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ANNEX A

EUROPEAN SYSTEM OF ACCOUNTS ESA 1995

CHAPTER 2

UNITS AND GROUPINGS OF UNITS

- 2.01. The economy of a country is the outcome of the activity of a very large number of units which carry out numerous transactions of various kinds for purposes of production, finance, insurance, redistribution and consumption.
- 2.02. The units and groupings of units used in national accounts must be defined with reference to the kind of economic analysis for which they are intended, and not in terms of the types of unit usually employed in statistical inquiries. These latter units (enterprises, holding companies, kind-of-activity units, local units, government departments, non-profit institutions, households, etc.) may not always be satisfactory for the purposes of national accounts, since they are generally based on traditional criteria of a legal, administrative or accounting nature.

Statisticians should take into account the definitions of units of analysis used in the ESA, in order to ensure that in the surveys in which actual data are collected all the elements of information needed to compile data based on the units of analysis used in the ESA are gradually introduced.

- 2.03. A feature of the system is the use of three types of unit corresponding to two very different ways of subdividing the economy. To analyse the process of production, it is essential to select units which bring out relationships of a technico-economic nature; to analyse flows affecting income, capital and financial transactions and balance sheets, it is essential to select units which make it possible to study behavioural relationships among economic agents.

Given these two objectives, institutional units appropriate for the analysis of economic behaviour, local kind-of-activity units and units of homogeneous production appropriate for the analysis of technico-economic relationships are defined later in this chapter. In practice, these three types of unit are formed by combining or subdividing the basic units of statistical inquiries or sometimes received directly from statistical inquiries. Before giving precise definitions of these three types of unit used in the ESA, it is necessary to define the limits of the national economy.

THE LIMITS OF THE NATIONAL ECONOMY

- 2.04. The units, whether institutional, local kind-of-activity or of homogeneous production, which constitute the economy of a country and whose transactions are recorded in the ESA, are those which have a centre of economic interest on the economic territory of that country. These units, known as resident units, may or may not have the nationality of that country, may or may not be legal entities, and may or may not be present on the economic territory of the country at the time they carry out a transaction. Having thus defined the limits of the national economy in terms of resident units, it is necessary to define the meaning of the terms economic territory and centre of economic interest.
- 2.05. The term economic territory means:
- (a) the geographic territory administered by a government within which persons, goods, services and capital move freely;

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- (b) any free zones, including bonded warehouses and factories under customs control;
 - (c) the national air-space, territorial waters and the continental shelf lying in international waters, over which the country enjoys exclusive rights⁽¹⁾;
 - (d) territorial enclaves (i.e. geographic territories situated in the rest of the world and used, under international treaties or agreements between States, by general government agencies of the country (embassies, consulates, military bases, scientific bases, etc.));
 - (e) deposits of oil, natural gas, etc. in international waters outside the continental shelf of the country, worked by units resident in the territory as defined in the preceding subparagraphs.
- 2.06. The economic territory does not include extraterritorial enclaves (i.e. the parts of the country's own geographic territory used by general government agencies of other countries, by the institutions of the European Union or by international organizations under international treaties or agreements between States⁽²⁾).
- 2.07. The term centre of economic interest indicates the fact there exists some location within the economic territory on, or from, which a unit engages, and intends to continue to engage, in economic activities and transactions on a significant scale, either indefinitely or over a finite but long period of time (a year or more). It follows that a unit which carries out such transactions on the economic territory of several countries is deemed to have a centre of economic interest in each of them. The ownership of land and buildings within the economic territory is deemed to be sufficient in itself for the owner to have a centre of economic interest there.
- 2.08. On the basis of these definitions, units deemed to be residents of a country can be subdivided into:
- (a) units which are principally engaged in production, finance, insurance or redistribution, in respect of all their transactions except those relating to ownership of land and buildings;
 - (b) units which are principally engaged in consumption⁽³⁾, in respect of all their transactions except those relating to ownership of land and buildings;
 - (c) all units in their capacity as owners of land and buildings with the exception of owners of extraterritorial enclaves which are part of the economic territory of other countries or are States *sui generis* (see paragraph 2.06.).
- 2.09. In the case of units which are principally engaged in production, finance, insurance or redistribution, in respect of all their transactions except those relating to ownership of land and buildings, the following two cases may be distinguished:
- (a) activity conducted exclusively on the economic territory of the country: units which carry out such activity are resident units of the country;
 - (b) activity conducted for a year or more on the economic territories of several countries: only that part of the unit which has a centre of economic interest on the economic territory of the country is deemed to be a resident unit. It may be:
 - 1. either an institutional resident unit (see paragraph 2.12.), whose activities conducted for a year or more in the rest of the world are excluded and treated separately⁽⁴⁾ or

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2. a notional resident unit (see paragraph 2.15.), in respect of the activity conducted in the country for a year or more by a unit which is resident in another country.⁽⁴⁾
- 2.10. In the case of units which are principally engaged in consumption, except in their capacity as owners of land and buildings, households which have a centre of economic interest in the country are deemed to be resident units, even if they go abroad for short periods (less than a year). They include, in particular, the following:
- (a) border workers, i.e. people who cross the frontier daily to work in a neighbouring country;
 - (b) seasonal workers, i.e. people who leave the country for several months, but less than a year, to work in another country in sectors in which additional manpower is needed periodically;
 - (c) tourists, patients, students⁽⁵⁾, visiting officials, businessmen, salesmen, artists and crew members who travel abroad;
 - (d) locally recruited staff working in the extraterritorial enclaves of foreign governments;
 - (e) the staff of the institutions of the European Union and of civilian or military international organizations which have their headquarters in extraterritorial enclaves;
 - (f) the official, civilian or military representatives of the government of the country (including their households) established in territorial enclaves.
- 2.11. All units in their capacity as owners of land and/or buildings which form part of the economic territory are deemed to be resident units or notional resident units (see paragraph 2.15.) of the country in which the land or buildings in question are located.

THE INSTITUTIONAL UNITS

- 2.12. Definition: The institutional unit is an elementary economic decision-making centre characterized by uniformity of behaviour and decision-making autonomy in the exercise of its principal function. A resident unit is regarded as constituting an institutional unit if it has decision-making autonomy in respect of its principal function and either keeps a complete set of accounts or it would be possible and meaningful, from both an economic and legal viewpoint, to compile a complete set of accounts if they were required.

In order to be said to have autonomy of decision in respect of its principal function, a unit must:

- (a) be entitled to own goods or assets in its own right; it will therefore be able to exchange the ownership of goods or assets in transactions with other institutional units;
- (b) be able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law;
- (c) be able to incur liabilities on its own behalf, to take on other obligations or further commitments and to enter into contracts.

In order to be said to keep a complete set of accounts, a unit must keep accounting records covering all its economic and financial transactions carried out during the accounting period, as well as a balance sheet of assets and liabilities.

- 2.13. The following principles apply whenever entities do not clearly possess both the characteristics of an institutional unit:

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- (a) households always enjoy autonomy of decision in respect of their principal function and must therefore be institutional units, even though they do not keep a complete set of accounts;
- (b) entities which do not keep a complete set of accounts, and for which it would not be possible or meaningful to compile a complete set of accounts if required, are combined with the institutional units into whose accounts their partial accounts are integrated;
- (c) entities which, while keeping a complete set of accounts, have no autonomy of decision in the exercise of their principal function are combined with the units which control them;
- (d) entities which satisfy the definition of an institutional unit are treated as such even if they do not publish their accounts;
- (e) entities forming part of a group of units engaged in production and keeping a complete set of accounts are deemed to be institutional units even if they have partially surrendered their autonomy of decision to the central body (the holding corporation) responsible for the general direction of the group; the holding corporation itself is deemed to be an institutional unit distinct from the units which it controls, unless (b) is applicable;
- (f) quasi-corporations keep a complete set of accounts and have no independent legal status. However, they have an economic and financial behaviour that is different from that of their owners and similar to that of corporations. Therefore they are deemed to have autonomy of decision and are considered as distinct institutional units.

2.14. Holding corporations are institutional units whose main function is to control and direct a group of subsidiaries.

2.15. Notional resident units are defined as:

- (a) those parts of non-resident units which have a centre of economic interest (that is in most cases which engage in economic transactions for a year or more or which carry out a construction activity for a period of less than a year if the output constitutes gross fixed capital formation) on the economic territory of the country;
- (b) non-resident units in their capacity as owners of land or buildings on the economic territory of the country, but only in respect of transactions affecting such land or buildings.

Notional resident units, even if they keep only partial accounts and may not always enjoy autonomy of decision, are treated as institutional units.

2.16. In conclusion, the following are deemed to be institutional units:

- (a) units which have a complete set of accounts and autonomy of decision:
 1. private and public corporations;
 2. cooperatives or partnerships recognized as independent legal entities;
 3. public producers which by virtue of special legislation are recognized as independent legal entities;
 4. non-profit institutions recognized as independent legal entities;
 5. agencies of general government;

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- (b) units which have a complete set of accounts and which are deemed to have autonomy of decision:
 quasi-corporations (see paragraph 2.13. f);
- (c) units which do not necessarily keep a complete set of accounts, but which by convention are deemed to have autonomy of decision:
1. households;
 2. notional resident units (see paragraph 2.15.).

THE INSTITUTIONAL SECTORS

- 2.17. The need for aggregation means that it is impossible to consider individual institutional units separately; they must be combined into groups called institutional sectors or simply sectors, some of which are divided into subsectors.

Table 2.1 — Sectors and subsectors

Sectors and subsectors		Public	National private	Foreign controlled
Non-financial corporations	S.11	S.11001	S.11002	S.11003
Financial corporations	S.12			
Central Bank	S.121			
Other monetary financial institutions	S.122	S.12201	S.12202	S.12203
Other financial intermediaries, except insurance corporations and pension funds	S.123	S.12301	S.12302	S.12303
Financial auxiliaries	S.124	S.12401	S.12402	S.12403
Insurance corporations and pension funds	S.125	S.12501	S.12502	S.12503
General government	S.13			
Central government	S.1311			
State government	S.1312			
Local government	S.1313			
Social security funds	S.1314			

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Table 2.1 — Sectors and subsectors

Households	S.14			
Employers (including own-account workers)	S.141 + S.142			
Employees	S.143			
Recipients of property incomes	S.1441			
Recipients of pensions	S.1442			
Recipients of other transfer incomes	S.1443			
Others	S.145			
Non-profit institutions serving households	S.15			
Rest of the world	S.2			
The European Union	S.21			
The member countries of the EU	S.211			
The institutions of the EU	S.212			
Third countries and international organizations	S.22			

2.18. Each of the sectors and subsectors groups together the institutional units which have a similar type of economic behaviour.

The institutional units are grouped into sectors on the basis of the type of producer they are and depending on their principal activity and function, which are considered to be indicative of their economic behaviour.

A sector is divided into subsectors according to the criteria relevant to that sector; this permits a more precise description of the economic behaviour of the units.

The accounts for sectors and subsectors record all the activities, whether principal or secondary, of the institutional units covered.

Each institutional unit belongs to only one sector or subsector.

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- 2.19. When the principal function of the institutional unit is to produce goods and services, it is necessary in deciding the sector to which it should be allocated — to distinguish first of all the type of producer it is belonging to.

Three types of producers are distinguished in the ESA:

- (a) private and public market producers (see paragraph 3.24 and table 3.1 of chapter 3);
- (b) private producers for own final use (see paragraph 3.25 and table 3.1 of chapter 3);
- (c) private and public other non-market producers (see paragraph 3.26 and table 3.1 of chapter 3).

Institutional units which are market producers are classified in the sectors non-financial corporations (S.11), financial corporations (S.12) or households (S.14).

Institutional units which are private producers for own final use are classified in the households sector (S.14) together with the unincorporated enterprises owned by households (see paragraph 3.30).

Institutional units which are other non-market producers are classified in the sector general government (S.13) or non-profit institutions serving households (S.15).

- 2.20. Table 2.2 shows the type of producer, the principal activities and functions which are characteristic of each sector:

TABLE 2.2 — THE TYPE OF PRODUCER, THE PRINCIPAL ACTIVITIES AND FUNCTIONS CLASSIFIED BY SECTOR

Sector	Type of producer	Principal activity and function
Non-financial corporations (S.11) (see paragraph 2.21)	Market producer	Production of market goods and non-financial services
Financial corporations (S.12) (see paragraph 2.32)	Market producer	Financial intermediation including insurance Auxiliary financial activities
General government (S.13) (see paragraph 2.68)	Public other non-market producer	Production and supply of other non-market output for collective and individual consumption and carrying out transactions intended to redistribute national income and wealth
Households (S.14)		
— as consumers		Consumption
— as entrepreneurs (see paragraph 2.75)	Market producer or private producer for own final use	Production of market output and output for own final use
Non-profit institutions serving households (S.15) (see paragraph 2.87)	Private other non-market producer	Production and supply of other non-market output for individual consumption

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The rest of the world (S.2) is a grouping of institutional units (see paragraph 2.89) which is not characterized by similar objectives and types of behaviour; it groups together non-resident institutional units insofar as they carry out transactions with resident institutional units.

NON-FINANCIAL CORPORATIONS (S.11)

- 2.21. *Definition* : The sector non-financial corporations (S.11) consists of institutional units whose distributive and financial transactions are distinct from those of their owners and which are market producers (see paragraphs 3.31, 3.32 and 3.37), whose principal activity is the production of goods and non-financial services⁽⁶⁾
- 2.22. The sector non-financial corporations also includes non-financial quasi-corporations.
- 2.23. The term ‘non-financial corporations’ denotes all bodies recognized as independent legal entities which are market producers and whose principal activity is the production of goods and non-financial services.

The institutional units covered are the following:

- (a) private and public corporations which are market producers principally engaged in the production of goods and non-financial services;
 - (b) cooperatives and partnerships recognized as independent legal entities which are market producers principally engaged in the production of goods and non-financial services;
 - (c) public producers which by virtue of special legislation are recognized as independent legal entities and which are market producers principally engaged in the production of goods and non-financial services;
 - (d) non-profit institutions or associations serving non-financial corporations, which are recognized as independent legal entities and which are market producers principally engaged in the production of goods and non-financial services⁽⁷⁾;
 - (e) holding corporations controlling (see paragraph 2.26) a group of corporations which are market producers, if the preponderant type of activity of the group of corporations as a whole — measured on the basis of value added — is the production of goods and non-financial services;
 - (f) private and public quasi-corporations which are market producers principally engaged in the production of goods and non-financial services.
- 2.24. The term ‘non-financial quasi-corporations’ denotes all bodies without independent legal status which are market producers principally engaged in the production of goods and non-financial services and meet the conditions qualifying them as quasi-corporations (see paragraph 2.13. f).

Quasi-corporations must keep a complete set of accounts and are operated as if they were corporations. The de facto relationship to their owner is that of a corporation to their shareholders.

Thus non-financial quasi-corporations owned by households, government units or non-profit institutions are grouped with non-financial corporations in the non-financial corporations sector.

The existence of a complete set of accounts, including balance sheets, is not a sufficient condition for market producers to be treated as quasi-corporations. Therefore, partnerships and

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public producers, other than those included under 2.23. a, b, c and f and sole proprietorships — even if they keep a complete set of accounts — are in general not distinct institutional units because they do not enjoy autonomy of decision, their management being under the control of the households, non-profit institutions or governments which own them.

2.25. The sector non-financial corporations also includes all notional resident units (see paragraph 2.15) which, by convention, are treated as if they were quasi-corporations.

2.26. Control over a corporation is defined as the ability to determine general corporate policy by choosing appropriate directors, if necessary.

A single institutional unit (another corporation, a household or a government unit) secures control over a corporation by owning more than half the voting shares or otherwise controlling more than half the shareholders' voting power.

In addition, government secures control over a corporation as a result of special legislation decree or regulation which empowers the government to determine corporate policy or to appoint the directors.

In order to control more than half the shareholders' voting power, an institutional unit need not own any of the voting shares itself. A corporation C could be a subsidiary of another corporation B in which a third corporation A owns a majority of the voting shares.

Corporation C is said to be subsidiary of corporation B when: either corporation B controls more than half of the shareholders' voting power in corporation C or corporation B is a shareholder in C with the right to appoint or remove a majority of the directors of C.

2.27. The sector non-financial corporations is divided into three subsectors:

- (a) public non-financial corporations (S.11001);
- (b) national private non-financial corporations (S.11002);
- (c) foreign controlled non-financial corporations (S.11003).

Subsector: Public non-financial corporations (S.11001)

2.28. <i>Definition:</i>	The sub-sector public non-financial corporations consists of all non-financial corporations and quasi-corporations that are subject to control (see paragraph 2.26) by government units.
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2.29. Public quasi-corporations are quasi-corporations owned directly by government units.
Subsector: National private non-financial corporations (S.11002)

2.30. *Definition:*The subsector national private non-financial corporations consists of all non-financial corporations and quasi-corporations that are not controlled by government or by non-resident institutional units. This subsector includes all the non-profit institutions which are included in the non-financial corporate sector (see paragraph 2.23. d).

This subsector includes corporate and quasi-corporate direct foreign investment enterprises (see paragraph 4.65) not classified in the subsector foreign controlled non-financial corporations (S.11003).

Subsector: Foreign controlled non-financial corporations (S.11003)

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- 2.31. Definition: The subsector foreign controlled non-financial corporations consists of all non-financial corporations and quasi-corporations that are controlled (see paragraph 2.26) by non-resident institutional units.

This subsector includes:

- (a) all subsidiaries of non-resident corporations;
- (b) all corporations controlled by a non-resident institutional unit that is not itself a corporation: for example, a corporation which is controlled by a foreign government; it includes corporations controlled by a group of non-resident units acting in concert;
- (c) all branches or other unincorporated agencies of non-resident corporations or unincorporated producers which are notional resident units to be treated as non-financial quasi-corporations (see paragraph 2.25).

FINANCIAL CORPORATIONS (S.12)

- 2.32. *Definition* : The sector financial corporations (S.12) consists of all corporations and quasi-corporations which are principally engaged in financial intermediation (financial intermediaries) and/or in auxiliary financial activities (financial auxiliaries)⁽⁸⁾

Financial intermediation is the activity in which an institutional unit acquires financial assets and at the same time incurs liabilities (see paragraph 2.34) on its own account (see paragraph 2.33) by engaging in financial transactions on the market (see paragraphs 2.37 to 2.38). The assets and liabilities of the financial intermediaries have different characteristics, involving that the funds are transformed or repackaged with respect to maturity, scale, risk and the like in the financial intermediation process.

Auxiliary financial activities are activities closely related to financial intermediation but which are not financial intermediation themselves (see paragraph 2.39).

- 2.33. Through the financial intermediation process, funds are channelled between third parties with a surplus on one side and those with a lack of funds on the other. A financial intermediary does not simply act as an agent for these other institutional units but places itself at risk by acquiring financial assets and incurring liabilities on its own account.

- 2.34. In the financial intermediation process, all categories of liabilities may be involved with the exception of the category other accounts payable (AF.7).

The financial assets involved in the financial intermediation process may be classified in any category with the exception of the category insurance technical reserves (AF.6) but including the category other accounts receivable (factoring). In addition, financial intermediaries may invest their funds in non-financial assets including real estate. However, in order to be considered as a financial intermediary, a corporation should, in addition, incur liabilities on the market and transform funds. Therefore, real estate corporations ([^{F1}NACE Rev. 2][^{F1}division 68]) are excluded.

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Textual Amendments

F1 Substituted by [Commission Regulation \(EU\) No 715/2010 of 10 August 2010 amending Council Regulation \(EC\) No 2223/96 as regards adaptations following the revision of the statistical classification of economic activities NACE Revision 2 and the statistical classification of products by activity \(CPA\) in national accounts.](#)

2.35. The primary function of insurance corporations and pension funds consists of the pooling of risks. The main liabilities of these institutions are insurance technical reserves (AF.6). The counterparts of the reserves are investments by the insurance corporations and pension funds, which, therefore, act as financial intermediaries.

2.36. Mutual funds primarily incur liabilities through the issue of shares (AF.52). They transform these funds by acquiring financial assets and/or real estate. Therefore, mutual funds are classified as financial intermediaries. As with other corporations, any change in the value of their assets and liabilities other than their own shares is reflected in their own funds (see paragraph 7.05). Because the amount of own funds normally equals the value of the mutual fund's shares, any change in the value of the fund's assets and liabilities will be reflected in the market value of these shares.

Mutual funds investing solely in real estate are also regarded as financial intermediaries.

2.37. Financial intermediation, generally, is limited to financial transactions on the market. In other words, acquiring assets and incurring liabilities should be with the general public or specified and relatively large sub-groups thereof. Where the activity is limited to small groups of persons or families, generally, no financial intermediation takes place. In particular, financial intermediation does not include institutional units providing treasury services to a company group. These institutional units are allocated to a sector according to the predominant function of the company group within the economic territory. However, in cases where the institutional unit providing the treasury services is subject to financial supervision, it is classified in the financial corporations sector by convention.

2.38. Exceptions to the general limitation of financial intermediation to financial transactions on the market may exist. Examples are municipal credit and savings-banks, which rely heavily on the municipality involved, or financial lease corporations depending on a parent group of companies in acquiring funds or in investing funds. However, their lending or their acceptance of savings should be independent of the municipality involved or the parent group, respectively, in classifying them as financial intermediaries.

2.39. Auxiliary financial activities comprise auxiliary activities for realizing transactions in financial assets and liabilities or the transformation or repackaging of funds. Financial auxiliaries do not set themselves at risk by acquiring financial assets or incurring liabilities. They only facilitate financial intermediation.

2.40. The institutional units included in the sector financial corporations (S.12) are the following:

- a) private or public corporations which are principally engaged in financial intermediation and/or in auxiliary financial activities;
- b) cooperatives and partnerships recognized as independent legal entities which are principally engaged in financial intermediation and/or in auxiliary financial activities;

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- c) public producers, which by virtue of special legislation are recognized as independent legal entities, which are principally engaged in financial intermediation and/or in auxiliary financial activities;
 - d) non-profit institutions recognized as independent legal entities which are principally engaged in financial intermediation and/or in auxiliary financial activities, or which are serving financial corporations;
 - e) holding corporations (see paragraph 2.14) if the group of subsidiaries within the economic territory as a whole is principally engaged in financial intermediation and/or in auxiliary financial activities;
 - f) unincorporated mutual funds comprising investment portfolios owned by the group of participants, and whose management is undertaken, in general, by other financial corporations. These funds are institutional units by convention, separate from the managing financial corporation;
 - g) financial quasi-corporations:
 1. unincorporated units principally engaged in financial intermediation and subject to regulation and supervision (in most cases classified in the other monetary financial institutions subsector or the insurance corporations and pension funds subsector) are deemed to enjoy autonomy of decision and to have autonomous management independent of their owners. Their economic and financial behaviour is similar to that of financial corporations. Therefore, they are treated as separate institutional units. Examples are branches of non-resident financial corporations;
 2. other unincorporated units principally engaged in financial intermediation but not subject to regulation and supervision are only considered as financial quasi-corporations if they meet the conditions qualifying them as quasi-corporations (see paragraph 2.13. f);
 3. unincorporated units principally engaged in auxiliary financial activities are only considered as financial quasi-corporations if they meet the conditions qualifying them as quasi-corporations (see paragraph 2.13. f).
- 2.41. The financial corporations sector is subdivided into five subsectors:
- (a) the central bank (S.121);
 - (b) other monetary financial institutions (S.122);
 - (c) other financial intermediaries, except insurance corporations and pension funds (S.123);
 - (d) financial auxiliaries (S.124);
 - (e) insurance corporations and pension funds (S.125).

The other monetary financial institutions subsector is regarded as equivalent to the other depository corporations subsector as defined in the 1993 SNA 4.88—4.94. While the definition of the other monetary financial institutions subsector (see paragraph 2.48) is intended to cover those financial intermediaries through which the effects of the monetary policy of the central bank are transmitted to the other entities of the economy, the other depository corporations subsector is defined in the 1993 SNA with reference to measures of broad money. The combined

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subsectors S.121 and S.122 coincide with the monetary financial institutions for statistical purposes as defined by the EMI (see paragraph 2.49).

2.42. With the exception of subsector S.121, each subsector may be further subdivided into:

- (a) public financial corporations;
- (b) national private financial corporations;
- (c) foreign controlled financial corporations.

The criteria for this subdivision are the same as for non-financial corporations (see paragraphs 2.26 to 2.31).

2.43. Holding corporations which only control and direct a group of subsidiaries principally engaged in financial intermediation and/or in auxiliary financial activities are classified in the subsector other financial intermediaries except insurance corporations and pension funds (S.123)⁽⁹⁾. However, holding corporations which are financial corporations themselves are to be allocated to the subsectors according to the main type of financial activity.

2.44. Non-profit institutions recognized as independent legal entities serving financial corporations, but not engaged in financial intermediation or auxiliary financial activities, are classified in the subsector financial auxiliaries (S.124).

Subsector: The central bank (S.121)

2.45. <i>Definition:</i>	The subsector the central bank (S.121) consists of all financial corporations and quasi-corporations whose principal function is to issue currency, to maintain the internal and external value of the currency and to hold all or part of the international reserves of the country.
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2.46. The following financial intermediaries are classified in subsector S.121:

- (a) the national central bank, also in the case where it is part of a European System of Central Banks;
- (b) central monetary agencies of essentially public origin (e.g. agencies managing foreign exchange or issuing currency) which keep a complete set of accounts and enjoy autonomy of decision in relation to central government. Mostly these activities are performed either within central government or within the central bank. In these cases no separate institutional units exist.

2.47. Subsector S.121 does not include agencies and bodies, other than the central bank, which regulate or supervise financial corporations or financial markets. They are classified in subsector S.124 (see paragraph 2.58 (g))⁽¹⁰⁾.

Subsector: Other monetary financial institutions (S.122)

2.48. <i>Definition:</i>	The subsector other monetary financial institutions (S.122) consists of all financial corporations and quasi-corporations, except those classified in the central bank subsector, which are principally engaged in financial
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intermediation and whose business is to receive deposits and/or close substitutes for deposits from institutional units other than monetary financial institutions, and, for their own account, to grant loans and/or to make investments in securities.

- 2.49. The monetary financial institutions (MFIs) comprise the subsector the central bank (S.121) and the subsector other monetary financial institutions (S.122), and coincide with the monetary financial institutions for statistical purposes as defined by the EMI (see paragraph 2.41).
- 2.50. MFIs cannot be described simply as ‘banks’, because they may possibly include some financial corporations which may not call themselves banks, and some which may not be permitted to do so in some countries, while some other financial corporations describing themselves as banks may not in fact be MFIs. In general, the following financial intermediaries are classified in subsector S.122:
- (a) commercial banks, ‘universal’ banks, ‘all-purpose’ banks;
 - (b) savings banks (including trustee savings banks and savings banks and loan associations);
 - (c) post office giro institutions, post banks, giro banks;
 - (d) rural credit banks, agricultural credit banks;
 - (e) cooperative credit banks, credit unions;
 - (f) specialized banks (e.g. merchant banks, issuing houses, private banks).
- 2.51. The following financial intermediaries may also be classified in subsector S.122 where it is their business to receive repayable funds from the public whether in the form of deposits or in other forms such as the continuing issue of bonds and other comparable securities. Otherwise, they should be classified in subsector S.123:
- (a) corporations engaged in granting mortgages (including building societies, mortgage banks and mortgage credit institutions);
 - (b) mutual funds (including investment trusts, unit trusts and other collective investment schemes, e.g. undertakings for collective investment in transferable securities-UCITS);
 - (c) municipal credit institutions.
- 2.52. Subsector S.122 does not include:
- (a) holding corporations which only control and direct a group consisting predominantly of other monetary financial institutions, but which are not other monetary financial institutions themselves. They are classified in subsector S.123 (see paragraph 2.43);
 - (b) non-profit institutions recognized as independent legal entities serving other monetary financial institutions, but not engaged in financial intermediation. They are classified in subsector S.124 (see paragraph 2.44).
- Subsector: Other financial intermediaries, except insurance corporations and pension funds (S.123)

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- 2.53. *Definition:*
- | | |
|--|--|
| | The subsector other financial intermediaries except insurance corporations and pension funds (S.123) consists of all financial corporations and quasi-corporations which are principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional units other than monetary financial institutions, or insurance technical reserves. |
|--|--|
- 2.54. Subsector S.123 includes various types of financial intermediaries especially those which are predominantly engaged in long-term financing. In most cases this predominant maturity forms the basis of a distinction from the other monetary financial institutions subsector. Based on the non-existence of liabilities in the form of insurance technical reserves, the borderline with the insurance corporations and pension funds subsector can be determined.
- 2.55. In particular, the following financial corporations and quasi-corporations are classified in subsector S.123 unless they are MFIs:
- (a) corporations engaged in financial leasing;
 - (b) corporations engaged in hire purchase and the provision of personal or commercial finance;
 - (c) corporations engaged in factoring;
 - (d) security and derivative dealers (on own account);
 - (e) specialized financial corporations such as venture and development capital companies, export/import financing companies;
 - (f) financial vehicle corporations, created to be holders of securitized assets;
 - (g) financial intermediaries which receive deposits and/or close substitutes for deposits from MFIs only;
 - (h) holding corporations which only control and direct a group of subsidiaries principally engaged in financial intermediation and/or in auxiliary financial activities, but which are not financial corporations themselves (see paragraph 2.43).
- 2.56. Subsector S.123 does not include non-profit institutions recognized as independent legal entities serving other financial intermediaries except insurance corporations and pension funds, but not engaged in financial intermediation. They are classified in subsector S.124 (see paragraph 2.44).
- Subsector: Financial auxiliaries (S.124)

- 2.57. *Definition:*
- | | |
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| | The subsector financial auxiliaries (S.124) consists of all financial corporations and quasi-corporations which are principally engaged in auxiliary financial activities, that is |
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to say activities closely related to financial intermediation but which are not financial intermediation themselves (see paragraph 2.39).

2.58. In particular, the following financial corporations and quasi-corporations are classified in subsector S.124:

- (a) insurance brokers, salvage and average administrators, insurance and pension consultants, etc.;
- (b) loan brokers, securities brokers, investment advisers, etc.;
- (c) flotation corporations that manage the issue of securities;
- (d) corporations whose principal function is to guarantee, by endorsement, bills and similar instruments;
- (e) corporations which arrange derivative and hedging instruments, such as swaps, options and futures (without issuing them);
- (f) corporations providing infrastructure for financial markets;
- (g) central supervisory authorities of financial intermediaries and financial markets when they are separate institutional units;
- (h) managers of pension funds, mutual funds, etc.;
- (i) corporations providing stock exchange and insurance exchange;
- (j) non-profit institutions recognized as independent legal entities serving financial corporations, but not engaged in financial intermediation or auxiliary financial activities (see paragraph 2.44).

2.59. Subsector S.124 does not include holding corporations which only control and direct a group of subsidiaries principally engaged in auxiliary financial activities, but which are not financial auxiliaries themselves. They are classified in subsector S.123 (see paragraph 2.43).

Subsector: Insurance corporations and pension funds (S.125)

2.60. <i>Definition:</i>	The subsector insurance corporations and pension funds (S.125) consists of all financial corporations and quasi-corporations which are principally engaged in financial intermediation as the consequence of the pooling of risks (see paragraph 2.35).
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2.61. The insurance contracts administered might relate to individuals and/or groups, whether or not participation results from a general obligation imposed by government. Furthermore, social insurance contracts (see paragraphs 4.83 to 4.91) are sometimes a considerable part of the contracts administered.

2.62. Subsector S.125 includes both captive insurance corporations and reinsurance corporations.

2.63. Subsector S.125 does not include:

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- (a) institutional units which fulfil each of the two criteria listed in paragraph 2.74. They are classified in subsector S.1314;
- (b) holding corporations which only control and direct a group consisting predominantly of insurance corporations and pension funds, but which are not insurance corporations and pension funds themselves. They are classified in subsector S.123 (see paragraph 2.43);
- (c) non-profit institutions recognized as independent legal entities serving insurance corporations and pension funds, but not engaged in financial intermediation. They are classified in subsector S.124 (see paragraph 2.44).

2.64. The subsector insurance corporations and pension funds may be subdivided into:

- (a) insurance corporations;
- (b) (autonomous) pension funds.

Autonomous pension funds are pension funds which have autonomy of decision and keep a complete set of accounts. They are therefore institutional units. Non-autonomous pension funds are not institutional units and remain part of the institutional unit that sets them up.

- 2.65. Risks concerning individuals or groups could both be included in the activities of life and non-life insurance corporations. Some insurance corporations might limit their activities to group contracts only. These corporations are allowed to insure every group.
- 2.66. Pension funds can be described as institutions which insure group risks relating to social risks and needs (see paragraph 4.84) of the insured persons. The typical groups of participants in such policies include employees of a single enterprise or a group of enterprises, employees of a branch or industry, and persons having the same profession. The benefits included in the insurance contract might encompass benefits which are paid after death of the insured to the widow(er) and children (mainly death in service), benefits which are paid after retirement and benefits which are paid after the insured became disabled.
- 2.67. In some countries all these types of risks could be insured equally well by life insurance corporations as by pension funds. In other countries some of these classes of risks have to be insured through life insurance corporations. In contrast to life insurance corporations, pension funds are restricted (by law) to specified groups of employees and self-employed.

GENERAL GOVERNMENT (S.13)

2.68.	<i>Definition:</i>	The sector general government (S.13) includes all institutional units which are other non-market producers (see paragraph 3.26) whose output is intended for individual and collective consumption, and mainly financed by compulsory payments made by units belonging to other sectors, and/or all institutional units principally engaged in the redistribution of national income and wealth.
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- 2.69. The institutional units included in sector S.13 are the following:

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- (a) general government entities (excluding public producers organized as public corporations or, by virtue of special legislation, recognized as independent legal entities, or quasi-corporations, when any of these are classified in the non-financial or financial sectors) which administer and finance a group of activities, principally providing non-market goods and services, intended for the benefit of the community⁽¹¹⁾;
- (b) non-profit institutions recognized as independent legal entities which are other non-market producers and which are controlled and mainly financed by general government;
- (c) autonomous pension funds if the two requirements of paragraph 2.74 are met.

2.70. The general government sector is divided into four subsectors:

- (a) central government (S.1311);
- (b) State government (S.1312);
- (c) local government (S.1313);
- (d) social security funds (S.1314).

Subsector: Central government (S.1311)

2.71. Definition: The subsector central government includes all administrative departments of the State and other central agencies whose competence extends normally over the whole economic territory, except for the administration of social security funds.

Included in subsector S.1311 are those non-profit institutions which are controlled and mainly financed by central government and whose competence extends over the whole economic territory.

Subsector: State government (S.1312)

2.72. Definition: The State government subsector consists of state governments which are separate institutional units exercising some of the functions of government at a level below that of central government and above that of the governmental institutional units existing at local level, except for the administration of social security funds.

Included in subsector S.1312 are those non-profit institutions which are controlled and mainly financed by state governments and whose competence is restricted to the economic territories of the States.

Subsector: Local government (S.1313)

2.73. Definition: The subsector local government includes those types of public administration whose competence extends to only a local part of the economic territory, apart from local agencies of social security funds.

Included in subsector S.1313 are those non-profit institutions which are controlled and mainly financed by local governments and whose competence is restricted to the economic territories of the local governments.

Subsector: Social security funds (S.1314)

2.74. Definition: The subsector social security funds includes all central, State and local institutional units whose principal activity is to provide social benefits and which fulfil each of the following two criteria: by law or by regulation certain groups of the population are obliged to participate in the scheme or to pay contributions; general government is responsible for the management of the institution in respect of the

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settlement or approval of the contributions and benefits independently from its role as supervisory body or employer (see paragraph 4.89).

There is usually no direct link between the amount of the contribution paid by an individual and the risk to which that individual is exposed.

HOUSEHOLDS (S.14)

2.75.	<i>Definition:</i>	<p>The households sector (S.14) covers individuals or groups of individuals as consumers and possibly also as entrepreneurs producing market goods and non-financial and financial services (market producers) provided that, in the latter case, the corresponding activities are not those of separate entities treated as quasi-corporations. It also includes individuals or groups of individuals as producers of goods and non-financial services for exclusively own final use (see paragraphs 3.20, 3.25 and 3.30). Households as consumers may be defined as small groups of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food. The criteria of the existence of family or emotional ties may be added.</p> <p>The principal resources of these units are derived from the compensation of employees, property income, transfers from other sectors or the receipts from disposal of market products or the imputed receipts from output of products for own final consumption.</p>
2.76.	The households sector includes:	<ul style="list-style-type: none"> (a) individuals or groups of individuals whose principal function is consumption; (b) persons living permanently in institutions who have little or no autonomy of action or decision in economic matters (e.g. members of religious orders living in monasteries, long-term patients in hospitals, prisoners serving long sentences, old persons living permanently in retirement homes). Such people are treated as comprising, together, a single institutional unit, that is, a single household; (c) individuals or groups of individuals whose principal function is consumption and that produce goods and non-financial services for exclusively own final use; only two categories of services produced for own final consumption are included within the system: services of owner-occupied dwellings and domestic services produced by paid employees; (d) sole proprietorships and partnerships without independent legal status — other than those treated as quasi-corporations — which are market producers;

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(e) non-profit institutions serving households, which do not have independent legal status or those which do but are of only minor importance (see paragraph 2.88).

2.77. The households sector is subdivided into six subsectors:

(a) employers (including own-account workers) (S.141 + S.142);

(b) employees (S.143);

(c) recipients of property incomes (S.1441);

(d) recipients of pensions (S.1442);

(e) recipients of other transfer incomes (S.1443);

(f) others (S.145).

2.78. Households are allocated to subsectors according to the largest income category (employers' income, compensation of employees, etc.) of the household as a whole. When more than one income of a given category is received within the same household, the classification must be based on the total household income within each category.

Subsector: Employers (including own-account workers) (S.141 + S.142)

2.79. <i>Definition:</i>	The subsector employers (including own-account workers) consists of the group of households for which the (mixed) incomes (B.3) accruing to the owners of household unincorporated enterprises from their activity as producers of market goods and services with or without paid employees are the largest source of income for the household as a whole, even if it does not always account for more than a half of total household income.
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Subsector: Employees (S.143)

2.80. <i>Definition:</i>	The subsector employees consists of the group of households for which the income accruing from compensation of employees (D.1) is the largest source of income for the household as a whole.
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Subsector: Recipients of property incomes (S.1441)

2.81. <i>Definition:</i>	The subsector recipients of property incomes consists of the group of households for which property income (D.4) is the largest source of income for the household as a whole.
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Subsector: Recipients of pensions (S.1442)

2.82. *Definition:* The subsector recipients of pensions consists of the group of households for which the income accruing from pensions is the largest source of income for the household as a whole.

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Pension households are households whose largest income consists of retirement or other pensions, including pensions from previous employers.

Subsector: Recipients of other transfer incomes (S.1443)

- 2.83. Definition: The subsector recipients of other transfer incomes consists of the group of households for which the income accruing from other current transfers is the largest source of income for the household as a whole.

Other current transfers are all current transfers other than property income, pensions and income of persons living permanently in institutions.

Subsector: Others (S.145)

- 2.84. Definition: The subsector others consists of persons living permanently in institutions.

Persons living permanently in institutions are classified separately because the criterion of the largest source of income does not allow a meaningful classification of these persons in one of the foregoing subsectors.

- 2.85. If the main income source of the household as a whole is not available for sectoring purposes, the income of the reference person constitutes the second-best characteristic to be used for classifying purposes. The reference person of a household is normally the person with the largest income. If the latter information is not available, the income of the person who states the he/she is the reference person may be used for subsectoring households.

- 2.86. However, other criteria may be appropriate and needed for different kinds of analysis or as the basis for policy-making, e.g. breakdown of households as entrepreneurs by activity: agricultural households; non-agricultural households (industry; services).

NON-PROFIT INSTITUTIONS SERVING HOUSEHOLDS (S.15)

- 2.87. *Definition* : The sector non-profit institutions serving households (NPISHs) (S.15) consists of non-profit institutions which are separate legal entities, which serve households and which are private other non-market producers (see paragraph 3.32). Their principal resources, apart from those derived from occasional sales, are derived from voluntary contributions in cash or in kind from households in their capacity as consumers, from payments made by general governments⁽¹²⁾ and from property income.

- 2.88. Where these institutions are not very important, they are not included in this sector, their transactions being mixed up with those of households (S.14).

The NPISHs sector includes the following main kinds of NPISHs that provide non-market goods and services to households:

- (a) trade unions, professional or learned societies, consumers' associations, political parties, churches or religious societies (including those financed but not controlled by governments), and social, cultural, recreational and sports clubs;
- (b) charities, relief and aid organizations financed by voluntary transfers in cash or in kind from other institutional units.

Sector S.15 includes charities, relief or aid agencies serving non-resident units and excludes entities where membership gives right to a predetermined set of goods and services.

REST OF THE WORLD (S.2)

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- 2.89. *Definition* : The rest of the world (S.2) is a grouping of units without any characteristic functions and resources; it consists of non-resident units⁽¹³⁾ insofar as they are engaged in transactions with resident institutional units, or have other economic links with resident units. Its accounts provide an overall view of the economic relationships linking the national economy with the rest of the world.
- 2.90. The rest of the world is not a sector for which complete sets of accounts have to be kept, although it is often convenient to describe the rest of the world as if it were a sector. Sectors are obtained by disaggregating the total economy to obtain more homogeneous groups of resident institutional units, which are similar in respect to their economic behaviour, their objectives and functions. This is not the case for the sector rest of the world: there are recorded the transactions and other flows of non-financial and financial corporations, non-profit institutions, households and general government with non-resident institutional units and other economic relationships between residents and non-residents, e.g. claims by residents on non-residents.
- 2.91. It should be noted that the rule whereby the accounts for the rest of the world include only transactions carried out between resident institutional units and non-resident units is subject to the following exceptions:
- (a) the services of transport (up to the border of the exporting country) provided by resident units in respect of imported goods are shown in the rest of the world accounts with fob imports, even though they are produced by resident units (see paragraph 3.144);
 - (b) transactions in foreign assets between residents belonging to different sectors are shown in the detailed financial accounts for the rest of the world; although they do not affect the country's financial position vis-à-vis the rest of the world, they affect the financial relationships of individual sectors with the rest of the world;
 - (c) transactions in the country's liabilities between non-residents belonging to different geographical zones are shown in the geographical breakdown of the rest of the world accounts. Although these transactions do not affect the country's overall liability to the rest of the world, they affect its liabilities to different parts of the world.
- 2.92. The sector rest of the world (S.2) is subdivided into:
- (a) the European Union (S.21):
 - 1. the member countries of the European Union (S.211);
 - 2. the institutions of the European Union (S.212);
 - (b) third countries and international organizations (S.22).
- SECTOR CLASSIFICATION OF PRODUCER UNITS FOR MAIN STANDARD LEGAL FORMS OF OWNERSHIP**
- 2.93. The following overview and paragraphs 2.94 to 2.101 summarize the principles underlying the classification of producer units into sectors, using the standard terminology for describing the main types of institutions.
- 2.94. Private and public corporations which are market producers are classified as follows:

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- (a) those principally engaged in the production of goods and non-financial services: in sector S.11, non-financial corporations (see paragraph 2.23.a);
 - (b) those principally engaged in financial intermediation and auxiliary financial activities: in sector S.12, financial corporations (see paragraphs 2.40. a and 2.40. f).
- 2.95. Cooperatives and partnerships recognized as independent legal entities and which are market producers are classified as follows:
- (a) those principally engaged in the production of goods and non-financial services: in sector S.11, non-financial corporations (see paragraph 2.23. b);
 - (b) those principally engaged in financial intermediation and auxiliary financial activities: in sector S.12, financial corporations (see paragraph 2.40. b).

TABLE 2.3. — SECTOR CLASSIFICATION OF PRODUCER UNITS FOR MAIN STANDARD LEGAL FORMS OF OWNERSHIP

Type of producer Standard legal description		Market producers principally engaged in the production of goods and non-financial services	Market producers principally engaged in financial intermediation	Other non-market producers	
				Public producers (see paragraph 3.28)	Private producers (see paragraph 3.29)
Private and public corporations		S.11 non-financial corporations (see paragraph 2.23. a)	S.12 financial corporations (see paragraph 2.40. a and f)		
Cooperatives and partnerships recognized as independent legal entities		S.11 non-financial corporations (see paragraph 2.23. b)	S.12 financial corporations (see paragraph 2.40. b)		
Public producers which by virtue of special legislation are recognized as independent legal entities		S.11 non-financial corporations (see paragraph 2.23. c)	S.12 financial corporations (see paragraph 2.40. c)		
Public producers not recognized as	those with the characteristics of quasi-corporations	S.11 non-financial corporations	S.12 financial corporations (see paragraph 2.40. g)		

a With the exception of non-profit institutions of minor importance (see paragraph 2.88).

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independent legal entities		(see paragraph 2.23. f)			
	the rest			S.13 general government (see paragraph 2.69. a)	
Non-profit institutions recognized as independent legal entities		S.11 non-financial corporations (see paragraph 2.23. d)	S.12 financial corporations (see paragraph 2.40. d)	S.13 general government (see paragraph 2.69. b)	S.15 non-profit institutions serving households ^a (see paragraph 2.87)
Partnerships not recognized as independent legal entities Sole proprietorships	those with the characteristics of quasi-corporations	S.11 non-financial corporations (see paragraph 2.23. f)	S.12 financial corporations (see paragraph 2.40. g)		
	the rest	S.14 households (see paragraph 2.75)	S.14 households (see paragraph 2.75)		
Holding corporations whose preponderant type of activity of the group of corporations controlled by them is the production of	goods and non-financial services	S.11 non-financial corporations (see 2.23. e)			
	financial services		S.12 financial corporations (see paragraph 2.40. e)		

^a With the exception of non-profit institutions of minor importance (see paragraph 2.88).

2.96. Public producers which by virtue of special legislation are recognized as independent legal entities and which are market producers are classified as follows:

- (a) those principally engaged in the production of goods and non-financial services: in sector S.11, non-financial corporations (see paragraph 2.23. c);

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- (b) those principally engaged in financial intermediation and auxiliary financial activities: in sector S.12, financial corporations (see paragraph 2.40. c).
- 2.97. Public producers not recognized as independent legal entities and which are market producers are classified as follows:
- (a) if they are quasi-corporations (see paragraph 2.13. f):
 - 1. those principally engaged in the production of goods and non-financial services: in sector S.11, non-financial corporations (see paragraph 2.23. f);
 - 2. those principally engaged in financial intermediation and financial auxiliary activities: in sector S.12, financial corporations (see paragraph 2.40. g).
 - (b) If they are not quasi-corporations: in sector S.13, general government, as they remain an integral part of the units which control them (see paragraph 2.69. a).
- 2.98. Non-profit institutions (associations, foundations) recognized as independent legal entities are classified as follows:
- (a) those which are market producers and principally engaged in the production of goods and non-financial services: in sector S.11, non-financial corporations (see paragraph 2.23. d);
 - (b) those principally engaged in financial intermediation and auxiliary financial activities: in sector S.12, financial corporations (see paragraph 2.40. d);
 - (c) those which are non-market producers:
 - 1. in sector S.13, general government, if they are public producers controlled and mainly financed by general government (see paragraph 2.69. b);
 - 2. in sector S.15, non-profit institutions serving households, if they are private producers (see paragraph 2.87).
- 2.99. Sole proprietorships and partnerships not recognized as independent legal entities and which are market producers are classified as follows:
- (a) if they are quasi-corporations (see paragraph 2.13. f):
 - 1. those principally engaged in the production of goods and non-financial services: in sector S.11, non-financial corporations (see paragraph 2.23. f);
 - 2. those principally engaged in financial intermediation and financial auxiliary activities in sector S.12 financial corporations (see paragraph 2.40. g).
 - (b) If they are not quasi-corporations, they are classified in sector S.14, households (see paragraph 2.75).
- 2.100. Holding corporations (i.e. corporations which direct a group of companies) are classified as follows:
- (a) in sector S.11, non-financial corporations, if the preponderant type of activity of the group of corporations which are market producers, as a whole is the production of goods and non-financial services (see paragraph 2.23. e);
 - (b) in sector S.12, financial corporations, if the preponderant type of activity of the group of corporations as a whole is financial intermediation (see paragraph 2.40. e).

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2.101. Table 2.3 illustrates in schematic form the various cases which are enumerated above.
LOCAL KIND-OF-ACTIVITY UNITS AND INDUSTRIES

2.102. In practice, most institutional units producing goods and services are engaged in a combination of activities at the same time. They may be engaged in a principal activity, some secondary activities and some ancillary activities (see paragraphs 3.10 to 3.13).

2.103. An activity can be said to take place when resources such as equipment, labour, manufacturing techniques, information networks or products are combined, leading to the creation of specific goods or services. An activity is characterized by an input of products (goods and services), a production process and an output of products.

Activities can be determined by reference to a specific level of [F¹NACE Rev. 2]⁽¹⁴⁾.

2.104. If a unit carries out more than one activity, all the activities which are not ancillary activities are ranked according to the gross value added. On the basis of the preponderant gross value added generated, a distinction can then be made between principal activity and secondary activities. Ancillary activities are not isolated to form distinct entities or separated from the principal or secondary activities of entities they serve.

2.105. In order to analyse flows occurring in the process of production and in the use of goods and services, it is necessary to choose units which emphasize relationships of a technico-economic kind. This requirement means that as a rule institutional units must be partitioned into smaller and more homogeneous units with regard to the kind of production. Local kind-of-activity units are intended to meet this requirement as a first but practice-oriented operational approach.

THE LOCAL KIND-OF-ACTIVITY UNIT

2.106. *Definition* : The local kind-of-activity unit (local KAU) is the part of a KAU which corresponds to a local unit⁽¹⁵⁾. The KAU groups all the parts of an institutional unit in its capacity as producer contributing to the performance of an activity at class level (four digits) of the [F¹NACE Rev. 2] and corresponds to one or more operational subdivisions of the institutional unit. The institutional unit's information system must be capable of indicating or calculating for each local KAU at least the value of production, intermediate consumption, compensation of employees, the operating surplus and employment and gross fixed capital formation

The local unit is an institutional unit producing goods and services or a part thereof situated in a geographically identified place.

A local KAU may correspond to an institutional unit as producer or a part thereof; on the other hand, it can never belong to two different institutional units.

2.107. If an institutional unit producing goods and services contains a principal activity and also one or several secondary activities, it should be subdivided into the same number of KAUs, and the secondary activities should be classified under different headings from the principal activity. On the other hand, the ancillary activities are not separated from the principal or secondary activities. But KAUs falling within a particular heading of the classification system can produce products outside the homogeneous group on account of secondary activities connected with them which

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cannot be separately identified from available accounting documents. Thus a KAU may carry out one or more secondary activities.

THE INDUSTRY

- 2.108. Definition: An industry consists of a group of local KAUs engaged in the same, or similar, kind-of-activity. At the most detailed level of classification, an industry consists of all the local KAUs falling within a single class (four digits) of NACE Rev. 2 and which are therefore engaged in the same activity as defined in the NACE Rev. 2.

Industries comprise both local KAUs producing market goods and services and local KAUs producing non-market goods and services. An industry by definition consists of a group of local KAUs engaged in the same type of productive activity, irrespective of whether or not the institutional units to which they belong produce market or non-market output.

- 2.109. Industries may be classified in three categories:

- (a) industries producing market goods and services (market industries) and goods and services for own final use⁽¹⁶⁾;
- (b) industries producing non-market goods and services of general government: non-market industries of general government;
- (c) industries producing non-market goods and services of non-profit institutions serving households: non-market industries of non-profit institutions serving households.

CLASSIFICATION OF INDUSTRIES

- 2.110. The classification used for grouping local KAUs into industries is the [F¹NACE Rev. 2].

UNITS OF HOMOGENEOUS PRODUCTION AND HOMOGENEOUS BRANCHES

- 2.111. The local KAU meets the requirements of production process analysis only approximately (see paragraphs 2.105 and 2.107). The unit which is optimal for this kind of analysis, i.e. input-output analysis, is the unit of homogeneous production.

THE UNIT OF HOMOGENEOUS PRODUCTION

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| 2.112. <i>Definition:</i> | The distinguishing feature of a unit of homogeneous production is a unique activity which is identified by its inputs, a particular process of production and its outputs. The products which constitute the inputs and outputs are themselves distinguished not only by their physical characteristics and the extent to which they are processed but also by the technique of production used: they can be identified by reference to a classification of products (see paragraph 2.118). |
|---------------------------|---|

- 2.113. If a goods and services producing institutional unit carries out a principal activity and also one or more secondary activities, it will be partitioned into the same number of units of homogeneous production. Ancillary activities are not separated from the principal or secondary activities. Just like the local KAU, the unit of homogeneous production may correspond to an institutional unit or a part thereof; on the other hand, it can never belong to two different institutional units.

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THE HOMOGENEOUS BRANCH

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| 2.114. | <i>Definition:</i> | The homogeneous branch consists of a grouping of units of homogeneous production. The set of activities covered by a homogeneous branch is identified by reference to a product classification. The homogeneous branch produces those goods or services specified in the classification and only those products. |
|--------|--------------------|--|
- 2.115. Homogeneous branches are units designed for economic analysis. Units of homogeneous production cannot usually be observed directly; data collected from the units used in statistical enquiries have to be rearranged to form homogeneous branches.
- 2.116. Homogeneous branches may be classified in three categories:
- (a) homogeneous branches producing market goods and services (market branches) and goods and services for own final use⁽¹⁷⁾;
 - (b) homogeneous branches producing non-market goods and services of general government: non-market branches of general government;
 - (c) homogeneous branches producing non-market goods and services of non-profit institutions serving households: non-market branches of non-profit institutions serving households.
- 2.117. The homogeneous branches producing market goods and services and goods and services for own final use consist of all units of homogeneous production of whatever institutional sector which are exclusively engaged in the production of market goods and services or of goods and services for own final use. The production of market goods and services within the general government or non-profit institutions sectors (including those intended for themselves) are treated as units of homogeneous production and classified in an appropriate market branch.

The non-market homogeneous branches of general government producing non-market goods and services consist of all units of homogeneous production in the general government sector which produce non-market goods and services.

The non-market homogeneous branches of non-profit institutions serving households consist of all units of homogeneous production in the non-profit institutions serving households sector which produce non-market goods and services.

THE CLASSIFICATION OF HOMOGENEOUS BRANCHES

- 2.118. The classification of homogeneous branches used in the input-output tables is based on the Classification of Products by Activity (CPA)⁽¹⁸⁾. The CPA is a product classification whose elements are structured according to the industrial origin criterion, industrial origin being defined by [F¹NACE Rev. 2].

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- (1) Fishing boats, other ships, floating platforms and aircraft are treated in the ESA just like any other mobile equipment, whether owned and/or operated by units resident in the country, or owned by non-residents and operated by resident units. Transactions involving the ownership (gross fixed capital formation) and use (renting, insurance, etc.) of this type of equipment are attributed to the economy of the country of which the owner and/or operator respectively are resident. In cases of financial leasing a change of ownership is assumed.
- (2) The territories used by the institutions of the European Union and international organizations thus constitute the territories of States *sui generis*. The feature of such States is that the only residents are the institutions themselves (see paragraph 2.10. e).
- (3) Consumption is not the only possible activity of households. Households may as entrepreneurs engage in any kind of economic activity.
- (4) It is only where such activity is carried on for less than a year that it should not be separated from the activities of the producer institutional unit. This may also be done where the activity, though conducted for a year or more, is insignificant, and in all circumstances for the installation of equipment abroad. But a unit which is resident in another country and which is carrying out a construction activity in the country for a duration of less than a year is deemed to have a centre of economic interest on the economic territory of the country if the output of the construction activity constitutes gross fixed capital formation. Such a unit should therefore be treated as a notional resident unit.
- (5) Students are always treated as residents, however long they study abroad.
- (6) By convention, market regulatory agencies whose sole or principal activity is to buy, hold and sell agricultural and other food products are classified under S.11 (see paragraph 2.69 (a) note (11)).
- (7) Including institutions financed by voluntary contributions of a quasi-fiscal nature, levied on producers by units whose principal activity is to provide services in exchange. These contributions are considered as purchases of market services.
- (8) By convention, sector S.12 includes holding corporations which only control and direct a group of subsidiaries principally engaged in financial intermediation and/or in auxiliary financial activities (see paragraph 2.43) and non-profit institutions recognized as independent legal entities serving financial corporations (see paragraph 2.44).
- (9) The classification of holding corporations within the financial corporations sector deviates from the 1993 SNA 4.100 in order to maintain consistency with the monetary financial institutions for statistical purposes as defined by the EMI and with official statistics on insurance corporations.
- (10) This is a deviation from the 1993 SNA 4.86 and 4.101 in order to maintain consistency with the monetary financial institutions for statistical purposes as defined by the EMI.
- (11) By convention, market regulatory organizations which are either exclusively or principally simple distributors of subsidies are classified in S.13, subsector central government S.1311. However, those organizations which are exclusively or principally engaged in buying, holding and selling agricultural or food products are classified in S.11 (see paragraph 2.21, note 6).
- (12) NPIs controlled and mainly financed by general government are classified in the general government sector (see paragraph 2.69 b).
- (13) Included are the institutions of the EU and international organizations (see also paragraph 2.06).
- (14) [F¹NACE Rev. 2: Statistical Classification of Economic Activities in the European Community in accordance with Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains.]
- (15) The local KAU is called establishment in the SNA and [F¹ISIC Rev. 4].
- (16) Services for own final use concern only housing services produced by owner-occupiers and domestic services produced by employing paid staff (see paragraph 3.21).
- (17) Services for own final use concern only housing services produced by owner-occupiers and domestic services produced by employing paid staff (see paragraph 3.21).
- (18) [F¹CPA: Statistical Classification of Products by Activity in accordance with Regulation (EC) No 451/2008 of the European Parliament and of the Council of 23 April 2008 establishing a new

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statistical classification of products by activity (CPA) and repealing Council Regulation (EEC) No 3696/93]

Textual Amendments

- F1** Substituted by [Commission Regulation \(EU\) No 715/2010 of 10 August 2010 amending Council Regulation \(EC\) No 2223/96 as regards adaptations following the revision of the statistical classification of economic activities NACE Revision 2 and the statistical classification of products by activity \(CPA\) in national accounts.](#)

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Changes and effects yet to be applied to :

- Regulation revoked by [S.I. 2021/1300 Sch. 1 para. 13](#)