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ANNEX A

EUROPEAN SYSTEM OF ACCOUNTS
ESA 1995

CHAPTER 3

TRANSACTIONS IN PRODUCTS

3.01.	<i>Definition:</i>	Products are all goods and services that are created within the production boundary. The latter is defined in paragraph 3.07.
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3.02. The following main categories of transactions in products are distinguished in the ESA:

Transaction categories	Code
Output	P.1
Intermediante consumption	P.2
Final consumption expenditure	P.3
Actual final consumption	P.4
Gross capital formation	P.5
Exports of goods and services	P.6
Imports of goods and services	P.7

3.03. Transactions in products are recorded in the following accounts:

- (a) in the goods and services account, output and imports are recorded as resources and the other transactions in products are registered as uses;
- (b) in the production account, output is recorded as a resource and intermediate consumption is recorded as a use;
- (c) in the use of disposable income account, final consumption expenditure is recorded as a use;
- (d) in the use of adjusted disposable income account, actual final consumption is recorded as a use;
- (e) in the capital account, gross capital formation is registered as a use (a change in assets);
- (f) in the external account of goods and services, imports of goods and services are recorded as a resource, while exports of goods and services are registered as uses.

3.04. In the supply table, output and imports are recorded as supplies. In the use table, intermediate consumption, gross capital formation, final consumption expenditure and exports are registered as uses. In the symmetric input-output table, output and imports are recorded as supplies and the other transactions in products as uses.

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- 3.05. Supplies of products are valued at basic prices (see paragraph 3.48). Uses of products are valued at purchasers' prices (see paragraph 3.06). For some types of supplies and uses, more specific valuation principles are used, e.g. for imports and exports of goods.
- 3.06. **Definition:** At the time of purchase, the purchaser's price is the price the purchaser actually pays for the products; including any taxes less subsidies on the products (but excluding deductible taxes like VAT on the products); including any transport charges paid separately by the purchaser to take delivery at the required time and place; after deductions for any discounts for bulk or off-peak-purchases from standard prices or charges; excluding interest or services charges added under credit arrangements; excluding any extra charges incurred as a result of failing to pay within the period stated at the time the purchases were made.

If the time of use does not coincide with the time of purchase, adjustments should be made in such a way to take account of the changes in price due to the lapsing of time (in a manner symmetrical with changes in the prices of the inventories). Such modifications are especially important if the prices of the products involved change drastically within a year.

PRODUCTION AND OUTPUT

3.07.	<i>Definition:</i>	Production is an activity carried out under the control and responsibility of an institutional unit that uses inputs of labour, capital and goods and services to produce goods and services. Production does not cover purely natural processes without any human involvement or direction, like the unmanaged growth of fish stocks in international waters (but fish farming is production).
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- 3.08. Production includes:
- (a) the production of all individual or collective goods or services that are supplied to units other than their producers (or intended to be so supplied);
- (b) the own-account production of all goods that are retained by their producers for their own final consumption or gross fixed capital formation. Own account production for gross fixed capital formation includes the production of fixed assets such as construction, the development of software and mineral exploration for own gross fixed capital formation (for the concept of gross fixed capital formation, see paragraphs 3.100 to 3.127).

Own-account production of goods by households pertains in general to:

1. own-account construction of dwellings;
2. the production and storage of agricultural products;
3. the processing of agricultural products, like the production of flour by milling, the preservation of fruit by drying and bottling; the production of dairy products like butter and cheese and the production of beer, wine and spirits;
4. the production of other primary products, like mining salt, cutting peat and carrying water;

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5. other kinds of processing, like weaving cloth, the production of pottery and making furniture.

Own-account production of a good by households should be recorded if this type of production is significant, i.e. if it is believed to be quantitatively important in relation to the total supply of that good in a country.

By convention, in the ESA, only own-account construction of dwellings and the production, storage and processing of agricultural products is included; all other own-account production of goods by households are deemed to be insignificant for European Union countries;

- (c) the own-account production of housing services by owner-occupiers;
- (d) domestic and personal services produced by employing paid domestic staff;
- (e) volunteer activities that result in goods, e.g. the construction of a dwelling, church or other building are to be recorded as production. Volunteer activities that do not result in goods, e.g. caretaking and cleaning without payment, are excluded.

All such activities are included even if they are illegal or not-registered with tax, social security, statistical and other public authorities.

3.09. Production excludes the production of domestic and personal services that are produced and consumed within the same household (with the exception of employing paid domestic staff and the services of owner-occupied dwellings). Cases in point are:

- (a) cleaning, decoration and maintenance of the dwelling as far as these activities are also common for tenants;
- (b) cleaning, servicing and repair of household durables;
- (c) preparation and serving of meals;
- (d) care, training and instruction of children;
- (e) care of sick, infirm or old people;
- (f) transportation of members of the household or their goods.

PRINCIPAL, SECONDARY AND ANCILLARY ACTIVITIES

3.10. <i>Definition:</i>	The principal activity of a local KAU is the activity whose value added exceeds that of any other activity carried out within the same unit. The classification of the principal activity is determined by reference to [F ¹ NACE Rev. 2], first at the highest level of the classification and then at more detailed levels.
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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](#)

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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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|-------|--------------------|---|
| 3.11. | <i>Definition:</i> | A secondary activity is an activity carried out within a single local KAU in addition to the principal activity. The output of the secondary activity is a secondary product. |
|-------|--------------------|---|
- 3.12. *Definition:* The output of an ancillary activity is not intended for use outside the enterprise. An ancillary activity is a supporting activity undertaken within an enterprise in order to create the conditions within which the principal or secondary activities of local KAUs can be carried out. Ancillary activities typically produce outputs that are commonly found as inputs into almost any kind of productive activity, small as well as large.

Ancillary activities may be, e.g. purchasing, sales, marketing, accounting, data processing, transportation, storage, maintenance, cleaning and security services. Enterprises may have a choice between engaging in ancillary activities or purchasing such services on the market from specialist service producers.

Own-account capital formation is not considered to be an ancillary activity.

- 3.13. Ancillary activities are treated as integral parts of the principal or secondary activities with which they are associated. As a result:
- (a) the output of an ancillary activity is not explicitly recognized and recorded separately. It follows that the use of this output is also not recorded;
 - (b) all the inputs consumed by an ancillary activity — materials, labour, consumption of fixed capital, etc. are treated as inputs into the principal or secondary activity which it supports.

OUTPUT (P.1)

- 3.14. *Definition:* Output consists of the products created during the accounting period.

Particular cases included are:

- (a) the goods and services which one local KAU provides to a different local KAU belonging to the same institutional unit;
- (b) the goods which are produced by a local KAU and remain in inventories at the end of the period in which they are produced, whatever their subsequent use.

However, goods or services produced and consumed within the same accounting period and within the same local KAU are not separately identified. They are therefore not recorded as part of the output or intermediate consumption of that local KAU.

- 3.15. When an institutional unit contains more than one local KAU, the output of the institutional unit is the sum of the outputs of its component local KAUs, including outputs delivered between the component local KAUs.
- 3.16. Three types of output are distinguished in the ESA:
- (a) market output (P.11);
 - (b) output produced for own final use (P.12);

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(c) other non-market output (P.13).

This distinction is also applied to local KAUs and institutional units:

- (a) market producers;
- (b) producers for own final use;
- (c) other non-market producers.

The distinction, between market, for own final use and other non-market is fundamental, because it determines the valuation principles to be applied to output: market output, output produced for own final use and total output of market producers and producers for own final use are valued at basic prices, while the total output of other non-market producers (local KAUs) is valued from the costs side. The total output of an institutional unit is valued as the sum of the total outputs of its local KAUs and depends thus also on the distinction between market, for own final use and other non-market (see paragraphs 3.54 to 3.56). Furthermore, the distinction is also used to classify institutional units by sector (see paragraphs 3.27 to 3.37).

The distinctions are defined in a top-down way, i.e. the distinction is first defined for institutional units, then for local KAUs and then for their output. As a consequence, the exact meaning of the distinction on the product level (i.e. the definition of the concepts of market output, output for own final use and other non-market output) can only be understood by looking also at features of the institutional unit and the local KAU that produce that output.

After the general definitions of the three types of output and of the three types of producers (see paragraphs 3.17 to 3.26), the distinction between market, for own final use and other non-market is presented in a top-down way.

3.17.	<i>Definition:</i>	Market output consists of output that is disposed of on the market (see paragraph 3.18) or intended to be disposed of on the market.
3.18.	Market output includes: <ul style="list-style-type: none">(a) products sold at economically significant prices;(b) products bartered;(c) products used for payments in kind (including compensation of employees in kind and mixed income in kind);(d) products supplied by one local KAU to another within the same institutional unit to be used as intermediate inputs or for final uses;(e) products added to the inventories of finished goods and work-in-progress intended for one or other of the above uses (including natural growth of animal and vegetable products and uncompleted structures for which the buyer is unknown).	
3.19.	<i>Definition:</i>	In the ESA, the economically significant price of a product is defined partly in relation to the institutional unit and local KAU that has produced the output (see paragraphs 3.27 to 3.40). For example, by convention all the output of unincorporated enterprises owned by

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		households sold to other institutional units is sold at economically significant prices, i.e. is to be regarded as market output. For the output of some other institutional units, output is only sold at economically significant prices when more than 50 % of the production costs is covered by sales.
3.20.	<i>Definition:</i>	Output produced for own final use consists of goods or services that are retained either for final consumption by the same institutional unit or for gross fixed capital formation by the same institutional unit.
3.21.	Products retained for own final consumption can only be produced by the household sector. Typical examples are:	
	(a)	agricultural products retained by farmers;
	(b)	housing services produced by owner-occupiers;
	(c)	household services produced by employing paid staff.
3.22.	Products used for own gross fixed capital formation can be produced by any sector. Examples are:	
	(a)	special machine tools produced by engineering enterprises;
	(b)	dwellings, or extensions to dwellings, produced by households;
	(c)	own-account construction, including communal construction undertaken by groups of households.
3.23.	<i>Definition:</i>	Other non-market output covers output that is provided free, or at prices that are not economically significant, to other units.

[^{F2}Other non-market output (P.13) can be subdivided into two items: ‘Payments for the other non-market output’ (P.131), which consist of various fees and charges, and ‘Other non-market output, other’ (P.132), covering output that is provided free.]

Textual Amendments

F2 Inserted by [Commission Regulation \(EC\) No 1500/2000 of 10 July 2000 implementing Council Regulation \(EC\) No 2223/96 with respect to general government expenditure and revenue.](#)

3.24. *Definition:* Market producers are local KAUs or institutional units the major part of whose output is market output.

It should be noted that if a local KAU or institutional unit is a market producer its main output is by definition market output, as the concept of market output is defined after having applied the

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distinction market, for own final use and other non-market to the local KAU and institutional unit that have produced that output.

3.25.	<i>Definition:</i>	Producers for own final use are local KAUs or institutional units the major part of whose output is for own final use within the same institutional unit.
3.26.	<i>Definition:</i>	Other non-market producers are local KAUs or institutional units whose major part of output is provided free or at not economically significant prices.

Institutional units: distinction between market, for own final use and other non-market

3.27. For the institutional units as producers, the distinction between market, for own final use and other non market is summarized in table 3.1. The implications for the classification by sectors are also shown.

Table 3.1 — The distinction between market producers, producers for own final use and other non-market producers for institutional units

Type of institutional unit				Classification	
Private or public?		NPI or not?	Sales cover more than 50 % of production costs?	Type of producer	Sector(s)
1.	Private Producers	1.1. Unincorporated enterprises owned by households (excluding quasi-corporate enterprises owned by households)		1.1. = Market or for own final use	Households
	1.2.	Other private producers (including quasi-corporate enterprises owned by households)	1.2.1. Private NPIs	1.2.1.1. Yes	1.2.1.1. = Market Corporations
			1.2.1.2. No	1.2.1.2. = Other non-market	NPISH

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Table 3.1 — The distinction between market producers, producers for own final use and other non-market producers for institutional units

		1.2.2. Other private producers that are not NPI		1.2.2. = Market	Corporations
2.	Public producers		2.1. Yes	2.1. = Market	Corporations
			2.2. No	2.2. = Other non-market	General Government

The table shows that in order to determine whether an institutional unit should be classified as a market producer, a producer for own-final use or another non-market producer several distinctions should be applied subsequently.

- 3.28. The first distinction is that between private and public producers. A public producer is a producer that is controlled by the general government. In case of NPIs, a public producer is an NPI that is controlled and mainly financed by the general government. All other producers are private producers. Control is defined as the ability to determine the general (corporate) policy or programme of an institutional unit by appointing appropriate directors or managers, if necessary. Owning more than half the shares of a corporation is a sufficient, but not a necessary, condition for control (see paragraph 2.26).
- 3.29. As table 3.1 shows, private producers are found in all sectors except the sector general government. In contrast, public producers are only found in the corporations sectors (non-financial corporations and financial corporations) and in the general government sector.
- 3.30. A specific category of private producers are the unincorporated enterprises owned by households. These are always market producers or producers for own final use. The latter occurs in case of the production of services of owner-occupied dwellings and the own-account production of goods. All unincorporated enterprises owned by households are classified to the household sector. An exception should only be made for quasi-corporate enterprises owned by households. These are market producers and classified to the non-financial and financial corporations sectors.
- 3.31. For the other private producers, a distinction should be made between private non-profit institutions and other private producers.

Definition:

A NPI is defined as a legal or social entity created for the purpose of producing goods and services whose status does not permit them to be a source of income, profit or other financial gains for the units that establish, control or finance them. In practice, their productive activities are bound to generate either surpluses or deficits but any surpluses

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they happen to make cannot be appropriated by other institutional units.

All the other private producers that are not NPIs are market producers. They are classified to the non-financial and financial corporations sectors.

- 3.32. In order to determine the type of producer and the sector for the private NPIs, a 50 % criterion should be applied:
- (a) if more than 50 % of the production costs are covered by sales, the institutional unit is a market producer and classified to the non-financial and financial corporations sectors;
 - (b) if less than 50 % of the production costs are covered by sales, the institutional unit is another non-market producer and classified to the sector NPISH. But other non-market NPIs that are controlled and mainly financed by general government are classified to the general government sector.
- 3.33. In distinguishing market and other non-market producers by means of the 50 % criterion, sales and production costs are defined as follows:
- (a) sales cover the sales excluding taxes on products but including all payments made by general government or the institutions of the European Union and granted to any kind of producer in this type of activity, i.e. all payments linked to the volume or value of output are included, but payments to cover an overall deficit are excluded.

This definition of sales corresponds to that of output at basic prices except that:

- (1) output at basic prices is only defined after it has been decided on whether the output is market or other non-market: sales are only used in valuing market output; other non-market output is valued at costs;
 - (2) the payments made by general government to cover an overall deficit of public corporations and quasi-corporations are part of other subsidies on products as defined in paragraph 4.35. c. As a consequence, market output at basic prices includes also the payments made by general government to cover an overall deficit;
- (b) production costs are the sum of intermediate consumption, compensation of employees, consumption of fixed capital and other taxes on production. For this criterion other subsidies on production are not deducted. To ensure consistency of the concepts sales and production costs when applying the 50 % criterion, the production costs should exclude all costs made for own-account capital formation.

The 50 % criterion should be applied by looking over a range of years: only if the criterion holds for several years or holds for the present year and is expected to hold for the near future, it should be applied strictly. Minor fluctuations in the size of sales from one year to another do not necessitate a reclassification of institutional units (and their local KAUs and output).

- 3.34. Sales may consist of various elements. For example, in case of the health care services provided by a hospital sales may correspond to:
- (a) purchases by employers to be recorded as income in kind paid to their employees and final consumption expenditure by these employees;
 - (b) purchases by private insurance companies;

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- (c) purchases by social security funds and general government to be classified as social benefits in kind;
- (d) purchases by households without reimbursement (final consumption expenditure).

Only other subsidies on production and gifts (e.g. from charities) received are not treated as sales.

Similarly, the sale of transport services by an enterprise may correspond to intermediate consumption by producers, income in kind provided by employers, social benefits in kind provided by the government and purchases by households without reimbursement.

- 3.35. Private non-profit institutions serving businesses are a special case. They are usually financed by contributions or subscriptions from the group of businesses concerned. The subscriptions are treated not as transfers but as payments for services rendered, i.e. as sales. These NPIs are therefore market producers and are classified in the non-financial and financial corporations sectors.
- 3.36. In applying the 50 % criterion to the sales and production costs of private or public NPIs, including in sales all the payments linked to volume of output may be misleading in some specific cases. This can apply e.g. to the financing of the output of private and public schools: the payments by the general government can be linked to the number of pupils but be the subject of negotiation with the general government. In such a case, these payments need not be regarded as sales though they have an explicit link with the volume of output, e.g. with the number of pupils. This implies that a school mainly financed by such payments is another non-market producer. When the school is a public producer, i.e. when it is mainly financed and controlled by the government, it should be classified in the sector general government. When the school is a private other non-market producer, it should be classified in the sector NPISHs.
- 3.37. Public producers can be market producers or other non-market producers. If the 50 % criterion decides that the institutional unit should be regarded as a market producer, it is classified in the non-financial and financial corporations sectors. The 50 % criterion decides also when a government unit should be treated as a quasi-corporation owned by the government: only when it meets the 50 % criterion, a quasi-corporation should be created. If the institutional unit is another non-market producer, it is classified in the sector general government. The distinction between NPIs and other producers is thus irrelevant for classifying public producers.

Local KAUs and their outputs: distinction between market, for own final use and other non-market

- 3.38. After having applied the distinction market, for own final use and other non-market to institutional units as producers, the distinction can be applied to local KAU and their outputs. This relation is shown in table 3.2.

Table 3.2 — Institutional units, local KAUs and output and the distinction between market, for own final use and other non-market

Institutional unit	Principal local	Secondary local KAU(s)	Principal output of principal local KAU	Secondary output of principal local KAU	Principal output of secondary local KAU	Secondary output of secondary local KAU
Market producer	Market producer		Market output	Market output		

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Table 3.2 — Institutional units, local KAUs and output and the distinction between market, for own final use and other non-market

				Output for own final use		
		Market producer			Market output	Market output
						Output for own final use
		Producer for own final use			Output for own final use	Market output
Producer for own final use	Producer for own final use		Output for own final use	Market output		
Other non-market producer	Other non-market producer		Other non-market output	Market output		
				Output for own final use		
				Other non-market output		
		Market producer			Market output	Market output
						Output for own final use
		Other non-market producer			Other non-market output	Market output
						Output for own final use
						Other non-market output

3.39. For institutional units qualifying as market producers, the principal local KAU is of course also a market producer. The secondary local KAU can be a market producer, but also a producer for own final use. However, the secondary local KAU can by convention not be another non-market producer. This implies that the (secondary)

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local KAUs in the sectors non-financial corporations and financial corporations are all market producers or producers for own final use.

- 3.40. For institutional units that are other non-market producers, the principal local KAU will also be another non-market producer. The secondary local KAUs can be market producers or other non-market producers. This implies that the sectors general government and NPISH can contain some (secondary) local KAUs that are market producers (although all the institutional units in these sectors are other non-market producers). In order to determine whether the secondary local KAUs are market or other non-market producers the 50 % criterion should be applied.
- 3.41. After having applied the distinction market, for own final use and other non-market to institutional units and their local KAUs, the distinction can be applied to the outputs of local KAUs. This relation is shown in table 3.3.

Table 3.3 — The distinction market, for own final use and other non-market for local KAUs and their output

	Market producers	Producers for own final use	Other non-market producers	Total
Market output	X	x	x	Total market output
Output for own final use	x	X	x	Total output for own final use
Other non-market output	0	0	X	Total other non-market output
Total	Total output by market producers	Total output by producers for own final use	Total output by other non-market producers	Total output

X = large output; x = small output; 0 = no output (by convention).

- 3.42. By convention, local KAUs as market producers and as producers for own final use cannot supply other non-market output. Their output can thus only be recorded as market output or output for own final use and valued correspondingly (see paragraphs 3.46 to 3.52).
- 3.43. Local KAUs as other non-market producers can supply as secondary output market outputs and output for own final use. The output for own final use consists of own-account capital formation. The occurrence of market output should in principle be determined by applying the 50 % criterion to individual products: market output is output that is sold at least 50 % of its production costs. This might be the case for instance when government hospitals charge economically significant prices for some of their services. Other examples are sales of reproductions by government museums and sales of weather forecasts by meteorological institutes.
- 3.44. In statistical practice, it may be difficult to make a clear distinction between the different products of local KAUs of government institutions and NPISHs. Even more, this is true for the production costs in relation to the different products. In that case, a simple solution is to treat all revenues of other non-market producers from their

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secondary activity (activities) as the revenues for one type of market output. This applies for example to a museum's revenues from the sale of posters and cards⁽¹⁾.

- 3.45. Other non-market producers may also have revenues from the sale of their other non-market output at not economically significant prices, e.g. the museum's revenues from tickets for entrance. These revenues pertain to other non-market output. However, if both types of revenues (revenues from tickets and those from the sale of posters and cards) are difficult to distinguish, they can all be treated as either revenues for market output or revenues from other non-market output. The choice between these two alternative registrations should depend on the assumed relative importance of both types of revenues (from tickets versus those from the sale of posters and cards).

TIME OF RECORDING AND VALUATION OF OUTPUT

- 3.46. Output is to be recorded and valued when it is generated by the production process.
- 3.47. All output is to be valued at basic prices, but specific conventions hold for:
- (a) the valuation of other non-market output;
 - (b) the valuation of total output of another non-market producer (local KAU);
 - (c) the valuation of the total output of an institutional unit of which a local KAU is another non-market producer. (See paragraphs 3.53 to 3.56).

- 3.48. *Definition:*
- | | |
|--|--|
| | [^{F3} The basic price is the price receivable by the producers from the purchaser for a unit of a good or service produced as output, minus any tax payable (see point 4.27) on that unit as a consequence of its production or sale (i.e. taxes on products), plus any subsidy receivable on that unit as a consequence of its production or sale (i.e. subsidies on products).] It excludes any transport charges invoiced separately by the producer. It includes any transport margins charged by the producer on the same invoice, even when they are included as a separate item on the invoice. |
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Textual Amendments

- F3** Substituted by [Commission Regulation \(EC\) No 995/2001 of 22 May 2001 implementing Regulation \(EC\) No 2516/2000 of the European Parliament and of the Council modifying the common principles of the European system of national and regional accounts in the Community \(ESA 95\) as concerns taxes and social contributions.](#)

- 3.49. Output for own final use (P.12) is to be valued at the basic prices of similar products sold on the market; as a consequence, net operating surplus or mixed income can occur for such output. This also applies to services of owner-occupied dwellings (see paragraph 3.64.). However, it will usually be necessary to value output of own-account construction by costs of production.

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- 3.50. Additions to work-in-progress are valued in proportion to the estimated current basic price of the finished product.
- 3.51. If the value of output treated as work-in-progress is to be estimated in advance, it should be based on the actual costs incurred, plus a mark-up for the estimated operating surplus or an estimate of mixed income. The provisional estimates should subsequently be replaced by those obtained by distributing the actual value (when it becomes known) of the finished products. The latter is the sum of the values of:
- (a) finished products sold or bartered;
 - (b) entries of finished products into inventories, less withdrawals;
 - (c) finished products for own final use.
- 3.52. For buildings and structures acquired in an incomplete state, a value is estimated based on costs to date, including a mark up for operating surplus or mixed income. This mark-up results when the value can be estimated on the basis of the prices of similar buildings and structure. The amounts of stage payments may be used to approximate the values of gross fixed capital formation undertaken by the purchaser at each stage (assuming no advance payments or arrears).

If the own-account construction of a structure is not yet completed within a single accounting period, the value of the output and the corresponding gross fixed capital formation should be estimated by applying the fraction of the total costs of production incurred during the relevant period to the estimated current basic price. If it is not possible to estimate the basic price of the finished structure, it must be valued by its total costs of production. If some or all of the labour is provided free, as may happen with communal construction by households, an estimate of what the cost of paid labour would have been included in the estimated total production costs using wage rates for similar kinds of labour in the vicinity or region.

- 3.53. The total output of an other non-market producer (a local KAU) is to be valued at the total costs of production, i.e. the sum of:
- (a) intermediate consumption (P.2);
 - (b) compensation of employees (D.1);
 - (c) consumption of fixed capital (K.1);
 - (d) other taxes on production (D.29) less other subsidies on production (D.39).

Other subsidies on production should be deducted. However, it should be realized that other subsidies on production to other non-market producers will often be absent in practice or only involve very small amounts (see paragraph 4.36).

By convention, interest payments are not included as costs of other non-market production (though they could be regarded as major costs of production in some cases, e.g. in the case of housing corporations). The costs of other non-market production also do not include an imputation for the rental value of the non-residential buildings owned and used in other non-market production.

- 3.54. The total output of an institutional unit is the sum of the total output of its constituent local KAUs. This applies also to institutional units that are other non-market producers.

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- 3.55. In the absence of secondary market output by other non-market producers (local KAUs), other non-market output is to be valued at the costs of production. In the case of secondary market output by other non-market producers, other non-market output is valued as a residual item i.e. as the difference between the total costs of production of other non-market producer minus their revenues from market output.
- 3.56. In principle, market output by other non-market producers is to be valued at basic prices. However, even though another non-market local KAU may have sales receipts, its total output covering both its market and its other non-market output (and possibly also output for own final use), is still valued by the production costs. The value of its market output is given by its receipts from sales of market products, the value of its other non-market output being obtained residually as the differences between on the one hand the values of its total output and, on the other hand, its market output and output for own final use. The value of its receipts from the sale of other non-market goods or services at prices that are not economically significant remain as part of the value of its other non-market output.
- 3.57. For some specific types of output, the times of recording and the valuation of output are subject to the following clarifications and exceptions, given in order of CPA sections.

3.58 A. Products of agriculture, hunting and forestry;

B. Fish

The output of agricultural products should be recorded as being produced continuously over the entire period of production (and not simply when the crops are harvested or animals slaughtered).

Growing crops, standing timber and stocks of fish or animals reared for purposes of food should be treated as inventories of work-in-progress during the process, and transformed into inventories of finished products when the process is completed.

3.59. D. Manufactured products;

F. Construction work

When a contract of sale is agreed in advance for the construction of a building or other structure extending over several accounting periods, the output produced each period is treated as being sold to the purchaser at the end of the period: i.e. in the purchaser's fixed capital formation rather than work-in-progress in the construction industry. In effect, the output produced is treated as being sold to the purchaser in stages as the latter takes legal possession of the output. When the contract calls for stage payments, the value of the output may often be approximated by the value of stage payments made each period. In the absence of a contract of sale, however, the incomplete output produced each period is recorded as work-in-progress.

3.60. G. Wholesale and retail trade services; repair services of motor vehicles, motorcycles and personal and household goods

The output of wholesale and retail services is measured by the trade margins realized on the goods they purchase for resale.

Definition:

A trade margin is the difference between the actual or imputed price realized on a good purchased for resale and the price that would have to be paid by the distributor to replace the good at the time it is sold or otherwise disposed of.

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By convention, holding gains and losses are not included in the trade margin. However, in practice, data sources may not allow for separating out all the holding gains and losses.

3.61. H. Hotel and restaurant services

The value of the output of the services of hotels, restaurants and cafes includes the value of the food, beverages, etc. consumed.

3.62. I. Transport, storage and communication services

The output of transport services is measured by the value of the amounts receivable for transporting goods or persons. Transportation for own use within the local KAU is considered ancillary activity and is not separately identified and recorded.

The output of storage services is measured as the value of an addition to work-in-progress, either additional output in the sense of transportation over time (e.g. storage on behalf of other local KAUs) or a physical change (e.g. in the case of the maturing of wine).

The output of travel agency services is measured as the value of service charges of agencies (fees or commission charges) and not by the full expenditures made by travellers to the travel agency. The latter may e.g. also include charges for transport by third parties.

The output of tour operator services is measured by the full expenditure made by travellers to the tour operator.

The distinction between travel agency services and tour operator services is that travel agency services amount only to intermediation on behalf of the traveller, while tour operator services create a new product, i.e. a tour is arranged of which the prices of its various components (e.g. travel, accommodation and entertainment) are not recognizable as such for the traveller.

3.63. J. Financial intermediation services (this includes insurance services and pension funding services)

The output of financial intermediation for which no explicit charges are made is measured, by convention, as the total property income received by the units providing the services minus their total interest payments, excluding the value of any income received from the investment of their own funds (as such income does not arise from financial intermediation), and, in the case of secondary insurance activities by a financial intermediary, excluding the income from investment of insurance technical reserves. Holding gains and losses should be ignored in measuring this output, because throughout the system holding gains are not recorded in the production account but in a separate account (other changes in assets account). This applies also to holding gains on foreign exchange and securities by professional dealers (though their holding gains may be generally positive and be regarded by the dealers themselves as part of their normal revenues). However, the trade margins on foreign exchange and securities (i.e. the common differences between the purchasers' prices for the dealer and the purchasers' price for the buyer) are to be included in output, like for wholesale and retail traders. Analogously, there may also be data problems in distinguishing such trade margins from the holding gains; these should be overcome as best as possible.

The output of services of financial intermediation provided by central banks should be measured in the same way as those provided by other financial intermediaries.

The activity of money lenders who lend only their own funds is not treated as the production of services.

Financial intermediaries may also provide various financial services and business services for which fees or commissions are explicitly charged. Cases in point can be e.g. currency exchange

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and advice about investments, the purchase of real estate or advice on taxation. The output of such services is valued on the basis of the fees or commissions charged.

Output of insurance services (service charge) is measured as:

	total actual premiums earned
<i>plus</i>	total premium supplements (equal to the income from the investment of the insurance technical reserves)
<i>minus</i>	the total claims due
<i>minus</i>	the change in the actuarial reserves and reserves for with-profits insurance.

Holding gains and losses are to be ignored in the measurement of the output of insurance services: they are not to be regarded as income from investment of the insurance technical reserves and they are not to be considered as changes in the actuarial reserves and reserves for with-profits insurance.

Notice that insurance technical reserves may be invested in secondary activities of the insurance company, e.g. the letting of dwellings or offices. In that case, the net operating surplus on these secondary activities is income from the investment of insurance technical reserves.

Similarly, the output of pension funding services is measured as:

	total actual pension contributions
<i>plus</i>	total supplementary contributions (equal to the income from investment of the pension funds technical reserves)
<i>minus</i>	the benefits due
<i>minus</i>	the change in the actuarial reserves.

3.64. K. Real estate, renting and business services

The output of services of owner-occupied dwellings should be valued at the estimated value of rental that a tenant would pay for the same accommodation, taking into account factors such as location, neighbourhood amenities, etc. as well as the size and quality of the dwelling itself. For garages located separately from dwellings, which are used by the owner for final consumption purposes in connection with using the dwelling, a similar imputation is to be made. No imputation is to be made for garages used by their private owner only for the purpose of parking near the workplace. The rental value of owner-occupied dwellings abroad, e.g. holiday homes, should not be recorded as part of domestic production, but imports of services and the corresponding net operating surplus as primary income received from the rest of the world. For owner-occupied dwellings owned by non-residents, analogous entries should be made. In case of time-sharing apartments, a proportion of the service charge should be recorded as such.

The output of real estate services of non-residential buildings is measured by the value of the rentals due.

The output of operating leasing services (renting out machinery or equipment, etc.) is measured by the value of rental which the lessee pays to the lessor. It is clearly distinguished from financial

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leasing which is a method of financing the acquisition of fixed assets, i.e. by making a loan from the lessor to the lessee. In the case of financial leasing rentals consist (mainly) of repayments and interest payments, and the value of services is very small compared with the total rentals paid (see Annex II 'Leasing and hire purchase of durable goods').

When possible, a separate local KAU should be distinguished for research and development activities (R&D). When this is not possible, all R&D of a significant size (compared to the principal activity) should be recorded as a secondary activity of the local KAU.

The output of R&D services is measured as follows:

- (a) R&D by specialised commercial research laboratories or institutes is valued at the revenues from sales, contracts, commissions, fees, etc. in the usual way;
- (b) the output of R&D for use within the same enterprise should, in principle, be valued on the basis of the estimated basic prices that would be paid if the research were sub-contracted commercially. However, in practice, it is likely to have to be valued on the basis of the total production costs;
- (c) R&D by government units, universities, non-profit research institutes, etc. is usually other non-market production and is thus valued on the basis of the costs of production. Revenues from the sale of R&D by other non-market producers of R&D are to be recorded as revenues from secondary market output.

Expenditure on R&D should be distinguished from that on education and training. Expenditure on R&D does not include the costs of developing software as a principal or secondary activity. However, their accounting treatment is nearly the same; the only difference is that software is regarded as a produced intangible asset and is not patented.

3.65. L. Public administration and defence services, compulsory social security services

Public administration, defence services and compulsory social security services are always provided as other non-market services and should thus be valued accordingly.

3.66. M. Education services;

N. Health and social services

For education services and health services it may often be necessary to draw precise borderlines between market and other non-market producers and between their market and other non-market output. For example, for some types of education and medical treatment nominal fees can be levied by government institutions (or by other institutions due to specific subsidies), but for other education and special medical treatments they may charge commercial tariffs. Another common case in point is that the same type of service (e.g. higher education) is provided by, on the one hand, the government (or its intermediation) and, on the other hand, commercial institutes. Then, often large differences exist between the prices charged and the quality of the services.

Education and health services exclude R&D activities; health services exclude education in health care, e.g. by academic hospitals.

3.67. O. Other community, social and personal services

The production of books, recordings, films, software, tapes, disks, etc. a two-stage process and measured accordingly:

1. the output from the production of originals (an intangible fixed asset) is measured by the price paid if sold, or, if not sold, by the basic price paid for similar originals, its

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production costs or the discounted value of the future receipts expected from using it in production;

2. the owner of this asset may use it directly or to produce copies in subsequent periods. If the owner has licensed other producers to make use of the original in production, the fees, commissions, royalties, etc. he receives from the licenses are his output of his services. However, the sale of the intangible asset is negative fixed capital formation.

3.68. P. Private households with employed persons

The output of household services produced by employing paid staff is by convention valued by the compensation of employees paid; this includes any compensation in kind such as food or accommodation.

INTERMEDIATE CONSUMPTION (P.2)

3.69. <i>Definition:</i>	Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production, excluding fixed assets whose consumption is recorded as consumption of fixed capital. The goods and services may be either transformed or used up by the production process.
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3.70. Intermediate consumption includes the following borderline cases:

- (a) the value of all the goods or services used as inputs into ancillary activities. Common examples are purchasing, sales, marketing, accounting, data processing, transportation, storage, maintenance, security, etc. These goods and services are not distinguished from those consumed by the principal (or secondary) activities of a local KAU;
- (b) the value of goods and services which are received from another local KAU of the same institutional unit (only if they comply to the general definition in paragraph 3.69);
- (c) the costs of using rented fixed assets, e.g. the operational leasing of machines or cars;
- (d) the subscriptions, contributions or dues paid to non-profit business associations;
- (e) items not treated as gross capital formation, like:
 1. small tools which are inexpensive and used for relatively simple operations, such as saws, hammers, screwdrivers and other hand tools; small devices, such as pocket calculators. By convention, in the ESA, all expenditure on such durables which does not exceed 500 ECU (at 1995 prices) per item (or, when bought in quantities, for the total amount bought), should be recorded as intermediate consumption;
 2. the ordinary, regular maintenance and repair of fixed assets used in production;
 3. military weapons of destruction and the equipment needed to deliver them (but not light weapons or armoured vehicles acquired by police and security forces, which are treated as gross fixed capital formation);

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- 4. services of research and development, staff training, market research and similar activities, purchased from an outside agency or provided by a separate local KAU of the same institutional unit;
 - (f) payments for the use of intangible non-produced assets like patented assets, trademarks, etc. (excluding payments for the purchase of such property rights: these are treated as acquisitions of intangible non-produced assets);
 - (g) expenditure by employees, reimbursed by the employer, on items necessary for the employers' production, like contractual obligations to purchase on own-account tools or safety-wear;
 - (h) expenditure by employers which is to their own benefit as well as to that of their employees, because it is necessary for the employers' production. Cases in point are:
 - 1. reimbursement of employees for travelling, separation, removal and entertainment expenses incurred in the course of their duties;
 - 2. providing amenities at the place of work;
 (a more extensive list is presented in the paragraphs on compensation of employees (D.1));
 - (i) non-life insurance service charges paid by local KAUs (see also Annex III 'Insurance'): in order to record only the service charge as intermediate consumption the premiums paid should be discounted for, e.g. claims paid out and the net change in actuarial reserves. The latter can be allocated to local KAUs as a proportion of the premiums paid;
 - (j) only for the total economy: all financial intermediation services indirectly measured (Fisim) provided by resident producers.
- 3.71. Intermediate consumption excludes:
- (a) items treated as gross capital formation, like:
 - 1. valuables;
 - 2. mineral exploration;
 - 3. major improvements which go considerably beyond what is required simply to keep the fixed assets in good working order, e.g. renovation, reconstruction or enlargement;
 - 4. software purchased or produced on own account;
 - (b) expenditure by employers treated as wages and salaries in kind (see paragraph 4.05);
 - (c) use by market or own-account producer units of collective services provided by government units (treated as collective consumption expenditure by government);
 - (d) goods or services produced and consumed within the same accounting period and within the same local KAU (they are also not recorded as output);
 - (e) payments for government licences and fees that are treated as taxes on production (see paragraphs 4.79 to 4.80).

TIME OF RECORDING AND VALUATION OF INTERMEDIATE CONSUMPTION

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- 3.72. Products used for intermediate consumption should be recorded and valued at the time they enter the process of production. They are to be valued at the purchasers' prices for similar goods or services at that time.
- 3.73. In practice, producer units do not usually record the actual use of goods in production directly. They record the purchases intended to be used as inputs and the changes in the amounts of such goods held in inventory. Intermediate consumption has therefore to be estimated by subtracting from the purchases the changes in inventories of inputs (see paragraphs 3.120 to 3.124 for the correct valuation of the latter).

FINAL CONSUMPTION (P.3, P.4)

- 3.74. Two concepts of final consumption are used:

- (a) final consumption expenditure (P.3);
- (b) actual final consumption (P.4)

Final consumption expenditure is a concept that refers to a sector's expenditure on consumption goods and services. In contrast, actual final consumption refers to its acquisition of consumption goods and services. The difference between these concepts lies in the treatment of certain goods and services financed by the government or NPISHs but supplied to households as social transfers in kind.

FINAL CONSUMPTION EXPENDITURE (P.3)

- 3.75. *Definition:*
- | | |
|--|---|
| | Final consumption expenditure consists of expenditure incurred by resident institutional units on goods or services that are used for the direct satisfaction of individual needs or wants or the collective needs of members of the community. Final consumption expenditure may take place on the domestic territory or abroad. |
|--|---|

- 3.76. Household final consumption expenditure includes the following borderline cases:

- (a) services of owner-occupied dwellings;
- (b) income in kind, like:
 - 1. goods and services received as income in kind by employees;
 - 2. goods or services produced as outputs of unincorporated enterprises owned by households that are retained for consumption by members of the household. Cases in point are food and other agricultural goods, housing services by owner-occupiers and household services produced by employing paid staff (servants, cooks, gardeners, chauffeurs, etc.);
- (c) items not treated as intermediate consumption, like:
 - 1. materials for small repairs to and interior decoration of dwellings of a kind typically carried out by tenants as well as owners;
 - 2. materials for repairs and maintenance to consumer durables, including vehicles;

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- (d) items not treated as capital formation, in particular consumer durables, that continue to perform their function in several accounting periods; this includes the transfer of ownership of some durables from an enterprise to a household (see transactions in existing goods, paragraph 3.148);
 - (e) financial services directly charged;
 - (f) insurance services by the amount of the implicit service charge (see paragraph 3.63);
 - (g) pension funding services by the amount of the implicit service charge (see paragraph 3.63);
 - (h) payments by households for licences, permits, etc. which are regarded as purchases of services (see paragraphs 4.79 and 4.80);
 - (i) the purchase of output at not economically significant prices, e.g. entrance fees for a museum (see paragraph 3.45).
- 3.77. Household final consumption expenditure excludes:
- (a) social transfers in kind, like expenditures initially incurred by households but subsequently reimbursed by social security, e.g. some medical expenses;
 - (b) items treated as intermediate consumption or gross capital formation, like:
 1. expenditures by households owning unincorporated enterprises when incurred for business purposes — e.g. on durable goods such as vehicles, furniture or electrical equipment (gross fixed capital formation), and also on non-durables such as fuel (intermediate consumption);
 2. expenditure that an owner-occupier incurs on the decoration, maintenance and repair of the dwelling not typically carried out by tenants (treated as intermediate consumption in producing housing services);
 3. the purchase of dwellings (treated as gross fixed capital formation);
 4. expenditure on valuables (treated as gross capital formation);
 - (c) items treated as acquisitions of a non-produced assets, in particular the purchase of land;
 - (d) all those payments by households which are to be regarded as taxes, such as licences to own vehicles, boats or aircraft and also licences to hunt, shoot or fish (see paragraphs 4.79 to 4.80);
 - (e) subscriptions, contributions and dues paid by households to NPISHs, like trade unions, professional societies, consumers' associations, churches and social, cultural, recreational and sports clubs;
 - (f) voluntary transfers in cash or in kind by households to charities, relief and aid organizations.
- 3.78. Final consumption expenditure of NPISHs includes two separate categories:
- (a) the value of the goods and services produced by NPISHs other than own-account capital formation and other than expenditure made by households and other units;

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(b) expenditures by NPISHs on goods or services produced by market producers that are supplied — without any transformation — to households for their consumption as social transfers in kind.

[^{F4}3.79. Final consumption expenditure (P.3) by government includes two categories of expenditures, similar to those by NPISHs:

(a) the value of the goods and services produced by general government itself (P.1) other than own-account capital formation (corresponding to P.12) and sales. Market output (P.11) and payments for the other non-market output (P.131);

(b) purchases by general government of goods and services produced by market producers that are supplied to households, without any transformation, as social transfers in kind (D.6311 + D.63121 + D.63131). This implies that general government just pays for goods and services that the sellers provide to households.]

Textual Amendments

F4 Substituted by [Commission Regulation \(EC\) No 1500/2000 of 10 July 2000 implementing Council Regulation \(EC\) No 2223/96 with respect to general government expenditure and revenue.](#)

3.80. Corporations do not make final consumption expenditures. Their purchases of the same kind of goods or services as used by households for final consumption are either used for intermediate consumption or provided to employees as compensation of employees in kind, i.e. imputed household final consumption expenditure. Even where, for example through advertising, they finance individual consumption, this expenditure is treated as intermediate.

ACTUAL FINAL CONSUMPTION (P.4)

3.81.	<i>Definition:</i>	Actual final consumption consists of the goods or services that are acquired by resident institutional units for the direct satisfaction of human needs, whether individual or collective.
3.82.	<i>Definition:</i>	Goods and services for individual consumption ('individual goods and services') are acquired by a household and used to satisfy the needs and wants of members of that household. Individual goods and services have the following characteristics: (a) it must be possible to observe and record the acquisition of the good or services by an individual household or member thereof and also the time at which it took place; (b) the household must have agreed to the provision of the good or service and take whatever action is necessary to

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		(c) make it possible, for example by attending a school or clinic; the good or service must be such that its acquisition by one household or person, or possibly by a small, restricted group of persons, precludes its acquisition by other households or persons.
3.83.	<i>Definition:</i>	<p>Services for collective consumption ('collective services') are provided simultaneously to all members of the community or all members of a particular section of the community, such as all households living in a particular region. Collective services have the following characteristics:</p> <p>(a) they can be delivered simultaneously to every member of the community or to particular sections of the community, such as those in a particular region or locality;</p> <p>(b) the use of such services is usually passive and does not require the explicit agreement or active participation of all the individuals concerned;</p> <p>(c) the provision of a collective service to one individual does not reduce the amount available to others in the same community or section of the community. There is no rivalry in acquisition.</p>

3.84. All household final consumption expenditure is individual. By convention, all goods and services provided by NPISHs are treated as individual.

[^{F5}3.85. For the goods and services provided by government units, the borderline between individual and collective goods and services is drawn on the basis of the Classification of the Functions of Government (COFOG).

By convention, all government final consumption expenditure under each of the following headings should be treated as expenditures on individual consumption:

- (a) 7.1 Medical products, appliances and equipment
- 7.2 Outpatient services
- 7.3 Hospital services
- 7.4 Public health services

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- (b) 8.1 Recreational and sporting services
- 8.2 Cultural services
- (c) 9.1 Pre-primary and primary education
- 9.2 Secondary education
- 9.3 Post-secondary non-tertiary education
- 9.4 Tertiary education
- 9.5 Education not definable by level
- 9.6 Subsidiary services to education
- (d) 10.1 Sickness and disability
- 10.2 Old age
- 10.3 Survivors
- 10.4 Family and children
- 10.5 Unemployment
- 10.6 Housing
- 10.7 Social exclusion n.e.c.

Alternatively individual consumption expenditure of general government corresponds to division 14 of the COICOP, which includes the following groups:

- 14.1 Housing (equivalent to COFOG group 10.6)
- 14.2 Health (equivalent to COFOG groups 7.1 to 7.4)
- 14.3 Recreation and culture (equivalent to COFOG groups 8.1 and 8.2)
- 14.4 Education (equivalent to COFOG groups 9.1 to 9.6)
- 14.5 Social protection (equivalent to COFOG groups 10.1 to 10.5 and group 10.7).

The collective consumption expenditure is the remainder of the government final consumption expenditure.

According to COFOG, it consists in particular of:

- (a) General public services (division 1)
- (b) Defence (division 2)
- (c) Public order and safety (division 3)
- (d) Economic affairs (division 4)
- (e) Environmental protection (division 5)
- (f) Housing and community amenities (division 6)
- (g) General administration, regulation, dissemination of general information and statistics (all divisions)

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(h) Research and development (all divisions).]

Textual Amendments

F5 Substituted by [Commission Regulation \(EC\) No 113/2002 of 23 January 2002 amending Council Regulation \(EC\) No 2223/96 with regard to revised classifications of expenditure according to purpose \(Text with EEA relevance\)](#).

3.86. The relationships between the various concepts employed can be shown in a table:

	Sector making expenditure			Total acquisitions
	Government	NPISHs	Households	
Individual consumption	X (= social transfers in kind)	X (= social transfers in kind)	X	Households' actual individual final consumption
Collective consumption	X	0	0	Government's actual collective final consumption
Total	Government's final consumption expenditure	NPISHs final consumption expenditure	Households final consumption expenditure	Actual final consumption = total final consumption expenditure

3.87. Final consumption expenditure of NPISHs is by convention all individual. As a consequence, total actual final consumption is equal to the sum of households actual final consumption and actual final consumption of general government.

3.88. By convention, there are no social transfers in kind with the rest of the world (though there are such transfers in monetary terms). As a consequence, total actual final consumption is equal to total final consumption expenditure.

TIME OF RECORDING AND VALUATION OF FINAL CONSUMPTION EXPENDITURE

3.89. As explained in chapter 1, goods and services should in general be recorded when the payables are created, that is, when the purchaser incurs a liability to the seller. This implies that expenditure on a good is to be recorded at the time its ownership changes; expenditure on a service is recorded when the delivery of the service is completed.

3.90. Expenditure on a good acquired under a hire purchase or similar credit agreement (and also under a financial lease) should be recorded at the time the good is delivered even if there is no legal change of ownership at this point.

3.91. Own-account consumption should be recorded when the output retained for own final consumption is produced.

3.92. The final consumption expenditure of households is recorded at purchasers' prices. This is the price the purchaser actually pays for the products at the time of the purchase. A more detailed definition can be found in paragraph 3.06.

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- 3.93. Goods and services supplied as compensation of employees in kind are valued at basic prices when produced by the employer and at the purchasers' prices of the employer when bought in by the employer.
- 3.94. Retained goods or services for own consumption are valued at basic prices.
- 3.95. Final consumption expenditures by general government or NPISHs on products produced by themselves are recorded at the time they are produced, which is also the time of delivery of such services by government or NPISHs. For the final consumption expenditure on goods and services supplied via market producers, the time of delivery is the time of recording.
- [^F3.96. Final consumption expenditure (P.3) by general government or NPISHs are equal to the sum of their output (P.1), plus the expenditure on products supplied to households via market producers, part of social transfers in kind (D.6311 + D.63121 + D.63131), minus the payments by other units, market output (P.11) and payments for the other non-market output (P.131), minus own-account capital formation (corresponding to P.12).]

TIME OF RECORDING AND VALUATION OF ACTUAL FINAL CONSUMPTION

- 3.97. Goods and services are acquired by institutional units when they become the new owners of the goods or when the delivery of goods or services to them is completed.
- 3.98. Acquisitions (actual final consumption) are valued at the purchasers' prices for the units that incur the expenditures.

Transfers in kind other than social transfers in kind from government and NPISHs are treated as if they were transfers in cash. Accordingly, the values of the goods or services are actually recorded as expenditures by the institutional units or sectors that acquire them.

- 3.99. The values of the two aggregates of final consumption expenditure and actual final consumption are the same. The goods and services acquired by resident households through social transfers in kind, thus, are valued at the same prices at which they are valued in the expenditure aggregates.

GROSS CAPITAL FORMATION (P.5)

- 3.100. Gross capital formation consists of:
- gross fixed capital formation (P.51);
 - changes in inventories (P.52);
 - acquisitions less disposals of valuables (P.53).
- 3.101. Gross capital formation means gross of consumption of fixed capital. Net capital formation is arrived at by deducting consumption of fixed capital from gross capital formation.

GROSS FIXED CAPITAL FORMATION (P.51)

- | | |
|---------------------------|---|
| 3.102. <i>Definition:</i> | Gross fixed capital formation (P.51) consists of resident producers' acquisitions, less disposals, of fixed assets during a given period plus certain additions to the value of non-produced assets realized by the productive activity of producer or institutional units. Fixed |
|---------------------------|---|

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assets are tangible or intangible assets produced as outputs from processes of production that are themselves used repeatedly, or continuously, in processes of production for more than one year.
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- 3.103. Gross fixed capital formation consists of both positive and negative values:
- (a) positive values:
1. new or existing fixed assets purchased;
 2. fixed assets produced and retained for producers' own use (including own account production of fixed assets not yet completed or fully mature);
 3. new or existing fixed assets acquired through barter;
 4. new or existing fixed assets received as capital transfers in kind;
 5. new or existing fixed assets acquired by the user under a financial lease;
 6. major improvements to fixed assets and existing historic monuments;
 7. natural growth of those natural assets that yield repeat products;
- (b) negative values, i.e. disposals of fixed assets recorded as negative acquisitions:
1. existing fixed assets sold;
 2. existing fixed assets surrendered in barter;
 3. existing fixed assets surrendered as capital transfers in kind.
- 3.104. The disposals components of fixed assets exclude:
- (a) consumption of fixed capital (which includes anticipated normal accidental damage);
- (b) exceptional losses, such as those due to drought or other natural disasters (recorded as another change in the volume of assets).
- 3.105. The following types of gross fixed capital formation may be distinguished:
- (a) acquisitions, less disposals, of tangible fixed assets:
1. dwellings;
 2. other buildings and structures;
 3. machinery and equipment;
 4. and cultivated assets, e.g. trees and livestock;
- (b) acquisitions, less disposals, of intangible fixed assets:
1. mineral exploration;
 2. computer software;
 3. entertainment, literary or artistic originals;
 4. other intangible fixed assets;

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- (c) major improvements to tangible non-produced assets, in particular those pertaining to land (though the acquisition of non-produced assets is not included);
- (d) costs associated with the transfers of ownership of non-produced assets, like land and patented assets (though the acquisition of these assets themselves is not included).

3.106. Major improvements to land include:

- (a) reclamation of land from sea by the construction of dikes, sea walls or dams for this purpose;
- (b) clearance of forests, rocks, etc. to enable land to be used in production for the first time;
- (c) draining of marshes or the irrigation of deserts by the construction of dikes, ditches and irrigation channels;
- (d) prevention of flooding or erosion by the sea or rivers by the construction of breakwaters, sea walls or flood barriers.

These activities may lead to the creation of substantial new structures such as sea walls, flood barriers and dams but these are not themselves used directly to produce other goods and services in the way that most structures are. Their construction is undertaken to obtain more or better land, and it is the land, a non-produced asset, that is needed for production. For example, a dam built to produce electricity serves quite a different purpose from a dam built to keep out the sea. Only building the latter type of dam should be classified as an improvement to land.

3.107. Gross fixed capital formation includes borderline cases like:

- (a) acquisitions of houseboats, barges, mobile homes and caravans used as residences of households and any associated structures such as garages;
- (b) structures and equipment used by the military (similar to those utilised by civilian producers) such as airfields, docks, roads and hospitals;
- (c) light weapons and armoured vehicles used by non-military units;
- (d) changes in livestock used in production year after year, such as breeding stock, dairy cattle, sheep reared for wool and draught animals;
- (e) changes in trees that are cultivated year after year, such as fruit trees, vines, rubber trees, palm trees, etc.;
- (f) improvements to existing fixed assets that go well beyond the requirements of ordinary maintenance and repairs;
- (g) the acquisition of fixed assets by financial leasing.

3.108. Gross fixed capital formation excludes:

- (a) transactions included in intermediate consumption, like:
 - 1. purchase of small tools for production purposes (see paragraph 3.70.e);
 - 2. ordinary maintenance and repairs;
 - 3. purchase of military weapons and their supporting systems;
 - 4. the purchase of fixed assets to be used under an operational leasing contract (see also Annex II 'Leasing and hire purchase of durable goods');

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- (b) transactions recorded as changes in inventories:
 - 1. animals raised for slaughter, including poultry;
 - 2. trees grown for timber (work-in-progress).
 - (c) machinery and equipment acquired by households for purposes of final consumption (final consumption expenditure);
 - (d) holding gains and losses on fixed assets (other changes in assets);
 - (e) catastrophic losses on fixed assets (other changes in assets), e.g. destruction of cultivated assets and livestock by outbreaks of disease (and not normally covered by insurance) or damage due to abnormal flooding, wind damage or forest fires (see chapter 6).
- 3.109. Gross fixed capital formation in the form of improvements to existing fixed assets is to be classified with acquisitions of new fixed assets of the same kind.
- 3.110. Intangible fixed assets typically consist of new information, specialized knowledge, etc. and comprise:
- (a) mineral exploration comprising costs of actual test drilling, aerial or other surveys, transportation costs, etc.;
 - (b) computer software and large data bases to be used in production for more than one year;
 - (c) literary and artistic originals of manuscripts, renderings, models, films, sound recordings, etc.
- 3.111. For both fixed assets and non-produced non-financial assets, the costs of ownership transfer incurred by their new owner consist of:
- (a) charges incurred in taking delivery of the asset (new or existing asset) at the required location and time, such as transport charges, installation charges, erection charges, etc.;
 - (b) professional charges or commissions incurred, such as fees paid to surveyors, engineers, lawyers, valuers, etc., and commissions paid to estate agents, auctioneers, etc.;
 - (c) taxes payable by the new owner on the transfer of ownership of the asset.

All these costs are to be recorded as gross fixed capital formation by the new owner. Note that the taxes are to be treated as taxes on the services of intermediaries and not as taxes on the asset bought.

TIME OF RECORDING AND VALUATION OF GROSS FIXED CAPITAL FORMATION

- 3.112. Gross fixed capital formation is recorded when the ownership of the fixed assets is transferred to the institutional unit that intends to use them in production.

Modification to this general rule is needed in case of:

- (a) financial leasing (a change of ownership is then imputed);
- (b) own-account fixed capital formation.

Assets acquired under a financial lease are recorded as if the user becomes the owner when he takes possession of the goods. Own account capital formation is recorded when produced.

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- 3.113. Gross fixed capital formation is valued at purchasers' prices including installation charges and other costs of ownership transfer. When produced on own-account it is valued at the basic prices of similar fixed assets (which implies a mark-up for net operating surplus or mixed income) or at the costs of production if such prices are not available.
- 3.114. Acquisitions of intangible fixed assets are valued in different ways:
- (a) for mineral exploration: by the costs of actual test drillings and borings, and the costs incurred to make it possible to carry out tests, such as aerial or other surveys;
 - (b) for computer software: by purchasers' prices when purchased on the market, or at its estimated basic price (or at its costs of production if not feasible) when developed in-house;
 - (c) for entertainment, literary or artistic originals: valued at the price paid by the purchaser when it is sold, or if not sold, at the basic price paid for similar originals, its production costs or discounted value of the future receipts expected from using it in production.
- 3.115. Disposals of existing fixed assets by sale are valued at the (basic) prices after deducting any costs of ownership transfer incurred by the seller.
- 3.116. Costs of ownership transfer can apply to both produced assets, including fixed assets, and non-produced assets, such as land.

These costs are integrated in the purchasers' prices in the case of produced assets. They must be separated from the purchases and sales themselves in the case of land and other non-produced assets and recorded under a separate heading in the classification of gross fixed capital formation.

CHANGES IN INVENTORIES (P.52)

- 3.117. *Definition:*
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| | Changes in inventories are measured by the value of the entries into inventories less the value of withdrawals and the value of any recurrent losses of goods held in inventories. |
|--|--|
- 3.118. Due to physical deterioration, or accidental damage or pilfering, recurrent losses may occur to all kinds of goods in inventories, such as:
- (a) losses of materials and supplies;
 - (b) losses in the case of work-in-progress;
 - (c) losses of finished goods;
 - (d) losses of goods for resale (e.g. shoplifting).
- 3.119. Inventories consists of the following categories:
- (a) materials and supplies:
materials and supplies consist of all commodities held in stock with the intention of using them as intermediate inputs in production; this includes commodities held in stock by the government. Items such as gold, diamonds, etc. are included when intended for industrial use or other production;

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(b) work-in-progress:

work-in-progress consists of output produced that is not yet finished. It is recorded in the inventories of its producer. It can take a variety of different forms, e.g.:

1. growing crops;
2. maturing trees and livestock;
3. uncompleted structures (except those produced under a contract of sale agreed in advance or on own-account which are treated as fixed capital formation);
4. uncompleted other fixed assets, e.g. ships and oil rigs;
5. partially completed research for a legal or consultant's dossier;
6. partially completed film productions;
7. partially completed computer programs.

Work-in-progress must be recorded for any production process that is not finished at the end of the given period. In particular, this is significant in quarterly accounts, e.g. agricultural crops not being completed within a quarter of a year.

Reductions in work-in-progress take place when the production process is completed. At that point, all work-in-progress is transformed into a finished product;

(c) finished goods:

finished goods as part of inventories consist of outputs that their producer does not intend to process further before supplying them (also when supplied for intermediate input into other processes of production);

(d) goods for resale:

goods for resale are goods acquired for the purpose of reselling them in their present state.

TIME OF RECORDING AND VALUATION OF CHANGES IN INVENTORIES

3.120. The time of recording and valuation of changes in inventories should be consistent with that of other transactions in products. This applies in particular to intermediate consumption (e.g. for materials and supplies), output (e.g. work-in-progress and output from storage of agricultural products) and gross fixed capital formation (e.g. work-in-progress). Consistency is also required for processing-to-order flows. For example, if goods are processed abroad and it involves a substantial physical change in the goods, the goods are to be included in exports (and, later, in imports) (see paragraph 3.135). This export is reflected by a concomitant reduction in the inventories and the related import is later also recorded as an increase in the inventories (when not immediately used or sold).

3.121. Changes in inventories should be valued at the time of entering the inventories (for goods entering) or at the time of withdrawal (for goods withdrawn).

3.122. The prices used should be consistent with those of other flows, implying more specifically that:

- (a) output of finished goods transferred into the producer's inventories are valued as if they were sold at that time, at current basic prices;

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- (b) additions to work-in-progress is valued in proportion to the estimated current basic price of the finished product;
 - (c) reductions in work-in-progress as withdrawn from inventories when production is finished are valued at current basic prices of the unfinished product;
 - (d) goods transferred out of inventories for sale are valued at basic prices;
 - (e) goods for resale entering the inventories of wholesalers and retailers, etc. are valued at their actual or estimated purchasers' prices of the trader;
 - (f) goods for resale withdrawn from inventories are valued at the purchasers' prices at which they can be replaced at the time they are withdrawn (not when acquired).
- 3.123. Losses as a result of physical deterioration, insurable accidental damage or pilfering are recorded and valued as follows:
- (a) for materials and supplies: as materials and supplies actually withdrawn to be used up in production (intermediate consumption);
 - (b) for work-in-progress: as deduction from the additions accruing to production carried out in the same period;
 - (c) for finished goods and goods for resale: treated as withdrawals at the current price of undeteriorated goods.
- 3.124. The previous paragraphs have described the conceptually correct valuation of each individual transaction in and out of inventories necessary to be consistent with the valuation of output, intermediate consumption and final uses. In practice, this will often prove too difficult to apply and approximation methods should be used:
- (a) when changes in the volume of inventories are fairly regular, a practical method which comes close to the theoretical valuation principle is to multiply the volume change of the inventories by the average prices for the period (purchasers' prices for inventories held by users or by wholesalers or retailers, basic prices for inventories held by their producers);
 - (b) in case the prices of the goods involved remain fairly constant, even large fluctuations in the volume of inventories may not invalidate a simple approximation, i.e. the multiplication of the volume change with the average price;
 - (c) if both the volume and the prices of the inventories change substantially within the accounting period, more sophisticated approximation methods are required. For example, quarterly valuation of the changes in inventories or the use of a priori information about the distribution of the fluctuation within the accounting period (fluctuations may be largest at the end of the calendar year, during harvest time, etc.);
 - (d) if only information about the values at the beginning and end of the period are available (e.g. in case of wholesale or retail trade in which inventories often exist of many different products), the changes in volume between the beginning and end of the period should also be estimated. This can be done by estimating (assuming) turn-over rates by type of product.

Note that seasonal changes in prices may partly reflect a difference in quality, e.g. clearance prices or off-season prices for fruit and vegetables. These changes in quality should be treated as changes in the volume.

ACQUISITIONS LESS DISPOSALS OF VALUABLES (P.53)

Changes to legislation: There are outstanding changes not yet made to Council Regulation (EC) No 2223/96. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

3.125.	<i>Definition:</i>	Valuables are non-financial goods that are not used primarily for production or consumption, do not deteriorate (physically) over time under normal conditions and that are acquired and held primarily as stores of value.
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3.126. Valuables encompass the following types of goods:

- (a) precious stones and metals, such as diamonds, non-monetary gold, platinum, silver, etc.;
- (b) antiques and other art objects, such as paintings, sculptures, etc.;
- (c) other valuables, such as jewellery fashioned out of precious stones and metals and collectors items.

These types of goods are to be recorded as acquisition or disposal of valuables in case of:

- (a) the acquisition or disposal of non-monetary gold, silver, etc. by (central) banks and other financial intermediaries;
- (b) the acquisition or disposal of these goods by enterprises whose principal or secondary activity does not involve the production or trade in such types of goods; as a consequence, this acquisition or disposal is not included in the intermediate consumption or fixed capital formation of these enterprises;
- (c) the acquisition or disposal of such goods by households; as a consequence, such acquisitions are not included in final consumption expenditure by households.

In the ESA, by convention also the following cases are recorded as acquisition or disposal of valuables:

- (a) the acquisition or disposal of these goods by jewellers and art dealers (following the general definition of valuables the acquisition of these goods by jewellers and art dealers should be recorded as changes in inventories);
- (b) the acquisition or disposal of these goods by museums (following the general definition of valuables the acquisition by a museum of these goods should be recorded as fixed capital formation).

This convention avoids frequent reclassification between the three main types of capital formation, i.e. between acquisition less disposal of valuables, fixed capital formation and changes in inventories, e.g. in the case of transactions of such goods between households and art dealers.

3.127. The production of valuables is valued at basic prices (see paragraph 3.67 on production of originals). All other acquisitions of valuables are valued at the purchasers' prices paid for them, including any agents' fees or commissions. They also include trade margins when bought from dealers. Disposals of valuables are valued at the prices received by sellers, after deducting any fees or commissions paid to agents or other intermediaries. Disregarding the production of valuables, in aggregate, acquisitions less disposals between resident sectors cancel out, leaving only agents or dealers margins.

IMPORTS AND EXPORTS OF GOODS AND SERVICES (P.6 and P.7)

Changes to legislation: There are outstanding changes not yet made to Council Regulation (EC) No 2223/96. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

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| 3.128. | <i>Definition:</i> | Exports of goods and services consist of transactions in goods and services (sales, barter, gifts or grants) from residents to non-residents. |
| 3.129. | <i>Definition:</i> | Imports of goods and services consist of transactions in goods and services (purchases, barter, gifts or grants) from non-residents to residents. |
- 3.130. Imports and exports of goods and services do not include:
- (a) establishment trade, i.e.:
 - 1. deliveries to non-residents by non-resident affiliates of resident enterprises, e.g. sales abroad by foreign affiliates of a multinational owned/controlled by residents;
 - 2. deliveries to residents by resident affiliates of non-resident enterprises, e.g. sales by domestic affiliates of a foreign multinational;
 - (b) primary income flows to or from the rest of the world, such as compensation of employees, interest and revenues from direct investment. The revenues from direct investment may include an indistinguishable part for the provision of various services, e.g. training of employees, management services and the use of patents and trade marks;
 - (c) the sale or purchase of financial assets or non-produced assets, like land and patents.
- 3.131. Imports and exports of goods and services should be distinguished into:
- (a) Intra-European Union deliveries;
 - (b) Imports and exports outside the European Union.

For convenience they will both be referred to as imports and exports here.
IMPORTS AND EXPORTS OF GOODS (P.61 and P.71)

- 3.132. Imports and exports of goods occur when there are changes of ownership of goods between residents and non-residents (whether or not there are also corresponding physical movements of goods across frontiers).
- 3.133. However, in four instances the change of ownership principle is modified in recording imports and exports of goods:
- (a) financial leasing: a change of ownership from lessor to lessee is to be imputed for goods under a financial lease; it is to be recorded when the lessee takes possession of the good (see Annex II ‘Leasing and hire purchase of durable goods’);
 - (b) deliveries between affiliated enterprises (branch or subsidiary, or foreign affiliate): a change of ownership is to be imputed whenever goods are delivered between affiliated enterprises;
 - (c) goods for significant processing to order or repair are recorded both in imports and exports although no change of ownership occurs;

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- (d) merchanting: no import or export is recorded when merchants or commodity dealers buy from non-residents and then sell again to non-residents within the same accounting period. A similar treatment is to be employed for merchanting by non-residents.
- 3.134. In the following cases exports of goods occur without the goods ever crossing the country's frontier.
- (a) goods produced by resident units operating in international waters are sold directly to non-residents in foreign countries (oil, natural gas, fishery products, maritime salvage, etc.);
- (b) transportation equipment or other movable equipment not tied to a fixed location need not cross the frontier of the exporting country as a result of being sold by a resident to a non-resident.
- (c) goods are lost or destroyed after changing ownership before they have crossed the frontier of the exporting country.

Analogous cases pertain to imports of goods.

- 3.135. Imports and exports of goods include transactions between residents and non-residents in:
- (a) non-monetary gold, i.e. gold not used for the purposes of monetary policy;
- (b) silver bullion, diamonds and other precious metals and stones;
- (c) paper money and coins not in circulation and unissued securities (valued as goods, not at face value);
- (d) electricity, gas and water;
- (e) livestock driven across frontiers;
- (f) parcel post;
- (g) government exports including goods financed by grants and loans;
- (h) goods transferred to or from the ownership of a buffer stock organization;
- (i) goods delivered by a resident enterprise to its non-resident affiliates;
- (j) goods received by a resident enterprise from its non-resident affiliates;
- (k) smuggled goods;
- (l) other unrecorded shipments, such as gifts and those of less than a stated minimum value;
- (m) goods processed to order abroad when a substantial physical change in the goods is involved. Similar goods processed on the domestic territory on behalf of non-residents;
- (n) investment goods repaired abroad when a substantial amount of reconstruction work or manufacturing is involved. Similar goods repaired on the domestic territory on behalf of non-residents.
- 3.136. Imports and exports of goods exclude the following goods which nevertheless may cross the national frontier:

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- (a) goods in transit through a country;
 - (b) goods shipped to or from a country's own embassies, military bases or other enclaves inside the national frontiers of another country;
 - (c) transportation equipment and other movable kinds of equipment which leave a country temporarily, without any change of ownership (e.g. construction equipment for installation or construction purposes abroad);
 - (d) equipment and other goods which are sent abroad for minor processing, maintenance, servicing or repair;
 - (e) other goods which leave a country temporarily, being generally returned within a year in their original State and without change of ownership (e.g. goods sent abroad for exhibition and entertainment purposes, goods under an operating lease, including leases for several years, goods returned because expected sales did not materialize);
 - (f) goods on consignment lost or destroyed after crossing a frontier before change of ownership occurs.
- 3.137. In principle, imports and exports of goods should be recorded when the ownership of the goods is transferred. In practice, a change of ownership is considered to occur at the time the parties to the transaction record it in their books or accounts. This may not coincide with the various stages of the contractual process, like:
- (a) the time of commitment (contract date);
 - (b) the time of provision of goods and services and acquisition of a claim for payment (transfer date);
 - (c) the time of settlement of that claim (payment date).
- 3.138. Imports and exports of goods are to be valued free on board at the border of the exporting country (fob). This value consists of:
- (a) the value of the goods at basic prices;
 - (b) plus the related transport and distributive services up to that point of the border, including the cost of loading on to a carrier for onward transportation (where appropriate) (see table 3.4, second column in the second part of the table);
 - (c) plus any taxes less subsidies on the goods exported; for intra-European Union deliveries this includes VAT and other taxes on the goods paid in the exporting country.

In the supply and use and symmetric input-output tables, imports of goods for individual product groups have to be valued differently: at the cost-insurance-freight (cif) price at the border of the importing country.

Definition : The cif price is the price of a good delivered at the frontier of the importing country, or the price of a service delivered to a resident, before the payment of any import duties or other taxes on imports or trade and transport margins within the country⁽²⁾

- 3.139. Proxies or substitute measures for the fob value may be necessary under certain circumstances, such as:
- (a) barter of goods should be valued at the basic prices that would have been received if the goods had been sold for cash;

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- (b) transactions between affiliated enterprises: as a rule, actual transfer values should be used. However, if they largely differ from market prices, they should be replaced by an estimated market price equivalent, or at least be separately identified for analytical purposes;
- (c) goods transferred under a financial lease: the goods should be valued on the basis of the purchasers' price paid by the lessor (not by the cumulative value of the rental payments);
- (d) imports of goods to be estimated on the basis of customs data (for extra-European Union trade) or Intrastat-information (for intra-European Union trade). Both data sources do not apply fob valuation, they use respectively the cif value at the European Union border and cif values at the national border. As fob-values are only used at the most aggregate level and cif-values are used at the product group level, these modifications have only to be applied at the most aggregate level, i.e. the cif/fob adjustment;
- (e) imports and exports of goods to be estimated on the basis of survey information or various types of *ad hoc* information. In such instances, usually only the total value of sales split out by product can be obtained. As a consequence, the estimate will be based on purchasers' prices and not on fob values.

IMPORTS AND EXPORTS OF SERVICES (P.62 and P.72)

3.140.	<i>Definition:</i>	Exports of services consist of all services rendered by residents to non-residents.
3.141.	<i>Definition:</i>	Imports of services consist of all services rendered by non-residents to residents.

3.142. Exports of services include the following borderline cases:

- (a) transportation of exported goods after they have left the frontier of the exporting country when provided by a resident carrier (cases 2 and 3 in table 3.4);
- (b) transportation of imported goods by a resident carrier:
 1. up to the frontier of the exporting country when goods are valued fob to offset the transportation value included in the fob-value (case 3 in table 3.5);
 2. up to the frontier of the importing country when goods are valued cif to offset the transportation value included in the cif-value (cases 3 and 2 cif in table 3.5);
- (c) transportation of goods by residents on behalf of non-residents which does not involve imports or exports of the goods (e.g. the transport of goods that do not leave the country as exports or the transport of goods outside the domestic territory);
- (d) international or national passenger transportation on behalf of non-residents by resident carriers;
- (e) minor processing and repair activities on behalf of non-residents;
- (f) construction services when a construction site office abroad is not treated as a quasi-corporation. This applies to construction projects lasting less than a year and whose

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- output is not gross fixed capital formation (see paragraph 2.09 and in particular the corresponding note (4));
- (g) installation of equipment abroad when a project is of limited duration by its nature;
 - (h) financial services by the amount of the explicit commissions and fees;
 - (i) insurance services by the amount of the service charge;
 - (j) expenditure by non-resident tourists and business travellers (by convention classified as services; however, for the purposes of the supply and use and symmetric input-output tables, a global breakdown by products may be necessary);
 - (k) expenditure by non-residents on health and education services provided by residents; this includes the provision of these services on the domestic territory as well as abroad;
 - (l) services of owner-occupied holiday homes of non-residents (see paragraph 3.64);
 - (m) royalties and licence fees, receipts of which are associated with the authorized use of intangible non-produced non-financial assets and property rights, such as patents, copyrights, trademarks, industrial processes, franchises, etc., and with the use through licensing agreements of produced originals or prototypes, such as manuscripts, paintings, etc.
- 3.143. For imports of services most borderline cases are the mirror-image of those for exports of services; therefore, only a limited number of specific clarifications are necessary for imports of services.
- 3.144. Imports of transport services include the following borderline cases:
- (a) transportation of exported goods up to the frontier of the exporting country when provided by a non-resident carrier to offset the transportation value included in the fob-value of the exported goods (case 4 in table 3.4);
 - (b) transportation of imported goods by a non-resident carrier:
 - 1. from the frontier of the exporting country as a separate transportation service when imported goods are valued fob (cases 4 and 5 fob in table 3.5);
 - 2. from the frontier of the importing country as a separate transportation service when imported goods are valued cif (in this case the value of the transportation service between the frontiers of the exporting and the importing country is already included in the cif-value of the good; case 4 in table 3.5);
 - (c) transportation of goods by non-residents on behalf of residents which does not involve imports or exports of goods (e.g. transport of goods in transit or transport outside the domestic territory);
 - (d) international or national passenger transportation on behalf of residents by non-resident carriers.

Imports of transport services do not include transportation of exported goods after they have left the frontier of the exporting country when provided by a non-resident carrier (cases 5 and 6 in table 3.4). Exports of goods are valued fob and all such transport services are thus to be regarded as transactions between non-residents, i.e. between a non-resident carrier and a non-resident importer. This applies even when these transportation services are paid under export-cif-contracts by the exporter.

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3.145. Imports in respect of direct purchases abroad by residents cover all purchases of goods and services made by residents while travelling abroad for business or personal purposes. Two categories must be distinguished because they require different treatment:

- (a) expenditures by business travellers are intermediate consumption;
- (b) expenditures by other travellers on personal trips are household final consumption expenditure.

3.146. Imports and exports of services are recorded at the time at which they are rendered, which mostly coincides with the time at which services are produced. Imports of services are to be valued at purchasers' price and exports of services at basic prices.

Table 3.4 — The treatment of transportation of exported goods

Explanation of how to read this table: the first part of this table indicates that there are six different possibilities of transportation of exported goods, depending on whether the carrier is resident or not and depending on where the transport takes place: from a place on the domestic territory to the national border, from the national border to the border of the importing country or from the border of the importing country to a place within the importing country. In the second part of this table, for each of these six possibilities, it is indicated whether they are to be recorded as exports of goods, exports of services, imports of goods or imports of services.

Domestic territory		Territory in between		Territory of importing country	
1.	resident carrier =>	2.	resident carrier =>	3.	resident carrier =>
4.	non-resident carrier =>	5.	non-resident carrier =>	6.	non-resident carrier =>

	Exports of goods (fob)	Exports of services	Imports of goods (cif/fob)	Imports of services
1	X	—	—	—
2	—	X	—	—
3	—	X	—	—
4	X	—	—	X
5	—	—	—	—
6	—	—	—	—

Table 3.5 — The treatment of transportation of imported goods

Explanation of how to read this table: the first part of this table indicates that there are six different possibilities of transportation of imported goods, depending on whether the carrier is resident or not and depending on where the transport takes place: from a place in the exporting country to the border of this exporting country, from the border of the exporting country to the border of the importing country and from the border of the importing country to a place within the importing country. In the second part of this table, for each of these six possibilities, it is indicated whether they are to be recorded as imports of goods, imports of services, exports of

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goods or exports of services. In some instances (cases 2 and 5), this recording depends on the valuation principle applied for imported goods.

Domestic territory		Territory in between		Territory of exporting country	
1.	resident carrier <=	2.	resident carrier <=	3.	resident carrier <=
4.	non-resident carrier <=	5.	non-resident carrier <=	6.	non-resident carrier <=

	Valuation of imported goods	Imports of goods	Imports of services	Exports of goods (fob)	Exports of services
1	cif/fob	—	—	—	—
2	fob	—	—	—	—
	cif	X	—	—	X
3	cif/fob	X	—	—	X
4	cif/fob	—	X	—	—
5	fob	—	X	—	—
	cif	X	—	—	—
6	cif/fob	X	—	—	—

Note that the transition from valuation of imported goods at cif to fob consists of:

- (a) cif/fob adjustment, i.e. from 2 cif to 2 fob (reduces total imports and exports);
- (b) cif/fob reclassification, i.e. from 5 cif to 5 fob (leaves total imports and exports unchanged).

TRANSACTIONS IN EXISTING GOODS

3.147.	<i>Definition:</i>	Existing goods are goods that already have had a user (other than inventories).
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3.148. Existing goods include:

- (a) existing buildings and other fixed capital goods which are sold by producer units to other units:
 1. to be re-used as such;
 2. to be demolished or broken up; the resulting products usually become raw materials (e.g. scrap iron) used for the production of new goods (e.g. steel);
- (b) valuables which are sold from one unit to another;
- (c) existing consumer durables which are sold by households or military authorities to other units:
 1. to be re-used as such;

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2. to be broken up and converted into demolition materials;
- (d) existing non-durable goods (e.g. waste paper, rags, old clothes, old bottles, etc.) which are sold by any unit, either to be used again or to become raw material for the manufacture of new goods (recovered goods).
- 3.149. The transfer of existing goods is recorded as a negative expenditure (acquisition) for the seller and a positive expenditure (acquisition) for the purchaser.
- 3.150. This has the following consequences:
- (a) when the sale of an existing fixed asset or valuable takes place between two resident producers, the positive and negative values recorded for gross fixed capital formation cancel out for the economy as a whole except for the costs of ownership transfer;
- (b) when an existing immovable fixed asset (e.g. a building) is sold to a non-resident, by convention the latter is treated as purchasing a financial asset, i.e the equity of a notional resident unit. This notional resident unit is then deemed to purchase the fixed asset. As a consequence; the sale and purchase of the fixed asset takes place between residents;
- (c) when an existing movable fixed asset, such as a ship or aircraft, is exported, no positive gross fixed capital formation is recorded elsewhere in the economy to offset the seller's negative gross fixed capital formation;
- (d) some durable goods, such as vehicles, may be classified as fixed assets or as consumer durables depending upon the owner and the purpose for which they are used. If, therefore, the ownership of such a good is transferred from an enterprise to a household to be used for final consumption, negative gross fixed capital formation is recorded for the enterprise and positive consumption expenditure for the household. In the less common case where ownership of such a good is transferred from a household to an enterprise, for the household negative final consumption expenditure should be recorded and for the enterprise positive gross fixed capital formation;
- (e) transactions in existing valuables are to be recorded as the acquisition of a valuable (positive gross capital formation) by the purchaser and as the disposal of a valuable (negative gross capital formation) by the seller. In case of a transaction with the rest of the world, the import or export of a good is to be recorded (see paragraph 3.135). The sale of a valuable by a household is not to be recorded as negative final consumption expenditure;
- (f) when existing military durables are sold abroad by the government, this should be recorded as an export of goods and as negative intermediate (and final) consumption by the government.
- 3.151. For the selling costs incurred by the former owner (costs of ownership transfer), a holding loss has to be recorded. A similar entry is to be made for the part of his original acquisition costs that has not been written down as consumption of fixed capital.
- 3.152. Transactions in existing goods should be recorded at the time ownership changes. The valuation principles to be applied are those appropriate to the type(s) of transactions in products involved.

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- (1) Though these revenues may not be sufficient to cover 50 % of all the costs of the museum shop, e.g. because that also includes compensation of employees of the museum shop personnel.
- (2) For the trade and transport margins included, see also table 3.5, third column in second part of the table.

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Changes and effects yet to be applied to :

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