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PART V
CONSOLIDATED ACCOUNTS OF THE NATION

CHAPTER XXII CONSOLIDATED ACCOUNTS OF THE NATION

22.1. For a comprehensive picture of the macro-economic behaviour of the country, it is essential that the different estimates described so far are put together in the form of a set of national accounts. The *System of National Accounts* (SNA), Studies in Method Series F No. 2 Rev. 3 (U.N., 1968) recommends three sets of accounts and 26 supporting tables. For presentation of the overall picture of the economy, the Consolidated Accounts of the Nation recommended in SNA (with minor modifications) is adopted for presentation of data annually. This system consists of:

- Account 1 : Gross Domestic Product and Expenditure
- Account 3 : National Disposable Income and its Appropriation
- Account 5 : Capital Finance Account
- Account 6 : External Transactions

The modifications introduced mainly refer to an additional entry viz., mixed income of self-employed as a receipt entry in Account 1 and an expenditure entry in Account 3. The scope and coverage of this measure and the reasons leading to its introduction has already been discussed in the Chapter on Factor Incomes. Also, in the System for the Country Capital Finance account presents only the details of gross accumulation and financing of the same and does not include the transactions on financial assets and liabilities. This omission is mainly because of the non-availability of data on the subject. Account 6 on External Transactions recommended in the SNA has been expanded to include the details recommended in SNA for presentation in the form of Table 26.

22.2. The independent estimates for the different macro-aggregates are used for constructing the national accounts. Because of the independent nature of the estimates, it is not always

possible for the accounts to balance. No attempt has been made to adjust the estimates to achieve balance; instead the extent of difference between the receipts and the expenditure totals in each account has been shown separately. External Transactions however, is an exception. In this case the complete balanced data on receipts and disbursements become available from the Reserve Bank of India.

22.3. Account 1 presents the overall consolidated picture of total gross domestic product at market prices and the expenditure on the same. Discrepancy shown in this Account taking the gross domestic product as the controlling total gives the measure of the overall difference between the product approach and the expenditure approach followed for estimation. The disaggregation of this discrepancy between the levels contributed by the two measures of capital expenditure and current expenditure are shown in Accounts 5 & 3 respectively. In Account 5 'errors and omissions' give the difference between gross domestic capital formation and domestic saving adjusted for retained earnings of foreign controlled rupee companies and branches of foreign companies in India using the latter as the controlling total. In Account 3 similarly expenditure on disposable income gives extent of difference having taken the measure of disposable income as given. 'discrepancy'⁷⁷ in Account 1 is, therefore, the sum of 'statistical discrepancy'⁷⁷ and 'errors & omissions'⁷⁷ in Accounts 3 and 5.

22.4. The entries in all the Accounts are obtained from different aggregates otherwise presented in the NAS and also from the Balance of Payment Statements (RBI). Table 21.1 summarises the correspondence between the categories of account 6 of the Consolidated Accounts of the Nation and of the Balance of Payments Statements. The exact sources and adjustments are indicated in Appendix 22.1 and 22.2.

⁷⁷. Different terms need have no special significance and are adopted to identify the entries in different accounts.

TABLE 21.1 : IDENTIFICATION OF THE BALANCE OF PAYMENT (BP) CATEGORIES WITH THE EXTERNAL TRANSACTION ACCOUNT CATEGORIES

Item	External Transactions Account categories	BP categories
(1)	(2)	(3)
1. export of goods and services (SNA item 1.11)	1. exports of merchandise, (fob) (6.1.1)	exports of merchandise (a) private (b) official
	2. transport and communication in respect of exports other than merchandise (6.1.2).	transportation receipts
	3. insurance service charges in respect of exports other than merchandise (6.1.3).	insurance receipts
	4. direct purchases in the domestic market (a) extra territorial bodies (6.1.4) (b) non-resident households (6.1.5)	travel receipts* government not included elsewhere* receipts
	5. miscellaneous commodities (6.1.6)	miscellaneous receipts
2. import of goods and services (SNA item 1.12)	1. imports of merchandise (c.i.f.) (6.6.1)	imports of merchandise (a) private (b) official
	2. transport services on merchandise imports by resident industries (6.6.2).	
	3. other transport and communication services by non-residents (6.6.3).	transportation payments
	4. insurance charges on imports other than merchandise services by non-residents (6.6.4).	insurance payments
	5. direct purchases abroad by resident households (6.6.5).	travel payments*
	6. direct purchases abroad on current account by government (6.6.6).	government not included elsewhere payments*
	7. miscellaneous commodities (6.6.7)	miscellaneous payments
	8. non-cash inflow** (6.6.8)	not included
3. compensation of employees from the rest of the World, net (SNA item 3.8)	compensation of employees from the rest of the world (6.2/6.7).	not directly identifiable**
4. property and entrepreneurial income from the rest of the world, net (SNA item 3.9).	1. property and entrepreneurial income from the rest of the world (6.3/6.8).	investment income (receipts/payments)
	2. retained earnings of foreign companies (6.9)	not included
5. other current transfers from the rest of the world, net (SNA item 3.12).	other current transfers from the rest of the world (6.4/6.10).	transfer payments private (credits/debits).
6. purchases of intangible assets not elsewhere classified from the rest of the world, net and net lending to the rest of the world (SNA items 5.2 & 5.3)	1. purchases of intangible assets not elsewhere classified from the rest of the world, net (6.16)	total debit under capital account minus
	2. net acquisition of foreign financial assets (6.17)	total credit under capital account errors and omissions,
	3. net incurrence of foreign liabilities (6.18)	non-cash inflow and retained earnings of foreign companies } not included
OR		
	1. surplus of the nation on current account (6.11)	total current transaction net.
	plus	minus
	2. capital transfers from the rest of the world, net (6.14)	non-cash inflow and retained earnings of foreign companies official transfer payments (credit) minus official transfer payments (debits).

*To exclude compensation of employees for estimates comparable to col. (2).

**Includes compensation of employees component of travel receipts/payments, government not included elsewhere receipts/payments) and miscellaneous receipts/payments.

NOTE : Figures in the parentheses in column 2 refer to the items in Account 6 External Transactions as published in the National Account Statistics, 1970-71 to 1977-78 (February 1980).

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APPENDIX 22.1 : SOURCES OF DATA FOR PREPARATION OF CONSOLIDATED ACCOUNTS OF THE NATION

Item	Source*
1-1 compensation of employees	statement 5, item 6.1
1-2 operating surplus	statement 5, items 6.2 + 6.3 + 6.4
1-3 mixed income of self employed.	statement 5, item 6.5
1-4 consumption of fixed capital	statement 11, item 4
1-5 indirect taxes	statement 24, item 9
1-6 subsidies	statement 24, item 3
1-8 government final consumption expenditure.	statement 24, item 1
1-9 private final consumption expenditure.	statement 8, item 9]
1-10 gross fixed capital formation	statement 11, item 1]
1-11 change in stocks	statement 11, item 2
1-12 exports of goods and services	Account 6, item 6.1]
1-13 imports of goods and services	Account 6, item 6.6

Item	Source*
3-3 saving**	statement 10, item 4 less Account 6, item 6.9
3-9 compensation of employees from rest of the world, net	Account 6, item 6.2 less item 6.7
3-10 property & entrepreneurial income from rest of the world net.	Account 6 item 6.3 less item 6.8 less item 6.9
3-13 other current transfer from rest of the world net.	Account 6, item 6.4 less item 6.10

*Statement number under the source column refers to the statements as published in the *National Account Statistics, 1970-71 to 1977-78 (CSO, 1980)*.

**The estimates of domestic saving include retained earnings of foreign controlled rupee companies and branches of foreign companies in India. These retained earnings represent profits retained in business by these companies in India and are regarded as items of inflow of foreign capital. Data in respect of such retained earnings are available from the studies carried out by the Reserve Bank of India on 'India's International Investment position. Information in respect of such retained earning is not available in the exchange control records as no transfers of funds are involved and therefore do not appear in Balance of Payments statistics. Accordingly, such earnings are deducted from the estimates for domestic saving in Account 3—National Disposable Income and its appropriation. To make the system consistent at the same time such earnings are also shown in Account 6—External Transactions as an additional item under disposal of current receipts.

APPENDIX 22.2 : RELATIONSHIP BETWEEN BALANCE OF PAYMENTS CATEGORIES AND EXTERNAL TRANSACTION ACCOUNTS OF THE SNA*

1. The table 21.1 summarises the correspondence between the categories of Account 6 of the Consolidated Account and the Balance of Payments (BP) Statistics in the Indian context. The Account 6 in India also includes some of the details of external transactions suggested in the supporting Table 26 of the SNA.

2. The items included in Accounts 6 of the Consolidated Accounts reappear at different places in Accounts 1,3 and 5. These items cannot be estimated independent of the BP statistics and, therefore, there are no cross checks of these items between the first three accounts and Account 6. In spite of uniformity in concepts, there is no exact one to one correspondence among the items of external transactions included in the SNA and the BP statements as the two systems have different orientation and cover somewhat different fields.

3. It is clear from Table 21.1 that except for retained earnings of foreign companies, non-cash inflow the net purchases of intangible assets, the coverage of items in the two systems is identical. The entries against direct purchases in the domestic market/abroad, compensation of employees and miscellaneous transactions in Account 6 are obtained by regrouping the items included in the BP categories of Travel, Government not included elsewhere and Miscellaneous. Non-cash inflow is not a distinct category in SNA and is not included in the BP statements. The estimates of non-cash inflow are however, separately available for India and hence incorporated in Account 6.

4. Direct purchases in the domestic market by extra territorial bodies and direct purchases abroad on current account by Government as specified in Account 6 are mostly included under the BP category "Government not included elsewhere". Direct purchases in the domestic market by non-resident households and direct purchases abroad by resident households shown in Account 6 appear partly under each of the BP categories of "Travel". "Government not included elsewhere" and "Miscellaneous".

5. In the BP classifications, compensation of employees from/to the rest of the world is not a distinct category but appears under various items depending upon the nature of the item. For example, home leave salary appears under the head "Travel" while the embassy and the diplomatic staff salary expenditure appears under "Government not included elsewhere". Some part of "personal income" included in the "miscellaneous" category of the BP system is also in the form of compensation of employees.

6. In the Consolidated Account 3 of the SNA, three items on external transaction appear, viz. net compensation of employees from the rest of the world, net property and a entrepreneurial income from the rest of the world and net of other current transfers from the rest of the world. The SNA uses only the net figures in this account for all the three items while in the BP statements both credits and debits are available the Consolidated Account 6 for India both credits and debits duly reconstructed in respect of these items are shown.

*Extract from the Country Paper (India) entitled 'Relationship Between Balance of Payments Categories and those of the System of National Accounts' presented at the *Eighth Conference of Commonwealth Statisticians, Barbados Nov. 24—Dec 5, 1975 : Contributed Papers (pp 512-518)*.

7. The scope of receipts/payments from miscellaneous commodities in the BP statements is broader than that of the miscellaneous receipts/payments in Account 6. This is a result of the inclusion of pensions, settlements on account of post and telegraph, telephones, radio, etc. refunds, rebates and other adjustments on export/import transactions and sundry items not elsewhere classified.

8. Transfer payments are classified in Account 6 as current or capital transfers depending upon the nature and purpose of the transaction. The BP system, however, does not use the criteria of Account 6 for classification of transfers. Since some of the international transfer payments are in the nature of inter-governmental grants that cannot be classified as current or capital, the BP system includes all transfers in the current account and classified them as private transfers and transfers on Government account. Remittances by migrants or inheritances are personal transfers and are categorised as private transfers, while inter governmental transfers are made on economic considerations that effect the whole country and accordingly categorized as Government transfers. In the SNA, transfers on Government account may be current or capital. Social assistance grants, unilateral shipments of food, clothing etc. grants to finance military outlays, budgetary deficits on current account are some of the examples of current transfers on Government account. It is, however, difficult to decide whether the transfer is current or capital in nature when large-scale transfers from diverse sources are involved. Account 6 for India, therefore, treats all transfer payments on Government account given in the BP Statements as capital transfers and those on private account as current transfers.

9. The disbursement side of the capital transactions of Account 6 has three items, namely the net purchase of intangible assets from rest of the world not elsewhere classified, net acquisition of foreign financial assets and net incurrence of foreign liabilities. Intangible assets include exclusive rights to exploit natural resources, leases, patents, copyrights, trade marks etc., and exclude financial claims while periodic income by way of rents, royalties, etc. from such assets is included under investment (property) income, only the outright purchase/sale of such assets is included under the net purchase of intangible assets. For the BP system the IMF Manual does not make any specific mention about net purchase of intangible assets from rest of the world and in all probability, this item goes under "miscellaneous". Foreign financial assets/liabilities can be classified according to the type of instrument, degree of liquidity, and the institutional structure of the debtor/creditor. Conceptually the coverage and valuation of changes in foreign financial assets/liabilities are identical in the SNA and BP systems. Account 6 for India, however, shows only a single entry against each of "net acquisition of foreign financial assets" and "net incurrence of foreign financial liabilities". These include monetary gold, currency, deposits, bills bonds, equities, loans, trade credits and advances, etc. Acquisition of assets is netted against their dispositions while the incurrence of liabilities is netted against their redemptions and they are valued at cost i.e. the value of sale/purchase.