WEBINAR SERIES ON SELECTED TOPICS IN THE SYSTEM OF NATIONAL ACCOUNTS

Day 1-SNA 2008 Framework
SNA 2008

The System of National Accounts (SNA) is the internationally agreed standard set of recommendations on **how to compile measures of economic activity**.

The 2008 SNA was prepared under the auspices of the Inter-Secretariat Working Group on National Accounts (ISWGNNA), which consists of five organizations:

- Eurostat
- International Monetary Fund
- OECD
- The World Bank
- Statistics Division
Uses of the SNA

The SNA is designed to provide information about the behaviour of institutional units and the activities in which they engage, namely production, consumption and the accumulation of assets, in an analytically useful form.
Fundamental!

At the heart of the SNA is the production of goods and services.

Goods and services *produced* in the economy must be consumed, used for capital formation or exported while all goods and services *used* within the economy must be produced in the economy or imported.
The main characteristics of the national accounts system are:

1. Universality: National accounts constitute a universal system which takes into consideration the specific circumstances existing in different economies.

2. Transparency: National accounts are transparent. The accounting system has a uniform base.

3. Harmonisation: National accounts are harmonised statistics; they employ concepts and classifications that are also used for other social and economic statistics.

4. Flexibility: The SNA incorporates satellite accounts, which offers evidence of its flexibility.
SNA and the Economy

Aims at describing a national economy and how it works.
National economy circuit
SNA answers

- Who takes action in the economy
- What do they do
- Why do they take action
- How are the actions known
# Main concepts of the 2008 SNA

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<td>Who?</td>
<td>Refers to the economic agents (institutions, firms, individuals) that perform activities in the economy.</td>
<td>Institutional units&lt;br&gt;Institutional sectors&lt;br&gt;Total economy and the rest of the world</td>
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<td>What?</td>
<td>Refers to the transactions and other flows and stocks, which are the objects of the economy.</td>
<td>Transactions and other flows&lt;br&gt;Assets and liabilities&lt;br&gt;Products and producing units</td>
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<td>Why?</td>
<td>Refers to the reason why an economic agent takes an action.</td>
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<td>How?</td>
<td>Refers to the recording of who, what and why.</td>
<td>Accounting rules:&lt;br&gt;- recording&lt;br&gt;- time of recording&lt;br&gt;- valuation&lt;br&gt;- consolidation and netting</td>
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WHO?

1- Institutional Units and Sectors
2- Total economy and Rest of the World
3- Enterprises, Establishments and Industry
1-Institutional units

Definition: An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.
Characteristics of institutional units

1. It is entitled to own goods or assets in its own right; it is therefore able to exchange ownership of goods or assets in transactions with other institutional units;

2. It is able to take economic decisions and engage in economic activities for which it is itself held directly responsible and accountable at law;
Characteristics of institutional units

3. it is able to incur liabilities on its own behalf, to take on other obligations or future commitments and to enter into contracts;

4. it has a complete set of accounts, including a balance sheet of assets and liabilities, or it would be possible and meaningful, from an economic viewpoint, to compile a complete set of accounts if required.
Types of Institutional Units

1. Persons or a household: A group of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively.

2. Legal or social entities: A legal or social entity is one whose existence is recognized by law or society independently of the persons or other entities that may own or control it.
Three main categories

In respect of legal units, the 2008 SNA distinguishes three main categories:

- Corporations
- Non-profit institutions (NPIs)
- Government
Corporations

Corporations (financial and non-financial) are entities capable of generating profit or other financial gain for their owners, are recognised by law as separate legal entities from their owners who enjoy limited liability and are set up for purposes of engaging in market production.
Non-profit institutions (NPIs)

- Non-profit institutions (NPIs) that are created for the purpose of producing goods and/or services but whose status does not permit them to be a source of income, profit or other financial gain for the units that establish, control or finance them.
Government units

- Government units are legal entities established by political processes. They have legislative, judicial or executive authority over other institutional units within a given area.

- The principal functions of government units are to assume responsibility for the provision of goods and services to the community or to individual households and to finance their provision out of taxation or other incomes, to redistribute income and wealth by means of transfers, and to engage in non-market production.
Institutional sectors

Institutional units are grouped together into institutional sectors on the basis of their principal functions, behavior and objectives.

The 2008 SNA includes five main institutional sectors:
1. Non-financial corporations;
2. Financial corporations;
3. General government;
4. Households;
5. Non-profit institutions serving households (NPISHs).
The allocation of a unit to an institutional sector
3-The Total Economy and Rest of the World

**Total economy** is defined as the entire set of resident institutional units.

**The economic territory** of a country does not coincide exactly with its geographical territory. The term ‘economic territory’ means the geographical territory administered by a government within which persons, goods, services and capital move freely.
Rest of the world

- Transactions between residents and non-residents are grouped together in a single account, the *rest of the world* account.

- in order to obtain a complete accounting for the economic behaviour of resident units.
Residence

• The residence of each institutional unit is the economic territory with which it has the strongest connection, in other words, its centre of predominant economic interest.

• The concept of residence is not based on citizenship or legal criteria.

  - being engaged for an extended period (usually one year or more) in economic activities in this territory
Some clarifications on Residence-1.1

A household is resident when it maintains a dwelling that the members of the household treat and use as their principal residence. All individuals who belong to the household are also residents. There are several special cases for considering households still resident:

(a) students continue to be resident in the territory in which they were resident prior to studying abroad;

(b) patients going abroad for the purpose of medical treatment, even if the treatment takes a year or more;
Some clarifications on Residence-1.2

(c) crews of ships, aircraft, oil rigs, space stations etc. that operate outside a territory or across several territories;

(d) diplomats, military personnel and other civil servants employed abroad in government enclaves;

(e) cross-border workers, who maintain their principal dwelling in the national territory;

(f) refugees, when they do not change their home territory regardless of their legal status or intention to return.
Some clarifications on Residence-2

- A corporation or quasi-corporation is considered as resident if it maintains at least one establishment where it plans to operate over a long period of time, e.g. at least one year.
3-Enterprises, Establishments and Industries

An enterprise is the view of an institutional unit as a producer of goods and services.

- An enterprise may be a corporation, a quasi-corporation, a non-profit institution or an unincorporated enterprise.
Kind of Activity Unit (KAU)

- A kind-of-activity unit is an enterprise, or a part of an enterprise, that engages in only one kind of productive activity or in which the principal productive activity accounts for most of the value added.
Local Unit

• A local unit is an enterprise, or a part of an enterprise, that engages in productive activity at or from one location.
The combination of location and kind of activity of an enterprise results in what is called an ‘establishment’

• An establishment is an enterprise or part of an enterprise that is situated in a single location and in which only a single productive activity is carried out or in which the principal productive activity accounts for most of the value added.

• Establishments are also called local kind-of-activity units (LKAU).
An enterprise may have one or more establishments. On the other hand, an establishment can belong to one and only one enterprise.
Establishments

A SNA distinguishes, as an essential feature of its structure, between establishments that are *market producers*, *producers for own final use* and *non-market producers*.

- **Market establishments** produce goods and services mostly for sale at prices that are economically significant.

- **Producers for own final use** produce goods and services mostly for final consumption or fixed capital formation by the owners of the enterprises in which they are produced.

- **Non-market establishments** supply most of the goods and services they produce without charge or at prices that are not economically significant.
Industry

An industry consists of a group of establishments engaged in the same, or similar, kinds of activity.

The most important criterion used for classifying industries is the type of goods and services produced.
Enterprise is the main unit for NA

The enterprise is the main unit for national accounts because it represents the institutional unit for which production accounts are prepared and value added is estimated.

Aggregating value added over activities is the one of the main activity of national accountants since this will directly yield GDP.