TECHNICAL NOTES

INTRODUCTION

The System of National Accounts (SNA) is the internationally agreed standard set of recommendations on how to compile measures of economic activity in accordance with strict accounting conventions based on economic principles. The SNA framework has three essential characteristics. The accounts are:

i. *comprehensive, in that all designated economic activities are covered;*
ii. *consistent, because the same values are used for recording all sides of a single action;*
iii. *integrated, because all the consequences of a single action are captured in the accounts.*

The main SNA accounts, often referred to as the "sequence of accounts," are grouped into three sections: current accounts, accumulation accounts, and balance sheets. Thus, compilation of National Income Accounts emphasize on current accounts and accumulations accounts to produce macroeconomic statistics by looking at institutional sectors.

OBJECTIVES

The sequence of accounts aims to study the production of income, the generation and distribution of income, the use of income for final consumption and capital formation, and finally the financing of capital formation of all institutional units in Malaysia. The accounts provide the main macro-economic indicators concerning income, saving, investment and net lending/ borrowing of each institutional sector of the economy.

The development of macroeconomic indicators based on these accounts indicate more comprehensive view for policy formulation and economic monitoring.

SEQUENCE OF ACCOUNTS

The compilation of National Income Accounts consists of six accounts starting with production account and end with capital account. It also includes external account that displays the links between the domestic economy with the rest of the world. Each flow of accounts relates to a particular kind of activity such as production, or the generation, distribution, redistribution or use of income.

The balancing item from one account is carried forward as the first item in the following account, thereby making the sequence of accounts as an articulated whole. The balancing items typically encapsulate the net result of the activities covered by the accounts.

Summary of the Main Accounts, Balancing Items and Formula

Accounts	***Balancing item***	***Formula***
A) Current Account		
i) Production Account	*Value added*	*Output - intermediate consumption*
ii) Generation of income account	*Operating surplus/ mixed income*	*GDP - compensation of employees - taxes less subsidies on production & imports*
iii) Allocation of primary income account	*Balance of primary income/ gross national income*	*GDP + net primary income from rest of the world*
iv) Secondary distribution income account	*Gross national disposable income*	*GNI + net secondary income from rest of the world*
v) Use of disposable income account	*Gross national saving*	*GNDI - final consumption expenditure*
Redistribution of income in kind account	*Gross adjusted disposable income*	
Use of adjusted disposable income account	*Gross national saving*	
B) Accumulation accounts		
Capital account	*Net lending (+) / Net borrowing (-)*	*GNS + net capital transfer from rest of the world - gross domestic capital formation*

SCOPE AND COVERAGE

The SNA focuses on three main types of economic activities - production, consumption, and accumulation.

i. Production is the process by which economic agents use labour, capital, and other inputs (including natural resources) to provide goods and services that households need and want.
ii. Consumption is the use of goods and services to satisfy the immediate needs and wants of households and other final consumers, or to produce more goods and services.
iii. Accumulation involves retaining or acquiring goods, services, and assets for future use, or incurring liabilities that create future obligations.

These economic activities lead to transactions and other economic flows which are recorded in the SNA.

Transactions

Transactions are economic flows that show how goods, services, assets, and liabilities are exchanged between institutional units by mutual agreement.

Output and imports, supply the economy with goods and services. The goods and services are, in turn, used by the economy in the form of consumption, capital formation, and exports. Other transactions are distributive, such as the payment of compensation of employees, interest, or dividends. There are also redistributive transactions, such as taxes on income and wealth, social security contributions, and social benefits. Finally, there are financial transactions, such as placing deposits, buying shares, or taking out loans.

Transactions and economic flows in the SNA are undertaken by economic entities known as institutional units. An institutional unit is the fundamental economic unit in the SNA.

Institutional Units

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. An institutional unit has four main characteristics. The unit:

- *i. is entitled to own goods and assets on their own and is therefore able to exchange those goods or assets with other institutional units.*
- *ii. can take on economic decisions and engage in economic activities by itself and is directly accountable and responsible under law.*
- *iii. can incur liabilities on its own and enter into contracts.*
- *iv. can complete a set of accounts including balance sheets for the unit or it is possible from an economic viewpoint to compile a set of accounts if required.*

The SNA distinguishes between two types of institutional units:

- *i. legal or social entities, such as corporations, non-profit institutions, or government units; and*
- *ii. households such as you, your spouse, and your children.*

Legal or Social Entities

Legal or social entities are responsible and accountable for their economic decisions. In many cases, however, other institutional units may constrain their autonomy. For example, corporations are controlled by their shareholders.

Households

There are two forms of households: individual households and institutional households. Individual households usually, but not always, consist of family members or relatives who share living accommodations. Institutional households refer to groups of persons staying in institutions for a long period of time. For example, persons in retirement homes, prisons, or religious orders.

Institutional sectors

Most economies are comprised of thousands and often millions of institutional units. It would not be practical or analytically useful to compile national accounts for each institutional unit. To address this issue, the SNA includes the concept of institutional sectors. Grouping institutional units into institutional sectors allows compilers to present information to users in such a way that they see how different sectors interact with each other; for example, how households benefit from the social security schemes managed by governments.

Therefore, an institutional sector is a group of institutional units that have similar economic objectives, functions, and behaviors. The SNA distinguishes between five domestic institutional sectors: Households sector, Non-financial corporations sector, Financial corporations sector, Non-profit institutions serving households sector, and General government sector.

Institution

The National Income Accounts are compiled for different types of institutional units. By 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. The institutional units are grouped together to form institutional sectors on the basis of their principal functions, behaviour and objectives. In Malaysia, institutional sectors have been divided as following:

- *Non-financial corporations*
  Non-financial corporation's sector consists of all resident corporations whose principal activity is the production of market goods or non-financial services.
- *Financial corporations*
  Financial Corporation's sector consists of all resident corporations principally engaged in providing financial services, including insurance and pension funding services, to other institutional units.
- *General government*
  The government sector includes all government units that produce non-market government services and unincorporated enterprises owned by governments.
- *Households and non-profit institutions serving households*
  The household sector consists of all resident households and non-profit institutions serving households (NPISHs). It also includes unincorporated enterprises owned by households and NPISHs, whether market producers or producing for own final use.
- *Rest of the world*
  The rest of the world consists of all non-resident institutional units that enter into transaction with resident units, or have other economic links with resident units.

Enterprise

The statistical unit used in the compilation of these accounts is the enterprise. An enterprise is the term used to describe an institutional unit in its capacity as a producer of goods and services and may, therefore, be any one of the following types of producer unit: corporation, non-profit institution or unincorporated enterprise. Although conceptually desirable, in practice we may not adhere to the desired concept for all institutional sectors. In fact, some of the data available are from surveys carried out by the Department of Statistics, Malaysia which uses the establishment as the statistical unit.

METHODOLOGY

The compilation of accounts are based on the methodology and concepts outlined in the United Nations' publication entitled System of National Accounts 2008. The relationship between production and consumption can be traced by the interaction among the different types of institutional units by means of a series of accounts compiled for each sector. These accounts show:

- *how production gives rise to income;*
- *how income is distributed and redistributed and then used for consumption or saved; and*
- *how saving is translated into fixed capital formation and net borrowing or lending.*

All published National Income Accounts statistics are in current prices. These account compiled as follows:

i) Production Account

The production account is the first in the sequence of accounts compiled for institutional sectors in the total economy. The production account records the activity of producing goods and services. It contains only three items apart from the balancing item which are output, intermediate consumption, taxes on product (less subsidies on product).

ii) Generation of Income Account

The components of resources in the generation account are payment, compensation of employees, taxes less subsidies on production and import whereas of the resources is Gross Domestic Product at purchaser's prices. The balancing item or residual is gross operating surplus. For the unincorporated enterprises that are owned by households and do not have appropriate business accounts, mixed income which is the balancing item, represents the sum of gross operating surplus and compensation of employees.

iii) Allocation of Primary Income Account

The allocation of primary income shows the distribution of gross operating surplus as property incomes among institutional sectors. Property income includes interest, dividends, reinvested earnings on direct foreign investment, property incomes attributed to insurances policy holders and rent. The balancing item, balancing of primary income is derived by adding gross operating surplus with compensation of employees, taxes less subsidies on production and import, and property incomes receivable and deducting property incomes payable. The sum of the balance of primary incomes of all institutional sectors is called Gross National Income at purchaser's prices.

iv) Secondary Distribution of Income Account

The secondary distribution of income account traces the distribution of primary income among institutional sectors in terms of taxes on income, social contributions, social benefits and other types of current transfers excluding social transfers in kind. Other current transfers are either obligatory or voluntary but not related to ownership of wealth. The balancing item is disposable income.

v) Use of Income Account

The use of income account shows how disposable income or adjusted disposable income is allocated between final consumption and saving. The System National Accounts introduces two distinct concepts of final consumption i.e. Final consumption expenditure and actual final consumption for the purpose of analyzing the household sector both over time and across nation.

The use of disposable income account records disposable income as resources and final consumption expenditure as uses. It focuses on the final consumption acquired and used by households by means of the expenditures made by households themselves from their own disposable income.

The use of adjusted disposable income account records the adjusted disposable income that is the balancing item brought forward from the redistribution of income in kind account, as resources, and actual final consumption as uses. This account focuses on the total consumption of goods and services acquired and used by institutional units, especially households, whether acquired by expenditure or by social transfers in kind.

The redistribution of income in kind accounts shows how the disposable income is transformed into adjusted disposable income by the receipt and payment of social transfers in kind. Social transfers in kind consist of social benefits in kind as well as transfers of individual non-market goods and services produced for resident households by the government sector and non-profit institutions serving households (NPISHs). This account is significant only for the Households, NPISHs and General government sectors.

vi) Capital Account

Capital account shows saving as a source of funding for capital formation. Another source is capital transfer while the third source is calculated residually. This source is known as net lending (+) / borrowing (-) which is derived from other institutional sectors. The sum of net borrowing (-) of domestic institutional sectors must equal to the net lending (+) of the rest of the world and vice versa.

DATA SOURCES

i. Department of Statistics, Malaysia

- *Economic Census 2015 for agriculture, mining, manufacturing, construction and services sectors*
- *National Accounts Statistics*
- *Balance of Payments Statistics*
- *Household Income Survey and Household Expenditure Survey*

ii. Bank Negara Malaysia

- *Statistics on the commercial banks, investment bank and islamic banks*
- *Aggregate financial statements on leasing and factoring companies*
- *Insurance reports*

iii. Individual companies

- *Annual financial statements*

iv. Government agencies

- *Annual figures and reports*

ROUNDING

The sum of the component figures may not tally with the sub-total or total figures due to rounding.