

# What is System of National Accounts (SNA)?

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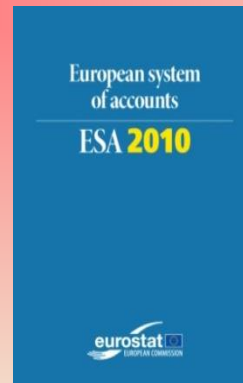
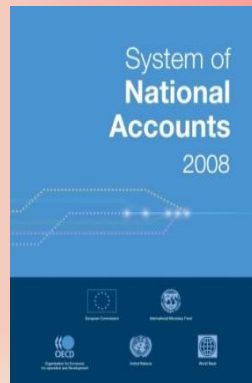
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## What is System of National Accounts (SNA)?

The System of National Accounts (SNA, and ESA) is the internationally agreed standard set of recommendations on measuring the economic activity.



## What is System of National Accounts (SNA)?

The SNA describes a coherent, consistent and integrated set of macroeconomic accounts in the context of a set of internationally agreed concepts, definitions, classifications and accounting rules.

## What is System of National Accounts (SNA)?

SNA provides an overview of economic processes, recording how production is distributed among consumers, businesses, government and foreign nations.

It shows how income originating in production, modified by taxes and transfers, flows to these groups and how they allocate these flows to consumption, saving and investment.

Consequently, the national accounts are one of the building blocks of macroeconomic statistics forming a basis for economic analysis and policy formulation.

## Transactions and Other Flows

Institutional units fulfill various economic functions; they produce, consume, save, invest, etc. They may engage in various types of production (agriculture, manufacturing, etc.) as entrepreneurs, providers of labor or suppliers of capital. In all aspects of their economic functions and activities, they undertake a great number of elementary economic actions. These actions result in economic flows, which, however they are characterized (wages, taxes, fixed capital formation, etc.), create, transform, exchange, transfer or extinguish economic value; they involve changes in the volume, composition or value of an institutional unit's assets or liabilities.

## Transactions and Other Flows

The economic value may take the form of ownership rights on physical objects (a loaf of bread, a dwelling) or intangible assets (a film original) or of financial claims (liabilities being understood as negative economic value). In all cases, economic value is potentially usable to acquire goods or services, pay wages or taxes, etc.

## Transactions and Other Flows

Most economic actions are undertaken by mutual agreement between institutional units. They are either an exchange of economic value or a voluntary transfer by one unit to another of a certain amount of economic value without a counterpart. These actions undertaken by mutual agreement between two institutional units are called transactions in the SNA.



## Main Types of Transactions and Other Flows

Transactions in goods and services (products) describe the origin (domestic output or imports) and use (intermediate consumption, final consumption, capital formation or exports) of goods and services.

By definition, goods and services in the SNA are always a result of production, either domestically or abroad, in the current period or in a previous one. The term product is thus a synonym for goods and services.

## Main Types of Transactions and Other Flows

Distributive transactions consist of transactions by which the value added generated by production is distributed to labor, capital and government and transactions involving the redistribution of income and wealth (taxes on income and wealth and other transfers).

## Main Types of Transactions and Other Flows

Transactions in financial instruments (or financial transactions) refer to the net acquisition of financial assets or the net incurrence of liabilities for each type of financial instrument. Such changes often occur as counterparts of non-financial transactions. They also occur as transactions involving only financial instruments.

## Main Types of Transactions and Other Flows

Other accumulation entries cover transactions and other economic flows not previously taken into account that change the quantity or value of assets and liabilities.

They include acquisitions less disposals of non-produced nonfinancial assets, other economic flows of non-produced assets, such as discovery or depletion of subsoil resources or transfers of other natural resources to economic activities, the effects of non-economic phenomena such as natural disasters and political events (wars for example) and finally, they include holding gains or losses, due to changes in prices, and some minor items.

## The Sequence of Accounts

The accounts are grouped into three categories: current accounts, accumulation accounts and balance sheets.

**Current accounts** deal with production, the generation, distribution and use of income. Each account after the first starts with the balancing item of the previous one recorded as resources. The last balancing item is saving which, in the context of the SNA, is that part of income originating in production, domestically or abroad that is not used for final consumption.

## The Sequence of Accounts

**Accumulation accounts** cover changes in assets and liabilities and changes in net worth (the difference for any institutional unit or group of units between its assets and liabilities). The accounts concerned are the capital account, financial account, the other changes in the volume of assets account and the revaluation account. The accumulation accounts show all changes that occur between two balance sheets.

## The Sequence of Accounts

**Balance sheets** present stocks of assets and liabilities and net worth. Opening and closing balance sheets are included with the full sequence of accounts. Even when balance sheets are not compiled, a clear understanding of the conceptual relationship between accumulation accounts and balance sheets is necessary if the accumulation accounts themselves are to be correctly elaborated.

## The production account

The production account is designed to show value added as one of the main balancing items in the SNA.

All institutional sectors have a production account. However, in the production account of institutional sectors, output and intermediate consumption are shown in total only, not broken down by products.

The balancing item of the production account is value added. Like all balancing items in the current accounts, value added may be measured gross or net.



## The use of income accounts

The use of income account exists in two variants, the use of disposable income account and the use of adjusted disposable income account. The use of disposable income account has the balancing item from the secondary distribution of income account, disposable income, as a resource. The use of adjusted disposable income account has the balancing item from the redistribution of income in kind account, adjusted disposable income, as a resource. Both accounts show how, for those sectors that undertake final consumption (that is, government, NPISHs and households), disposable income or adjusted disposable income is allocated between final consumption and saving.

## The use of income accounts

At the level of total economy, disposable income and adjusted disposable income differ only when considering the relevant sectors. For each sector, the difference between final consumption expenditure and actual final consumption is equal to social transfers in kind, provided or received.

The balancing item of the use of income account, in its two variants, is saving. Saving ends the subsequence of current accounts.

## The accumulation accounts

Saving, being the balancing item of the last current account is the starting element of accumulation accounts.

A first group of accounts covers transactions which would correspond to all changes in assets or liabilities and net worth if saving and capital transfers were the only sources of changes in net worth.

A second group of accounts relates to changes in assets, liabilities and net worth due to other factors.

## The capital account

The capital account records transactions linked to acquisitions of non-financial assets and capital transfers involving the redistribution of wealth. The right-hand side includes saving, net, and capital transfers receivable and capital transfers payable (with a minus sign) in order to arrive at that part of changes in net worth due to saving and capital transfers.

## The financial account

The financial account records transactions in financial instruments for each financial instrument. These transactions in the SNA show net acquisition of financial assets on the left-hand side and net incurrence of liabilities on the right-hand side.

The balancing item of the financial account is again net lending or net borrowing, which appears this time on the right-hand side of the account. In principle, net lending or net borrowing is measured identically in both the capital and financial accounts. In practice, achieving this identity is one of the most difficult tasks in compiling national accounts.

## **The other changes in the volume of assets account**

The other changes in the volume of assets account records the effect of exceptional events that cause not only the value but also the volume of assets and liabilities to vary.

## **The revaluation account**

The revaluation account records holding gains or losses. It starts with nominal holding gains and losses. This item records the full change in value of the various assets or liabilities due to the change in the prices of those assets and liabilities since the beginning of the accounting period or the time of entry into stock and the time of exit from stock or the end of the accounting period.

***Thank You...***