

CHAPTER 24

CONSOLIDATED ACCOUNTS OF THE NATION

24.1 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 for presentation of the overall picture of the economy. For this purpose the Consolidated Accounts of the Nation recommended in the SNA have been adopted. 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.

24.1 A modification is introduced in the Capital Finance Account which presents only the details of gross accumulation and financing of the same and does not include the transactions of financial assets and liabilities. This omission is mainly because of the non-availability of data, particularly in respect of local authorities and non-departmental enterprises.

24.3 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 has been shown separately.

24.4 Account 1 presents the overall consolidated picture of total GDP at market prices and the expenditure on the same. Discrepancy shown in this Account, taking the GDP 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 GDCF and gross domestic saving using the latter as the controlling total. Similarly, in Account 3, expenditure on disposable income gives the extent of difference having taken the measure of disposable income as given. In addition the adjustments made for exports and imports in Account 6 are also included in the discrepancy in Account 1. Discrepancy in Account 1 is, therefore, the sum of 'statistical discrepancy', 'errors and omissions' in Accounts 3 and 5 and the net adjustments made for exports and imports in Account 6.

24.5 The entries in all the Accounts are obtained from different aggregates otherwise presented in the NAS and also from the Balance of Payments Statements (RBI) and Foreign Trade Statistics (DGCI&S). Table 24.1 summarises the correspondence between the categories of Account 6 of the Consolidated Accounts of the Nation and those of the Balance of Payments (BP) Statements. The correspondence of items of Consolidated Accounts of the Nation with items of other statements in NAS, 1989 and the relationship between Balance of Payment categories and those of the External Transactions Account of the SNA are given in appendices 24.1 and 24.2 respectively.

APPENDIX 24. : Correspondence of items of consolidated accounts of the nation with items of other statements in NAS, 1989

Items of Consolidated Accounts (Statements 5 to 8)	Items of Other Statements
1.1 & 3.6 Net domestic product at factor cost	Item 10, statement 12
1.2 & 5.6 Consumption of fixed capital	Item 4, statement 19
1.3 & 3.9 Indirect taxes	Item 10, statement 40
1.4& 3.10 Subsidies	Item 3, statement 40
1.6& 3.1 Government final consumption expenditure	Item 1, statement 40
1.7 & 3.2 Private final consumption expenditure	Item 8, statement 16
1.8 & 5.1.1 Gross fixed capital formation	Item 2, statement 19
1.9 & 5.1.2 Change in stocks	Item 3, statement 19
1.10 & 6.1 Exports of goods and services	Item 6.1, statement 72
1.11 & 6.7 Imports of goods and services	Item 6.7, statement 72
3.3 & 5.5 Saving	Item 6, statement 18
3.7 & (6.2-6.8) Compensation of employees from rest of the world, net	Item 6.2 less item 6.8, statement 72
3.8 & (6.3-6.9) Property and entrepreneurial income from rest of the world, net	Item 6.3 less item 6.9, statement 72
3.11 & (6.4-6.10) Other current transfers from rest of the world, net	Item 6.4 less item 6.10, statement 72

APPENDIX 24.2: Relationship between categories of balance of payments and external transactions account

1. The Table 24.1 summarises the correspondence between the categories of Account 6 (and detailed statement 72) of the Consolidated Accounts and the BP statistics in the Indian context.

2. The items included in Account 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. The external Transaction Account is based on Balance of Payments Statistics (RBI). The transactions in BP are recorded on the basis of ownership (legal title to) of the goods and services. This is also the treatment to be used in the National Accounts. However, for preparing the estimates of PFCE and capital formation, data on imports and exports, based on foreign trade statistics and compiled by DGCI&S, are used. These data being based on trade statistics generally precede the physical movements of goods across the boundaries of the country. To be consistent with these estimates the exports and imports of merchandise in the External Transaction Account are based on Foreign Trade Statistics provided by the DGCI&S. In order to keep the overall BP on current account undisturbed, the difference in the two sets of data (RBI & DGCI&S) has been shown as an additional entry in Account 6, that is, adjustment of merchandise imports and exports for change of ownership basis.

3. The entries against direct purchase in the domestic market/ abroad, compensation of employees and miscellaneous transactions in Account 6 and Statement 47 are obtained by regrouping the items included in the BP categories of (i) Travel, (ii) Government not included elsewhere and (iii) Miscellaneous. Non-cash inflow is not a distinct category in SNA and is not included in the BP statements. As such the estimates of non-cash inflow have not been 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 the detailed External Transaction Account (Statement 72), 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 appear partly under each of the BP categories of "Travel", "Government not included elsewhere" and "Miscellaneous".

5. In the BP classification, 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 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 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. In the Consolidated Account 6 for India both credits and debits, duly reconstructed in respect of these items, are shown.

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 classifies 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 affect the whole country, and, accordingly, are categorised 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 payment 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 mark etc., and exclude financial claims. While periodic income by way of fees, royalties etc., from such assets is included under investment (property) income, only the outright purchases/ sales of such assets are included under the net purchase of intangible assets. 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 the BP system. Account 6 for India, however, shows only a single entry against each of "net acquisition of foreign assets" and "net incurrence of foreign financial liabilities". These include monetary gold, currency, deposits, bills, bonds, equities, loans, trade credits, advances etc. Acquisition of assets is netted against their dispositions while the incurrence of liabilities is netted against their redemption and they are valued at cost, i.e., value of sale/purchase.

TABLE 24.1 : Identification of the bp categories with the external transactions account categories

External Transactions Account categories	BP categories
(1)	(2)
A. Current Account	
1. exports of goods & services(6.1)	1. merchandise-credit* plus a part of invisibles-credit
2. imports of goods & services (6.7)	2. merchandise-debit* plus a part of invisibles-debit
3. compensation of employees from/to the rest of the world (6.2/6.8)	3. not directly identifiable**
4. property and entrepreneurial income from/to the rest of the world (6.3/6.9)	4. investment income (receipts/payments)
5. other current transfers from/to the rest of the world (6.4/6.10)	5. transfer payments private (credits/debits)
6. adjustment of merchandise exports/imports for change of ownership	basis (6.5/6.11)
6. shows the difference between the figures of merchandise exports/imports from the two sources viz. RBI & DGCIS	
B. Capital Account	
1. purchases of intangible assets not elsewhere classified from the rest of the world, net (6.18)	1. total debit under capital account
plus	minus
2. net acquisition of foreign financial assets (6.19)	2. total credit under capital account
minus	
3. net incurrence of foreign liabilities (6.16)	
OR	
1. surplus of the nation on current account (6.12)	1. total current transaction net
plus	minus
2. capital transfers from the rest of the world, net (6.15)	2. official transfer payments (credit)
minus	
3. official transfer payments (debit)	

* Source for these figures is DGCIS and for other items, RBI.

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

Note: Figures in the parentheses in column 1 refer to the items in 'Statement 8 : External Transactions' as published in the NAS, 1989.