CONCEPTS AND DEFINITIONS

INTRODUCTION

The national accounts data presented in the tables are selected items from a full national accounting system, which records all economic activities. The national accounting system covers production, expenditure, income generation and distribution, financing, savings and investment of the whole economy.

This accounting system is defined by the United Nations and the transactions which are presented follow the recommendations of the Systems of National Accounts 2008 (2008 SNA).

GROSS DOMESTIC PRODUCT (GDP)

Gross Domestic Product (GDP) is the total value of all goods and services produced in a certain period after deducting the cost of goods and services used up in the process of production. This value is before deducting the allowances for consumption of fixed capital i.e. the sum of value added of resident producer in producer's price plus import duties. GDP is equivalent to expenditure on the GDP (in purchaser's price) i.e. the sum of all components of final expenditure on goods and services less imports of goods and services.

GDP can be measured by using three approaches namely Production, Expenditure and Income Approach. However, this publication only presents Production and Expenditure Approach.

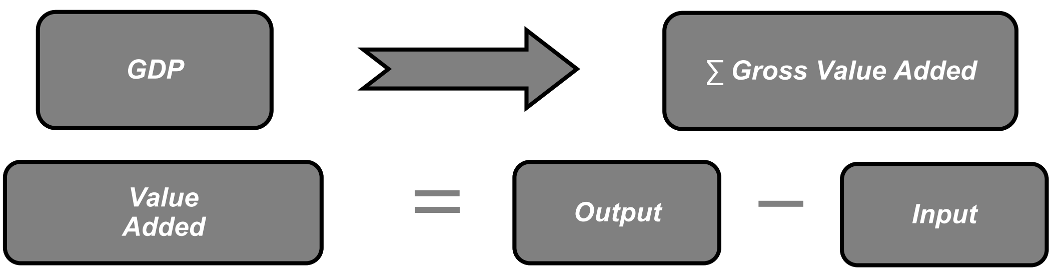
PRODUCTION APPROACH

GDP based on Production Approach is defined as value of total production of goods and services produced in Malaysia after deducting value of intermediate consumption. This approach is also known as value added approach which will be able to show the contribution of each economic activity on overall GDP.

GDP is an item in a double entry accounting system and in this publication, it is presented in the following ways:

(a) The sum of gross value added of all producers engaged in production in the economy; or

(b) The difference between gross output of all producers less the intermediate consumption (as input)



OUTPUT

Output is the value of goods and services produced. This includes market production, production for own final use, and non-market production (government services and NPISHs). Production of goods and services is not necessarily for sale or turnover of establishment.

INTERMEDIATE CONSUMPTION

Intermediate consumption is the value of goods and services consumed (as input) in the production process of goods and services excluded salaries and wages, depreciation of capital and net interest paid.

VALUE ADDED

Value added is the difference between output and intermediate consumption. It represents the added value of goods and services by economic activity. Hence, it is approximately equivalent to commercial profit, salaries and wages, depreciation and indirect taxes; plus interest paid less interest received.

TAXES

In national accounts, taxes are expressed in two forms:

(a) *INDIRECT TAXES*

Indirect taxes are regarded as a cost of production, which are part of value added component. Hence, indirect taxes must be added to the value of goods and services. Indirect taxes include sales tax, value added taxes, excise duties, quit rent and etc.

(b) *DIRECT TAXES*

Direct taxes are taxes on profits or incomes, which constitute of a redistribution of income from the private sector to the government and it is not in the form of production cost. In Malaysia's context, income tax is the most significant direct tax.

EXPENDITURE APPROACH

GDP based on Expenditure Approach is the summation of Private Final Consumption, Government Final Consumption, Gross Fixed Capital Formation, Changes in Inventories and Valuables, Exports of goods and services minus Imports of goods and services. All these components are categorised as 'final demand' or 'final expenditure'. This approach measures value of goods and services used by final users on goods and services produced by resident.

$$\text{GDP} = \text{C} + \text{G} + \text{I} + \text{X - M}$$

C *Private Final Consumption Expenditure (Households and Non-profit Institution Serving Households)*

G *Government Final Consumption Expenditure*

I *Gross Fixed Capital Formation + Changes in Inventories and Valuables*

X - M *Exports of goods and services - Imports of goods and services*

BALANCING BETWEEN THE PRODUCTION AND EXPENDITURE ESTIMATES

Theoretically, the estimates GDP for both approaches should arrive at the same value. However, in practice, the estimated value by both approaches will not be equal due to the usage of different data sources. These differences are known as "Statistical Discrepancy" in System of National Accounts .

GDP Expenditure Approach + **Statistical Discrepancy** = **GDP Production Approach**

VALUATION OF TRANSACTIONS

Estimation is expressed in two types of prices namely current prices and constant prices (base year 2015). Various techniques have been used to estimate value at current and constant prices.

GDP AT CONSTANT PRICES

GDP at constant prices is the value of GDP without price effect. GDP at constant prices enables actual comparison to be made for changes in level of production/ volume of goods and services occurred in economic activity.

IMPLICIT PRICE DEFLATOR

In deriving the constant prices series, direct deflation method which consists of single deflation and double deflation is used. The single deflation method removes the price effect from the estimated output or input, while double deflation method eliminates the price effect from both the output and input. Hence, value added is obtained as residual by subtracting input from output.

Main price indices that are being used are Producer Price Index, Consumer Price Index and Services Producer Price Index. Meanwhile, for goods and services which are not in both indices, information on prices are obtained from establishment involved. The information is then transformed into derived price indices specially for those goods and services.

RELATION BETWEEN GDP ESTIMATES AND BALANCE OF PAYMENT

The national accounts series published in this publication is consistent with the annual estimates of balance of payments published by DOSM. These two estimates show a complete statement of Malaysia transaction with other countries at current prices.

CLASSIFICATION

GDP compilation correspond with the following classifications;

- *Malaysia Standard Industrial Classification (MSIC 2008)*
- *Malaysia Classification of Product by Activity (MCPA 2009)*
- *Classification of the Functions of Government (COFOG)*
- *Classification of Individual Consumption by Purposes (COICOP)*
- *Standard International Trade Classification (SITC) Rev. 4*

METHODOLOGY, DATA SOURCES AND GLOSSARY

This information is accessible from the Department's portal (www.dosm.gov.my).

PUBLICATION AND DATA REVISION

This publication presents the revision of the annual GDP estimates for the year 2020 to 2022. The revisions were based on the latest data of census/ annual surveys/ biennial and account of company/ individual enterprise for the year 2020 and 2021. For the latest year 2022, estimation was based on the quarterly data sources.

The annual time series will be updated every year.