial enclaves for the rest of the world
- d) fishery products, oil and natural gas, and products of maritime salvage extracted from international waters by resident units and landed directly in the rest of the world
- e) foreign goods which, after having entered free zones or bonded customs warehouses within the country, either for processing or for incorporation in repairs on behalf of non-resident units, leave for the rest of the world after being processed or incorporated in the repaired goods
- f) industrial gold sold on the country's financial market from one resident to another (see 510).

359. Goods sent to another country to be repaired there do not become part of the economy of that country.

For this reason, goods for repair are not to be included in the imports of goods or in the intermediate consumption of the country where the repair is carried out. The production and exports of goods for this country should include only the value of the repairs carried out (the value of the replacement or spare parts used and the value added by the repairers).

To the extent that the special trade statistics include in exports the total values of the goods which are due to be, or have been, repaired, it is necessary to deduct from them

- the total value of goods exported for repairs
- the value of re-exported repaired goods before they were repaired, only the value of the repairs themselves thus being included in the accounts as exports of goods.

360. It should be noted that, when their value is not included in the customs statistics of special trade, the following goods transferred to the rest of the world should be included in exports:

- a) goods (national or nationalised) supplied as fuel, ballast and provisions for ships and aircraft operated by non-residents during their stay at the country's ports and airports
- b) electric power, gas and water (the total value of deliveries and not the net balance between deliveries and receipts)
- c) goods sent by parcel post

- d) military arms and equipment sold by general government
 - e) works of art, collectors' pieces, antiques
 - f) gold ore, unrefined gold and gold for industrial use⁽¹⁾
 - g) boats, aircraft and floating platforms whose ownership has passed from resident to non-resident units
 - h) goods which, after leaving the economic territory of the country as temporary exports (see 362 c) are not returned within the prescribed time limits and thereby become permanent exports
 - i) existing buildings situated on land abroad which ceases to be used as a territorial enclave of the country, or on domestic land which acquires the status of a territorial enclave of a foreign country.
361. Returned goods, i.e. goods exported and subsequently returned to the consignor, must be specially mentioned: in practice, these goods should not be shown in the accounts as imports of the country but should cancel out the corresponding exports previously recorded; that is to say, the value of these returned goods should be deducted from the values previously registered for exports. On the other hand, any replacements which happen to be needed for returned goods should be included in exports in the normal way.
362. Exports of goods do not include the following items:
- a) national (or nationalised) goods which having been in free circulation on the country's economic territory are deposited in bonded customs warehouses of the same country
 - b) the departure of goods in direct or indirect transit⁽²⁾
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- (1) Gold for industrial use corresponds to part of the NIMEXE heading 00.50-00, namely sub-heading 00.50-02 which includes the following items of the C.C.T. (European Communities Common Customs Tariff).
- 71.07.A Unworked gold and alloys of gold
 - 71.07.B.2 Gold and alloys of gold in the form of bars, wire, sections, sheets, foil and strips, other than financial gold
 - 71.07.C Gold in tubes, pipes and hollow bars
 - 71.07.D Foil made of gold and gold alloys (maximum thickness 0.15mm)
 - 71.07.E Dust, purl, cuttings, scale and punchings of gold and its alloys
 - 71.08 Rolled or plated gold on base metals and on unworked or semi-worked silver
 - 71.11.A Gold ash, scrap and waste.
- (2) Only the value of services rendered by resident units in connection with the transit of these goods on the territory of the country (transport, warehousing, trans-shipment, insurance etc.) affects the national economy and is shown in the accounts as an export of services.

- c) temporary exports, i.e. exports of goods which, after being used for a short time abroad, must be returned to their country of origin (e.g., exhibition equipment and accessories; tools and equipment for the assembly of other machinery or for road building or other construction goods or transport equipment hired or lent to non-residents, containers and other forms of packaging which can be used again; animals for racing or breeding, etc.)
- d) goods consigned directly to territorial enclaves situated in the rest of the world (see 205 d);
- e) goods bought on the economic territory by non-resident households (see 328);
- f) consignments of financial gold (see 510) and metal coins in circulation having the status of legal tender (see 519 a, 521 a)
- g) sales of land by residents to non-residents (see 211, 399)
- h) the personal effects and belongings of travellers.

Valuation of exports of goods

363. Exports of goods are valued f.o.b. (free on board) which corresponds to the market price of the goods at the frontier of the exporting country. This price covers
- the ex-works price
 - commercial margins
 - the costs of transport as far as the frontier
 - the costs of loading on the ship or on any other means of international transport⁽¹⁾
 - any taxes on exports.

It must be emphasised that the price of the goods at the frontier does not include any taxes linked to production for which rebates are granted on goods exported. Exports of goods which are given away are valued at the f.o.b. value of similar goods.

(1) Only in so far as these costs are not met by the non-resident importer or the international transporter.

364. Exports of goods appear in the following accounts of the ESA:
- among uses in the goods and services account (C 0)
 - among uses in the account current transactions with the rest of the world (C 7).

Exports of services (P 52)

365. Definition: Exports of services include all services (transport, insurance, others)⁽¹⁾ provided by resident units⁽²⁾ to non-resident units.⁽³⁾

366. Exports of services include the following items:

- goods transport services
- passenger transport services
- other kinds of transport services
- insurance services
- other services.

Exports of goods transport services

367. This heading covers services provided to non-resident units by resident transport units for the following purposes:
- a) forwarding national or nationalised exports of goods beyond the f.o.b. valuation point
 - b) transporting goods in the rest of the world on behalf of non-resident units
 - c) transporting foreign goods in transit on the national territory
 - d) transporting, on behalf of non-resident units, goods not included in exports or imports (e.g. financial gold, personal effects of travellers, etc.).

(1) See 356 note 3 concerning repairs.

(2) Including those resident in territorial enclaves (see 205 d).

(3) Including those resident in extra-territorial enclaves (see 206).

The services of transporting goods are valued at market prices. In addition, exports of goods transport services must, by convention, include an amount equal to the value of the freight, charged on imported merchandise, which resident transporters have received from resident importers. (1)

Exports of passenger transport services

368. This heading covers all international passenger transport services provided by resident units to non-resident units.

These services are valued at the price of the travel ticket, even if this price includes the value of ancillary services, such as accommodation and food on board, or the carriage of accompanied excess baggage.

Transport services within the country provided for non-resident households are excluded from the export of services.

Exports of other kinds of transport services

369. This heading covers the following services provided by resident units to non-resident units:

- the use of the country's ports and airports
- the services of pilots, tugs etc. in these ports
- the chartering (on the basis of time or distance) of ships and other means of transport fully commissioned and operated by residents.

These services are valued at market prices. On the other hand, the following transport services are not included:

- the value of fuel, ballast and provisions supplied in the country's ports or airports to ships and aircraft operated by non-resident units (see 360 a)
- the value of repairs carried out on the economic territory of the country by resident units to transport equipment operated by non-resident units (see 359).

(1) In practice, this offsets (at the level of the balance of imports and exports of goods and services) the over-valuation due to the adoption of c.i.f. values for imports of goods (see 384).

Exports of insurance services

370. This heading covers all insurance and reinsurance services provided by resident units to non-resident units.

Exports of insurance services are valued by applying, for each type of insurance, the ratio of the payments for insurance services to that of gross premiums as calculated for resident units as a whole to the total amount of gross premiums paid by non-resident to resident units.

In addition, exports of insurance services must, by convention, include an amount equal to the value of the insurance services on imported goods which resident insurance enterprises have received from resident importers. (1)

Exports of other services

371. This heading covers all other services provided by resident to non-resident units and, in particular, the following:

a) communications services (post, telegraph, telephone, radio communications), and broadcasting and television services. These services are valued at market prices and shown in the accounts at their gross value and not as the net balance to be settled between resident and non-resident units agreed on the basis of clearing arrangements

b) services involving the hire of films, the hire of transport equipment not fully commissioned, and the hire of other movable goods. These services are valued on the basis of the gross rents received by resident units

c) services involving study, research, industrial assistance, advertising, participation in shows, congresses, exhibitions etc. These services are valued on the basis of the amounts received by resident units

d) services provided by commercial agents and correspondents and by brokers.

These services are valued on the basis of the commissions received by resident units

(1) In practice, this offsets (at the level of the balance of imports and exports of goods and services) the over-valuation due to the adoption of c.i.f. values for imports of goods (see 384).

e) services provided by financial institutions in connection with the issue or sale of foreign securities in the country.

These services are valued on the basis of the commissions received by resident units

f) services involving the liberal professions, handicrafts or arts.

These services are valued on the basis of fees or other payments received by resident units

g) services of management, administration and other services provided by the head office of an enterprise (a resident unit) to its foreign subsidiaries, branches or agencies (non-resident units).

These services are valued on the basis of the payments actually received by the resident parent body from its non-resident subsidiaries, branches or agencies

h) profits on arbitrage transactions in foreign currencies carried out by resident units with non-resident units

i) the credit balance on arbitrage transactions carried out by resident units in respect of merchandise which has at no time been admitted to free circulation on the territory of the country.

372. Exports of other services do not include:

a) the value of processing work done by resident units on behalf of non-resident units on goods temporarily imported into the economic territory of the country (see 358 note 4)

b) the value of repairs carried out by resident units, on behalf of non-resident units, to goods temporarily admitted into the economic territory of the country specifically for the purpose of being repaired (see 356 note 3, 359)

c) the value of the services consumed by non-resident households on the economic territory of the country (see 328)

d) royalties under patents, copyrights and other income from intangible assets paid by non-resident to resident units.

These receipts are treated in the accounts as income from the ownership of intangible assets received from the rest of the world (see 436 c).

Valuation of exports of services

373. Exports of services are valued according to the conventions indicated in the preceeding paragraphs.
374. Exports of services appear in the following accounts of the ESA:
- among uses in the goods and services accounts (C 0)
 - among uses in the account current transactions account with the rest of the world (C 7).

IMPORTS OF GOODS AND SERVICES (P 60)

Imports of goods (P 61)

375. Definition: Imports of goods include all goods⁽¹⁾ (new or existing) which, whether payed for or free, permanently enter into the economic territory⁽²⁾ of the country having been despatched from the rest of the world.⁽³⁾
376. In this definition, the basic criterion used is when the goods actually cross the limits of the economic territory; in the case of imports of transport equipment, however, transfer of ownership from resident to non-resident units is always used as the criterion.

(1) It is worth noting that, in the terminology currently used in foreign trade statistics, goods are generally called merchandise.

(2) In the case of imports, merchandise which, having been despatched from the rest of the world, is held in free zones or bonded customs warehouses of the country is deemed to enter into its economic territory from the moment when it is admitted to free circulation on that territory.

(3) See 356 note 3 concerning repairs.

377. Imports of goods include the following items:

- a) special imports⁽¹⁾ shown in the customs statistics of foreign trade, subject to the adjustment affecting goods shipped for repairs, described in paragraph 378 below
- b) goods which, originating from the rest of the world, enter into the country's territorial enclaves
- c) goods which enter the economic territory of the country from extra-territorial enclaves
- d) fishery products, oil and natural gas, and products of maritime salvage, extracted from international waters by non-resident units and landed on the country's economic territory
- e) foreign goods which enter into free zones or bonded customs warehouses within the country, either for purposes of processing or for incorporation in repairs on behalf of non-resident units
- f) financial gold sold from one resident to another in order to be utilised as merchandise; this gold can no longer be treated as a foreign asset and reverts to being industrial gold (see 510).

378. Goods sent to another country to be repaired do not become part of the economy of that country (see 359).

For this reason, to the extent that the special trade statistics include in imports the total values of the goods which are due to be, or have been, repaired, it is necessary to deduct from them

- the total value of goods imported for repairs
- the value of the re-imported repaired goods before they were repaired, only the value of the repairs themselves (replacement or spare parts used and the value added by the repairers) being thus included in the accounts under imports.

(1) In the member countries of the European Communities, special imports consist of:

- all foreign merchandise permanently introduced into the country to be used there, whether this merchandise is admitted through Customs directly into free circulation at the time of its entry into the country or whether it is admitted only after other Customs procedures have been applied to it
- foreign merchandise imported into the country for purposes of processing (refining, blending, finishing, assembling, packaging, or for various minor modifications etc.) or for purposes of repair, to be subsequently re-exported
- national (or nationalised) merchandise which is re-imported into the country after having been temporarily exported for purposes of processing or repair.

379. It is advisable to specify that, in cases where their values may not be recorded in the customs statistics of special trade, the following goods, obtained from the rest of the world, are to be included in imports:
- a) foreign goods which ships and aircraft operated by residents have taken on board as fuel, ballast and provisions, whether these have been bought from non-resident units on arrival at ports in the rest of the world or withdrawn from supply stores in free zones on arrival at ports or airports within the home country
 - b) electric power, gas and water (the total value of receipts and not the net balance between receipts and deliveries)
 - c) goods received by parcel post
 - d) military arms and equipment acquired by the general government
 - e) works of art, collectors' pieces, antiques
 - f) gold ore, unrefined gold and gold for industrial use (see 360 f note 1)
 - g) boats, aircraft and floating platforms whose ownership has passed from non-resident to resident units
 - h) goods which originated from the rest of the world as temporary imports (see 381 c) are not returned there within the prescribed time limits and thereby become permanent imports
 - i) existing buildings situated on land within the country which ceases to be the enclave of a foreign country or on land abroad which acquires the status of an enclave of the country.
380. Returned goods, i.e. goods imported and subsequently returned to the consignor, must not be treated in the accounts as the country's exports, but must cancel out the corresponding imports previously recorded; that is to say, the value of these goods should be deducted from the values previously registered as imports. On the other hand, any replacements which happen to be needed for returned goods should be included in imports in the normal way.

381. Imports of goods do not include the following items:

- a) national (or nationalised) goods which, after having been deposited in bonded customs warehouses of the country, are re-admitted into free circulation on the territory of the same country.
- b) entries of goods in direct or indirect transit
- c) temporary imports, i.e. imports of goods which, after being used for a short time within the country, must be returned to their country of origin (e.g., exhibition equipment and accessories, tools and equipment for the assembly of other machinery or for road building or other construction; goods or transport equipment belonging to foreigners hired or lent to residents; containers and other forms of packaging which can be used again; animals for racing or breeding, etc....)
- d) goods consigned directly to extra-territorial enclaves situated within the country (see 206)
- e) goods bought in the rest of the world by resident households (see 328)
- f) receipts of financial gold (see 510) and of metal coins in circulation as legal tender (519 a, 521 a)
- g) purchases of land by residents from non-residents (see 211, 399)
- h) the personal effects and belongings of travellers (including goods which persons coming from the rest of the world are allowed to bring with them, within the limits permitted by legal or authorized allowances, when they cross the country's frontier.

Valuation of imports of goods

382. Imports of goods are valued at their c.i.f. (costs, insurance, freight) value, which includes the following elements:

- a) the f.o.b. value of the goods, i.e. their value up to the frontier of the country of export (see 363)

- b) - costs of transport
 - accident insurance
 - service charges
 - net premiums for accident insurance
- } between the frontier of the exporting country and the frontier of the importing country

However, the c.i.f. value does not include any taxes linked to imports.

It is possible for the whole of the country's imports to arrive at the f.o.b. value from the c.i.f. value; but it is, on the contrary, practically impossible for member countries of the European Communities to make an estimate of this kind by product or by group of products. Using the c.i.f. value for valuing imports makes it necessary to adopt the two following conventions.

383. Convention concerning the net insurance premiums included in the c.i.f. value of the imported goods.

At the level of the national economy, it is assumed, by convention, that the amount of net premiums paid to insure the whole of the goods imported corresponds to the value of the losses and damage incurred by the goods in the course of transport between the frontiers of the exporting and importing countries. It can thus be taken that, at the level of the national economy, the c.i.f. value of the whole of the goods actually imported by a country includes in addition to the f.o.b. value of the goods consigned from the rest of the world only the price of the transport services and the price of the insurance services.

384. Convention to eliminate the consequences of including in the c.i.f. value the costs of the transport and insurance services relating to the goods imported.

Transport and insurance services on imported goods may be provided by resident or by non-resident units. Two cases must therefore be distinguished:

- a) when these services are provided by resident units, and since their value is embodied in the c.i.f. value of the imported goods, in order to balance the accounts⁽¹⁾ the value of the exports of services (P 52) must be increased by an amount equal to the payment for transport and insurance services on imported goods which resident transport and insurance enterprises have received from resident importers. This is equivalent to treating the transport and insurance services on imported goods which are provided by resident units as being, by convention, sold by the resident unit which provides them to the non-resident exporter and not to the resident importer
- b) when the transport and insurance services are provided by non-resident units, and since their value is embodied in the c.i.f. value of the imported goods, they must not be included in the accounts twice, once in the c.i.f. value of imports of goods, and a second time in imports of services; the value of imports of services (P 62), therefore, includes only the value of transport and insurance services excluding those on imported goods.

385. In conclusion, it is necessary to observe the following conventions

- the heading (P 61) consists of imports of goods (valued f.o.b.) plus the value of transport and insurance services on imported goods
- the heading (P 62) consists of imports of services excluding transport and insurance services on imported goods
- the heading (P 52) consists of exports of services, plus the value of transport and insurance services on imported goods, provided by resident units.

386. An annex to the account current transactions with the rest of the world gives a global estimate of imports of goods (valued c.i.f.), actual imports of services and actual exports of services.

(1) Goods and services account for the national economy, current transactions with the rest of the world account, input-output tables.

387. Imports of goods appear in the following accounts of the ESA:
- among resources in the goods and services account (C 0)
 - among resources in the account current transactions with the rest of the world (C 7).

Imports of services (P 62)

388. Definition: Imports of services include all services (transport, insurance, others)⁽¹⁾ provided by non-resident units⁽²⁾ to resident units.⁽³⁾

389. Imports of services include the following items:
- goods transport services
 - passenger transport services
 - other kinds of transport services
 - insurance services
 - other services.

Imports of goods transport services

390. These are services provided by non-resident transport units to resident units for the following purposes:
- a) forwarding imported goods beyond the c.i.f. valuation point⁽⁴⁾
 - b) transporting goods between different parts of the rest of the world on behalf of resident units
 - c) transporting, on behalf of resident units, goods excluded from exports or imports (e.g. financial gold, personal effects of travellers etc.).

Goods transport services are valued at market prices.

(1) See 356 note 3 concerning repairs.

(2) Including those resident in extra-territorial enclaves (see 206).

(3) Including those resident in territorial enclaves (see 205).

(4) The expenses incurred in transporting imported goods between the frontiers of the exporting and importing countries are already included in the c.i.f. value of these goods (see 382 b).

Imports of passenger transport services

391. These are all international passenger transport services provided by non-resident transport units to resident units.

These services are valued at the price of the ticket, even if this price includes the value of ancillary service such as meals, accommodation on board or the carriage of excess accompanied baggage.

Transport services provided in the rest of the world to resident households are excluded from imports of services.

Imports of other kinds of transport services

392. This heading covers the following services rendered by non-resident units to resident units:

- the use of foreign ports and airports
- the services of pilots, tugs, etc. in these ports
- the chartering (on the basis of time or distance) of ships and other means of transport fully commissioned and operated by non-residents.

These services are valued at market prices.

On the other hand, the following transport services are not included:

- the value of fuel, ballast and provisions supplied in foreign ports or airports to ships and aircraft operated by residents (see 379 a)
- the value of repairs carried out in the rest of the world to transport equipment operated by resident units (see 378).

Imports of insurance services

393. This heading covers all insurance and re-insurance services provided by non-resident units to resident units, with the exception of insurance services relating to the international transport of imported goods.⁽¹⁾

(1) These should not, in fact, be treated in the accounts as imports of services, since, because of the basis of valuation used for imports of goods (c.i.f. value) their value is already included in the aggregate value of these imports (see 382 to 385).

Imports of insurance services are valued by applying, for each type of insurance, the ratio of the payments for insurance services to gross premiums as calculated for resident units as a whole to the total amount of gross premiums paid by resident to non-resident units.

Imports of other services

394. This heading covers all other services rendered by non-resident to resident units and, in particular, the following:

- a) communications services (post, telegraph, telephone, radio communications) and broadcasting and television services.

These services are valued at market prices and are shown in the accounts at their gross value and not as the net balance to be settled between resident and non-resident units agreed on the basis of clearing arrangements

- b) services involving the renting of films, the renting of transport equipment not fully commissioned and the renting of other movable goods.

These services are valued on the basis of gross rents paid to non-resident units

- c) services involving study, research, industrial assistance, advertising, participation in shows, congresses, exhibitions, etc.

These services are valued on the basis of the amounts paid to non-resident units

- d) services provided by commercial agents and correspondents and by brokers.

These services are valued on the basis of commissions paid to non-resident units

- e) services provided by financial institutions in connection with the issue or sale of national securities in the rest of the world.

These services are valued on the basis of commissions paid to non-resident units

- f) services involving the liberal professions, arts or handicrafts.

These services are valued on the basis of fees or other payments made to non-resident units

- g) services of management, administration and other services provided by the head office of an enterprise (a non-resident unit) to its branches, subsidiaries or agencies on the economic territory (resident units).

These services are valued on the basis of the payments actually made by the resident units to their non-resident parent organisations

- h) losses on arbitrage transactions in foreign currencies carried out by resident units with non-resident units
- i) any debit balance which happens to occur on arbitrage transactions carried out by resident units in respect of merchandise which has at no time been admitted to free circulation on the territory of the country.

395. Imports of other services do not include:

- a) the value of processing work carried out by non-resident units on behalf of resident units on goods temporarily exported from the economic territory of the country (see 377 note 1)
- b) the value of repairs carried out by non-resident units, on behalf of resident units, to goods which have temporarily left the economic territory of the reporting country to be repaired in the rest of the world (see 356 note 3 and 378)
- c) the value of the services consumed by resident households in the rest of the world (see 328)
- d) royalties on patents, copyrights and other income from intangible assets paid by resident to non-resident units.

These payments are treated in the accounts as income from the ownership of intangible assets paid to the rest of the world (see 436 c).

Valuation of imports of services

396. Imports of services are valued according to the conventions indicated in the preceding paragraphs.

397. Imports of services appear in the following accounts of the ESA:

- among resources in the goods and services account (C 0)
- among resources in the account current transactions with the rest of the world (C 7).

NET PURCHASES OF LAND AND INTANGIBLE ASSETS (P 70)

398. The heading P 70 covers net purchases of land and intangible assets. These transactions do not appear under any other heading involving transactions in goods and services and are not recorded in the input-output table.

In the sector accounts they are shown in the capital account as the net balance between purchases and sales. The value which appears in the capital account for the national economy and for the rest of the world represents net purchases of

- land by the general government⁽¹⁾
- intangible assets by resident from non-resident units.

Net purchases of land (P 71)

399. Definition: Net purchases of land represent the balance (purchases less sales) of transactions in land, including underground deposits, forests and inland waters, but excluding, in principle, any buildings and constructions situated on the land.

3100. When a transaction involves both land and existing buildings, the whole of the transaction is to be classified

- under the heading net purchases of land (P 71) if the transaction relates principally to the land, the buildings being intended for demolition
- under the heading gross fixed capital formation (P 41) if the transaction relates principally to the buildings, the land being regarded as of lesser importance.

(1) It should be remembered that purchases and sales of land, other than land situated in enclaves, can take place only between resident units; if non-resident units take part in such transactions, they are regarded as notional resident units (see 211). On the other hand, purchases and sales of land, which thereby loses or acquires the status of an extra-territorial enclave, are regarded as transactions between resident and non-resident units.

3101. Transactions involving land should be recorded at the same value for both buyer and seller. The value of such a transaction does not, therefore, include transfer costs such as agents' commissions, legal fees, registration fees and any other taxes involved. These expenses represent purchases of services produced during the relevant period and they are treated in the accounts as gross fixed capital formation (see 338 d, 344).

3102. In the ESA, net purchases of land are recorded among uses in the capital account (C 5) of each sector and of the rest of the world.

Net purchases of intangible assets (P 72)

3103. Definition: Net purchases of intangible assets represent the balance (purchases less sales)⁽¹⁾ of transactions in intangible assets such as patents, trademarks, designs, copyright, concession rights affecting the soil and subsoil, rights which do not entitle the holder to a share in the net assets in the event of liquidation (see 549), etc.

3104. Transactions in intangible assets should be recorded at the same value for both buyer and seller. The value of the transactions does not therefore include transfer costs such as agents' commissions, legal fees, registration fees and any other taxes linked to the transfer of intangible assets. These expenses represent, in fact, purchases of services produced during the relevant period and are included in the accounts as gross fixed capital formation (see 338 d, 344).

3105. In the ESA, the net purchases of intangible assets are recorded among uses in the capital account (C 5) of each sector and of the rest of the world.

(1) It should be remembered that only transactions involving a change of ownership are considered under this heading. The ESA does not treat as a productive activity authorisation to use intangible assets temporarily granted to third parties on the basis of hire contracts, concessions, etc. Payments in these cases, such as royalties on patents or for working of deposits, etc., are treated in the accounts as income from land and intangible assets (see 435).

CHAPTER IV
DISTRIBUTIVE TRANSACTIONS (1)

401 - 403

401. Distributive transactions are transactions by means of which the value added by resident producer units and factor income originating from the rest of the world are distributed, and income and wealth are re-distributed.

The value added by resident producer units, which is available for distribution, may be shown in the accounts gross or net, i.e. before or after the deduction of consumption of fixed capital.

Consumption of fixed capital (A 1)

402. Definition : Consumption of fixed capital (A 1) represents the amount of fixed capital used up, during the period under consideration, as a result of normal wear and tear and foreseeable obsolescence, including a provision for losses of fixed capital goods as a result of accidental damage which is coverable by insurance.

403. Consumption of fixed capital must be calculated for all reproducible fixed capital goods (goods used for the purpose of gross fixed capital formation, see 337-339), with the exception of capital goods for collective use with an indeterminate life time (roads, bridges, etc.). Consumption of fixed capital (which should be distinguished from depreciation allowed for tax purposes or the depreciation shown in the internal accounts of an enterprise) must be estimated starting from the value of the stock of fixed capital goods and the probable economic life of the different categories of these goods. In estimating the value of the stock of capital goods, their initial cost should not be taken into account but their current value at replacement prices.

Consumption of fixed capital is calculated according to the method of "straight line" depreciation, that is by treating the rate of amortization as constant over the whole life time of a capital good.

(1) Throughout the ESA, the adjective "distributive" is used exclusively with reference to transactions involving the distribution or redistribution of income or wealth; it is never used with reference to wholesale or retail trade.

403 (cont'd)

The provision for accidental damage included in consumption of fixed capital is intended to cover the risk of insurable accidental damage to fixed capital goods (fire, accident, etc.). When these risks are actually insured against, the net accident insurance premiums on fixed capital goods paid by producers yield an approximate measure of the amount of such provision. When the fixed capital goods are not insured, or are under-insured, the amount of the provision should be estimated by comparison with the net premiums which would be due in the event of proper insurance.

In the system of accounts, consumption of fixed capital is not shown as a flow between the production account and the capital account, but is recorded below each accounting balance (see 113 to 116).

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404

404. The ESA distinguishes the following distributive transactions :

Transactions	Code
Distributive transactions linked to the process of production	
Compensation of employees	R 10
Taxes linked to production and imports	R 20
Taxes linked to production	R 21
Subsidies	R 30
Other transactions involving the distribution of income	
Property and entrepreneurial income	R 40
Actual interest	R 41
Imputed interest on insurance technical reserves	R 42
Income from land and intangible assets	R 43
Dividends and other income distributed by corporate enterprises	R 44
Withdrawals from the entrepreneurial income of quasi-corporate enterprises	R 45
Accident insurance transactions	R 50
Net accident insurance premiums	R 51
Accident insurance claims	R 52
Unrequited current transfers n.e.c.	R 60
Current taxes on income and wealth	R 61
Actual social welfare contributions	R 62
Imputed social welfare contributions	R 63
Social welfare benefits	R 64
Current transfers within general government	R 65
Current transfers to private non-profit institutions	R 66
Current international co-operation	R 67
Private international transfers	R 68
Miscellaneous current transfers	R 69
Transactions involving the distribution of capital	
Capital transfers	R 70
Investment grants	R 71
Capital taxes	R 72
Other capital transfers	R 79
Change in the actuarial reserves for pensions (adjustment flow)	F 911

405 - 407

405. Distributive transactions are shown in several accounts of the ESA :

- a) distributive transactions linked to the process of production
- compensation of employees (R 10), taxes linked to production and imports (R 20) and subsidies (R 30) appear in the generation of income accounts of producer sectors and branches. Their corresponding entries are recorded in the distribution of income accounts of the sectors concerned (households for the compensation of employees, general government for taxes linked to production and imports and for subsidies) or in the account current transactions of the rest of the world;
- b) other transactions involving the distribution of income - property and entrepreneurial income (R 40) accident insurance transactions (R 50) unrequited current transfers n.e.c. (R 60) - appear in the distribution of income accounts of sectors and in the account current transactions of the rest of the world;
- c) capital transfers (R 70) - investment grants, capital taxes and other capital transfers - are recorded in the capital accounts of sectors and of the rest of the world;
- d) the change in the actuarial reserves for pensions (F 911) constitutes an adjustment flow which is recorded in the use of income accounts of the sectors concerned and in the account current transactions of the rest of the world.

COMPENSATION OF EMPLOYEES (R 10)

406. Definition : The compensation of employees (R 10) includes all payments in cash and in kind made by employers in remuneration for the work done by their employees (see 815) during the relevant period.

407. These payments cover :

- gross wages and salaries (R 101)
- employers' actual social welfare contributions (R 102)
- imputed social welfare contributions (R 103).

408, 409

Gross wages and salaries (R 101)

408. Gross wages and salaries (R 101)⁽¹⁾ include the following elements :

- a) basic wages and salaries
- b) enhanced rates of pay for overtime, nightwork, weekend work
- c) cost of living allowances, local allowances and expatriation allowances
- d) bonuses based on productivity or profits, Christmas and New Year bonuses, "13 month" pay (annual supplementary pay)
- e) allowances for transport to and from work
- f) holiday pay for official holidays or annual holidays
- g) commissions, tips, attendance and directors fees paid to employees
- h) value of bonus shares distributed to employees (see 731, 732)
- i) payments made by employers to their employees under savings schemes
- j) payments in kind, i.e. goods and services, supplied free, or at reduced prices, to employees for their own consumption (food, drink, tobacco, fuel, housing, clothing, and meals and uniforms for members of the armed forces)
- k) housing allowances paid in cash by employers to their employees.

409. Gross wages and salaries do not include :

- a) expenditures by employers which are to their own benefit as well as to that of their employees, such as :
 - allowances or reimbursement of employees for travelling, separation, removal and entertainment expenses incurred in the course of their duties
 - expenditures on providing amenities at the place of work, medical examinations, supplying working clothes (other than military uniforms)
 - current expenditures devoted to sporting or recreational facilities intended for employees
 - current expenditures on the transport of employees to and from work organised by their employers.

These expenditures are included in the intermediate consumption of employers (see 323 a).

.../...

(1) Wages and salaries are described as gross because they are shown before deduction of social welfare contributions payable by employees and taxes on income deducted at source.

410 - 411

- b) allowances to employees for the purchase of tools, equipment or special clothing (except military uniforms) needed for their work, or that part of their wages or salaries which, under their contracts, employees are required to devote to such purchases. These expenditures are included in the intermediate consumption of employers (see 323 b).
- c) the amounts of wages and salaries which employers continue to pay to their employees temporarily in the case of sickness, maternity, industrial injury, disability, redundancy, etc. These payments are treated as social welfare benefits (see 479), with the same amounts being shown under imputed social welfare contributions.

Employers' actual social welfare contributions (R 102)

410. The employers' actual social welfare contributions (R 102) consist of the payments made by employers to insurers (social security funds, insurance enterprises, central or local government agencies in the case of civil servants), for the benefit of their employees. These payments cover statutory, conventional, contractual and voluntary contributions in respect of insurance against the risks of sickness, maternity, disability, old age and survivors, unemployment, industrial injuries and occupational diseases, and in respect of family allowances.

Although paid directly by employers to the insurers, these employers' contributions are treated as a component of the compensation of employees, who are then deemed to pay them over to the insurers.

Imputed social welfare contributions (R 103)

411. Imputed social welfare contributions (R 103) represent the counterpart of social welfare benefits paid directly, - i.e. in the absence of any circuit of actual contributions - by employers to their employees or former employees and other entitled persons (1).

The fact that certain social welfare benefits are paid directly by employers, and not through the medium of social security funds or other insurers, in no way detracts from their character as social welfare benefits; but, since the costs of these benefits form part of the employers' labour costs, they should also be included in the compensation of employees.

.../...

(1) Imputed social welfare contributions include an amount equal in value to the wages and salaries which employers temporarily continue to pay in the event of the sickness, maternity, industrial injury, disability, redundancy, etc. of their employees (see 479).

412. In the accounts of the employers' sectors, the costs of direct social welfare benefits appear first among uses in the generation of income account, as a component of the compensation of employees, and a second time among uses in the distribution of income account, as social welfare benefits (see 483). In order to balance the latter account, it is assumed that the households of employees pay back to the employers' sectors the imputed social welfare contributions which finance the direct social welfare benefits provided to them by these same employers. This notional circuit is similar to the actual social welfare contributions of employers, which pass through the accounts for households and which are deemed to be paid by them to the insurers.

For the valuation of imputed social welfare contributions, the amount of which does not necessarily coincide with that of direct social welfare benefits, reference should be made to the heading R 63 (see 468-473)

413. The compensation of employees may consist of :

- a) the compensation of resident employees by resident employers
- b) the compensation of resident employees by non-resident employers
- c) the compensation of non-resident employees by resident employers.

The ESA records these different items as follows :

- the compensation of resident and non-resident employees by resident employers groups together items a) and c) and appears among uses in the generation of income account (C 2) of employing sectors and branches
- the compensation of resident employees by resident and non-resident employers groups together items a) and b) and appears among resources in the distribution of income account (C 3) of households
- item b), compensation of resident employees by non-resident employers appears among uses in the account current transactions of the rest of the world (C 7)
- item c), compensation of non-resident employees by resident employers appears among resources in the account current transactions of the rest of the world (C 7).

414 - 417

TAXES LINKED TO PRODUCTION AND IMPORTS (R 20)

414. Definition : Taxes linked to production and imports (R 20) consist of compulsory payments which are levied by general government or by the institutions of the European Communities on producer units in respect of the production (1) and importation of goods and services or the use of factors of production. These taxes are a component of the ex-works price (see 629) or of the ex-customs price (see 632); producers are liable to pay them irrespectively of whether or not they operate at a profit.

415. The amount of the taxes which should be recorded includes any interest charged on arrears of taxes due and any fines imposed by taxation authorities; it also includes any charges which may be imposed in connection with the collection or recovery of taxes outstanding. Correspondingly, it is reduced by the amount of any tax rebates made by general government as a matter of economic policy and any tax refunds made as a result of over-payments.

416. Taxes linked to production and imports may be divided into :

- taxes linked to production (R 21)
- taxes linked to imports (R 29).

Taxes linked to production (R 21)

417. Taxes linked to production (R 21) include, in particular, the following duties and taxes :

- a) value added tax (2) (see appendix)
 - b) other taxes on turnover (2)
 - c) excise duties and other consumption taxes (2)
 - d) registration duties, except those levied on inheritances and gifts inter-vivos (see 4109 a)
 - e) stamp duties, except those paid by households for certain services provided by general government (see 496 a)
 - f) sales taxes
 - g) entertainment taxes
- .../...

(1) Production is defined in the broad sense used in national accounts and includes the production of services such as transport, trade, finance, insurance, etc. Taxes incurred on the sales or purchases of goods and services are therefore part of taxes linked to production.

(2) Except for that part which constitutes taxes linked to imports (see 418).

418, 419

- h) taxes on lotteries, gambling and betting, except those levied on the amounts won
- i) taxes on motor vehicles whenever these are fixed capital goods
- j) taxes on land and buildings, except when these taxes constitute merely an administrative device for assessing and collecting the total income tax (1)
- k) taxes on the total wage bill or on the capacity of the power installed
- l) taxes on movements of capital
- m) the profits of fiscal monopolies which are transferred to the government
- n) the operating surpluses of public enterprises which, without being constituted as fiscal monopolies, actually occupy a monopolistic position, to the extent that these surpluses tend permanently to exceed a normal margin of profit
- o) duties on exports
- p) duties, fees or contributions to costs paid by producer units to general government in respect of services provided by the latter, as a matter of general policy, and which are compulsory whenever these services are required (for example, passport and driving licence, fees, legal costs).

Taxes linked to imports (R 29)

418. Taxes linked to imports (R 29) represent compulsory payments levied by general government or by the institutions of the European Communities on imported goods in order to admit them to free circulation on the economic territory of a country. These payments include, in particular, customs duties levied on imported agricultural goods, the value added tax on imported goods, other turnover taxes affecting imported goods as well as excise duties and any other consumption taxes affecting imported goods.

419. Taxes linked to production and imports levied by the institutions of the European Communities include :

- taxes paid directly by resident producer units to the institutions of the European Communities (the Coal and Steel Community's levy on coal mining and iron and steel producing enterprises).

.../...

(1) In this case, taxes on land and building are treated as current taxes on income or wealth (see 459 a).

420-423

- taxes (for example, the levies on imported agricultural products) and fractions of taxes (for example, fractions of customs duties) collected by national governments on behalf of the institutions of the European Communities. These taxes constitute the latter's own resources, and their collection by national governments must be regarded purely as a transaction on behalf of another unit (see 215).

420. In the system of accounts, taxes linked to production and imports (R 20) appear :

- among uses in the generation of income account (C 2) of the branches or sectors which pay them
- among resources in the distribution of income account (C 3) of the sector general government
- among resources in the account current transactions of the rest of the world (C 7) (sub-sector institutions of the European Communities).

In addition, taxes linked to imports (R 29) appear :

- among resources in the goods and services account (C 0) for the national economy
- among resources in the production account (C 1) for the national economy and for the sectors non-financial corporate and quasi-corporate enterprises and households.

SUBSIDIES (R 30)

421. Definition : Subsidies (R 30) are current transfers which general government or the institutions of the European Communities, as a matter of economic and social policy, make to resident units producing goods and market services with the objective of influencing their prices and/or making it possible for factors of production to receive an adequate remuneration.

422. Subsidies granted by the institutions of the European Communities concern only current transfers made directly by them for the benefit of resident market producer units.

423. As the producer units classified in the market branches may belong to different institutional sectors, subsidies may go to any sector, provided that they are granted in respect of some production activity for the market.

Subsidies include :

- a) all current transfers which general government - or the institutions of the European Communities - makes to private producer units in the market branches. It is assumed that such transfers are always made as a matter of economic and social policy
- b) all current transfers which general government - or the institutions of the European Communities - makes to public enterprises classified in the sector non-financial corporate and quasi-corporate enterprises, except payments made by a general government agency which has assumed responsibility for abnormal pension charges affecting a public enterprise. These payments must be recorded under miscellaneous current transfers (see 496 d), because retirement and survivors, even when they are paid directly by a public enterprise, are not deemed to be compensation of employees but treated as social welfare benefits
- c) current transfers made by a general government agency intended to cover trading losses sustained by a public producer unit, classified in a market branch, but forming part of an institutional unit included in the general government sector. It is assumed in this case that the loss is covered by general government as a matter of economic and social policy. The subsidy appears among resources in the generation of income account of the branch in which the producer unit in question is classified. In the sector accounts, it appears among resources in the generation of income account of the part of general government to which the producer unit belongs institutionally.

424. A public enterprise may be required each year to pay over an income to a general government department, but at the same time may receive a regular payment to cover any losses. In this case, only the balance of the two flows should be shown in the accounts. If the payment from the government exceeds the income due from the public enterprise, the balance is shown as a subsidy. If, on the other hand, the balance of the two flows is negative from the point of view of the public enterprise, the excess of the income paid out over the transfer received should be shown either under the heading dividends and other income distributed by corporate enterprises or under the heading withdrawals from the entrepreneurial income of quasi-corporate enterprises, according to the status of the enterprise.

425, 426

425. Grants to cover interest relief made to producer units must also be treated in the accounts as subsidies, even when they are intended to encourage capital formation (1). In effect, these are current transfers designed to alleviate producers' operating costs. They are treated in the accounts as subsidies to the producers benefiting from them, even when the difference in the interest is, in practice, paid directly by the government to the relevant credit institution.

426. The following are not treated as subsidies :

- current transfers from general government to households in their capacity as consumers. These are treated either as social welfare benefits (see 475) or as miscellaneous current transfers (see 495, 496);
- current transfers between different parts of general government in their capacity as producers of non-market services. These are shown under the heading current transfers within general government (see 484);
- current transfers to private non-profit institutions in their capacity as producers of non-market services. These are shown under the heading current transfers to private non-profit institutions (see 487);
- investment grants (see 499 to 4106);
- annual payments into pension funds, which are shown under the heading other capital transfers (see 4112 c);
- transfers made by general government to non-financial corporate and quasi-corporate enterprises to cover losses accumulated over several accounting years, or exceptional losses due to factors outside the control of the enterprise. Such transfers are classified under the heading other capital transfers (see 4112 b);
- the cancellation of debts which producer units have incurred towards the government (resulting, for example, from loans advanced by a government agency to a non-financial enterprise which has accumulated trading losses over several accounting years). These transactions are treated in the accounts as other capital transfers (see 4112 f);

.../...

(1) However, when a grant serves the dual purpose of financing both the amortization of the debt and the payment of interest on it, and when it is not possible to apportion it between these two elements, the whole of the grant is treated as an investment grant (see 4101).

427 - 430

- payments made by general government or by the rest of the world for damages to or losses of capital goods as a result of acts of war, other political events or national disasters. These payments are shown under the heading other capital transfers (see 4112 a);
- shares and other equities in corporate enterprises acquired by general government, which are shown under the heading shares and other equities (see 544).

427. In the system of accounts, subsidies appear :

- among resources in the generation of income account (C 2) of the branches or sectors to whom they are paid (1);
- among uses in the distribution of income account (C 3) of general government;
- among uses in the account current transactions of the rest of the world (C 7).

PROPERTY AND ENTREPRENEURIAL INCOME (R 40)

Actual interest (R 41)

428. Definition : Actual interest (R 41) is the form of remuneration in respect of certain financial assets (deposits, bills, bonds and credits) characterised by the payment at predetermined dates of a fixed percentage of the nominal value of the asset.

429. Interest is to be recorded before the deduction of any taxes incurred on income and wealth.

430. The following are also treated as actual interest :

- a) interest charged on bank overdrafts, extra interest paid on deposits left longer than originally agreed, and payments to certain bond holders which are determined by lottery (2)
- b) the net rent received by residents as owners of land and buildings in the rest of the world, or by non-residents as owners of land or buildings on the economic territory, In effect, as a result of the conventions adopted in the ESA (see 211), in respect of all transactions in land and buildings carried out on the economic territory of a country by non-resident units, the latter are considered to be notional resident units against whom the non-resident owners have a financial claim

(1) Except grants to cover interest relief which are recorded among resources of the units which benefit from them.

(2) Also included in actual interest is the difference between the nominal value of a bill and the price at which it is sold on issue, when this difference represents interest paid in advance (see 539).

431 - 434

(medium and long term loans, see 564 b). The net rent received by the non-resident owner therefore represents the actual interest on this claim.

431. In the system of accounts, actual interest is shown :

- among resources and among uses in the distribution of income account (C 3) of sectors (1)
- among resources and among uses in the account current transactions of the rest of the world (C 7).

Imputed interest on insurance technical reserves (R 42)

432. Definition : The imputed interest on insurance technical reserves (R 42) represents that part of the interest accruing from the technical reserves held by insurers (life insurance companies, autonomous and non-autonomous pension funds - other than those classified in the sub-sector social security funds - and accident insurance companies) which is credited to the policies holders.

433. The amount of imputed interest is valued as follows :

- a) In the case of profit-making life insurance and accident insurance institutions, it includes the interest yielded by the technical reserves (2) which is
 - added to the actuarial reserves against outstanding risks
 - added to the reserves and liabilities towards policy holders for profit sharing
 - distributed directly to the insurer.
- b) In the case of pension funds and non-profit making insurance institutions it includes the whole of the property income derived from the investment of the technical reserves.

434. In the system of accounts, the imputed interest on insurance technical reserves appears :

- among resources in the distribution of income account (C 3) of households
 - among uses in the distribution of income account (C 3) of the insurers
 - among resources and among uses in the account current transactions of the rest of the world (C 7).
- .../...

(1) This practice differs from that of most business accounting, where interest paid is normally shown as a fixed charge in the operating account.

(2) This interest does not necessarily correspond to the whole of the property income which an institution derives from the investment of its technical reserves.

Income from land and intangible assets (R 43)

435. Definition : Income from land and intangible assets (R 43) is the income which owners of land and intangible assets receive from other units in return for conceding the right to make use of these assets.
436. Income from land and intangible assets includes :
- a) the net rent of agricultural land (and associated agricultural buildings) actually due to the owners.
This covers both farm tenancies and crop sharing, after deduction from the rent the part representing the rent of dwellings, maintenance expenses and any land taxes which are charged against the user.
 - b) rent and royalties paid for the right to make use of non-agricultural land, such as royalties on the working of mineral deposits, oilfields or natural gasfields, forests and fishing grounds, the right to construct buildings or roads, or royalties for occupying public places or land;
 - c) income from the ownership of intangible assets, such as royalties from patents, copyrights from literary and artistic works, etc.
437. The following are not included in income from land and intangible assets :
- a) the rent of non-agricultural buildings and of dwellings; these rents are treated as the payment for a market service provided by the owner to the tenant of the building or dwelling, and are shown in the accounts as intermediate consumption (see 323 e) or as final consumption of the tenant unit;
 - b) the proceeds from the sale of intangible assets by institutional units (e.g. the sale of patents, trade marks, etc.). These are capital transactions, whose net balance is shown for each sector in its capital account under the heading net purchases of intangible assets (see 3103).
438. In the system of accounts, income from land and intangible assets is recorded :
- among resources and among uses in the distribution of income account (C 3) of sectors
 - among resources and among uses in the account current transactions of the rest of the world (C 7).

439 - 442

Dividends and other income distributed by corporate enterprises (R 44)

439. Definition : Dividends and other income distributed by corporate enterprises (R 44) covers all the income which corporate enterprises decide, in view of their trading results, to distribute in the form of dividends, shares of profits, etc. to the owners of their capital.
440. These essentially variable incomes correspond to the remuneration in respect of the capital represented by shares and other forms of equity in companies, public corporations, co-operatives societies or partnerships recognized as independent legal entities.

This heading also includes :

- the income paid to general government by public enterprises recognized as independent legal entities, but not formally constituted as corporate enterprises
 - the income (attendance and directors' fees, etc.) which corporate enterprises pay to members of their boards of directors etc. in so far as these persons are not employees of the enterprise. (see 408 g)
 - bonus shares issued to shareholders and financed out of profits realised during the accounting year (see 724 b).
441. In the system of accounts dividends and other income distributed by corporate enterprises appears :
- among uses in the distribution of income account (C 3) of the sectors in which the corporate enterprises are classified;
 - among resources in the distribution of income account (C 3) of the sectors;
 - among uses and resources in the account current transactions of the rest of the world (C 7).

Withdrawals from the entrepreneurial income of quasi-corporate enterprises (R45)

442. Definition : Withdrawals from the entrepreneurial income of quasi-corporate enterprises (R 45) consist of the amounts which entrepreneurs actually withdraw for their own uses from the profits earned by the quasi-corporate enterprises (1) which they own and operate.

.../...

(1) For the definition of a quasi-corporate enterprise see 222 e), 225 e) and 235 e).

443. These amounts are to be recorded before the deduction of any current taxes on income and wealth, which are always deemed to be paid by the owners of the businesses.
444. When a quasi-corporate enterprise makes a trading profit, the unit which owns it may choose to leave part or all of the profit in the business, especially for investment purposes. This income left in the business appears as saving by quasi-corporate enterprises, only the profits actually withdrawn by the owner units being recorded in the accounts under the heading withdrawals from the entrepreneurial income of quasi-corporate enterprises.
445. An identical solution is adopted for profits earned in the rest of the world by the branch-offices, agencies, etc. of resident enterprises, in so far as these branch-offices, etc. are treated as non-resident units. The profits reinvested locally are included in the saving of the rest of the world, while only the income actually transferred to the parent enterprise is treated in the accounts as withdrawals from the entrepreneurial income of quasi-corporate enterprises received from the rest of the world. The same principles are applied to deal with the relations between branch-offices, agencies, etc. operating on the economic territory and the non-resident parent enterprise on which they depend.
446. When a quasi-corporate enterprise makes a current trading loss, the funds furnished by the owner unit to cover this loss are treated in the accounts as follows :
- a) in the case of a private owner, they are shown with a negative sign under the heading withdrawal from the entrepreneurial income of quasi-corporate enterprises;
 - b) where the owner is the government, as a subsidy (see 423 b).
447. The heading withdrawals from the entrepreneurial income of quasi-corporate enterprises does not include amounts which their owners receive :
- from the sale of existing fixed capital goods (see 618, 625)
 - from the sale of land and intangible assets (see 398)
 - from withdrawals of capital (e.g. the total or partial liquidation of their equity in the quasi-corporate enterprise, see 551 d).

448 - 450

448. In the system of accounts, withdrawals from the entrepreneurial income of quasi-corporate enterprises appears :

- among uses in the distribution of income account (C 3) of the sectors in which the quasi-corporate enterprises are classified
- among resources in the distribution of income account (C 3) of the owner sectors
- among uses and resources in the account current transactions of the rest of the world (C 7).

ACCIDENT INSURANCE TRANSACTIONS (R 50)

449. Accident insurance transactions (R 50) are transactions relating to coverage against risks such as third party liability, fire, flood, accident, theft, sickness and other miscellaneous risks (1).

Net accident insurance premiums (R 51)

450. Definition : Net accident insurance premiums (R 51) are equal to the total gross premiums which resident and non-resident units are required to pay to insurance enterprises in respect of insurance contracts, other than life insurance contracts (2) after deducting :

- the value of the insurance services provided
- changes in the actuarial reserves against outstanding risks, less the imputed interest on these reserves
- changes in the reserves and liabilities towards policy holders for profit sharing, less, on the one hand, interest received other than interest originating from the investment of technical reserves and, on the other hand, any capital gains or losses realised, to the extent that such interest, gains or losses are distributed to the insured.

.../...

(1) The terminology "accident insurance" is preferred to "casualty insurance" used in the U.N. system of national accounts, because a casualty is normally understood to be a person who suffers physical injury. Many forms of accident, e.g. fire, do not necessarily involve personal injuries.

(2) Net life insurance premiums do not appear as such in the system of accounts. They are divided between :

- a) premiums constituting a form of social welfare contributions
- b) other life insurance premiums.

The former are included under the heading actual social welfare contributions and the latter are not treated as distributive transactions. Both categories of net life insurance premiums affect the change in insurance technical reserves (F 90) which appears in the financial account (see 569).

451 - 455

451. Net accident insurance premiums do not include payments to insurers considered as actual social welfare contributions (see 464 c).
452. In the system of accounts net accident insurance premiums are recorded :
- among uses in the distribution of income account (C 3) of resident policy holders;
 - among uses in the account current transactions with the rest of the world (for non-resident policy holders) (C 7);
 - among resources in the distribution of income account (C 3) of resident insurance enterprises;
 - among resources in the account current transactions of the rest of the world (for non-resident insurance enterprises) (C 7).

Accident insurance claims (R 52)

453. Definition : Accident insurance claims (R 52) represent the amounts due under contracts referring to accident insurance (1); that is, the amounts which insurance enterprises are obliged to pay in settlement of injuries or damages suffered by persons or goods (including fixed capital goods), and the additional sums paid to the insured in the form of distributed gains.
454. Accident insurance claims do not include payments which constitute social welfare benefits (see 478 b).
455. Accident insurance claims are treated in the accounts as direct flows from insurance enterprises to the units which are the ultimate beneficiaries.

In the system of accounts, they are recorded :

- among uses in the distribution of income account (C 3) of resident insurance enterprises;
- among uses in the account current transactions of the rest of the world (in the case of non-resident insurance enterprises) (C 7);
- among resources in the distribution of income account (C 3) of the beneficiary sectors;
- among resources in the account current transactions of the rest of the world (in the case of non-resident beneficiaries) (C 7).

.../...

(1) Life insurance claims do not appear as such in the system of accounts.

They are divided between :

- a) claims constituting a form of social welfare benefits
- b) other life insurance claims.

The former are included under the heading social welfare benefits and the latter are not treated as distributive transactions. Both categories of life insurance claims affect the change in insurance technical reserves (F 90) which appear in the financial account (see 569).

456 - 460

UNREQUITED CURRENT TRANSFERS (N.E.C.) (R 60)

456. These transfers cover unrequited current transfers excluding taxes linked to production and imports (R 20) and subsidies (R 30).

Current taxes on income and wealth (R 61)

457. Definition : Current taxes on income and wealth (R 61) cover all compulsory payments levied periodically by general government and by the rest of the world on the income and wealth of institutional units.

458. The amount of the taxes which should be recorded includes any interest charged on arrears of taxes due and any fines imposed by taxation authorities; it also includes any charges which may be imposed in connection with the collection or recovery of taxes outstanding. Correspondingly, it is reduced by the amount of any rebates made by general government as a matter of economic policy and any tax refunds made as a result of over-payments.

459. Current taxes on income and wealth include, in particular :

- a) taxes on personal income (income from employment, property, entrepreneurship, pensions, etc.), including taxes on land and buildings whenever the latter taxes constitute merely an administrative device for assessing and collecting the total income tax (see 417 j)
- b) taxes on profits of companies and of other corporate bodies
- c) current taxes on the capital or wealth of households, corporate enterprises and non-profit institutions
- d) taxes on the amounts won in lotteries, gambling or betting
- e) taxes paid by households on motor vehicles which are not used for purposes of production.

460. Current taxes on income and capital do not include :

- a) inheritance taxes, death duties or taxes on gifts inter-vivos, which are deemed to be levied on the capital of the beneficiaries and are shown under the heading taxes on capital (see 4109 a)

461 - 464

- b) occasional or exceptional levies on capital or wealth which are shown under the heading taxes on capital (see 4109 b)
- c) licence fees on the use of radio and television receiving sets, the proceeds of which are allocated to the broadcasting and television services. These fees are treated as purchases of market services (see 308 a).

461. In the system of accounts, current taxes on income and wealth are recorded :

- among uses in the distribution of income account (C 3) of the sectors in which the tax payers are classified
- among resources in the distribution of income account (C 3) of general government
- among uses and resources in the account current transactions of the rest of the world (C 7).

Actual social welfare contributions (R 62)

462. Definition : Actual social welfare contributions (R 62) include all payments made by insured persons or their employers to institutions providing social welfare benefits in order to acquire or maintain the right to these benefits.

463. Among actual social welfare contributions, a distinction is drawn between

- a) Employers' actual social welfare contributions (R 621). These correspond to flow R 102 (see 410)
- b) Employees' social welfare contributions (R 622)
- c) Social welfare contributions by self-employed and non-employed persons (R 623).

This breakdown of actual social welfare contributions is provided in table . Although employers pay their contributions directly to the insurers - as well as their employees' contributions in many cases - all these contributions are first shown in the accounts as part of the compensation of resident or non-resident employees, and are then deemed to be subsequently paid by resident or non-resident households to the insurers.

464. According to the sectors or sub-sectors which receive them, actual social welfare contributions can be divided into :

- a) social welfare contributions to social security funds

465, 466.

- b) social welfare contributions to other sub-sectors of general government (e.g. pension contributions made to central or local government)
- c) social welfare contributions to pension funds, friendly societies, insurance companies and other institutions classified in the insurance enterprises sector. Premiums and contributions paid to these institutions are shown under the heading actual social welfare contributions in so far as the returns to which the contributors are entitled constitute social welfare benefits (see 478 b)
- d) social welfare contributions to the rest of the world.

465. Payments of actual social welfare contributions may be compulsory for the following reasons : general statutes, regulations, collective agreements at the level of an industry, agreements between employer and employees at the enterprise level, or because they are written into the contract for the individual employment. In certain cases, the contributions may be voluntary.

The voluntary contributions envisaged here relate to :

- a) social welfare contributions which persons who are not, or who are no longer, legally obliged to contribute, pay or continue to pay to a social security fund
- b) social welfare contributions paid to insurance enterprises (or friendly societies and pension funds classified in the same sector) as part of supplementary insurance schemes organised by enterprises for the benefit of their employees and which the latter join voluntarily
- c) contributions to friendly societies with membership open to employees or self-employed workers.

466. Actual social welfare contributions to social security funds or other government agencies are recorded gross, as distributive transactions.

On the other hand, social welfare contributions paid to insurance enterprises, and friendly societies and pension funds included in the same sector, are recorded net, i.e. after deduction of that part of the contributions which represents the value of the insurance service provided to (resident and non-resident) households. Under the conventions adopted,

467 - 470

this part of the contributions represents, in effect, the payment for a market service which forms part of the final consumption of households, or, in the case of contributions paid by non-resident households, part of exports of services.

467. In the system of accounts, actual social welfare contributions are recorded
- among uses in the distribution of income account (C 3) of households
 - among uses in the account current transactions of the rest of the world (in the case of non-resident households) (C 7)
 - among resources in the distribution of income account (C 3) of resident insurers
 - among resources in the account current transactions of the rest of the world (in the case of non-resident insurers) (C 7).

Imputed social welfare contributions (R 63)

468. Definition : Imputed social welfare contributions (R 63) represent the counterpart of social welfare benefits paid directly,
- i.e. in the absence of any circuit of actual contributions by employers to their employees or former employees and other entitled persons. They correspond to flow R 103 (see 411).
469. It is necessary to introduce a circuit of imputed social welfare contributions if the social welfare benefits distributed directly by employers are to be included in the accounts under the heading social welfare benefits and if the cost of these benefits is to be included in the compensation of employees paid by the employer.
470. In the case of direct social welfare benefits other than retirement and survivors' pensions and payments for industrial injuries, (sickness benefits, family allowances, etc.) the value of the imputed social welfare contributions is identical with that of the direct benefits provided.
- In the case of compensation for industrial injuries, which employers are obliged to pay their staff when they are not insured against this risk, the amount of the imputed social welfare contributions should be assessed on the basis of net premiums required by institutions which insure against similar industrial injuries.

471.

In the case of retirement and survivors pensions paid directly by employers to former employees or their survivors, the following cases should be distinguished :

- scheme without separately constituted reserves
- schemes with separately constituted reserves where the employees benefit from guaranteed rights
- schemes with separately constituted reserves, but where the employees have no guaranteed rights.

471. Retirement schemes without separately constituted reserves

This is usually the case with general government and public enterprises whose employers have the status of established civil servants. It is also found in enterprises in the private sector.

- In the case of private enterprises who pay retirement pensions without having constituted reserves for this purpose, the amount of imputed social welfare contributions is taken to be equal to the retirement pensions actually paid.
- In the case of retirement schemes operated by general government or by public enterprises for the benefit of their employees without any separately constituted reserves, the following rules apply :
 - a) wherever there is a normal and stable ratio between the number of active personnel and the number of pensioners, the amount of imputed retirement contributions is assumed to be equal to the pensions paid. This is a simplification based on the assumption that the pension scheme is self-balancing on a year to year basis.
 - b) when, as a result of political events or economic changes, the ratio between the number of active personnel and the number of pensioners changes appreciably and become abnormal, it is necessary to assign an imputed value for the contributions for the active personnel which is different from the actual value of the pensions paid. A reasonable percentage of the salaries paid to active personnel can be used for this purpose.
 - c) in the case of public enterprises which bear abnormally high pension charges, the amounts paid by the government to defray part of these charges are treated as miscellaneous current transfers and not as subsidies (see 423 b and 496 d).

.../...

- d) when a deduction is made from the salaries of officials, it is the gross salary which is included in the compensation of employees. The amount of the deductions is treated as an actual social welfare contribution on the part of employees. On the other hand, the amount of imputed social welfare contributions must then be calculated as follows:
- as the difference between the pensions paid and the deductions for pensions, when it can be assumed that there is a stable and normal ration between the numbers of active personnel and of pensioners (see 471 a)
 - as the difference between the total contributions, as estimated on the basis of the salaries paid to active personnel, and the deductions for pensions, when it is assumed that the ration between active and retired personnel is abnormal (see 471 b).

472. Retirement schemes with separately constituted reserves where the employees benefit from guaranteed rights

In such cases, where the reserves are not at the disposal of the employer, the employer's contributions to the pension funds established by him must be treated as the imputed social welfare contributions, the pensions actually paid being shown as social welfare benefits.

A solution of this kind is essential because the schemes in question are often expanding, with the additions to reserves for exceeding the benefits actually paid. The change in these reserves must be treated as saving of households (resident or non-resident) (see 4116 b).

473. Retirement schemes with separately constituted reserves, but where the employees have no guaranteed rights

When the employees have no guaranteed claims against the constituted reserves, the appropriate solution is to record as imputed social welfare contributions an amount equal to payments made from the funds to retired staff. The change in the reserves has to be considered as saving of the sectors to which the employers belong.

474. In the system of accounts, imputed social welfare contributions are recorded
- among uses in the distribution of income account (C 3) of households and in the account current transactions of the rest of the world (C 7)
 - among resources in the distribution of income account (C 3) of the employer sectors and in the account current transactions of the rest of the world (C 7).
- , .../...

475 - 477

Social welfare benefits (R 64)

475. Definition : Social welfare benefits (R 64) include all current transfers, in cash or in kind, provided to households through the intervention of a third party (i.e., by a unit other than a household), which are made available personally and which are intended to cover charges incurred by households because of the appearance, or existence, of certain risks or needs, without there being any simultaneous, equivalent counterpart provided in exchange by the beneficiary (1).

476. The list of risks or needs which may give rise to social welfare benefits is, by convention, fixed as follow :

- a) sickness
- b) old age, death and survivors
- c) disability
- d) physical or mental infirmity
- e) industrial injury and occupational disease
- f) unemployment
- g) family responsibilities
- h) personal injuries suffered because of acts of war, other political events and natural disasters
- i) vocational training of adults (2)
- j) housing (2).

477. There are two basic principles underlying the definition of social welfare benefits :

- there must be intervention by a third party (i.e. by a unit other than a household)
- there must be no simultaneous, equivalent counterpart provided in exchange by the beneficiary.

.../...

(1) This definition conforms to that adopted in The Social Accounts in the European Community, OSCE, Social Statistics, no. 3 - 1970 (not available in English).

(2) The following are regarded as social welfare benefits :

- in the case of the vocational training of adults, payments made by public authorities in order to cover loss of salary due to absence from work for reasons of vocational training
- in the case of housing, payments made by public authorities in order to subsidise rents paid by tenants, with the exception of similar benefits paid by the public authorities in their capacity as employers (see 408 k).

478. The intervention of a third party (or of a unit other than a household), which is the first necessary condition, must be understood in two senses :
- a) it implies, in the first place, that a unit other than the household concerned undertakes, totally or partially, to cover the charges resulting from the risks or needs in question. Thus, for example, the costs of medical attention or medicines borne, in whole or in part, by a household in the event of sickness fall outside the scope of social welfare benefits
 - b) it further implies that the coverage of the risks or needs results from an act of collective foresight, thus excluding all benefits which might result from policies taken out by individual households on their initiative and on their own behalf. Thus, reimbursement under a private contract of sickness insurance taken out by an individual in favour of himself or his family is not a social welfare benefit, but is shown in the accounts under casualty insurance claims. On the other hand, claims paid out under private group insurance schemes taken out because they are required by law, regulation, convention or contract (at the level of the industry or enterprise) are included in social welfare benefits.
479. The absence of any simultaneous equivalent counterpart provided in exchange by the beneficiary is the second necessary condition for an item to be treated as a social welfare benefit. It is particularly important for distinguishing social welfare benefits granted directly by the employer to his employees from all the various components which make up gross wages and salaries (see 408). All expenditures by employers for the benefit of their employees, which can reasonably be regarded as remuneration for work done by them during the relevant period, are thus excluded from social welfare benefits. The existence of something which could be regarded as a counterpart from the beneficiary, but which is not simultaneous, does not prevent the benefit provided by the employer from being regarded as a social welfare benefit. Thus, retirement and survivors pensions must not be regarded as deferred wages or salaries (whose counterpart is the work done during the course of the working life). An important borderline case is the continued payment by the employer of wages and salaries in the event of the employee's sickness, maternity, disability, industrial injury, etc. These payments should be regarded as social welfare benefits paid directly by the employer (see 409 c).

480 - 483

480. The definition of social welfare benefits implies, in particular :

- a) that, by definition, the recipients of social welfare benefits are always households, either resident or non-resident
- b) that all sectors of the economy may provide households with social welfare benefits, in the capacity of insurers, employers or distributors of social aid or assistance
- c) that not all current transfers from general government or private non-profit institutions to households necessarily constitute social welfare benefits; certain payments to households (scholarships, travelling fellowships, rewards, etc.) serve a different purpose from that of social welfare benefits and are shown among miscellaneous current transfers (see 496 e).

481. Social welfare benefits include :

- social welfare benefits linked to actual contributions (R 641)
- social welfare benefits corresponding to imputed contributions (R 642) (benefits granted directly by employers to their employees or to other entitled persons)
- other social welfare benefits (R 643), i.e. those granted by general government or private non-profit institutions without any system of contributions or commitment attributable to employment.

This breakdown of social welfare benefits is shown in table 12.

482. Social welfare benefits may take the form of :

- a) cash benefits
 - paid regularly (for example, pensions or allowances)
 - paid on a single occasion (for example, rebates of pensions, or benefits paid in a lump sum instead of on a regular basis)
- b) the reimbursement in cash for goods and services purchased by households
- c) the value of goods and services supplied in kind to households.

483. In the system of accounts, social welfare benefits are recorded :

- among uses in the distribution of income account (C 3) of the sectors granting the benefits
- among uses in the account current transactions of the rest of the world (in the case of benefits granted by the rest of the world) (C 7)
- among resources in the distribution of income account (C 3) of households
- among resources in the account current transactions of the rest of the world (in the case of benefits granted to non-resident households)(C 7).

Current transfers within general government (R 65)

484. Definition : Current transfers within general government (R 65) include all transfers between the different sub-sectors of general government (central government, local government, social security funds) with the exception of subsidies (see 423 c), investment grants (see 4104) and other capital transfers (see 4111).
485. When a government agency (e.g. a central government department) receives payment of taxes, a fixed part of which must automatically be transferred to another government agency (e.g. a local authority), this is treated as a transaction on behalf of an other unit (see 215). In this case, that part of the tax receipts destined for the other government agency will be shown as if it were received directly by that agency and not as a current transfer within general government. This procedure is certainly called for in the case of taxes which take the form of additional rates superimposed in the taxes levied by the central government and where, for example, the local authorities themselves have the power, within certain limits, to determine the rates of these additional taxes.
486. In the system of accounts current transfers within general government are recorded among uses and resources in the distribution of income account (C 3) of the sub-sectors of general government (1).

Current transfers to private non-profit institutions (R 66)

487. Definition : Current transfers to private non-profit institutions (R 66) include all voluntary contributions (other than legacies and donations), membership subscriptions and grants which private non-profit institutions (see 246) receive from households, and to some extent, from other units.

.../...

(1) Current transfers within general government are flows internal to the general government sector; they disappear when a consolidated account is established for the sector as a whole.

488 - 491

488. The following are included under the heading R 66 :

- a) regular subscriptions paid by households to trade unions and political, sporting, cultural or religious organisations classified in the sector private non-profit institutions
- b) voluntary contributions (other than legacies and donations) from households, corporate enterprises and the rest of the world to private non-profit institutions
- c) assistance and grants from general government, other than transfers tied to the specific purpose of financing capital formation, which are shown under investment grants (see 4105).

489. In the system of accounts, current transfers to private non-profit institutions are recorded :

- among uses in the distribution of income account (C 3) of the contributing sectors
- among uses in the account current transactions of the rest of the world (C7)
- among resources in the distribution of income account (C 3) of the private non-profit institutions sector.

Current international cooperation (R 67)

490. Definition : Current international cooperation (R 67) includes all transfers between the general government and governments or international organisations in the rest of the world, except investment grants and other capital transfers.

491. The heading R 67 covers :

- a) the contributions of the government to institutions of the European Communities (1)
- b) the contributions of the government to international organisations
- c) any current transfers which the general government may receive from the institutions or organisations referred to under a) and b) (2)
- d) current transfers between governments, either in cash (for example, payments intended to finance the budget deficits of foreign countries or overseas territories) or in kind (for example, gifts of food or military equipment).

(1) The levies paid by resident producer units to the institutions of the European Communities are recorded in the accounts as taxes linked to production paid to the rest of the world (see 419).

(2) The transfers which the institutions of the European Communities make directly for the benefit of resident units producing for the market are shown as subsidies paid by the rest of the world (see 422).

Current international cooperation also includes the wages and salaries paid by a government, an institution of the European Communities or an international organisation, to advisers or technical assistance experts made available to developing countries.

492. In the system of accounts current international cooperation is recorded :
- among uses and resources in the distribution of income account (C 3) of the general government sector .
 - among uses and resources in the account current transactions of the rest of the world (C 7).

Private international transfers (R 68)

493. Definition : Private international transfers (R 68) cover transfers between resident and non-resident households (1), other than legacies and donations, as well as current transfers from private non-profit institutions to the rest of the world.

494. In the system of accounts, private international transfers are recorded :
- among uses and resources in the distribution of income account (C 3) of households
 - among uses in the distribution of income account (C 3) of private non-profit institutions .
 - among uses and resources in the account current transactions of the rest of the world (C 7).

Miscellaneous current transfers (R 69)

495. Definition : Miscellaneous current transfers (R 69) cover a certain number of distributive transactions of a kind which does not permit them to be classified under any other heading of the distribution of income account and which, because they are relatively unimportant or confined to certain countries, are not worth classifying under separate headings.

496. The heading R 69 includes, in particular :
- a) duties, fees, or contributions to costs paid by households to general government for services provided by the latter, as a matter of general policy, and which are compulsory whenever these services are required (for example, passport and driving licence fees, legal costs) (2).

(1) In particular, these comprise remittances by emigrants or workers resident abroad to members of their family living in their country of origin.

(2) Whenever they are paid by producer units, such payments are treated in the accounts as taxes linked to production (see 417 p).

497 - 499

- b) the proceeds from fines and penalties (1)
- c) current transfers from private non-profit institutions to general government, which are not taxes
- d) payments by general government to public enterprises classified in the sector non-financial corporate and quasi-corporate enterprises intended to cover abnormal pension charges
- e) scholarships, travelling fellowships and rewards paid to resident or non-resident households by general government or private non-profit institutions
- f) payments by general government in compensation for the loss of consumer goods (e.g. furniture lost as a result of natural disasters)
- g) bonus payments on savings granted each period by general government to households in order to reward them for their savings during the period.

497. In the system of accounts, miscellaneous current transfers appear :

- among resources and uses in the distribution of income account (C 3) of all sectors
- among resources and uses in the account current transactions of the rest of the world (C 7).

CAPITAL TRANSFERS (R 70)

498. Capital transfers cover investment grants (R 71), capital taxes (R 72) and other capital transfers (R 79).

Investment grants (R 71)

499. Definition : Investment grants (R 71) consist of unrequited transfers by general government or by the rest of the world (2), for the purpose of financing, in whole or in part, transactions specially intended for gross fixed capital formation by other institutions units.

.../...

(1) However, interest charged on arrears of taxes due and fines imposed by taxation authorities are included, in the accounts, with the taxes to which they refer.

(2) Investment grants made by the rest of the world include those paid directly by the institutions of the European Communities, e.g. capital transfers made by the European Agricultural Guidance and Guarantee Fund (EAGGF).

4100 - 4102

4100. The value of capital formation carried out by general government for the benefit of other sectors of the economy is also to be shown under investment grants whenever the beneficiary is identifiable and become the owner of the capital. In such cases, the capital formation is recorded among uses in the capital account of the beneficiary and is financed by an investment grant which appears among the resources in the same account.
4101. The heading R 71 includes not only single non-recurrent payments designed to finance capital formation during the same period, but also instalment payments in respect of capital formation carried out during an earlier period. Thus, that part of the annual payments by general government which represents the amortization of debts, contracted by enterprises for the purpose of capital formation projects for whose amortization the government has assumed total or partial responsibility, are also treated as investment grants.

Grants to cover interest relief made by general government are, however, excluded, even when the object of the relief is to encourage capital formation. In practice, the assumption by public authorities of part of the interest charges constitutes, like the flow of interest itself, a current distributive transaction and must be shown in the accounts under the heading subsidies. Nevertheless, when a grant serves the dual purpose of financing the amortization of the debt contracted and the payment of the interest on the capital borrowed, and when it is not possible to separate these two elements, the whole of the grant is treated in the account as an investment grant (see 425, note 1).

4102. Investment grants to the sector non-financial corporate and quasi-corporate enterprises include, in addition to grants to private enterprises, grants to public enterprises recognized as independent legal entities provided that the government department which makes the grant does not treat it as a financial claim (see 551 d) against the public enterprise.

Payments made by general government to a quasi-corporate public enterprise for the purposes of financing capital formation must not be shown in the capital account, but in the financial account under shares and other equities (see 551, note 1). The very definition of a quasi-corporate enterprise indicates, in effect, that while its capital can be separated from that of its owner from an accounting point of view, its capital cannot be so separated from a legal point of view.

4103 - 4108

4103. Investment grants to the households sector include, in addition to equipment and modernisation grants to businesses other than corporate or quasi-corporate enterprises, grants to households for the construction of dwellings. In general, these grants are made by general government on the specific condition of building or buying a dwelling.
4104. Investment grants to general government include all payments made to sub-sectors of general government (1) for the purpose of financing capital formation. The most important examples are transfers from central government to local authorities for the specific purpose of financing their gross fixed capital formation. It should be emphasized that transfers of a general character intended for various or indeterminate purposes, are shown under current transfers within general government, even if they are partly used to cover expenditures on capital formation.
4105. The same criterion (see 4104) should be adopted to distinguish between, on the one hand, investment grants to private non-profit institutions from general government and from the rest of the world and, on the other hand, current transfers to private non-profit institutions.
4106. Investment grants to the rest of the world should also be restricted to transfers with the specific objective of financing capital formation by non-resident units. They include, for example, unrequited transfers for building bridges, roads, factories, hospitals or schools in developing countries, or for constructing buildings for international organisations. They can include instalment payments over a period of time as well as single payments. This heading also covers the free supply of fixed capital goods.
4107. In the system of accounts, investment grants are recorded :
- among uses in the capital account (C 5) of general government
 - among resources in the capital account (C 5) of the sectors receiving the grants
 - among uses and resources in the capital account (C 5) of the rest of the world.

Capital taxes (R 72)

4108. Definition : Capital taxes are compulsory payments levied by general government at irregular intervals on the capital or wealth of institutional units. .../...

(1). Investment grants within general government are flows internal to the general government sector; they disappear when a consolidated account is established for the sector as a whole.

4109. Capital taxes include :

- a) inheritance taxes, death duties and taxes on gifts inter-vivos, which are deemed to be levied on the capital of the beneficiaries
- b) occasional and exceptional levies on capital or wealth.

4110. In the system of accounts, capital taxes are recorded :

- among uses in the capital account (C 5) of the sectors in which the tax payers are classified
- among resources in the capital account (C 5) of general government
- among uses and resources in the capital account (C 5) of the rest of the world.

Other capital transfers (R 79)

4111. Definition : Other capital transfers (R 79) cover transfers other than investment grants and capital taxes which, while not constituting transactions affecting the distribution of income, achieve a redistribution of saving or wealth among the different sectors of the economy or with the rest of the world.

4112. Other capital transfers include the following transactions :

- a) payments by general government or by the rest of the world to the owners of capital goods destroyed or damaged by acts of war, other political events or natural disasters (floods, etc.)
 - b) transfers from general government to non-financial corporate and quasi-corporate enterprises to cover losses accumulated over several accounting years or exceptional losses from causes beyond the control of the enterprise
 - c) unilateral annual payments into pensions funds in so far as these payments are essentially designed to increase the actuarial reserves of these funds
 - d) non-recurrent bonus payments on savings granted by general government to households to reward them for their savings carried out over a period of several years
 - e) legacies and donations between institutional units belonging to different sectors
 - f) the cancellation of debts between institutional units belonging to different sectors or sub-sectors (for example, the cancellation by the government of a debt owed to it by a non-financial corporate enterprise or a foreign country; payments in fulfilment of guarantees which free defaulting debtors from their obligations)
- .../...

4113 - 4116

g) confiscations

h) that part of realised capital gains (or losses) which is redistributed to another sector (1).

4113. Other capital transfers do not include capital movements resulting from the shift, during a given period, of an institutional unit from one sector to another. These movements are treated as part of the adjustment to be made between the capital account and the financial account. Examples are :

- the shift to the sector non-financial corporate and quasi-corporate enterprises of the capital of a sole proprietorship which is converted into a corporate enterprise
- the value of capital goods taken out by emigrants.

4114. In the system of accounts, other capital transfers are shown among uses and resources in the capital account (C 5) of sectors and of the rest of the world.

CHANGE IN THE ACTUARIAL RESERVES FOR PENSIONS (EXCLUDING IMPUTED INTEREST)
(F 911)

4115. Definition : The change in the actuarial reserves for pensions (F 911) represents the adjustment needed to show in the saving of households the change in these reserves on which households have a definite claim (a claim which re-appears at the financial level as an asset under heading F 91) and which are fed by premiums and contributions recorded in the distribution of income account as social welfare contributions.

4116. The actuarial reserves for pensions, whose change is recorded in the accounts under the heading F 911, consist of :

- a) the actuarial reserves of pension funds classified in the sector insurance enterprises, if the premiums which feed these reserves have been recorded as actual social welfare contributions
- b) the reserves of pension funds, not constituting institutional units, which employers administer on behalf of their employees and on which the latter have a definite claim (see 472 and 571), provided that the premiums which feed these reserves have been recorded as actual or imputed social welfare contributions

.../...

(1) Includes in particular realised capital gains (or losses) redistributed by insurance institutions to their policy-holders, either in the form of direct payments or in the form of variations in reserves and liabilities towards the policy-holders for profit sharing (see 576).

4117, 4118

c) that part of the actuarial reserves of life insurance enterprises which results from group contracts taken out by employers on behalf of their employees and which are fed by premiums recorded as actual social welfare contributions.

4117. On the other hand, the change in that part of the actuarial reserves of life insurance enterprises which results from individual life insurance policies taken out by households is not included under the present heading, because individual transactions involving life insurance, even in the case of the establishment of annuities, are only taken into consideration at the level of financial transactions.

4118. In the system of accounts, the change in the actuarial reserves for pensions is recorded :

- among uses in the use of income account (C 4) of the sector insurance enterprises and other sectors administering non-autonomous pension funds;
- among uses in the account current transactions of the rest of the world (in the case of non-resident institutions) (C 7);
- among resources in the use of income account (C 4) of the households sector;
- among resources in the account current transactions of the rest of the world (in the case of non-resident households) (C 7).

CHAPTER V

FINANCIAL TRANSACTIONS

501. Financial transactions are those which have the effect of changing the amount of financial assets and/or liabilities of institutional units.
502. Financial assets and liabilities are grouped according to exactly the same classification, every asset thus being treated in the accounts also as a liability.

Items	Code
Financial gold	F 00
Special drawing rights (SDRs)	F 10
Assets consisting of special drawing rights (SDRs)	F 11
Counterpart of the net allocation of SDRs	F 12
Currency and transferable sight deposits	F 20
Currency and transferable sight deposits, in	
national currency	F 21
Currency and transferable sight deposits, in	
foreign currency	F 22
Net position in the IMF	F 23
Other deposits	F 30
Other deposits in national currency	F 31
Time deposits in national currency	F 311
Sight savings deposits in national currency ..	F 312
Time savings deposits in national currency ...	F 313
Other deposits in foreign currency	F 32
Bills and short term bonds	F 40
Long term bonds	F 50
Shares and other equities	F 60
Shares	F 61
Other equities	F 62
Short term loans	F 70
Short term trade credit	F 71
Accounts receivable and payable	F 72
Other short term loans	F 79
Medium and long term loans	F 80
Medium and long term trade credit	F 81
Other medium and long term loans	F 89
Insurance technical reserves	F 90
Actuarial reserves against outstanding risks	
and liabilities towards policy holders	
for profit sharing	F 91
Pre-payments of premiums and reserves against	
unsettled claims	F 92

503. This classification is based on the degree of liquidity of the financial assets.

The degree of liquidity of a financial asset depends on a combination of factors, of which the most important are:

- its term, i.e. the length of time which elapses between the creation of the asset and the time originally fixed for its redemption
- its transferability, i.e. the possibility of the creditor transferring the ownership of the asset to a new creditor. Using this criterion, the following may be distinguished:
 - non-transferable assets, the holder of which can cease to be the creditor only when the debt is redeemed
 - transferable assets, which are in turn divided into:
 - negotiable assets, i.e. assets which are freely transferable
 - assignable assets, i.e. assets which are transferable only with the consent of the debtor.

Transferability is a criterion which is used again to distinguish between instruments of investment - financial claims which are intended to circulate and for which there are therefore very many potential creditors - and instruments of financing - financial claims which are not intended to circulate, and which therefore concern a specific debtor and creditor. The financial items grouped under headings F 00, F 11, F 21, F 22, F 40, F 50 and F 60 are instruments of investment, while the financial items grouped under headings F 12, F 23, F 30, F 70, F 80 and F 90 are instruments of financing.

504. The breakdown of headings into sub-headings and of the latter into sub-positions intended to meet the needs of analysis, is based on criteria appropriate to each heading.

505. The fact that one of the parties to the transaction is resident, or non-resident, is not considered as a relevant criterion in classifying the assets. Each financial item shows transactions in financial assets and liabilities between residents, as well as between residents and non-residents. Nevertheless, an appendix to the summary table of financial transactions (T 15) groups together all those transactions to which one of the parties is resident and the other non-resident (see 580 et seq.).

This grouping is intended, on the one hand, to single out the net acquisition of financial claims against the rest of the world and the corresponding change in liabilities, and, on the other hand, to display to what extent these consist of changes in the official reserves of the monetary authorities⁽¹⁾.

506. Before examining the definition and content of each heading, it should be made clear that the concepts of financial assets and liabilities are being interpreted in a wide sense. While it is easy to specify for traditional assets (currency, credits, loans, bonds) the units which constitute the creditors and debtors, certain items are also considered as assets in practice, even though the relationship between the parties to the transaction is not obviously that of creditor and debtor.

These marginal items are as follows:

a) Shares

The behaviour of shareholders during the life of the company is more like that of a creditor than an owner, and their rights of ownership to the net assets become apparent only when the company is liquidated.

b) Capital invested in quasi-corporate enterprises

The financial behaviour of the investor is similar to that of a shareholder.

c) Financial gold

Since this metal is universally accepted as an international means of payment, the absence of an institutional debtor does not prevent all the other characteristics of a financial asset from being conferred on it.

d) Insurance technical reserves

Since policy holders have a legal claim on the future benefits partly covered by these reserves, this claim is treated as a financial asset belonging to policy holders as a whole, even in those cases where a policy holder can make an individual claim.

(1) The expression monetary authorities is used to designate all the central institutions engaged in the issue of money, controlling its internal value and managing the foreign reserves, whether these institutions belong to the sub-sector central banking authorities (S 41) or to the sub-sector central government (S 61).

e) Special drawing rights (SDRs)

- As the holders of these rights, issued by the IMF beginning in 1970, have the unconditional right to obtain means of payment for settling international transactions, these rights are considered as financial assets.
- Those benefitting from allocations of SDRs, less any which may be returned, are obliged to return their allocation only if they withdraw from the system, if there is a reduction in the volume of SDRs in circulation or if the system is wound up. These obligations are therefore considered to be liabilities for an indefinite period.

f) Net position in the IMF

- As the countries which have a reserve position in the Fund consequently have the unconditional right to obtain from the Fund means of payment for settling international transactions, the reserve position is considered as an asset.
- As countries which have used up credits granted by the Fund are obliged to repay these credits, if no demand on their own currency is presented by another country, the use of credits granted by the IMF is considered as a liability.

507. On the other hand, no goods (except financial gold) are considered as financial items, even those which may represent an investment (land, antiques and works of art). Similarly, no intangible assets are considered as financial items, even those which provide an income (patents, copyrights - see 3103, 3104).

Moreover, transactions involving future commitments, neither of which will be provided until a fixed date - such as future options, openings of credit, forward sales, etc. - and which will not lead to actual changes in assets and liabilities until the expiry of the period, are not themselves considered to be financial transactions and are not recorded in the system.

FINANCIAL GOLD (F 00)

508. Definition: The heading F 00 records gold other than that intended for industrial purposes. This gold, treated as a liability of the rest of the world, is an instrument of investment.

509. The gold recorded under F 00 is described as financial gold, because it is acquired with the sole objective of constituting a reserve of purchasing power, in contrast with industrial gold, which is meant to be used as intermediate consumption in the manufacture of certain goods. All institutional sectors are capable of holding financial gold. Financial gold takes the form of coin, ingots and bars (1).

For its value to be recorded among financial transactions, financial gold must be sold on a market, whether official or not. This market must, however, be authorised and organised; that is, buyers and sellers must be able to acquire, or dispose of, financial gold every day at prices which are established or fixed at regular intervals.

510. Financial assets in the form of financial gold may increase or diminish as a result of transactions either in gold which was, and remains, financial gold, or in industrial gold which become financial gold, or vice versa.

The conversion of industrial gold into financial gold occurs when the holder of industrial gold sells it to a unit who wishes to treat it as an investment. The conversion of financial gold into industrial gold similarly occurs when the holder of financial gold sells his investment, the gold involved being bought for industrial purpose. When industrial gold is converted into financial gold, and vice versa, adjusted entries must be made to the levels of exports or imports of goods (see 358 f, 377 f) (2).

(1) Financial gold thus defined corresponds to a part of the NIMEXE position 00.50-00, namely sub-section 00.50-01 which includes the following CCT (European Communities Common Customs Tariff) positions:

71.07-B1 Gold and gold alloys in bar, threads, section, strips, sheets or bands, other than industrial gold.

72.01-A1 Gold coin.

(2) In practice, the conversion of industrial gold into financial gold increases the assets of the reporting country against the rest of the world. This increase makes it necessary to compensate for the fall in the amount of industrial gold in the country by recording an export of goods. Conversely, the conversion of financial gold into industrial gold diminishes the assets of the reporting country against the rest of the world, and it is therefore necessary to compensate for the increase in the amount of industrial gold in the country by recording an import of goods.

SPECIAL DRAWING RIGHTS (SDRs) (F 10)

511. Definition: The heading special drawing rights (F 10) is intended to cover transactions involving the rights allocated by the IMF, without any counterpart in gold or currency. Countries receiving an allocation of these claims are committed to provide "currency convertible in fact" in exchange for SDRs offered by another country, and to accept them in payment instead of gold or foreign currency (1).
512. The heading special drawing rights is sub-divided into two sub-headings:
- assets consisting of special drawing rights (SDRs) (F 11)
 - counterpart of the net allocations of SDRs (F 12).

(1) When SDRs are distributed by the IMF:

- the claims of the recipient against the rest of the world, in the form of assets which are automatically acceptable, are increased by the amount of the allocation of SDRs. This increase is included under sub-heading F 11.
- as the transaction which makes it possible for the accounts to be balanced is treated as a financial transaction (see 506 e), it must appear as a liability equal to the rights allocated. This liability is recorded under the sub-heading F 12.

When a country makes use of the SDRs at its disposal:

- the assets consisting of SDRs of the using country decrease (while its reserves of foreign currency increase)
- the assets consisting of SDRs of the accepting country increase (while its liabilities in the form of its own national currency convertible in fact also increase) or its assets in foreign currency convertible in fact decrease.

Finally, in the event of the withdrawal - in part or in total - of SDRs, a reduction in assets and liabilities is recorded which is equal to the amount of the increase recorded when they were distributed.

This method of treating SDRs in the accounts is called gross because it shows both of the following:

- the balance of the flows concerning claims in the form of SDRs
- the net allocations (or withdrawals) affecting the period in question.

Assets consisting of special drawing rights (SDRs) (F 11)

513. Definition: The sub-heading assets consisting of special drawing rights (F 11) covers the whole of the special drawing rights held by the monetary authorities. These assets, considered as a liability of the rest of the world, constitute instruments of investment.

514. The sub-heading F 11 covers the balance between

- on the one hand, SDRs originating from the IMF allocations, plus any acquisitions from other countries participating in the scheme or even from the IMF itself
- on the other hand, any withdrawals of SDR allocations by the IMF, plus any ^{remittances} of SDRs to other countries participating in the scheme or even to the IMF itself.

Counterpart of the net allocations of special drawing rights (F 12)

515. Definition: The sub-heading counterpart of the net allocations of special drawing rights (F 12) is intended to identify the counterpart of the allocations of SDRs, net of any withdrawals, received by the monetary authorities. This sub-heading corresponds to the liability - for an indefinite period - to reimburse in whole or in part the SDRs in the event of:

- the possible withdrawal by the country from the system on its own initiative
- a possible reduction in the volume of the SDRs in circulation
- the possible liquidation of the entire system of SDRs.

These liabilities, considered as assets of the rest of the world, constitute instruments of financing.

CURRENCY AND TRANSFERABLE SIGHT DEPOSITS (F 20)

516. Definition: The heading currency and transferable sight deposits (F 20) includes the fiduciary issue and sight deposits immediately convertible into the legal tender of the country without any kind of restriction, and which are transferable by cheque, banker's order or the like⁽¹⁾.
517. It is divided into three sub-headings:
- currency and transferable sight deposits in national currency (F 21)
 - currency and transferable sight deposits in foreign currency (F 22)
 - net position in the IMF (F 23).

Currency and transferable sight deposits in national currency (F 21)

518. Definition: The sub-heading currency and transferable sight deposits in national currency (F 21) includes the national fiduciary issue and sight deposits in national currency immediately convertible at par into the legal tender of the country without any kind of restriction, and transferable by cheque, banker's order, or the like. These assets are considered to be instruments of investment.
519. Sub-heading F 21 includes:
- a) notes and coin in circulation issued by the national monetary authorities (see 505, notes 1)⁽²⁾
 - b) transferable sight deposits in national currency
 - 1) with resident credit institutions
 - 2) with resident institutional units (for example, with the State) belonging to other sectors
 - 3) with non-resident credit institutions.

(1) This definition takes no account of concepts such as the money supply, primary liquidity, etc.

(2) Currency issued by the State is deemed to be a liability of the central government and not of the Central Bank (see 228).

Transferable sight deposits in national currency include, in particular, those held by credit institutions with other credit institutions (1), such as:

- sight deposits which resident credit institutions hold with the Central Bank to satisfy compulsory reserve requirements, in so far as such deposits remain transferable (2)
- sight deposits in national currency held in other countries in the name of the national monetary authorities
- sight deposits in national currency held by the Central Bank in the name of foreign monetary authorities.

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- (1) It should be noted that inter-bank transactions are not shown as a whole as a single special item, their components being included, according to their liquidity characteristics, under the appropriate headings of the system. The detail of inter-bank transactions will appear, in the tables of financial transactions, as the difference between the consolidated and unconsolidated figures for the transactions of the sector credit institutions.
- (2) The procedures governing compulsory reserves differ from one country to another and do not always call for deposits to be made with the monetary authorities. Furthermore, these reserves do not always correspond, at a given date, to the precise amounts of separate items in the assets of banks. Since the financial components of the compulsory reserves of credit institutions have different characteristics, they should be shown under the appropriate headings of the system. Thus, in countries where these reserves take the form of compulsory deposits in a blocked account with the Central Bank, they should be shown under the heading other deposits (F 30).

It should be pointed out that assets in the form of national currency held by the IMF as a result of drawings made by the country itself or as quota payments are not considered here nor under any other heading of the system (1).

- c) certain transferable assets expressed in national currency which are considered as deposits : assets representing the balances of sight transactions between credit institutions, in so far as these balances are transferable and their nature cannot be determined because they result from both deposits and credit institutions; deposits are presumed to be predominant.

Working balances, or correspondents' accounts, fall into this category of transferable deposits.

- (1) The subscription quota of each country to the IMF is made up of 25 % in gold and 75 % in national currency. Since, however, only the part in gold is actually paid to the IMF initially, only this part:

- can give rise to automatic drawings
- is designated by the expression reserve position in the IMF
- is therefore recorded as a financial claim against the Fund under heading F 23 (see 523).

The remaining 75 % of the quota:

- remains with the national monetary authorities but is at the disposal of the IMF, normally with 74 % in the form of Treasury bills in national currency and 1 % in bank deposits
- is not actually put into circulation
- is therefore considered in the system as the opening of a credit and is not recorded in the accounts.

When the country draws on the Fund, within the prescribed limits and conditions, in order to obtain the foreign currency it needs:

- the reserve position corresponding to automatic drawing rights is decreased, and if the drawings exceed the value of this position the difference becomes a liability of that country recorded under the heading Use of Fund credit (see 523) corresponding to non-automatic drawing rights. This transaction is included in heading F 23
- the national currency assets at the disposal of the Fund increase in proportion. They are added to the initial 75 % but, since they are not in circulation, they are regarded not as a liability towards the Fund but as a complementary opening of credit, and are therefore not recorded in the accounts.

When the Fund requests national currency from the country, for example when there is a drawing by another country:

- the country's reserve position increases (or its use of credits decreases) in proportion (heading F 23)
- the Fund receives a corresponding amount of national currency which is regarded as a liability of the country since it is actually put into circulation (heading F 21)
- the assets in national currency Treasury bills, put at the disposal of the Fund within the country concerned (credit facilities) are reduced by the same amount, although this does not appear in the accounts.

This method of accounting is called net because it shows only the actual movements of reserves which are attributable to transactions taking place with the Fund.

Currency and transferable sight deposits in foreign currency (F 22)

520. Definition: The sub-heading currency and transferable sight deposits in foreign currency (F 22) covers foreign fiduciary currency and sight deposits in foreign currency which are immediately convertible into national currency without any kind of restriction and without any cost other than the customary commission, and which are transferable by cheque, banker's order or the like. These financial assets are considered to be instruments of investment.

521. Sub-heading F 22 includes:

- a) notes and coin issued by the monetary authorities of foreign countries and which are held by residents
- b) transferable sight deposits expressed in foreign currency:
 - with resident credit institutions
 - with resident institutional units (for example, with the State) belonging to other sectors
 - with non-resident credit institutions.

This category includes, in particular, the transferable sight deposits of credit institutions with other credit institutions, such as:

- assets held in other countries in the name of the monetary authorities, in particular as a result of "swap" transactions (1)
- assets in foreign currency held with the national monetary authorities in the name of foreign monetary authorities

(1) A "swap" agreement is the convention where by two units (general government or credit institutions) agree to the exchange, at the request of one of them, of the national currency of the unit requesting the swap against foreign currency at a fixed rate of exchange, and to make the reverse exchange after an agreed period at a fixed rate of exchange.

The drawing of a resident unit against a unit with which it has signed a swap agreement means for the drawing unit:

- an increase in sight assets in foreign currency
- an increase in sight liabilities in national currency.

For the country drawn against, the exchange means an increase in sight assets in the foreign currency of the drawing unit and an increase in liabilities relating to the money paid to the drawing unit. These increases in assets and liabilities are not shown under a separate heading, but are included with changes in assets and liabilities having the same technical characteristics as the assets exchanged under the swap agreement. The forward counterparts are not shown in the accounts (see 507).

- c) certain transferable assets expressed in foreign currency which are considered as deposits : inter-bank balances similar to those described above in 519 (c) and which are expressed in foreign currency.

Net position in the IMF (F 23)

522. Definition: The sub-heading net position in the IMF (F 23) is intended to identify those financial assets and liabilities of the monetary authorities which result from transactions with the IMF (subscriptions, drawings, repurchases, etc.); the assets involved in such transactions should be treated similarly to transferable sight deposits in foreign currency. These assets and liabilities against and towards an international organisation are considered to be instruments of financing.
523. The sub-heading F 23 includes:
- as financial claims against the IMF : the Reserve position in the Fund, that is the counterpart of the assets transferred to the Fund in the form of contributions in gold, of net drawings in the country's currency by the Fund and of borrowing by the Fund - either bilateral borrowing or borrowing under the "General Arrangements to Borrow",
 - as liabilities towards the IMF : the Use of Fund credit, namely the counterpart of the foreign currencies received from the IMF after the reserve position has been exhausted.

OTHER DEPOSITS (F 30)

524. Definition: The heading other deposits (F 30) covers all deposits other than transferable sight deposits; that is, deposits which cannot be utilised without notice, without restriction and without some previous arrangement. These assets constitute instruments of financing.
525. The heading F 30 is subdivided into two sub-headings:
- other deposits in national currency (F 31)
 - other deposits in foreign currency (F 32).

Other deposits in national currency (F 31)

526. Definition: This sub-heading includes all deposits in national currency other than transferable sight deposits.
527. Non-disposability, which is a characteristic feature of "Other deposits", can be due to two distinct reasons:
- the existence of a fixed term or period of prior notice
 - the need to present a document which enables the deposit to be realised.
- According to whether deposits to be recorded are non-disposable for the first reason given above, the second, or for both simultaneously, this sub-heading is further divided into:
- time deposits in national currency (F 311)
 - sight savings deposits in national currency (F 312)
 - time savings deposits in national currency (F 313).

Time deposits in national currency (F 311)

528. Definition: The sub-position time deposits in national currency (F 311) covers deposits in national currency which are not disposable purely because of the existence of a fixed term or period of prior notice.
529. Usually, these deposits involve minimum amounts and are expressed in multiples of round figures. They do not imply that the depositor intends progressively to accumulate capital and represent a temporary immobilisation of liquid funds not in use. It is for this reason that time deposits are made more often by enterprises than by households.
530. The sub-position F 311 includes:
- a) time deposits in national currency (deposits with fixed term or period of prior notice) with credit institutions
 - b) deposits in national currency with the monetary authorities as a form of compulsory reserves to the extent that the depositors cannot realise them without notice or restriction; the term of the deposits depends on the dates when the reserve requirements have to be seen to be satisfied

- c) the balances in national money involving transactions in time deposits between credit institutions, to the extent that their nature cannot be determined because they result from both deposit and credit transactions. Deposits are presumed to be predominant.

Sight savings deposits in national currency (F 312)

531. Definition: The sub-position sight savings deposits in national currency (F 312) covers deposits in national currency which can be realised only on the production, for each withdrawal of a document materially substantiating the deposit (savings books, savings certificates, statements of account, etc.); and which can then be immediately converted into currency or transferable deposits.

532. These deposits have the following characteristics:

- a) the interest earned sometimes enjoys tax exemptions or reductions up to some maximum amount
- b) a supplementary bonus is often given to deposits which remain stable
- c) the rate of remuneration on these deposits is in general very stable; downward movements, in particular, tend to be very slight in comparison with fluctuations in short term interest rates on the money market
- d) savings deposits are sometimes restricted to persons.

It follows from these main features that savings deposits are primarily the concern of households rather than of enterprises. (The above characteristics are not exhaustive, however, and need not all apply together; the presence or absence of one or another will depend on the monetary policy of the country concerned).

533. The sub-position F 312 also includes non-negotiable ^{deposit certificates} /which do not have a fixed term, but which are payable on demand from the date of issue.

Time savings deposits in national currency (F 313)

534. Definition: The sub-position time savings deposits in national currency (F 313) covers deposits whose disposability is limited both by the need to produce, for each withdrawal, a document materially substantiating the deposit (savings books, savings certificates, statements of account, etc.) and by the existence of a fixed term or period of prior notice⁽¹⁾.
535. The characteristics mentioned under items a), c) and d) in paragraph 532, together with the remarks concerning the existence and consequences of these characteristics, apply equally to time savings deposits in national currency.
536. The sub-position F 313 includes, in particular:
- deposit certificates which have a fixed term and (see 721) which are not negotiable, or those whose negotiability, while theoretically possible, is very restricted
 - deposits in national currency resulting from a savings scheme or contract. These deposits involve an obligation on the part of the depositor to make regular payments over a given period, and the capital paid and interest accrued do not become available until a fixed term has elapsed. They are usually made by means of premiums which are considered to be either miscellaneous current transfers (see 496 g) or other capital transfers (see 4112 d). These deposits are sometimes combined with the issue, at the end of the savings period, of loans which are proportionate to the accumulated savings, for the purpose of buying or building a dwelling.
537. The following items are not included under the sub-heading other deposits in national currency (F 31):
- negotiable deposit certificates (see 540)
 - savings certificates issued by credit institutions, and especially by savings banks, if these certificates are negotiable (see 540).

(1) The force of such - legally or conventionally - required period of prior notice is sometimes relaxed to the extent of permitting withdrawals on demand up to some maximum amount.

Other deposits in foreign currencies (F 32)

538. Definition: The sub-heading other deposits in foreign currency (F 32) covers the whole of the deposits in foreign currencies, other than transferable sight deposits.

BILLS AND SHORT TERM BONDS (F 40)

539. Definition: The heading bills and short term bonds (F 40) groups together assets with a short maturity, usually up to 12 months, but with a maximum of 2 years, represented by securities intended to circulate, whose nominal value, determined on issue, is expressed as some round figure, and which bear interest, generally paid in advance (1). They are repayable at their nominal value at a date, or starting from a date, fixed at the time of issue. These securities constitute instruments of investment.
540. Heading F 40 includes in particular:
- Treasury bills including those which are taken up by credit institutions to satisfy their compulsory reserve requirements
 - certain government securities with a maturity of more than 2 years (possibly up to 5 years), but which special features relating to their issue (issue by instalments), circulation (not quoted on the stock exchange - can be taken up by banks) and redemption (repayment by instalments) which are also generally characteristic of short term securities in the strict sense
 - negotiable short term bills issued by credit institutions and occasionally by certain non-financial corporate and quasi-corporate enterprises, especially negotiable deposit certificates and savings certificates.
541. The heading bills and short term bonds does not include:
- short term securities which are not negotiable; they are merely a forms of time deposits and should be included under heading F 30 other deposits (see 536)

(1) When the difference between the nominal value and the price at issue represents interest paid in advance (the discount rate), it is treated in the accounts as actual interest (R 41) and the issue itself is, for this reason, recorded at the nominal value of the securities.

- securities whose negotiability, while theoretically possible is, in practice, very restricted, and which should be included under heading F 30 other deposits (see 536)
- Treasury bills in national currency remitted to the IMF in settlement of that part of the subscription quota - or of the increase in the quota - to be made in national currency. The remittance of these bills, in fact, merely constitutes a simple opening of credit (see 507 and 519 b).

LONG TERM BONDS (F 50)

542. Definition: The heading long term bonds (F 50) groups together securities with maturities of several years, bearing fixed rates of interest or interest rates linked to some index, generally payable by coupons, and which are redeemable starting from a date fixed at the time of issue (1).
- Long term bonds are negotiable instruments of investment (see 503) generally quoted on the stock exchange.
543. Heading F 50 includes debentures :
debentures
- convertible into shares, so long as they are not actually converted (see 549)
- bonds privately issued, i.e. bonds restricted by bilateral agreement to certain investors, if they are at least potentially transferable; if not, they are included in medium and long term loans (F 80).

SHARES AND OTHER EQUITIES (F 60)

544. Definition: The heading shares and other equities (F 60) groups together financial assets which entitle the holders to a share in the profits of corporate and quasi-corporate enterprises⁽²⁾ and to a share in the net assets of these enterprises in the event of liquidation⁽³⁾. The assets grouped under F 60 are considered as instruments of investment.

(1) Undated or perpetual bonds (Consols) are also included under the heading long term bonds (F 50).

(3) Net assets in the event of liquidation are defined as the amount of assets of an enterprise less all liabilities other than liabilities to the owners in respect of their invested capital.

(2) For a detailed list of these enterprises, see 222, 225, 235.

545. These assets are shown in the accounts under heading F 60 whether, issued against payment in cash or in kind, or even, in certain cases, issued free (see 722). When assets issued against payment are not fully taken up on issue, only the part actually paid up is shown in the accounts.
546. Heading F 60 is subdivided into two sub-headings:
- Shares (F 61)
 - Other equities (F 62).

Shares (F 61)

547. Definition: The sub-heading shares (F 61) covers investments in the capital of corporate enterprises represented by negotiable securities.
548. The sub-heading F 61 includes:
- a) capital shares issued by limited liability companies:
these are securities which give the holders the status of joint owners and entitle them both to a share in the total distributed profits and to a share in the net assets in the event of liquidation
 - b) redeemed shares in limited liability companies:
these are shares whose registered capital has been repaid but which are retained by the holders who continue to be joint owners and are entitled to a share in the profit left after dividends have been paid on the remaining registered capital and also to a share in any surplus which may be left on liquidation, i.e. the net assets less the remaining registered capital
 - c) dividend shares issued by limited liability companies:
these are securities:
 - which, according to country and the circumstances in which they are created, have a variety of names such as founders' shares, profit shares, dividend shares, reserve shares, etc. and which are not included in the registered capital
 - which do not give the holders the status of joint owners strictly speaking (the right to a share in the ^{repayment of the registered capital,} ~~the right to a~~ return on this capital. the right to vote at share-holders meetings, etc.)

- which entitle the holders to a fraction of any profits remaining after dividends have been paid on the registered capital and to a fraction of any surplus remaining on liquidation

d) capital shares issued by incorporated partnerships:

these are shares subscribed by partners with limited liability (limited partners).

549. The sub-heading F 61 does not include:

- the equity of partners with unlimited liability (unlimited partners) in incorporated partnerships : these assets are included under the sub-heading F 62
- debentures convertible into shares; these assets are shown in the accounts under the heading F 50 up to the moment when they are so converted⁽¹⁾
- government investments in the capital of international organisations which are legally constituted as companies with share capital. These assets are included under the sub-heading F 62.

Securities which do not entitle the holders to any share whatsoever in the net assets in the event of liquidation are not included under F 60, nor under any other heading of the financial accounts, even if they entitle the holder to an income out of the profits and no matter what they may be called. These securities are not financial assets since the company has no liabilities towards their holders. When they come into circulation, these securities are recorded at their market value as net purchases of intangible assets (see 3103).

Other equities (F 62)

550. Definition: The sub-heading other equities (F 62) includes all forms of equities other than those included under sub-heading F-61.

(1) The value to be recorded in the accounts under the heading shares is determined by the value at which the issuer of the shares actually converts the bonds.

551. Sub-heading F 62 includes:

- a) all forms of equities in corporate enterprises which are not freely negotiable:
- the equity in incorporated partnerships subscribed by unlimited partners
 - the equity in limited liability companies whose owners are partners and not shareholders
 - the capital invested in ordinary or limited partnerships recognised as independent legal entities
 - the capital invested in co-operative societies recognised as independent legal entities
- b) investments by the State in the capital of public enterprises which by virtue of special legislation are recognised as independent legal entities (see 216 c). These cover payments made by the State, whatever these payments may be called, which are intended to increase the funds at the disposal of these enterprises, in so far as these payments are not meant to finance, in whole or in part, transactions specifically for the purpose of gross fixed capital formation
- c) government investments in the capital of international organisations, with the sole exception of the IMF, even if these are legally constituted as companies with share capital
- d) capital invested in financial and non-financial quasi-corporate enterprises (see 216 f). The amount of such investments is measured by new investments (in cash or kind) less any capital withdrawals (1).

(1) This definition of capital investments implies that the profits earned by quasi-corporate enterprises and not withdrawn by the owners are treated as form of saving by quasi-corporate enterprises. The amount of the profits taken out by the owners is recorded in the accounts under heading withdrawals from the entrepreneurial income of quasi-corporate enterprises (R 45).

These investments are to be distinguished from:

- subsidies (see 421 to 426) and investment grants (see 499 to 4106) where the unit which makes the payment retains no financial claim against the beneficiary unit (1)
- other financial claims which the owners may have against quasi-corporate enterprises (e.g. the owner's personal account with a quasi-corporate enterprise)

e) capital investments by non-residents in enterprises deemed to be notional resident units (see 214) and vice-versa.

552. Sub-heading F 62 does not include:

- shares issued by incorporated partnerships and subscribed by limited partners (shareholders); these are shown under sub-heading F 61
- the financial claims of the owners of land and buildings against notional resident (or non-resident) units to which the ownership of such land and buildings is attributed. These assets are shown under heading F 80 (see 564 b)
- government investments in the capital of the IMF (quota) (see 519 b, note 1).

SHORT TERM LOANS (F 70)

553. Definition: The heading short term loans (F 70) covers all credits which are not in the form of deposits whose original maturity, agreed by contract, is normally one year at the maximum, and in exceptional cases 2 years at the maximum (2).

Short term loans are instruments of financing and when they are realised in the form of documents (trade bills, drafts, etc.) these do not have the status of instruments of investment (see 720).

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- (1) It should be remembered that, as public quasi-corporate enterprises are not recognised as independent legal entities, they cannot receive investment grants (see 4102), and that the funds received from the administration which owns the investment funds have therefore to be treated as capital investments.
 - (2) This definition is intended to cover the usual terms of short term loans whose maximum duration can vary, according to the member country, between 1 year - which is the most common term - and 2 years - in the case of a country whose concept of short term is the most extended.

554. Heading F 70 includes:

a) short term loans between residents:

- short term loans between sectors other than the credit institutions sector (trade credit, advances, consumer credit⁽¹⁾, etc.)
- short term loans made to other sectors by credit institutions (e.g. advances by the Central Bank to the State, advances on securities, discounting of commercial or financial bills⁽²⁾, refinancing of consumer credit, etc.)
- short term loans made between credit institutions themselves, especially by way of rediscounting.

b) short term loans between residents and non-residents. Only advances made directly by residents to non-residents, and vice-versa, are short term loans to and from the rest of the world respectively. Loans between residents used to finance credits granted by residents to non-residents are never treated as loans to the rest of the world, and the two types of transactions must be considered separately.

Short term loans between residents and non-residents include, in particular, in the case of the central banking authorities

- the assets representing funds lent under the European Monetary Agreement
- clearing balances which have not been consolidated.

555. Heading F 70 does not include short term credits granted by one credit institution to another when these transactions have the characteristics of both deposits and loans, but are accounted for as deposits (see 519 c, 521 c and 530 c).

556. Heading F 70 has three sub-headings:

- Short term trade credit (F 71)
- Accounts receivable and payable (F 72)
- Other short term loans (F 79).

(1) Consumer credits, i.e. loans granted to consumers for the purchase of consumer goods and certain services are not shown under a separate heading. According to their original maturity, they are shown under short term loans or under medium and long term loans.

(2) The treatment in the accounts of the transfer of commercial and financial bills representing loans is discussed in chapter VII (see 718 to 721). It should be noted that credit relations between the drawer and the drawee on the one hand, and between the assigning drawer and the banker, on the other hand, should be shown separately.

Short term trade credit (F 71)

557. Definition: The sub-heading short term trade credit (F 71) is intended to separate out short term loans of a commercial nature, and advances in respect of work in progress or on order.

Accounts receivable and payable (F 72)

558. Definition: The sub-heading accounts receivable and payable (F 72) is intended to record financial claims resulting from the time-lag which sometimes occurs between certain transactions and the receipt of their financial counterpart. By convention, these financial assets are treated as short term loans.

559. In particular, the miscellaneous item of the balance of payments generally described as balance of unrecorded items, errors and omissions or the like, which mainly represents credit transactions, should be shown under accounts receivable and payable of the rest of the world. Any transactions between residents and non-residents may give rise to a similar difference in timing, but the most common case concerns merchandise transactions, since the criteria for recording imports and exports and for recording their settlement may differ.

To the extent that the various debtor and creditor elements of the miscellaneous item of the balance of payments are known, they should be shown as financial assets or liabilities under the appropriate heading of the rest of the world account; if they are not known, the balance should be shown as an asset or a liability according to its sign. This means that a positive balance will be shown as an increase in the liabilities of the rest of the world, and a negative balance as an increase in the financial assets of the rest of the world.

560. The sub-heading accounts receivable and payable is not intended to cover all items which prove difficult to classify.

The following should therefore be excluded:

- elements about which there is not enough information and which are often included in a residual in countries' systems; these should be allocated to a definite heading in the system on the basis of whatever information is available

- elements about which no technical detail is known ; the value of these items should be included in the adjustment between the balance of the capital account and the balance of the financial account.

561. Other short term loans (F 79)

Definition: The sub-heading other short term loans (F 79) covers all short term loans other than these which are classified as short term trade credit (F 71) or as accounts receivable and payable (F 72).

MEDIUM AND LONG TERM LOANS (F 80)

562. Definition: The heading medium and long term loans (F 80) covers all credits, which are not in the form of deposits, whose original maturity, agreed by contract, is normally one year at the minimum, and in exceptional cases 2 years at the minimum (1). Medium and long term loans are instruments of financing and when they are realised in the form of documents (commercial bills, drafts, etc.) these do not have the status of instruments of investment (see 720).

563. Medium and long term loans are thus distinguished:

- by their duration from short term loans
- by their method of issue from financial assets represented by deposits or by securities created as instruments of investment.

564. The heading medium and long term loans includes:

- a) as loans between residents:
 - medium and long term loans between sectors other than the credit institutions sector (trade credit, advances, consumer credit, etc.)

(1) This definition is intended to cover the usual terms of medium and long term loans whose minimum duration can vary, according to the member country, between one year - which is the most common term - and 2 years - in the case of a country whose concept of the medium or long term is the most restricted.

- medium and long term loans made by credit institutions to other sectors (in particular, loans in cash, advances on securities, discounting, commercial and financial bills, refinancing consumer credit, etc.)
- medium and long term loans between credit institutions themselves, especially by way of rediscount

b) as loans between residents and non-residents:

- liabilities towards non-residents of the notional resident units owning land and buildings on the economic territory of the country (see 205 and 206). The notional resident units are deemed to have received from these non-resident units a loan of the same amount as the price paid for the acquisition of the land and buildings
- claims of resident units against notional non-resident units of the same kind as the liabilities just described
- assets and liabilities corresponding to consolidated clearing balances.

565. Heading F 80 is broken down into two sub-headings:

- Medium and long term trade credit (F 81)
- Other medium and long term loans (F 89).

Medium and long term trade credit (F 81)

566. Definition: The sub-heading medium and long term trade credit (F 81) is intended to separate out medium and long term loans of a commercial nature, and advances in respect of work in progress or in order.

Other medium and long term loans (F 89)

567. Definition: The sub-heading other medium and long term loans covers all medium and long term loans other than those classified as medium and long term trade credit (F 81).

568. The detailed table of financial transactions (T 16) also shows a further sub-breakdown, mobilisable medium term loans, intended to separate out those medium term loans which, in some countries, can be rediscounted with the Central Bank.

INSURANCE TECHNICAL RESERVES (F 90)

569. Definition: The heading insurance technical reserves (F 90) covers the actuarial reserves against outstanding risks, prepayments of premiums, the reserves which constitute liabilities towards policy holders for profit sharing, and the reserves against unsettled claims which are considered as liabilities of the institutions concerned. These reserves are instruments of financing.
570. Insurance technical reserves constitute an element of saving:
- for policy holders, in respect of the actuarial reserves against outstanding risks, the prepayments of premiums and the reserves and liabilities towards policy holders for profit sharing
 - for beneficiaries, in respect of reserves against unsettled claims.
571. Transactions relating to the four types of technical reserves are grouped under heading F 90, whatever the type of institution which holds them:
- life insurance or accident insurance enterprises or non-profit institutions
 - autonomous pension funds classified in the insurance enterprises sector
 - non-autonomous pension funds.

Particular attention is drawn to the reserves, or similar funds, established by employers, without resorting to typical insurance management methods, in order to provide employees with claims similar to those of life insurance and pension funds; these reserves or similar funds should be included in non-autonomous pension funds, in so far as the employees are definitely entitled to receive such claims and those administering or managing the funds cannot freely dispose of the reserves established for the purpose of paying such claims.

- 572.. Heading F 90 does not include changes in the reserves established by institutions classified in the sector social security funds (1).

These reserves are treated as an element in the saving of the institutions in question and not of the insured. They are therefore not financial assets.

(1) Especially pension schemes which are not classified as insurance enterprises.

573. Heading F 90 is broken down into two sub-headings (1):
- actuarial reserves against outstanding risks and liabilities towards policy holders for profit sharing (F 91)
 - prepayments of premiums and reserves against unsettled claims (F 92).

Actuarial reserves against outstanding risks and liabilities towards policy holders for profit sharing (F 91)

574. Definition: The sub-heading actuarial reserves against outstanding risks and liabilities towards policy holders for profit sharing (F 91) groups together actuarial reserves against outstanding risks with the reserves and liabilities towards policy holders for profit sharing.

575. Actuarial reserves against outstanding risks are those which, under a contract of insurance or pension scheme are established by insurance agencies in order to guarantee the payment of future claims (2).

The creditor of these reserves is the policy holder. This also applies to group insurance taken out, for example, by the head of an enterprise for his employees. It is the employees, and not the employer, who are deemed to be the creditors, since they are considered as the real policy holders (see 236).

The value at which the actuarial reserves against outstanding risks should be shown in the accounts is their inventory value (3).

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- (1) The four categories of technical reserves are, however, shown separately in Table 18.
- (2) The increase in actuarial reserves against outstanding risks is financed by part of the gross premiums paid by insured persons, who thereby are engaged in contractual saving with the insurers.
- (3) The actuarial reserves against outstanding risks held by insurers may be:
- pure : that is, calculated on the basis of pure premiums
 - inventory : that is, calculated on the basis of premiums including the administrative costs borne by the insurers except for the costs of acquiring contracts
 - complete : that is, established on the basis of premiums including all administrative costs borne by the insurers, i.e. inclusive of the costs of acquiring contracts.

576. The reserves and liabilities towards policy holders for profit sharing cover that part of cost gains, of risk gains, of interest gains and of realised capital gains or losses which the insurers distribute to policy holders as deferred profits. These reserves may, in particular, take the form of deposits which the insurers hold in the name of the insured. The creditors for these reserves are the policy holders.

Prepayments of premiums and reserves against unsettled claims (F 92)

577. Definition: The sub-heading prepayments of premiums and reserves against unsettled claims (F 92) groups together prepayments of premiums with reserves against unsettled claims.

578. Prepayments of premiums, which result from the fact that the duration of insurance contracts does not coincide with the financial year of the insurance enterprises, consist of those parts of the premiums advanced by the insured and carried forward to the following accounting period, on the basis of the proportion of the risks, as determined by the ratio of the period remaining to run until the maturity of the contract to the total period of time involved.

Since the amount of premiums to be shown in the accounts is, according to the concept of the accrual basis, that of the premiums earned, i.e. the premiums designed to cover the risks during the relevant period, the changes in these reserves constitute liabilities of the insurers.

The creditor for these prepayments of premiums is the policy holder. If these prepayments relate to life insurance, the insured person may belong to the households sector or to the rest of the world. If they relate to accident insurance, the policy holder may belong to any sector of the economy or to the rest of the world.

579. Reserves against unsettled claims are reserves which insurers carry to cover the possible value of claims which are not immediately settled, especially when they are legally disputed.

Like premiums, claims are accounted for on an accrual basis - which means that the insurance enterprises recognize the right to indemnity at the moment when the accident occurs and that the indemnity is transferred to the beneficiary at that moment (see 453), even if it is paid over only much later. For this reason, reserves against unsettled claims represent liabilities of the insurers.

The creditor of the reserves against unsettled claims is the beneficiary, and, in the case of accident insurance, the ultimate beneficiary, i.e. the person whose injury or damage is indemnified. If the identity of the beneficiary is unknown when the accounts are compiled, it will be determined, for each kind of risk insured, on the basis of the way in which claims settled in previous years have been distributed among the different sectors.

SPECIAL CLASSIFICATION OF FINANCIAL TRANSACTIONS

580. The classification of financial transactions under the various headings and sub-headings envisaged in the ESA does not make it possible to show whether one of the parties to a transaction is a resident or a non-resident.

In order to be able to separate out claims against the rest of the world and to indicate which part of these assets should be shown in the official reserves of the monetary authorities, an additional section has been appended to the summary table of financial transactions (table 15) which provides a special classification of financial assets and liabilities vis-à-vis the rest of the world.

This appendix also shows the amount of the forward counterpart of the swap transactions (see 521 b, note 1) and the amount of the assets in national currency held by the IMF as a result of changes in the country's net position (see 519 b, note 1). These amounts are included for reference only, as they do not result from financial transactions as these are understood in the ESA.

581. The various groupings or sub-groupings which appear in this appendix are as follows:

Items	Code
<u>Financial assets and liabilities vis-à-vis the rest of the world</u>	
Gross official reserves of the monetary authorities (and corresponding liabilities)	L 10
Monetary gold	L 11
Assets consisting of special drawing rights (SDRs)	L 12
Net position in the IMF	L 13
Other sight and short term assets	L 14
Medium and long term assets	L 15
Financial assets and liabilities vis-à-vis the rest of the world, except the official reserves	L 20
Financial gold other than monetary gold	L 21
Sight and short term assets	L 22
Medium and long term assets	L 23
<u>For reference</u>	
Forward counterpart of swap transactions	L 30
with resident units	L 31
with non-resident units	L 32
Assets of the IMF in national currency (as a result of drawings recorded in the General Account)	L 40

Gross official reserves of the monetary authorities (and corresponding liabilities) (L 10)

582. The grouping gross official reserves of the monetary authorities (and corresponding liabilities) (L 10) is intended to show the official monetary reserves (assets in the form of gold, in SDRs, in foreign currency and in national currency) held by the monetary authorities, and the corresponding liabilities; these reserves are claims against non-residents.

583. As there is no standard definition of gold and foreign currency reserves held by monetary authorities, they are deemed to consist of certain claims on foreigners whose amount is published by the IMF in International Financial Statistics (IFS) under the heading International Liquidity.

584. The grouping L 10 is broken down into five sub-groupings:

- Monetary gold (L 11) (Line 1a in the IFS)⁽¹⁾
- Assets in SDRs (L 12) (Line 1b in the IFS)
- Net position in the IMF (L 13) (Lines 1c and 2e in the IFS)
- Other sight and short term assets (L 14) (Line 1d in the IFS)
- Medium and long term assets (L 15) (Line 1d in the IFS)

Monetary gold (L 11)

585. The sub-grouping monetary gold (L 11) covers that part of financial gold (F 00) which is held by the monetary authorities as official reserves.

Assets in SDRs (L 12)

586. The sub-grouping assets in SDRs (L 12) covers the amount of the SDRs held by the monetary authorities (see 513).

Net position in the IMF (L 13)

587. The sub-grouping net position in the IMF (L 13) covers, like heading F 23, the country's net position in the IMF, namely:

- among assets
the reserve position in the Fund, that is the counterpart of the assets paid to the Fund (subscription in gold, net drawings of national currency by the Fund, borrowing by the Fund)
- among liabilities
the liabilities corresponding to the use of Fund credit.

(1) References to lines are based on IFS no. 11/1970.

Other sight and short term assets (vis-à-vis the rest of the world)(L 14)

588. The sub-grouping other sight and short term assets (L 14) covers the following components of the official reserves, which form part of headings F 20, F 30, F 40 and F 70:

a) among assets

- disposable assets in foreign currencies (cash, foreign bank notes, sight and short term deposits) and claims in national currency against non-residents (parts of heading F 20 and F 30).
In the case of swap transactions (see 521b, note 1) with foreign monetary authorities, the amounts of foreign currency actually drawn by the country are recorded as assets in foreign currency. The corresponding forward transactions should not be shown (see 507)
- Treasury bills issued by foreign countries and acquired by the resident monetary authorities (1) (part of heading F 40)
- short term loans (part of heading F 70), especially assets created under the European Monetary Agreement

b) among liabilities:

- sight and short term liabilities, in foreign currency and in national currency corresponding to
 - national bank notes circulating abroad (part of heading F 20)
 - deposits in foreign and national currency made by non-residents with the monetary authorities (parts of headings F 20 and F 30).
In the case of swap transactions, the counterparts of the amounts of foreign currencies actually drawn are shown in the accounts among liabilities in national currency, but the corresponding forward transactions should not be shown
- Treasury bills acquired by non-residents (part of heading F 40).

(1) For example, the "Roosa Bonds", short term Treasury bills issued abroad by the American Treasury, and expressed in the currency of the foreign subscribing country. On the other hand, United States 5-year Treasury bonds, which can be exchanged for 15 months bills, must not be shown under L 14 in the accounts - to the extent that they cannot be immediately mobilised.

Medium and long term assets (vis-à-vis the rest of the world) (L 15)

589. The sub-grouping L 15 covers those medium and long term assets vis-à-vis the rest of the world that the monetary authorities keep as components of the official reserves and corresponding liabilities. These assets and liabilities are parts of headings F 50, F 60 and F 80.

Financial assets and liabilities vis-à-vis the rest of the world, other than the official reserves (L 20)

590. The grouping financial assets and liabilities vis-à-vis the rest of the world, other than the official reserves (L 20) is intended to show the financial claims against the rest of the world, other than those held by the monetary authorities as official monetary reserves, and the corresponding liabilities.

591. The grouping L 20 is broken down into three sub-groupings:
- financial gold other than monetary gold (L 21)
- sight and short term assets (L 22)
- medium and long term assets (L 23).

Financial gold other than monetary gold (L 21)

592. The sub-grouping L 21 covers financial gold held by all resident units, except monetary gold (see 585).

Sight and short term assets (vis-à-vis the rest of the world) (L 22)

593. The sub-grouping L 22 covers sight and short term assets and liabilities between residents and non-residents (parts of headings F 20, F 30, F 40 and F 70) except the official reserves and corresponding liabilities. It includes, in particular, clearing balances which have not been consolidated.

Medium and long term assets (vis-à-vis the rest of the world) (L 23)

594. The sub-grouping L 23 covers medium and long term assets and liabilities between residents and non-residents, except the official reserves and corresponding liabilities (parts of headings F 10, F 50, F 60, F 80 and F 90).

It includes, in particular, the counterpart of the net allocations of SDRs (F 12) and the consolidated clearing balances (part of sub-heading F 89).

CHAPTER VI

THE FLOWS OF GOODS AND SERVICES IN THE INPUT-OUTPUT TABLE

601. An input-output table is a coherent way of presenting the flows of goods and services produced, exchanged with the rest of the world, and used by all resident units (1) in the course of a given year.

For the analysis of flows taking place in the process of production, it is essential to choose units which bring out relationships of a technico-economic kind. A branch is therefore defined as a grouping of units of homogeneous production, i.e. units characterised by a unique activity (see 265 et seq.).

602. In the input-output table, the terms uses and resources refer to the real flows and not to the monetary flows; they are therefore used in the opposite sense to that used in the sector accounts.

603. The final consumption of households by branch corresponds to the final consumption of households on the economic territory, and not to the final national consumption of households (see 329). This is because the data relating to exports by branch do not include purchases on the economic territory made by non-resident households, while the data relating to imports by branch do not include purchases outside the territory by resident households.

The total final national consumption of households is calculated outside of the input-output table by adding to the final consumption of households on the economic territory purchases of goods and services made by resident households outside the economic territory, while at the same time subtracting purchases of goods and services made by non-resident households on the economic territory.

.../...

(1) With one exception made in the case of the final consumption of households (see 603).

604 - 606

604. General problems concerning transactions in goods and services have been treated in chapter III. The present chapter examines problems specifically connected with the establishment of the input-output table, namely :

- the definition of the total output of goods and services
- the definition of intermediate consumption, of consumption internal to the group, and of intra-branch consumption
- the treatment of by-products and adjacent products
- the treatment of the incidental sales of general government and private non-profit institutions
- the concepts of actual and distributed output
- the treatment of existing goods
- the prices at which flows are valued
- value added, final domestic uses, imports and exports of goods and services.

TOTAL OUTPUT OF GOODS AND SERVICES

605. The input-output table fixes, by convention, the extent to which the output of goods and market services produced for own consumption by institutional units should be recorded.

606. The total output of goods and services (P 10), defined in paragraph 304, covers :

- a) the output of new goods and of market services intended to be sold on the market
- b) the output of new goods and market services which, without actually being marketed, are treated as final uses (agricultural and food products produced for own consumption by households, products provided by the units which produce them as a form of supplementary remuneration to their employees, fixed capital goods produced on own-account - see 330 and 338)
- c) the output of goods and market services which, without being marketed are consumed within institutional units whose activity spans several groups of the NACE/CLIO; such output is also recorded as intermediate consumption (see 607 b)

.../...

- d) the output of specifically designated goods (see NACE/CLIO) which are consumed within a group without being marketed; such output is also recorded as consumption internal to the group (see 608)
- e) the output of non-market services.

INTERMEDIATE CONSUMPTION, CONSUMPTION INTERNAL TO THE GROUP AND
INTRA-BRANCH CONSUMPTION

607. Intermediate consumption (P 20), defined in paragraph 320, consists of :

- a) the consumption of goods and market services bought on the market and actually consumed during the relevant period
- b) the consumption of goods and market services which, without being marketed, are consumed within institutional units whose activity spans several groups of the NACE/CLIO
- c) the consumption of certain goods which are consumed within a group of the NACE/CLIO; this is called consumption internal to the group (see 608).

608. Consumption internal to the group covers :

- a) the consumption of certain goods specifically designated in the NACE/CLIO, the output of which has been recorded and which are consumed within the same group of the NACE/CLIO in which they were produced
- b) the consumption by each NACE/CLIO group of imported products of the same kind which it produces itself.

609. If the groups of the NACE/CLIO are aggregated into branches, intra-branch consumption covers :

- the consumption internal to each of the groups of which the branch is composed
- exchanges between the groups of which the branch is composed.

In this way, total intermediate consumption and total output do not depend on the degree of aggregation of the groups or branches in the input-output table.

610 - 612

The vertical or horizontal integration of enterprises has no effect on the data for branches, because exchanges of products, which are not actually marketed and which are used up within enterprises whose activity spans several groups, are recorded both in output and in intermediate consumption.

TREATMENT OF BY-PRODUCTS AND ADJACENT PRODUCTS

610. One consequence of the way in which a branch is defined is that, in certain cases, the output and use of products of a single reporting unit in the statistical enquiries must be allocated among several branches.

This breakdown poses methodological problems in the case of technologically linked products called by-products, or in the case of adjacent products.

611. An exclusive by-product is a product technologically linked to the production of other products in the same group, but which is not produced in any other group (e.g. molasses linked to the production of sugar in group 420 of the NACE/CLIO). Sales of exclusive by-products, which are used as inputs for the manufacture of other products, are treated in the usual way - that is, as deliveries from the producer group to the using group.

612. An ordinary by-product (i.e., a by-product which is not exclusive to a single group) is a product technologically linked to the production of other products, but which is produced in several groups (e.g., the hydrogen produced in petroleum refining, which is technologically linked to the production of products in group 252, petroleum refinery products; this hydrogen is identical with that produced in group 253, inorganic chemicals).

.../...

613. An adjacent product is one whose use is similar to that of another product which is classified in a different group because its method of production is different (e.g., leather shoes, rubber shoes, shoes made from plastic materials).
614. For the analysis of uses, all identically products, or products having similar uses, should appear in a single row of the table, whereas, for the analysis of cost structures, it is logical to include all products obtained from a specified technique of production within the same column of the table.

The treatment of ordinary by-products and adjacent products must therefore achieve the following objectives :

- to obtain stable and significant technical coefficients in the branch which produces ordinary by-products or adjacent products as well as in the branches which produce identical products or products with similar uses
- to obtain a significant balance between resources and uses, both domestic and foreign, for each product, with the constraint that the foreign trade in a product must appear in the same branch, in the case of imports as well as exports.

615. The method of treating ordinary by-products and adjacent products is the following (see diagram):

Group A produces the good a and also the good b' as an ordinary by-product or as an adjacent product. Group B produces the good b, which is identical with, or has similar use to, the good b' produced by group A.

Group A includes in its column all the costs necessary to produce a and b', while group B includes in its column all the costs necessary to produce b. The objective of obtaining stable and significant coefficients is thus achieved : the costs of the two groups are those necessarily incurred in their production, and only these costs.

.../...

615 (cont'd)

To achieve the second objective of obtaining a balance between resources and uses for each product, group A must record the domestic uses, exports and imports of the single product a, while group B records those of products b and b', which are identical or with similar uses. The balance between the rows and columns of the groups A and B is achieved by recording, in a special row for transfers, a negative adjustment in column A and a positive adjustment in column B, the adjustments being equal to the amount of b'. These adjustments make it possible to proceed from the actual output of the groups to their distributed output.

The NACE/CLIO provides the list of ordinary by-products and adjacent products which must be treated in this way: when, however, several groups are aggregated to form a branch, transfers of ordinary by-products and adjacent products between these groups are no longer needed.

Diagram of the method of treating ordinary by-products and adjacent products in the input-output table

	A	B	Total uses
A			a
B			b + b'
actual output	a + b'	b	
special row : transfers of ordinary by- products and adjacent products	- b'	+ b'	
distributed output	a	b + b'	

TREATMENT OF INCIDENTAL SALES OF GENERAL GOVERNMENT AND PRIVATE NON-PROFIT INSTITUTIONS

616. The non-market branches, general government and private non-profit institutions, may occasionally happen to produce certain goods and market services, or may render non-market services to households for a nominal charge which covers only part of their production costs. The latter case concerns partial charges, and not payments which are considered to be miscellaneous current transfers such as passport or driving licence fees, fines etc. (see 496 a and b).

These sales are treated as follows :

- a) in the case of the incidental production of goods and market services, the sales are treated in the same way as ordinary by-products (i.e., they are transferred on a special row of the input-output table to the branches which normally produce similar goods and services)
- b) in the case of partial charges for non-market services, these are treated as direct deliveries from the non-market branches, general government and private non-profit institutions, to the final consumption of households.

CONCEPTS OF ACTUAL AND DISTRIBUTED OUTPUT

617. For each branch, the distributed output is equal to the actual output plus :

- the net balance of transfers of ordinary by-products
- the net balance of transfers of adjacent products
- transfers of incidental products originating from the non-market branches general government and private non-profit institutions.

For the economy as a whole, these transfers cancel each other out, the distributed output of goods and services being equal to the actual output.

.../...

TREATMENT OF EXISTING GOODS

618. Definition : Existing goods are all goods which have entered the country's economic system, during the relevant period or a previous one, through being involved in transactions relating to production or importing, and to (intermediate or final) consumption or gross capital formation.
619. Existing goods feature in the input-output table only in so far as they are involved in new transactions (sales/purchases) during the relevant period.
620. Among existing goods may be distinguished :
- a) antiques (works of art, collectors' pieces) which are sold from one unit to another
 - b) existing buildings and other fixed capital goods which are sold from one producer unit to another :
 - to be re-used as such
 - to be demolished or broken up; the results of the demolition, which usually consist of raw materials (e.g. scrap iron) used for the production of new goods (e.g. steel), are called demolition materials (1)
 - c) existing consumer durables which are sold by households and military authorities (see 323 f) to other units :
 - to be re-used as such
 - to be broken up and converted into demolition materials
 - d) existing non-durable consumer goods (e.g., waste paper, rags, old clothes, old bottles etc.) which are sold by any unit, either to be used again or to become raw material for the manufacture of new goods; these are called recovered goods.

.../...

(1) The breaking up of boats, however, is an activity of NACE/CLIO group 361, Poats. The covered goods are therefore treated as an ordinary by-product and transferred to group 620, Recovery Services.

621. Existing goods do not include land; transactions in land are not recorded in the input-output table, but are included under a special heading (P 71) of the capital account (see 398, 399).
622. Transactions involving existing goods carried out during the relevant period are recorded in the group "scrap and salvage" (see NACE/CLIO group 620).
623. In the column of the group recovery services appear
- a) the value of only those purchases of goods and services and of factors of production which are required for the actual demolition itself and for the processing and treatment of the demolition materials (see 620 b) and of the recovered goods (see 620 d)
 - b) the total value of all recovered goods sold by the market branches (620 d) recorded on the row net operating surplus. By convention, the value of these goods is considered to be neither an intermediate input of the recovery services group which works on them nor an output of the group which sells them.

Transactions involving antiques (620 a) and other existing goods which are re-used as such do not appear in the column of the group recovery services.

624. In the row of the group recovery services appear
- a) the value of demolition materials and recovered goods sold by the group recovery services to each of the market groups which makes use of them
 - b) the net purchases (1) of existing durable consumer goods and recovered goods by the non-market branches, general government and private non-profit institutions. The total net purchases are recorded in the consumption of each of these groups
 - c) net purchases of antiques, existing durable consumer goods, and recovered goods by households. Their total is recorded in the column final consumption of households
 - d) net purchases of antiques and existing fixed capital goods by all m groups. Their total is recorded in the column gross fixed capital formation. If this balance is negative, it represents the country's total disinvestment during the relevant period

.../...

(1) Purchases less sales.

- e) exports of existing goods : antiques, re-usable existing goods, demolition materials, recovered goods. Their total is recorded in the column exports of goods and services.

625. Miscellaneous comments

- a) In the table showing gross fixed capital formation cross classified by the producing branch and by branch of use, sales and purchases of antiques and existing fixed capital goods are shown on the row recovery services; they appear as a negative item in the column of the selling branch and as a positive item in the column of the purchasing branch
- b) when the transactions described above involve trade and transport, the cost incurred are attributed to the purchaser of the existing goods and not to the recovery services group, in the case of a table valued at production prices or at ex-works prices
- c) antiques and existing goods which have been sold, but which are not yet being used again, are shown under change in stocks on the row recovery services.

THE PRICES AT WHICH THE FLOWS ARE VALUED

626. When constructing the input-output tables, the flows are recorded in value terms, i.e., quantities multiplied by prices.

The various types of prices

627. Different kinds of prices are used according to whether the products are :

- produced domestically
- imported.

In the case of domestically produced products, distinctions are drawn between :

- a) the production price
- b) the ex-works price
- c) the purchasers' price.

In the case of imported products, distinctions are drawn between :

- a) the c.i.f. price
- b) the ex-customs price
- c) the purchasers' price.

628. Production price

The production price of a product is the sum of the costs of the materials and of the payments to factors of production which are needed to produce it (1). It does not include net taxes (2) levied on the product (2).

629. Ex-works price

The ex-works price is the production price plus net taxes levied on the product. The ex-works price is the market-price from the point of view of the producer.

630. Purchasers' price for products of domestic origin

The purchasers' price is the total or inclusive price paid by the user. In the case of domestically produced products used on the economic territory, the purchasers' price is the ex-works price plus the trade and transport margins. In the case of exported products, the purchasers' price is taken to be the price at the frontier, i.e., the f.o.b. price. The purchasers' price is the market-price from the point of view of the buyer.

631. C.i.f. price

The c.i.f. price is the price at which imported products are recorded in the foreign trade statistics (see 382 and 384). It embraces the foreign ex-works price, trade margins, and the costs of insurance and transport from the place of production to the frontier of the importing country.

632. Ex-customs price

The ex-customs price of imported products is the c.i.f. price plus taxes linked to imports.

.../...

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- (1) By convention, in the following cases the producer's profit, which normally a component of the production price, is zero :
- fixed capital goods, research services and transport services produced on own-account
 - products provided by the units which produce them as a form of supplementary remuneration to their employees
 - goods put into stock by producers
 - non-market services.
- (2) The expression net taxes is used to indicate taxes linked to production and imports, less subsidies.

633. Purchasers' price imported products

The purchasers' price for imported products is the ex-customs price plus the trade and transport margins within the country importing the ducts. It is thus the total price paid by the user of imported products.

Prices used in the input-output table

634. The flows in the input-output table can be valued on the basis of various price systems :

- a) at production prices : this means production prices for domestically produced products and c.i.f. price for imports
- b) at ex-works prices : this means ex-works prices for domestically produced products and ex-customs prices for imports
- c) at purchasers' prices for final uses
- d) at mixed prices : this means ex-works prices for intermediate consumption and purchasers' prices for final uses.

635. Input-output tables at production prices

All flows of the input-output table at production prices are valued either at production prices or at c.i.f. prices.

The production price is the price which is theoretically most satisfactory in the context of an input-output table. It reflects as closely as possible the quantities of products used, and it is, in principle, identical for any given product along the entire row of an input-output table.

In an input-output table valued at production prices, a given column is composed of the following elements :

- a) the costs of products used for intermediate consumption.

Individually, these are valued at production prices, but their total is valued at purchasers' prices; they consist of the following components :

- inputs of intermediate goods and services used by the particular branch, valued at production prices. This price does not include net taxes paid by the branch itself when making purchases; it does, however, include any net taxes already incorporated in the production prices of products purchased from other branches

.../...

(1) The expression net taxes is used to indicate taxes linked to production and imports, less subsidies.

- total trade and transport margins (valued at production prices) paid by the branch on its inputs
- total net taxes paid directly by the branch on its inputs (1)
- b) consumption of fixed capital
- c) payments to factors of production, namely net value added at factor cost.

The sum of items a), b) and c) above is equal to the value of output at production prices.

In short, the input-output table at production prices consists of :

- a table of intermediate exchanges valued excluding the net taxes levied directly on the products
- a table of final uses valued excluding the net taxes levied directly on the products
- a table of primary inputs and resources in which the taxes linked to production which are levied directly on the total intermediate inputs of each branch are recorded on the row taxes linked to production.

That part of taxes linked to production levied on the final uses of products (mainly final consumption) does not appear in the input-output table at production prices.

The table does not show the net taxes paid by each branche to the government; it provided value added at factor cost by branche, but it does not provide value added at market prices.

636. Input-output tables at ex-works prices

The flows in the input-output table at ex-works prices, are valued :

- at ex-works prices for products sold on the market
- at ex-customs prices for imported products
- at production prices or, if net taxes have actually been paid, at ex-works prices for :

.../...

(1) In practice, in order to obtain a square matrix of intermediate transactions, the row taxes linked to production less subsidies is placed below the row net value added at factor cost outside the table of intermediate transactions.

- products exchanged within institutional units whose activity spans several groups of the NACE/CLIO and also products specifically designated in the NACE/CLIO which are consumed within the group which produces them
- agricultural and food products produced for own consumption
- fixed capital goods produced on own-account
- products provided by the enterprises which produce them as a form of supplementary remuneration to their employees
- goods put into stock by producers.

In general, ex-works price is the one which producer units know best and the most reliable one for statistical enquiries (1).

In the input-output table valued at ex-works prices, a given column is composed, therefore, of the following elements :

- a) the inputs of products used; individually, these are valued at ex-works prices, but their total is valued at purchasers' prices. In other words, they consist of the costs of intermediate goods and services (including the total trade and transport margin on the inputs)
- b) consumption of fixed capital.
- c) payments to factors of production
- d) net taxes levied on the outputs of the branch.

As the total costs of products used are exactly the same at production prices as at ex-works prices (even though they are distributed differently) (2) the only difference between the two methods of valuing output consists of net taxes on output.

The input-output table at ex-works prices makes it possible to calculate for each branch both gross value added at factor cost (b + c) and gross value added at market prices (b + c + d).

.../...

-
- (1) Depending on the way in which statistics are organised in the various countries, the tables are valued directly either at production prices or at ex-works prices. Whichever of the tables has not been valued directly is derived from the other by either adding or subtracting a matrix of taxes linked to production and imports, less subsidies.
 - (2) In the table valued at production prices, the total net taxes on the products used are recorded on a special row; in the table valued at ex-works prices, they are included in each intermediate flow.

637. Final uses at purchasers' prices

To evaluate final uses at purchasers' prices, the following are used :

- a) in the case of the final consumption of households :
 - the purchasers' price, for products bought on the market
 - the production price of similar products, for agricultural and food products produced for own consumption by households
 - the production price (1), for goods and services provided by the units which produce them as a form of supplementary remuneration to their employees
- b) in the case of the collective consumption of general government and private non-profit institutions, the value of the output of the corresponding non-market branches ~~at ex-works~~ prices, after deducting the incidental sales of these branches (see 333 and 616)
- c) in the case of gross fixed capital formation :
 - the purchasers' price, for goods bought on the market
 - the production price (1), for goods produced on own account
- d) in the case of changes in stocks :
 - the production price (1), for stocks held by producers
 - the purchasers' price, for stocks held by users
- e) in the case of exports, the f.o.b. price.

As regards final uses, especially the final consumption of households, purchasers' prices are the prices collected in statistical enquiries among users.

638. The input-output table at mixed prices

The input-output table is said to be at mixed prices when it is valued :

- a) at ex-works prices in the case of intermediate consumption (see 636)
- b) at purchasers' prices in the case of final uses (see 637).

In the input-output table at mixed prices, the resources include an adjustment row trade and transport margins on final uses, which makes it possible to achieve the balance resources/uses for each branch.

Along this row, the entry for each branch covers the trade and transport margins on the final uses of the products of that branch, while the entire trade and transport margins on final uses are recorded as a negative entry for the branches trade and transport. Thus the total for this row is zero.

.../...

(1) Increased by any net taxes whenever these have actually been paid.

VALUE ADDED, FINAL DOMESTIC USES, IMPORTS AND EXPORTS

639. Value added

In the input-output table, value added and its components are given as follows :

- a) gross wages and salaries (see 408, 409)
- b) employers' actual and imputed social welfare contributions (see 410 - 412)
- c) net operating surplus, i.e., the balancing item of the generation of income account of the branch
- d) net value added at factor cost (a + b + c)
- e) consumption of fixed capital (see 402, 403)
- f) taxes linked to production (see 414, 417)
- g) subsidies (see 421 - 426)
- h) gross value added at market prices (d + e + f - g).

640. Domestic final uses

In the input-output table, the domestic final uses of the products of the branches consist of :

- a) final consumption of households on the economic territory (see 330-332)
- b) collective consumption of general government and private non-profit institutions (see 333)
- c) gross fixed capital formation (see 337 - 345)
- d) change in stocks (see 347 - 354).

641. Imports and exports of goods and services

In the input-output table, imports of goods and services (see 375-396) are included with the resources of the branch which produces similar goods or services; they are sub-divided into :

- imports of goods and services from other countries of the Community
- imports of goods and services from third countries.

In the input-output table, exports of goods and services (see 356-373) are included in the final uses of each branch and are sub-divided into :

- exports of goods and services to other countries of the Community
- exports of goods and services to third countries.

CHAPTER VII
RULES OF ACCOUNTING

701. This chapter explains the principles and conventions which underly the accounting system of the ESA. Some of these principles and conventions have already been described in connection with the transactions concerned; in such cases, they will merely be referred to here.
702. The system records transactions, but this does not preclude the use of balance sheet data. Indeed, changes in balance sheet items themselves provide the data needed to evaluate certain transactions, in particular, all financial transactions other than those involving bills and short term bonds (F 40), long term bonds (F 50), and shares and other equities (F 60).
703. The rules of accounting are grouped under the following headings :
- valuation of transactions
 - time of recording transactions
 - recording transactions as uses/resources or as changes in financial assets/liabilities
 - recording gross or net
 - consolidation of transactions and accounts
 - geographical classification of transactions with the rest of the world
 - recording of the transmission of financial assets
 - recording of the issue and distribution of bonus shares by corporate enterprises.

VALUATION OF TRANSACTIONS

704. Valuation of transactions in goods and services

The criteria and conventions governing the valuation of transactions in goods and services have been specified when each transaction was defined in Chapter III or VI.

705.

705. Valuation of distributive transactions

As the great majority of distributive transactions represent cash flows, they present no valuation problems. Once the content of these transactions has been defined (see Chapter IV), and once their timing has been fixed (see 708), the amount at which they should be recorded in the accounts is clearly established.

A problem of valuation arises only for distributive transactions which do not involve cash payments; that is, for imputed flows or flows in kind.

a) Distributive transactions which represent imputed flows.

These are :

- the imputed interest on liabilities resulting from insurance contracts (R 42); the way in which it is valued is explained in Chapter IV (see 433)
- imputed social welfare contributions (R 63); the way in which these are valued is explained in Chapter IV (see 470-473)

b) Distributive transactions which measure the value of payments in kind. The method of valuing them is determined according to the nature of transactions, whether in goods and services or in financial assets or liabilities. This is the case for the following :

- goods and services given by the units which produce them to their employees as a form of supplementary remuneration : valued at production prices (see 315 d)
- other payments in kind made by producer units to their employees as supplementary remuneration : valued at purchasers' prices
- bonus shares distributed to employees, when the value of these shares is included in gross wages and salaries : valued at stock exchange or market prices (see 730)
- social welfare benefits in kind : valued at the purchasers' prices paid by the unit which distributes the benefits

.../...

- gifts in kind included in the following transactions : current transfers within general government (R 65), current transfers to private non-profit institutions (R 66), current international cooperation (R 67), private international transfers (R 68), miscellaneous current transfers (R 69), investment grants (R 71), and other capital transfers (R 79) : valued at the purchasers' prices of similar goods.

706. Valuation of financial transactions

Financial transactions are valued at the prices at which they are carried out.

This means that until the transactions whereby an asset is transferred or liquidated is actually carried out, the amount of the potential profit or loss is not recorded.

When, on the other hand, a transaction is made whereby an asset is transferred or liquidated the resulting profit or loss, as compared with the original value of the asset when it was acquired or created, is not isolated but included in the value of the transaction.

Since financial transactions involve values expressed directly or indirectly in monetary units, their valuation presents no special problems once their content has been defined (see Chapter V) and the time of recording has been determined (see 709). It is worth recalling, however, that only the value of the financial transaction itself is to be recorded and this does not include commissions, deductions or taxes paid by the purchaser and/or seller; these are recorded as payments for services or as distributive transactions.

In the case of securities, for which several values are available (nominal value, issue value, stock-exchange quotation or market value, book value in the accounts, redemption value) the price to be recorded is :

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707.

- the issue price (1) for new securities
- the stock exchange quotation or market price for securities which are in circulation
- the redemption value (2), for securities which have reached maturity.

TIME OF RECORDING TRANSACTIONS

707. The time at which transactions in goods and services are recorded

The time at which transactions in goods and services are recorded is determined in accordance with the following rules :

Output of goods and services (P 10)

These are to be recorded at the moment when the goods being processed become usable or at the moment when the services are rendered.

However :

- the production of goods whose manufacture or construction extends over several periods of time is to be recorded at the end of each period on the basis of the value of the work in progress carried out during that period
- the output of rent services should be recorded at the moment the rent is due
- the output of insurance services can be calculated only at the end of the period and should relate to the whole of the period (see 315 k)
- the imputed output of bank services (P 13) can be calculated only at the end of the period and should relate to the whole of the period (see 316)
- the output of non-market services (P 14), because of the way in which it is valued, is recorded at the same moment as the costs of this output are recorded (see 317).

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- (1) Where issue premiums are involved, issue prices are calculated as follows :
- in the case of shares, the issue price corresponds to the nominal value plus the issue premium
 - in the case of bills and bonds, the issue price corresponds to the nominal value less the issue premium. When the issue premium for bills represents interest paid in advance, however, the premium is included in the issue price and is thus also recorded as actual interest (R 41).
- (2) This include redemption premiums (the difference between the redemption value and the nominal value) but excludes payments by lottery (see 430 a).

Intermediate consumption (P 20)

The intermediate consumption of market branches is recorded :

- in the case of goods, at the moment when they enter the production process, i.e., the moment when they are actually consumed
- in the case of services, at the moment when they are purchased; by convention, however, trade and transport services are to be recorded at the moment when the goods in which they are embodied are consumed (see 322 b).

The intermediate consumption of the non-market branches, general government and private non-profit institutions, is recorded at the moment when the goods and services are purchased. Goods held in stock by general government (strategic stocks, emergency stocks and stocks held by certain market regulatory organisations) (see 322 a) should, however, be recorded in intermediate consumption at the moment when they are made available to the branches.

Final consumption (P 30)

- the final consumption of households is recorded at the time of purchase of the goods and services (1)
- the collective consumption of general government and private non-profit institutions is recorded at the same moment when the corresponding output is recorded.

Gross fixed capital formation (P 41)

This is recorded at the moment when the capital goods are made available to the user. The following, however, are recorded at the end of the accounting period :

- the value of the work in progress carried out during the period on immovable fixed capital goods - other than dwellings - whose production extends over several periods of time
- the value of work in progress carried out during the period on dwellings whose construction extends over several periods and for which a buyer has been found during a previous period.

.../...

(1) In the case of hire-purchase, the time of recording is when the goods are delivered.

707 (cont'd)

- the total value of work carried out from the date of the beginning of the construction until the end of the period under consideration on dwellings whose construction extends over several periods and for which a buyer has been found during the period in question.

Change in stocks (P 42)

The change in stocks during the course of a given period represents the difference between goods put into stock - recorded at the moment when they are produced if they are not sold immediately, or at the moment when they are bought if they are not used immediately - and goods taken out of stock - recorded at the moment when they are sold, or used. In practice, it is the difference between the stocks existing at the beginning and at the end of the period which gets recorded at the end of the period. However, the following are always recorded at the end of the period :

- the value of work in progress carried out during the relevant period on movable fixed capital goods whose production extends over several periods
- the value of work in progress carried out during the relevant period on dwellings whose construction extends over several periods and for which no buyer has yet been found.

Exports and imports of goods (P 51, P 61)

These are recorded :

- at the moment when the goods cross the limits of the economic territory, in the case of goods other than transport equipment
- at the moment of transfer of ownership, in the case of transport equipment.

Exports and imports of services (P 52, P 62)

These are recorded at the moment when the services are rendered.

Net purchases of land and intangible assets (P 71, P 72)

These can be calculated only at the end of the relevant period and should cover the whole of this period.

708. The time at which distributive transactions are recorded

Distributive transactions are recorded at the moment when payment becomes due, i.e., on an accrual basis. Nevertheless, for certain transactions, it is difficult to specify the moment when an amount becomes due and there are grounds for recording such transactions at the moment when payment is made in cash or, failing this, the moment when benefits are actually provided.

Compensation of employees (R 10)

- gross wages and salaries (R 101) are recorded at the moment when they are due
- employers' actual social welfare contributions (R 102) are recorded at the moment when the wages and salaries to which they are related are due.
- imputed social welfare contributions (R 103) :
 - representing the counterpart of compulsory direct social welfare benefits are recorded at the moment when these benefits are due
 - representing the counterpart of voluntary direct social welfare benefits are recorded at the moment when these benefits are provided.

Taxes linked to production and imports (R 20)

are recorded at the moment when the goods and services are produced, sold or imported.

Subsidies (R 30)

- are recorded at the moment they are due to the producers. However,
- subsidies which take the form of the difference between the purchasing price and the selling price charged by a government trading agency are recorded at the moment when the goods are bought by the agency, if the selling price is known at that moment
 - subsidies intended to cover a loss incurred by a producer unit in a market branch are recorded at the moment when the general government agency decides to cover the loss.

708. (cont'd)

Actual interest (R 41)

is recorded at the moment when it falls due. If the interest relates to several accounting periods it is not necessary to distribute it among the different periods.

Imputed interest on insurance technical reserves resulting from insurance contracts (R 42)

this can be calculated only at the end of the relevant period and is meant to cover the whole of this period.

Income from land and intangible assets (R 43)

is recorded at the moment when it is due.

Dividends and other income distributed by corporate enterprises (R 44)

are recorded at the moment when they are due (and not when they are declared or earned).

Withdrawals of entrepreneurial income from quasi-corporate enterprises (R 45)

are recorded when they are withdrawn by the owners.

Net accident insurance premiums (R 51)

are recorded when they are earned (see 315 k, note 2).

Accident insurance claims (R 52)

are recorded at the moment when the accident occurs (see 315 k, note 3).

Current taxes on income and wealth (R 61)

are recorded when they are due, i.e., the last date on which they can be paid without penalty.

Actual social welfare contributions (R 62)

are recorded when the salaries and wages to which they are related are due. The actual social welfare contributions of persons who are not employed should, however, be recorded when they are due.

Imputed social welfare contributions (R 63)

- imputed social welfare contributions which represent the counterpart of compulsory direct social welfare benefits are recorded at the moment when the benefits are due
- imputed social welfare contributions which represent the counterpart of voluntary direct social welfare benefits are recorded at the moment when the benefits are provided.

Social welfare benefits (R 64)

- benefits in cash are recorded at the moment when they are due
- reimbursements in cash for goods and services purchased by households are recorded at the moment when the goods and services are purchased
- benefits in kind are recorded at the moment they are provided.

Current transfers within general government (R 65)

are recorded at the moment they are due.

Current transfers to private non-profit institutions (R 66)

are recorded at the moment they are made. However, transfers received from general government should be recorded at the moment when they are due.

Current international co-operation (R 67)

is recorded at the moment when it is due.

Private international transfers (R 68)

are recorded at the moment when they are made.

Miscellaneous current transfers (R 69)

are recorded at the moment they are made. However, transfers received from (or made to) general government should be recorded when they are due.

709.

Investment grants (R 71)

are recorded at the moment they are due.

Capital taxes (R 72)

are recorded at the moment they are due, i.e., the last date on which they can be paid without penalty.

Other capital transfers (R 79)

are recorded at the moment they are made. However, transfers received from (or made to) general government should be recorded at the moment they are due.

Change in the actuarial reserves for pensions (F 911)

this can be calculated only at the end of the relevant period and is meant to cover the whole of this period.

709. The time at which financial transactions should be recorded

The time of recording depends on whether the parties to the transaction have agreed in advance that the transaction and its counterpart shall take place at different times, or whether no such arrangement has been made.

- When the two parties have expressly provided for a time-lag between the two transactions, the time of recording is that at which the financial asset is transferred
- when the two parties have not provided for a time-lag between the financial transaction which is to be recorded and its counterpart, the two transactions should be recorded simultaneously and the appropriate time for this depends on whether the counterpart of the financial transaction is itself a financial or a non-financial transaction.
 - a) when the counterpart of the financial transaction to be recorded is a financial transaction, three possibilities can be envisaged :

- one of the two transactions is a payment (1) :

Both transactions are recorded at the moment when payment can be demanded. This is generally the moment when payment is made.

- both transactions are payments (1) :

They are recorded at the moment when the first payment is made.

- neither of the two transactions is a payment (1) :

Both transactions are recorded at the moment when the first transfer of a financial asset is made.

- b) When the counterpart to the financial transaction is a non-financial transaction, both are recorded at the moment when the non-financial transaction takes place.

RECORDING TRANSACTIONS AS USES/RESOURCES OR AS CHANGES IN FINANCIAL ASSETS/LIABILITIES

710. When recording transactions in goods and services and distributive transactions, the criterion uses/resources is applied. Transactions are treated as uses or as resources by referring to the monetary movements which are their counterpart (2).

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- (1) Payment should be understood to include remittances of financial gold (F 00) or SDR's (F 11), as well as payments by currency or by cheque or other means of transferring sight deposits (F 20).
- (2) However, in the input-output table and the goods and services account (C 0) the transactions relate to the physical movements of goods and services and not to the monetary movements which are their counterpart; in consequence, the terms uses and resources are used in the opposite sense to that employed in the institutional accounts (see 602).

711.

When recording financial transactions, the concept of change in financial assets/liabilities is employed, as being more useful for financial analysis than that of uses and resources.

The link between these two concepts is shown in the following table :

	Change in financial assets = A-C	Change in liabilities = D-B
Uses = A+B	Increase in financial assets = A	Decrease in liabilities = B
Resources = C+D	Decrease in financial assets = C	Increase in liabilities = D

The balance between uses and resources is identical with the balance between changes in financial assets and changes in liabilities.

RECORDING GROSS OR NET

711. When a transaction can figure among resources and among uses in an account, the transaction is said to be recorded net if only the balance is shown among uses or among resources as the case may be. In the contrary case, the recording is said to be gross.

- Transactions in goods and services constitute either resources or uses. However, the following transactions, defined as balances, are, by convention, recorded net under uses :

- Change in stocks (P 42)
- Net purchases of land (P 71)
- Net purchases of intangible assets (P 72)

- In the case of distributive transactions, the general rule is to record gross. However, the change in actuarial reserves for pensions (F 911), defined as a balance, is recorded net among uses or among resources.

- Financial transactions, being based on the criterion of change in financial assets and change in liabilities are recorded net.

Nevertheless, to meet the needs of further analysis, Table T 17 relating to long term bonds (F 50) and medium and long term loans (F 80) records both increases and decreases in financial assets and increases and decreases in liabilities.

CONSOLIDATION OF TRANSACTIONS AND ACCOUNTS

712. Because of the difference in the criteria used for recording (see 711), the concept of consolidation operates differently in the non-financial accounts from the financial account.

713. The non-financial accounts are said to be consolidated, when the transactions between units belonging to the same grouping (national economy, branches, groups, sectors, sub-sectors) are eliminated both on the side of uses and on the side of resources.

714. The degree of consolidation of non-financial accounts is determined, by convention, as follow :

a) Goods and services account, production account

The problem of consolidation arises only for the output of goods and services and for intermediate consumption, totals whose level depends on the degree of consolidation of the flows of goods and services between producer units. This has been fixed in the context of the input-output table (see 607 to 611) and is retained throughout the whole of the system.

b) Generation of income account

No consolidation occurs in this account, as the counterpart of transactions recorded here are also recorded in the distribution of income account.

715.

c) Distribution of income account, capital account

The general rule is not to consolidate transactions between two units belonging to the same sector. For practical reasons, however, the following exceptions are made :

- re-insurance transactions (premiums and indemnities) between resident insurance enterprises are consolidated
- miscellaneous current transfers (R 69) and other capital transfers (R 79) refer only to transactions between units belonging to different sectors
- distributive transactions between units belonging to the same sub-sector of general government are always consolidated
- finally, for general government as a whole, both the following sets of accounts are given :
 - accounts established by summing all the items in the accounts of the three sub-sectors. In these accounts, distributive transactions taking place between the three sub-sectors of general government are not consolidated
 - accounts established by summing all the items which do not refer to distributive transactions between the sub-sectors. These accounts constitute the consolidated accounts for the general government sector.

715. The financial account and the tables of financial transactions are said to be consolidated when changes in financial assets and the corresponding changes in liabilities, which refer to units belonging to the same grouping (national economy, sector or sub-sector), are eliminated.

Changes of this kind may have their origin in transactions between units of the same grouping or in transactions between units belonging to different groupings.

However, transactions between units of the same grouping, involving the sale of financial claims against other groupings, are eliminated without any need to introduce the concept of consolidation.

As a general rule, changes in financial assets and liabilities are :

- consolidated in the simplified accounts for the nation
- not consolidated in the accounts for sectors
- consolidated and not consolidated in the tables of financial transactions.

However, transactions involving bills and short term bonds (F 40), long term bonds (F 50) and shares and other equities (F 60), are never consolidated.

GEOGRAPHICAL CLASSIFICATION OF TRANSACTIONS WITH THE REST OF THE WORLD

716. Transactions with the rest of the world are classified geographically as follows :

Transactions in goods and services, distributive transactions

- exports of goods (P 51) : country of destination (1)
- imports of goods (P 61) : country of origin (1)
- other current and capital transactions : the country of residence of the non-resident unit which is party to the transaction.

Financial transactions

- transactions involving financial gold (F 00) :
The following must be distinguished :
 - transactions between residents and non-residents, which are classified according to the country of residence of the non-resident party.
 - transactions between residents (the monetisation of industrial gold or demonetisation of financial gold - see 253 b) which cannot be allocated geographically and which are classified, by convention, to the sub-sector third countries and international organisations (S 93)

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(1) In the sense understood in foreign trade statistics.

717, 718

- transactions involving SDR's (F 10) :

The following must be distinguished :

- acquisitions (and remittances) of SDR's (F 11) from (or to) another country which are assigned to be contracting countries
 - net allocations of SDR's (F 11); these cannot be distributed geographically and are assigned, by convention, to the sub-sector third countries and international organisations (S 93)
 - the counterpart of net allocations of SDR's (F 12); these cannot be distributed geographically and are assigned, by convention, to the sub-sector third countries and international organisations (S 93)
- other financial transactions :
- the country of residence of the non-resident debtor or creditor.

717. According to the criteria given above, it can happen that an economic or financial transaction is classified geographically in a different way from the financial or monetary transaction which may be its counterpart (e.g., imports paid for in the currency of a third country, the purchase abroad of securities not issued within the country in which they are bought ...). For this reason, there may be divergences between the net lending or net borrowing (N 5) of a particular sub-sector and the net change in the financial assets and liabilities (N 6) of this same sub-sector with the rest of the world. These divergences are eliminated by the entry multilateral payments. If it is known, the amount of the multilateral payments should appear at the bottom of the financial account above the row for adjustments; if it is not known, it is included in the row for adjustments.

RECORDING OF THE TRANSMISSION OF FINANCIAL ASSETS

718. It should be recalled that financial assets may be divided into instruments of investment and instruments of financing (see 503).

- a) Instruments of investment, being transferable, are the subject of a transaction not only when they are created or extinguished, but also each time they change hands

Starting from the moment when the instrument is sold by its first holder, and for each subsequent transaction, the following must be recorded in the accounts :

- a reduction in the financial assets of the previous holder
- an increase in the financial assets of the new holder, who becomes the creditor of the issuer
- no change needs to be recorded for the issuer of the instrument of investment.

Difficulties of accounting arise, however, when financial assets and liabilities are classified according to the debtor sectors and creditor sectors respectively. In effect, the new holder of the security who increases his assets by the amount of the financial asset, thereby acquires a claim against a clearly defined debtor, namely the issuer. He is therefore able to classify his financial assets according to the debtor sectors. On the other hand, it is possible that the debtor may not know who is the current holder of the instrument of investment. It may be difficult, therefore, for him to classify his liabilities according to the identity of the creditor.

- b) Instruments of financing, not being transferable, are the subject of financial transactions only when they are created, when their individual value varies and when they are extinguished.

For each transaction, therefore, the following are recorded :

- a change in financial assets for the creditor
- a change in liabilities for the debtor.

719. The documents which represent certain financial claims have technical characteristics which appertain both to those of instruments of investment and to those of instruments of financing. These are mainly bills of exchange and deposit certificates and these two examples are considered in detail in the following paragraphs.

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720.

720. Bills of exchange : Bills of exchange are financial claims whose technical, legal and economic characteristics vary to some extent from one country to another.

When they are created, they basically represent the acknowledgment of the debt of a clearly specified debtor (the drawee) towards an equally clearly specified creditor (the drawer). They have therefore, the characteristics of an instrument of financing.

However, the bills may be endorsed in favour of units belonging to different sectors; in particular, they are quite often discounted by a credit institution. The latter can keep them in its portfolio or, by discounting them again, endorse them in favour of other establishments. Before they eventually mature, then, bills of exchange may form part of the portfolios of several credit institutions in turn and even of the central bank. They therefore circulate, and in this respect resemble instruments of investment.

When recording transactions in bills of exchange, it must therefore be decided whether, when a bill is endorsed in favour of a new holder, this new holder becomes the creditor of the drawee (debtor) or the creditor of the previous holder, who then remains the creditor of the drawee.

On the first hypothesis, the bill would be treated as an instrument of investment from the moment it was drawn; each endorsement would mean a reduction in the assets of the previous holder and an increase in the assets of the new holder.

On the second hypothesis, the bill would be treated as an instrument of financing. Each transaction of endorsing it would give rise to the creation of a new financial asset and, in particular, to an increase in the liabilities of the previous holder and in the assets of the new holder. Each new financial asset would be an instrument of financing, like that which was created when the bill was drawn (1).

.../...

(1) The choice between one or other of these two possible methods of treating transactions in bills of exchange has important repercussions on the financial accounts of credit institutions and of the rest of the world. In practice, the sale of goods, both inside and outside of a country, is often financed by the issue and sale (discounting) of bills which circulate within the banking system of the country of residence of the drawer. In addition, the advances which credit institutions grant to their clients often give rise to the issue of bills, which make it possible for these credits to circulate among other credit institutions by means of discounting.

The treatment adopted in the system is that of recording bills as instruments of financing in the accounts

721. Deposit certificates : Deposit certificates, which are a means of acknowledging a short term debt, have technical characteristics which vary to some extent from one country to another.

When they carry an individual name and are not intended to circulate, these certificates are treated in the same way as savings certificates or savings books (see 536). Deposit certificates are still to be considered instruments of financing, even if they can be subject to limited circulation. But if, exceptionally, they come into circulation, the transaction by which they are sold is treated as that of an instrument of investment. In particular, such a transaction does not give rise to the creation of a new liability between the previous holder and the new holder.

RECORDING OF THE ISSUE AND DISTRIBUTION OF BONUS SHARES BY CORPORATE ENTERPRISES

722. So-called bonus issues or distributions of their own shares by corporate enterprises have to be recorded in different ways, given that :

- the bonus nature of the transaction is sometimes only apparent
- the shares may be new issues (scrip issues), or bought on the stock-exchange or on the market
- those benefiting from the bonus distribution may be all the existing shareholders, or privileged groups (employees of the enterprise or any other group).

Beneficiaries Origin of shares	Former shareholders, in proportion to their holdings		Privileged groups	
	Capitalisation of reserves	Capitalisation of profits available for distribution	General case	Particular case of employees of the enterprise
New issue of shares	See 724 a	See 724 b	See 727	See 731
Purchases of shares on the market	/ / / / /	/ / / / /	See 728	See 732

723, 724

Transactions relating to capital shares and those relating to dividend shares are considered separately.

Bonus distribution of capital shares

723. The various kinds of bonus distribution are given in the above table.

Distribution of bonus shares to existing shareholders, in proportion to their holdings

724. When a corporate enterprise issues its own bonus shares to all its shareholders, in practice this can only mean an issue of new shares. The issue can correspond either to the capitalisation of reserves or to the capitalisation of profits available for distribution.

a) New issues by the capitalisation of reserves

Bonus issues of shares of this type do not call for any entry in the financial accounts, because they do not affect either the aggregate stock exchange or market valuation of the shares of the company in question, or the relative proportion of shares held by each shareholder. In practice, the aggregate value of the shares already existing before the bonus issue reflects the net worth of the company, as estimated on the market. Since the bonus issue does not furnish the issuing company with any new funds, its aggregate net worth remains unchanged, but is distributed over a larger number of shares (old plus new) whose stock exchange or market price will fall in proportion (1)

b) New issues in place of dividends, by the capitalisation of profits available for distribution

The issue of bonus shares by the capitalisation of profits available for distribution, or of a part of these profits, does not really constitute a bonus transaction, but is treated as a kind of compulsory transaction financed by the shareholders. For this reason :

- the accounts of the issuing company show an increase of liabilities in the form of shares, the counterpart of the same amount being shown under uses as dividends and other distributed income of corporate enterprises (see 440)

.../...

(1) When a company announces a bonus issue, the stock exchange or market price of existing shares will tend to increase if it is expected that the dividend rate may be maintained, i.e., that the distribution per shareholder may be increased. But this increase in the stock exchange value is not due to the issue of new shares as such; the stock exchange value of the shares in question would increase by the same amount if their number remained unchanged but the dividend rate were correspondingly increased.

- the accounts of the shareholders show an increase in their assets in the form of shares, the counterpart of the same amount being shown under resources as dividends and other income distributed by corporate enterprises (see 440).

Distribution of bonus shares to privileged groups

725. Bonus shares distributed to privileged groups are not to be considered as if they were genuine bonuses, but as shares for which the counterpart is not explicit : provision of labour by employees, provision of services, contributions of goods, land and intangible assets.
726. The distributions are not to be considered as bonuses, even if these counterparts, through lack of statistical information, are not apparent. Any discrepancies which happen to occur for this reason between the balancing items of the financial accounts and of the capital accounts of the units concerned are reconciled by an adjustment item.

To clarify how entries should be recorded in the financial accounts, a distinction must be drawn between shares which are distributed as new issues and those which are bought on the market.

727. Distributions of bonus shares which are new issues (1)

The following procedures are adopted :

- the accounts of the beneficiary sectors show an increase in financial assets in the form of shares by an amount equal to the product of the number of shares received on this occasion multiplied by the stock exchange or market price after the distribution
 - the accounts of the issuing company show a corresponding increase of liabilities in the form of shares
 - the accounts of shareholders remain unchanged, since the loss due to the fall in the price of the shares (2) is not realized and is therefore not recorded.
- .../...

(1) These criteria remain valid even if existing shareholders are amongst those benefiting from the bonus issue.

(2) A bonus distribution of new shares leads to a decrease in the value of old shares. As a result of the distribution, the number of shares in circulation has increased while the company's net worth remains unchanged.

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728. Distributions of bonus shares bought on the market

The following procedures are adopted :

a) On purchase :

- the accounts of shareholders show a decrease in financial assets in the form of shares (offset by an increase in cash)
- the accounts of the issuing company show an increase in financial assets in the form of shares (offset by a reduction in cash).

The purchase is therefore a financial transaction, comparable to the purchase of shares issued by other companies.

b) On distribution :

- the accounts of the issuing company show a decrease in assets in the form of shares which corresponds to a reduction in net worth
- the accounts of the beneficiary sector show an increase in assets in the form of shares corresponding to the reduction in net worth of the issuing company
- the accounts of shareholders remain unchanged, since the loss due to the fall in the price of the shares is not realized and is therefore not recorded.

729. In some cases, however, it is possible to discover counterparts for distributions which are apparently bonus issues. In such cases, they should be recorded in the same way as for a normal issue having a financial or non-financial transaction as its counterpart.

The following paragraphs deal in detail with cases where the counterpart is the provision of labour by employees.

730. In the particular case when the privileged beneficiaries of the distribution of shares are the employees of the issuing company and they receive the shares in this capacity, the transaction is regarded as a required transaction financed by the personnel.

By convention, the equivalent value of the shares distributed by a company to its employees constitutes an element of gross wages and salaries (see 408 h). For this reason, before proceeding to distribute shares to its employees, the company must establish reserves for them as if they were wages to be paid. When the shares are distributed, these reserves

become the company's own funds and they are all treated as if they had been invested by the employees with part of their wages or salaries.

In order to specify how the transactions are to be recorded, it is necessary to distinguish according to whether the shares issued are new issues or bought on the market.

731. The shares distributed to employees are new issues

The following procedures are adopted :

- the accounts of the employees show an increase in assets in the form of shares whose value is equal to the number of shares received multiplied by the stock exchange or market price; the counterpart of the assets acquired in this way is recorded among resources as wages and salaries received (see 408);
- the accounts of the issuing company show an increase in liabilities in the form of shares in respect of the new shares; the counterpart of the liabilities thus contracted is recorded among uses as wages and salaries paid (see 408).

The net worth of the company is increased by this transaction, but as the increase in the number of shares is accompanied by an equal increase in assets, the stock exchange or market price of the shares is not changed as a result of the distribution.

732. The shares distributed to employees are bought on the market

The following procedures are adopted :

a) On purchase : the same procedures are followed as those described in paragraph 728 a.

b) On distribution :

- the accounts of the employees show an increase in assets in the form of shares whose value is equal to the number of shares received multiplied by the stock exchange price; the counterpart of the assets thus acquired is recorded among resources as wages and salaries received (see 408)
- the accounts of the issuing company show a reduction in assets in the form of shares in respect of shares held; the counterpart of this reduction in assets is recorded among uses as wages and salaries paid (see 408).

.../...

733 - 735

The net worth of the company is not affected by this transaction and the stock exchange or market price is not changed as a result of the distribution.

Bonus distributions of dividend shares

733. Dividend shares (see 548 c) are often issued as bonus shares in the sense that the beneficiary does not provide any goods or financial claim in payment which could be considered an asset. The value of his contribution cannot be measured in monetary units, or only in a very arbitrary manner.

Bonus issues of dividend shares may occur :

- when a company is created : in exchange for advice, for assistance of various kinds, for professional guidance, etc.
- at a later date, for example, to make important decisions acceptable to the shareholders (such as a merger with other companies), in recognition of exceptional services provided to the company, etc.

734. For this reason, when the shares are issued :

- no liability is recorded in the accounts of the issuing company.
- no financial asset is recorded in the accounts of the beneficiary.

At the moment of issue, in fact, the beneficiary receives only the right to a share in that part of profits which remains for distribution after the registered capital has been remunerated, and to a part of any surplus which remain on liquidation. This right only comes into existence during each period from the moment when the profits are made available for distribution (1).

735. Holders of capital shares do not realise losses, as a result of dividend shares being put into circulation, except :

- when they sell their shares, and then only to the extent that the creation of the dividend shares has affected the stock exchange or market prices
- when shareholders who have kept their shares take part in the distribution of the net worth of the company if it goes into liquidation; and then only to the extent of that part of the net worth assigned to holders of dividend shares.

(1) Dividend shares acquire a financial value because :

- they have a market value equal to the present value of any future profits to which they give entitlement
- they establish a claim on part of the profits which are not distributed. This financial value is that at which securities of this kind are bought and sold.

CHAPTER VIII

POPULATION AND EMPLOYMENT IN THE CONTEXT OF NATIONAL
ACCOUNTS (1)

801. The total population, the occupied population and wage and salary earners are defined in the ESA starting from the concepts of economic territory and centre of interest (see 205-211).

TOTAL POPULATION

802. Definition : On a given date, the total population of a country consists of all persons, national or foreign, who are permanently settled in that country, even if they are temporarily absent from it (2).

803. A person who is staying, or intends to stay, on the economic territory of the country for a period of more than one year is regarded as permanently settled therein.

A person is regarded as being temporarily absent if he or she is permanently settled in the country but is staying, or intends to stay, in the rest of the world for a period of less than one year.

804. The total population of a country includes :

- nationals settled in the country
 - civilian nationals who are staying abroad for a period of less than one year (frontier workers, seasonal workers, tourists, spa patients, students, etc.)
 - foreign civilians settled in the country for a period of more than a year (including the personnel (3) of the institutions of the European Communities and of international civil organisations situated within the geographic territory of the country)
- .../...

(1) Certain comparisons between countries, or between branches or sectors within the same economy, become meaningful only when the aggregates in the national accounts (for example, Gross Domestic Product, the final consumption of households, value added of a branch, compensation of employees) are considered in relation to the number of inhabitants, the number of occupied persons or the number of wage and salary earners. It is therefore necessary to have definitions of the total population, the occupied population and wage and salary earners which are closely linked to the concepts used in the national accounts.

(2) This definition agrees with that used in the demographic statistics of the SOEC and corresponds to the OECD concept of adjusted present population.

(3) Including members of their households.

805 - 807

- foreign military personnel (1) working with international military organisations located within the geographic territory of the country.

By convention, the total population also includes the following, irrespectively of the length of their stay in the rest of the world :

- members (1) of the country's armed forces stationed in the rest of the world
- nationals (1) who are on the staff of national scientific bases established outside the geographic territory of the country
- nationals (1) who are on the staff of diplomatic missions abroad
- ~~members~~ of the crews of fishing boats, other ships and aircraft operated by resident units.

805. Conversely, the total population of a country does not include :

- foreign civilians staying on the territory for less than a year (frontier workers, seasonal workers, tourists, spa patients, students, etc.)
- national civilians staying abroad for a period of more than one year
- national military personnel working with international organisations situated in the rest of the world

and also, by convention,

- members of the armed forces of a foreign country who are stationed in the country
- the foreign personnel of foreign scientific bases located on the geographic territory of the country
- members of foreign diplomatic missions stationed in the country
- nationals who are members of the crews of fishing boats, other ships and aircraft operated by non-resident units.

806. The definition given above differs from the two other concepts currently used in the field of population statistics, namely :

- a) the present in area (or de factor) population, which consists of persons actually present on the geographic territory of a country at a given date
- b) resident (or de jure) population, which consists of persons who, at a given date, are regularly domiciled in the country.

807. Since the data on the aggregates in national accounts refer to a period of one year, the population figures to which they are related must similarly represent the mean total population over the course of the year.

(1) Including members of their households.

OCCUPIED POPULATION

808. Definition : The occupied population covers all persons engaged in some activity which is considered as productive (in the national accounts sense) whether these persons are civilians or military personnel (1).

809. The occupied population covers the following categories of persons :

- wage and salary earners
 - self-employed persons
 - unpaid family workers
 - the armed forces
- a) wage and salary earners are defined as all persons above a certain age who, during the relevant period, have worked for a public or private employer and been paid a wage, salary or equivalent remuneration in return
- b) self-employed persons are defined as employers and persons working on their own account, provided they are not also in paid employment which constitutes their principal activity. In the latter case, they are classified under a)
- c) unpaid family workers are those who regularly help to run an agricultural establishment or other business, provided they are not also in paid employment which constitutes their principal activity. In the latter case, they are classified under a)
- d) the armed forces, which include :
- military personnel whose origin is the territory drawn from the total available labour force, and who are on active service in the armed forces during the period under consideration, wherever they are stationed and whatever their status
 - mobile police units and armed patrols of frontier guards who receive tactical training, are equipped like military forces and are placed under military command.

The armed forces do not include :

- security forces - other than those just mentioned under the second item of 2 d) - who remain in civil employment
- reservists who are recalled for a period of training of less than a month and who continue to be classified as being in civilian employment according to their previous status. .../...

(1) With the exception of conscripts, this definition corresponds to that used by the SOEC for its enquiries concerning the labour force.

810 - 812

810. The results of the activity of producer units can only be compared with the volume of the occupied population if the latter, as defined above, includes both the residents and the non-residents who work for resident producer units : this is what is meant by the concept of the domestic occupied population.

This includes the following items :

- foreign frontier workers, namely persons who cross the border each day to engage in work in the country
- foreign seasonal workers, namely persons who move into the country and stay there for less than one year in order to work in sectors which periodically require additional labour
- members of the country's armed forces stationed in the rest of the world
- national personnel of national scientific bases located outside the geographic territory of the country
- nationals on the staff of diplomatic missions abroad
- members of the crews of fishing boats, other ships, aircraft and floating platforms operated by resident units
- local employees of general government bodies situated outside the country.

811. On the other hand, the following are excluded from the concept of the domestic occupied population :

- nationals who are frontier workers or seasonal workers, namely nationals who are engaged in work in another country
- nationals who are members of the crews of fishing boats, other ships, aircraft and floating platforms operated by non-resident units
- local employees of bodies of foreign governments situated on the geographic territory of the country
- the personnel of the institutions of the European Communities and international organisations situated on the geographic territory of the country
- members of the armed forces working with international military organisations situated on the geographic territory of the country
- nationals working in foreign scientific bases located in the country.

812. The concept of the domestic occupied population is thus different from the concept generally used in employment statistics. The latter, which is called national as distinct from domestic, covers persons who are resident in the legal sense. In contrast to the concept of the domestic occupied population the national concept

- includes in addition residents working for non-resident producer units (see 811)
- excludes non-residents working for resident producer units (see 810).

813. In order to be able to make the transition to concepts used in the labour force statistics (the civil occupied population on a national basis), the ESA provides for the following items to be shown separately at the bottom of Table 5.

- 1) the armed forces (not included in the labour force statistics, but included in the ESA under general government services)
- 2) residents working for non-resident producer units (included in the labour force statistics but not included in the ESA)
- 3) non-residents working with resident producer units (not included in the labour force statistics but included in the ESA).

814. As the levels to which the figures of occupied population refer represent annual figures they should be based on the mean occupied population over the course of the year. When enquiries are conducted at several times during the course of the year, the figure taken is the average of the results obtained on these various dates.

When the mean occupied population is estimated on the basis of a single annual enquiry, the results should be adjusted to take account of the fact that certain people do not work throughout the whole year (for example, occasional and/or seasonal workers) (1).

WAGE AND SALARY EARNERS

815. Definition : Wage and salary earners consist of persons who work for an employer, whether public or private, and who receive compensation in the form of wages, salaries, fees, gratuities, payment by results or payment in kind.

816. The following categories are included :

- persons, workers, employees, personnel, domestic staff engaged by employer under a contract of service (2)
- civil servants and other government employees engaged under some legal contract of service
- the armed forces, consisting of those who have enlisted for both long and short periods of time and also conscripts
- ministers of religion, if they are paid directly by general government or a private non-profit institution.

(1) Thus, for example, a person who has worked for only three months of the year should be counted as 1/4 of an occupied person. On the other hand, a person who does part-time work throughout the year is counted as one occupied person.

(2) In the countries of the Community, members of a company's board of directors are not, as such, considered to be salary earners.

817 - 819

817. For wage and salary earners, both their mean employment figure and the number of hours worked are recorded in the ESA (see Table 5).

- a) mean employment represents the average number of wage and salary earners who have worked during the year.

When enquiries are made at several times during the course of the year, the figure taken is the average of the results obtained on these various dates. When mean employment is estimated on the basis of a single enquiry during the year, the results should be adjusted to take account of the fact that some people do not work as wage and salary earners throughout the whole year; for example, occasional and/or seasonal workers (1)

- b) the number of hours worked represents the amount of work actually carried out to obtain a certain output.

818. In accordance with the norms established by the International Labour Office, hours of work actually carried out cover :

- a) hours actually worked during normal working hours
b) hours worked in addition to those worked during normal working hours
c) time which is spent at the place of work on tasks such as preparing the site, repair and maintenance work, the preparation and cleaning of tools and the making out of receipts, invoices, records of the length of time worked and other reports
d) idle time spent at the place of work because, for example, of temporary lack of work, the breakdown of machinery or accidents
e) time spent at the place of work in short rest periods, including refreshment breaks.

819. On the other hand, hours of work actually carried out do not include :

- a) hours which are paid but not worked, such as annual holidays with pay, public holidays with pay, or sick-leave with pay
b) breaks for meals
c) time spent travelling from home to the place of work, and vice versa.

CLASSIFICATION OF OCCUPIED POPULATION AND WAGE AND SALARY EARNERS

820. The occupied population and wage and salary earners must be classified on the basis of the same statistical unit as that used for the analysis of production, namely the unit of homogeneous production and, when appropriate, the institutional unit.

- (1) Thus, for example, a person who has worked for only three months of the year should be counted as 1/4 of an employed person. On the other hand, a person who does part-time work throughout the year is counted as one employed person.

