

Compendium

# Glossary

An A to Z definition of the main terms used within the national accounts.



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Release date:  
31 October 2017

Next release:  
31 July 2018

## Table of contents

1. [A to B](#)
2. [C to D](#)
3. [E to F](#)
4. [G to H](#)
5. [I to J](#)
6. [K to L](#)
7. [M to N](#)
8. [O to P](#)
9. [Q to R](#)
10. [S to T](#)
11. [U to Z](#)

# 1 . A to B

## Above the line

Transactions in the production, current and capital accounts, which are above the net lending (positive) or net borrowing (negative) (financial surplus or deficit) line in the presentation used in the economic accounts. The financial transactions account is below the line in this presentation.

## Accruals basis

A method of recording transactions to relate them to the period when the exchange of ownership of the goods, services or financial asset applies (see also cash basis). For example, Value Added Tax accrues when the expenditure to which it relates takes place, but HM Revenue and Customs receives the cash some time later. The difference between accruals and cash results in the creation of an asset and liability in the financial accounts, shown as amounts receivable or payable (F.7).

## Actual final consumption

The value of goods consumed by a sector but not necessarily purchased by that sector (see also final consumption expenditure, intermediate consumption).

## Advance and progress payments

Payments made for goods in advance of completion and delivery of the goods and services. Also referred to as staged payments.

## Asset boundary

Boundary separating assets included in creating core economic accounts (such as plant and factories, also including non-produced assets such as land and water resources) and those excluded (such as natural assets not managed for an economic purpose).

## Assets

Entities over which ownership rights are enforced by institutional units, individually or collectively; and from which economic benefits may be derived by their owners by holding them over a period of time.

## Balancing item

A balancing item is an accounting construct obtained by subtracting the total value of the entries on one side of an account from the total value for the other side.

## Balance of payments

A summary of the transactions between residents of a country and residents abroad in a given time period.

## **Balance of trade**

The balance of trade in goods and services. The balance of trade is a summary of the imports and exports of goods and services across an economic boundary in a given period.

## **Balance sheet**

A statement, drawn up at a particular point in time, of the value of assets owned and of the financial claims (liabilities) against the owner of these assets.

## **Bank of England**

This comprises S.121, the central bank sub-sector of the financial corporations' sector.

## **Bank of England – Issue Department**

This part of the Bank of England deals with the issue of bank notes on behalf of central government. It was formerly classified to central government though it is now part of the central bank and monetary authorities sector. Its activities include, among other things, market purchases of commercial bills from UK banks.

## **Basic prices**

These prices are the preferred method of valuing gross value added and output. They reflect the amount received by the producer for a unit of goods or services, minus any taxes payable, plus any subsidy receivable on that unit as a consequence of production or sale (that is, the cost of production including subsidies). As a result the only taxes included in the basic price are taxes on the production process – such as business rates and any Vehicle Excise Duty paid by businesses – that are not specifically levied on the production of a unit of output. Basic prices exclude any transport charges invoiced separately by the producer.

## **Below the line**

The financial transactions account that shows the financing of net lending (positive) or net borrowing (negative) (formerly financial surplus or deficit).

## **Bond**

A financial instrument that usually pays interest to the holder. Bonds are issued by governments as well as by companies and other institutions, for example, local authorities. Most bonds have a fixed date on which the borrower will repay the holder. Bonds are attractive to investors since they can be bought and sold easily in a secondary market. Special forms of bonds include deep discount bonds, equity warrant bonds, Eurobonds and zero coupon bonds.

## **British government securities**

Securities issued or guaranteed by the UK government; also known as gilts.

## **2 . C to D**

### **Capital**

Capital assets are those that contribute to the productive process so as to produce an economic return. In other contexts the word can be taken to include tangible assets (for example, buildings, plant and machinery), intangible assets and financial capital (see also fixed assets, inventories).

### **Capital formation**

Acquisitions less disposals of fixed assets, improvement of land, change in inventories and acquisitions less disposals of valuables.

### **Capital stock**

A measure of the cost of replacing the capital assets of a country held at a particular point in time.

### **Capital transfers**

Transfers that are related to the acquisition or disposal of assets by the recipient or payer. They may be in cash or kind and may be imputed to reflect the assumption or forgiveness of debt.

### **Cash basis**

The recording of transactions when cash or other assets are actually transferred, rather than on an accruals basis.

### **Certificate of deposit**

A short-term interest-paying instrument issued by deposit-taking institutions in return for money deposited for a fixed period. Interest is earned at a given rate. The instrument can be used as security for a loan if the depositor requires money before the repayment date.

### **Chained volume measures**

Chained volume measures are time series that measure gross domestic product (GDP) in real terms (that is, excluding price effects). Series are calculated in the prices of the previous year and in current price and all of these two-year series are then "chain-linked" together. The advantage of the chain-linking method is that the previous period's price structure is more relevant than the price structure of a fixed period from further in the past.

### **Cost, insurance and freight (CIF)**

The basis of valuation of imports for customs purposes, it includes the cost of insurance premiums and freight services. These need to be deducted to obtain the free-on-board (FOB) valuation consistent with the valuation of exports that is used in the economic accounts.

## **Classification of Individual Consumption by Purpose (COICOP)**

An international classification that groups consumption according to its function or purpose. Thus the heading clothing, for example, includes expenditure on garments, clothing materials, laundry and repairs. Used to classify the expenditure of households.

### **Combined use table**

Table of the demand for products by each industry group or sector, whether from domestic production or imports, estimated at purchasers' prices. It displays the inputs used by each industry to produce their total output and separates out intermediate purchases of goods and services. The table shows which industries use which products. Columns represent the purchasing industries; rows represent the products purchased.

### **Commercial paper**

This is an unsecured promissory note for a specific amount, maturing on a specific date. The commercial paper market allows companies to issue short-term debt directly to financial institutions, who then market this paper to investors or use it for their own investment purposes.

### **Compensation of employees**

Total remuneration payable to employees in cash or in kind. Includes the value of social contributions payable by the employer.

### **Consolidated accounts**

Those accounts that are drawn up to reflect the affairs of a group of entities. For example, a ministry or holding company with many different operating agencies or subsidiary companies may prepare consolidated accounts reflecting the affairs of the organisation as a whole, as well as accounts for each operating agency or subsidiary.

### **Consolidated fund**

An account of central government into which most government revenue (excluding borrowing and certain payments to government departments) is paid and from which most government expenditure (excluding loans and National Insurance benefits) is paid.

### **Consumption**

See final consumption, intermediate consumption.

### **Consumption of fixed capital**

The amount of capital resources used up in the process of production in any period. It is not an identifiable set of transactions but an imputed transaction, which can only be measured by a system of conventions.

## **Corporations**

All bodies recognised as independent legal entities that are producers of market output and whose principal activity is the production of goods and services.

## **Counterpart**

In a double-entry system of accounting, each transaction gives rise to two corresponding entries. These entries are the counterparts to each other. Thus the counterpart of a payment by one sector is the receipt by another.

## **Debenture**

A long-term bond issued by a UK or foreign company and secured on fixed assets. A debenture entitles the holder to a fixed interest payment or a series of such payments.

## **Depreciation**

See consumption of fixed capital.

## **Derivatives (F.71)**

Financial instruments whose value is linked to changes in the value of another financial instrument, an indicator or a commodity. In contrast to the holder of a primary financial instrument (for example, a government bond or a bank deposit), who has an unqualified right to receive cash (or some other economic benefit) in the future, the holder of a derivative has only a qualified right to receive such a benefit. Examples of derivatives are options and swaps.

## **Dividend and Interest Matrix (DIM)**

The Dividend and Interest Matrix represents property income flows related to holdings of financial transactions. The gross flows are shown in D.4 property income.

## **Direct investment**

Net investment by UK or foreign companies in their foreign or UK branches, subsidiaries or associated companies. A direct investment in a company means that the investor has a significant influence on the operations of the company, defined as having an equity interest in an enterprise resident in another country of 10% or more of the ordinary shares or voting stock. Investment includes not only acquisition of fixed assets, stock building and stock appreciation, but also all other financial transactions such as: additions to, or payments of working capital; other loans and trade credit; and acquisitions of securities. Estimates of investment flows allow for depreciation in any undistributed profits. Funds raised by the subsidiary or associate company in the economy in which it operates are excluded as they are locally raised and not sourced from the parent company.

## **Discount market**

That part of the market dealing with short-term borrowing. It is called the discount market because the interest on loans is expressed as a percentage reduction (discount) on the amount paid to the borrower. For example, for a loan of £100 face value when the discount rate is 5%, the borrower will receive £95, but will repay £100 at the end of the term.

## **Double deflation**

Method for calculating value added by industry chained volume measures, which takes separate account of the differing price and volume movements of input and outputs in an industry's production process.

## **Dividend**

A payment made to company shareholders from current or previously retained profits. Dividends are recorded when they become payable. See Dividend and Interest Matrix (DIM).

## **3 . E to F**

## **ECGD**

See Export Credit Guarantee Department.

## **Economically significant prices**

These are prices whose level significantly affects the supply of the good or service concerned. Market output consists mainly of goods and services sold at "economically significant" prices, while non-market output comprises those provided free or at prices that are not economically significant.

## **Employee stock options**

An employee stock option is an agreement made on a given date (the "grant" date) under which an employee may purchase a given number of shares of the employer's stock at a stated price (the "strike" price), either at a stated time (the "vesting" date) or within a period of time (the "exercise" period) immediately following the vesting date.

## **Enterprise**

An institutional unit producing market output. Enterprises are found mainly in the non-financial and financial corporations sectors but exist in all sectors. Each enterprise consists of one or more kind-of-activity units.

## **Environmental accounts**

Satellite accounts describing the relationship between the environment and the economy.

## **Equity**

Equity is ownership of a residual claim on the assets of the institutional unit that issued the instrument. Equities differ from other financial instruments in that they confer ownership of something more than a financial claim. Shareholders are owners of the company whereas bondholders are merely outside creditors.

## **European System of National and Regional Accounts (ESA)**

An integrated system of economic accounts, which is the European version of the System of National Accounts (SNA).

## **European Investment Bank**

This was set up to assist economic development within the European Union. Its members are the member states of the EU.

## **Exchange Cover Scheme (ECS)**

A scheme first introduced in 1969 whereby UK public bodies raise foreign currency from overseas residents, either directly or through UK banks, and surrender it to the Exchange Equalisation Account in exchange for sterling for use to finance expenditure in the UK. HM Treasury sells the borrower foreign currency to service and repay the loan at the exchange rate that applied when the loan was taken out.

## **Exchange Equalisation Account (EEA)**

The government account with the Bank of England in which transactions in reserve assets are recorded. These transactions are classified to the central government sector. It is the means by which the government, through the Bank of England, influences exchange rates.

## **Export credit**

Credit extended abroad by UK institutions, primarily in connection with UK exports but also including some credit in respect of third country trade.

## **Export Credit Guarantee Department (ECGD)**

A non-ministerial government department, classified to the public corporations sector, the main function of which is to provide insurance cover for export credit transactions.

## **Factor cost**

In the System of National Accounts 1968 this was the basis of valuation that excluded the effects of taxes on expenditure and subsidies.



## **Final consumption expenditure**

The expenditure on those goods and services used for the direct satisfaction of individual needs or the collective needs of members of the community, as distinct from their purchase for use in the productive process. It may be contrasted with actual final consumption, which is the value of goods consumed but not necessarily purchased by that sector (see also intermediate consumption).

## **Financial auxiliaries (S.126)**

Auxiliary financial activities are ones closely related to financial intermediation but which are not financial intermediation themselves, such as the repackaging of funds, insurance broking and fund management. Financial auxiliaries therefore include insurance brokers and fund managers.

## **Financial corporations (S.12)**

All bodies recognised as independent legal entities whose principal activity is financial intermediation and/or the production of auxiliary financial services.

## **Financial intermediation**

Financial intermediation is the activity by which an institutional unit acquires financial assets and incurs liabilities on its own account by engaging in financial transactions on the market. The assets and liabilities of financial intermediaries have different characteristics so that the funds are transformed or repackaged with respect to maturity, scale, risk and so on, in the financial intermediation process.

## **Financial leasing**

A form of leasing in which the lessee (the leaseholder) contracts to assume the rights and responsibilities of ownership of leased goods from the lessor (the legal owner) for the whole (or virtually the whole) of the economic life of the asset. In the economic accounts this is recorded as the sale of the asset to the lessee, financed by an imputed loan (F.42). The leasing payments are split into interest payments and repayments of principal.

## **Financial intermediation services indirectly measured (FISIM)**

FISIM represents the implicit charge for the service provided by monetary financial institutions paid for by the interest differential between borrowing and lending rather than through fees and commissions.

## **Fixed assets**

Produced assets that are themselves used repeatedly or continuously in the production process for more than one year. They comprise buildings and other structures, vehicles and other plant and machinery, and also plants and livestock that are used repeatedly or continuously in production, for example, fruit trees or dairy cattle. They also include intangible assets such as computer software, research and development, and artistic originals.

## Flows

Economic flows reflect the creation, transformation, exchange, transfer, or extinction of economic value. They involve changes in the volume, composition, or value of an institutional unit's assets and liabilities. They are recorded in the production, distribution and use of income and accumulation accounts.

## FOB (free on board)

A FOB price excludes the cost of insurance and freight from the country of consignment but includes all charges up to the point of the exporting country's customs frontier.

## Futures

Forward contracts traded on organised exchanges. They give the holder the right to purchase a commodity or a financial asset at a future date.

## 4 . G to H

### Gilts

Bonds issued or guaranteed by the UK government. Also known as gilt-edged securities or British government securities.

### Gold

The System of National Accounts (SNA) and the International Monetary Fund (IMF) (in the sixth edition of its Balance of Payments Manual) recognise three types of gold:

- monetary gold, treated as a financial asset
- gold held as a store of value, to be included in valuables
- gold as an industrial material, to be included in intermediate consumption or inventories

The present treatment is as follows.

In the accounts a distinction is drawn between gold held as a financial asset (financial gold) and gold held like any other commodity (commodity gold). Commodity gold in the form of finished manufactures together with net domestic and overseas transactions in gold moving into or out of finished manufactured form (as in, for example, jewellery, dentistry, electronic goods, medals and proof – but not bullion – coins) is recorded in exports and imports of goods.

All other transactions in gold (that is, those involving semi-manufactures, for example, rods and wire; or bullion, bullion coins or banking-type assets and liabilities denominated in gold, including official reserve assets) are treated as financial gold transactions and included in the financial account of the balance of payments.

The UK has adopted different treatment to avoid distortion of its trade in goods account by the substantial transactions of the London bullion market.

## **Grants**

Voluntary transfer payments. They may be current or capital in nature. Grants from government or the European Union to producers are subsidies.

## **Gross**

Main economic series can be shown as gross (as in, before deduction of the consumption of fixed capital) or net (as in, after deduction). Gross has this meaning throughout this publication unless otherwise stated.

## **Gross domestic product (GDP)**

The total value of output in the economic territory. It is the balancing item on the production account for the whole economy. Domestic product can be measured gross or net. It is presented in the accounts at market (or purchasers') prices.

## **Gross fixed capital formation (GFCF)**

Acquisitions less disposals of fixed assets and the improvement of land.

## **Gross national disposable income**

The income available to the residents arising from gross domestic product and receipts from, less payments to, the rest of the world of employment income, property income and current transfers.

## **Gross national income (GNI)**

GNI is gross domestic product less net taxes on production and imports, less compensation of employees and property income payable to the rest of the world, plus the corresponding items receivable from the rest of the world.

## **Gross value added (GVA) (B.1g)**

The value generated by any unit engaged in production and the contributions of individual sectors or industries to gross domestic product. It is measured at basic prices, excluding taxes less subsidies on products.

## **Holding companies**

A holding company is a purely financial concern, which uses its capital solely to acquire interests (normally controlling interests) in a number of operating companies.

Although the purpose of a holding company is mainly to gain control and not to operate, it will typically have representation on the boards of directors of the operating firms.

Holding companies provide a means by which corporate control can become highly concentrated through pyramiding. A holding company may gain control over an operating company, which itself has several subsidiaries.

## **Holding gains or losses**

Profit or loss obtained by virtue of the changing price of assets being held. Holding gains or losses may arise from either physical or financial assets.

## **Households (S.14)**

Individuals or small groups of individuals as consumers and in some cases as entrepreneurs producing goods and market services (where such activities cannot be hived off and treated as those of a quasi-corporation).

## **5 . I to J**

### **Imputation**

The process of inventing a transaction where, although no money has changed hands, there has been a flow of goods or services. It is confined to a very small number of cases where a reasonably satisfactory basis for the assumed valuation is available.

### **Index-linked gilts**

Gilts whose coupon and redemption value are linked to movements in the Retail Prices Index.

### **Institutional unit**

Institutional units are the individual bodies whose data is amalgamated to form the sectors of the economy. A body is regarded as an institutional unit if it has decision-making autonomy in respect of its principal function and either keeps a complete set of accounts or is in a position to compile, if required, a complete set of accounts that would be meaningful from both an economic and a legal viewpoint.

### **Input-output**

A detailed analytical framework based on supply and use tables. These are matrices showing the composition of output of individual industries by types of product and how the domestic and imported supply of goods and services is allocated between various intermediate and final uses, including exports.

### **Institutional sector**

In the economic accounts the economy is split into different institutional sectors, that is, units grouped according broadly to their role in the economy. The main sectors are non-financial corporations, financial corporations, general government, and households and non-profit institutions serving households (NPISH). The rest of the world is also treated as a sector for many purposes within the accounts.

## **Intellectual property products (AN.112)**

Intellectual property products include mineral exploration, computer software, research and development, and entertainment, literary or artistic originals. Expenditure on them is part of gross fixed capital formation. They exclude non-produced non-financial assets such as leases, transferable contracts and purchased goodwill, expenditure on which would be intermediate consumption.

## **Intermediate consumption**

The consumption of goods and services in the production process. It may be contrasted with final consumption and capital formation.

## **International Monetary Fund (IMF)**

A fund set up as a result of the Bretton Woods Conference in 1944, which began operations in 1947. It currently has 188 member countries (as of October 2014) including most of the major countries of the world. The fund was set up to supervise the fixed exchange rate system agreed at Bretton Woods and to make available to its members a pool of foreign exchange resources to assist them when they have balance of payments difficulties. It is funded by member countries' subscriptions according to agreed quotas.

## **Inventories**

Inventories consist of finished goods (held by the producer prior to sale, further processing, or other use) and products (materials and fuel) acquired from other producers to be used for intermediate consumption, or resold without further processing, as well as military inventories.

## **6 . K to L**

### **Kind-of-activity unit (KAU)**

An enterprise, or part of an enterprise, that engages in only one kind of non-ancillary productive activity, or in which the principal productive activity accounts for most of the value added. Each enterprise consists of one or more kind-of-activity units.

## **Liability**

A claim on an institutional unit by another body that gives rise to a payment or other transaction transferring assets to the other body. Conditional liabilities, where the transfer of assets only takes place under certain defined circumstances, are known as contingent liabilities.

## **Life assurance**

An insurance policy that, in return for the payment of regular premiums, pays a lump sum on the death of the insured. In the case of policies limited to investments that have a cash value, in addition to life cover, a savings element provides benefits that are payable before death. In the UK, endowment assurance provides life cover or a maturity value after a specified term, whichever is sooner.

## **Liquidity**

The ease with which a financial instrument can be exchanged for goods and services. Cash is very liquid whereas a life assurance policy is less so.

## **Lloyd's of London**

The international insurance and reinsurance market in London.

## **7 . M to N**

### **Marketable securities**

Securities that can be sold on the open market.

### **Market output**

Output of goods and services sold at economically significant prices.

### **Merchant banks**

Monetary financial institutions whose main business is primarily concerned with corporate finance and acquisitions.

### **Mixed income**

The balancing item on the generation of income account for unincorporated businesses owned by households. The owner or members of the same household often provide unpaid labour inputs to the business. The surplus is therefore a mixture of remuneration for such labour and return to the owner as entrepreneur.

### **Monetary financial institutions (MFIs) (S.121 to S.123)**

MFIs, as defined by the European Central Bank, consist of all institutional units included in the central bank (S.121), deposit-taking corporations except the central bank (S.1.22) and money market funds (S.123) sub-sectors.

### **Money market**

The market in which short-term loans are made and short-term securities traded. "Short-term" usually applies to periods of under one year but can be longer in some instances.

## **NACE**

The industrial classification used in the European Union. Revision 2 is the “Statistical classification of economic activities in the European Community in accordance with Commission Regulation (EC) No. 1893/2006 of 20th December 2006”.

## **National income**

See gross national disposable income and real national disposable income.

## **Net**

After deduction of the consumption of fixed capital. Also used in the context of financial accounts and balance sheets to denote, for example, assets less liabilities.

## **Non-market output**

Output of own account production of goods and services provided free or at prices that are not economically significant. Non-market output is produced mainly by the general government and non-profit institutions serving households (NPISH) sectors.

## **Non-observed economy**

Certain activities may be productive and also legal but are concealed from the authorities for various reasons – for example, to evade taxes or regulation. In principle these, as well as economic production that is illegal, are to be included in the accounts but they are by their nature difficult to measure.

## **Non-profit institutions serving households (NPISH) (S.15)**

These include bodies such as charities, universities, churches, trade unions and members' clubs.

## **8 . O to P**

### **Operating leasing**

The conventional form of leasing, in which the lessee makes use of the leased asset for a period in return for a rental, while the asset remains on the balance sheet of the lessor. The leasing payments are part of the output of the lessor and the intermediate consumption of the lessee (see also financial leasing).

### **Operating surplus**

The balance on the generation of income account. Households also have a mixed income balance. It may be seen as the surplus arising from the production of goods and services before taking into account flows of property income.

## Ordinary share

The most common type of share in the ownership of a corporation. Holders of ordinary shares receive dividends (see also equity).

## Output for own final use (P.12)

Production of output for final consumption or gross fixed capital formation by the producer. Also known as own-account production.

## Own-account production

Production of output for final consumption or gross fixed capital formation by the producer. Also known as output for own final use.

## Par value

A security's face or nominal value. Securities can be issued at a premium or discount to par.

## Pension funds (S.129)

The institutions that administer pension schemes. Pension schemes are significant investors in securities. Self-administered funds are classified in the financial accounts as pension funds. Those managed by insurance companies are treated as long-term business of insurance companies.

## Perpetual inventory model (or method) (PIM)

A method for estimating the level of assets held at a particular point in time by accumulating the acquisitions of such assets over a period and subtracting the disposals of assets over that period. Adjustments are made for price changes over the period. The PIM is used in the UK accounts to estimate the stock of fixed capital and hence the value of the consumption of fixed capital.

## Portfolio

A list of the securities owned by a single investor. In the balance of payments statistics, portfolio investment is investment in securities that does not qualify as direct investment.

## Preference share

This type of share guarantees its holder a prior claim on dividends. The dividend paid to preference share holders is normally more than that paid to holders of ordinary shares. Preference shares may give the holder a right to a share in the ownership of the company (participating preference shares). However, in the UK they usually do not and are therefore classified as bonds (F.3).



## **Prices**

See economically significant prices, basic prices, purchasers' prices.

## **Principal**

The lump sum that is lent under a loan or a bond.

## **Production boundary**

Boundary between production included in creating core economic accounts (such as all economic activity by industry and commerce) and production that is excluded (such as production by households that is consumed within the household).

## **Promissory note**

A security that entitles the bearer to receive cash. These may be issued by companies or other institutions (see commercial paper).

## **Property income**

Incomes that accrue from lending or renting financial or tangible non-produced assets, including land, to other units. See also tangible assets.

## **Public corporations (S.11001 and S.12001)**

These are public trading bodies that have a substantial degree of financial independence from the public authority that created them. A body is normally treated as a trading body when more than half of its income is financed by fees. A public corporation is publicly controlled to the extent that the public authorities appoint a majority of the board of management, or when public authorities can exert significant control over general corporate policy through other means. Since the 1980s, many public corporations, such as British Telecom, have been privatised and reclassified within the accounts as private non-financial corporations. Public corporations can also exist in the financial sector.

## **Public sector**

Central government, local authorities and general government.

## **Purchasers' prices**

These are the prices paid by purchasers. They include transport costs, trade margins and taxes (unless the taxes are deductible by the purchaser from their own tax liabilities).

## **9 . Q to R**

## **Quasi-corporations**

Unincorporated enterprises that function as if they were corporations. For the purposes of allocation to sectors and sub-sectors they are treated as if they were corporations, that is, separate units from those to which they legally belong.

Three main types of quasi-corporation are recognised in the accounts:

- unincorporated enterprises owned by government that are engaged in market production
- unincorporated enterprises (including partnerships) owned by households
- unincorporated enterprises owned by foreign residents

The last group consists of permanent branches or offices of foreign enterprises and production units of foreign enterprises that engage in significant amounts of production in the territory over long or indefinite periods of time.

## **Real national disposable income (RNDI)**

Gross national disposable income adjusted for changes in prices and in the terms of trade.

## **Related companies**

Branches, subsidiaries, associates or parents.

## **Related import or export credit**

Trade credit between related companies, included in direct investment.

## **Rental**

The amount payable by the user of a fixed asset to its owner for the right to use that asset in production for a specified period of time. It is included in the output of the owner and the intermediate consumption of the user.

## **Rents (D.45)**

The property income derived from land and sub-soil assets. It should be distinguished in the current system from rental income derived from buildings and other fixed assets, which is included in output (P.1).

## **Repurchase agreement (repo)/reverse repo**

This is short for “sale and repurchase agreement”. One party agrees to sell bonds or other financial instruments to other parties under a formal legal agreement to repurchase them at some point in the future – usually up to six months – at a fixed price. Reverse repos are the counterpart asset to any repo liability.

Repo or reverse repo transactions are generally treated as borrowing or lending within other investment, rather than as transactions in the underlying securities. The exception is for banks, where repos are recorded as deposit liabilities. Banks' reverse repos are recorded as loans, the same as for all other sectors. Legal ownership does not change under a "repo" agreement. It was previously treated as a change of ownership in the UK financial account but under the System of National Accounts is treated as a collateralised deposit (F.22).

## **Reserve assets**

Short-term assets that can be very quickly converted into cash. They comprise the UK's official holdings of gold, convertible currencies, special drawing rights and changes in the UK reserve position in the International Monetary Fund (IMF). Also included between July 1979 and December 1998 are European Currency Units acquired from swaps with the European Co-operation Fund, European Monetary Institute (EMI) and the European Central Bank (ECB).

## **Residents**

These comprise general government, individuals, private non-profit-making bodies serving households, and enterprises within the territory of a given economy.

## **Residual error**

The term used in the former accounts for the difference between the measures of gross domestic product from the expenditure and income approaches.

## **Resources and uses**

The term resources refers to the side of the current accounts where transactions that add to the amount of economic value of a unit or sector appear. For example, wages and salaries are a resource for the unit or sector receiving them. Resources are by convention put on the right side, or at the top of tables arranged vertically. The left side (or bottom section) of the accounts, which relates to transactions that reduce the amount of economic value of a unit or sector, is termed uses. To continue the example, wages and salaries are a use for the unit or sector that must pay them.

## **Rest of the world**

This sector records the counterpart of transactions of the whole economy with non-residents.

# **10 . S to T**

## **Satellite accounts**

Satellite accounts describe areas or activities not dealt with by core economic accounts. These areas or activities are considered to require too much detail for inclusion in the core accounts or they operate with a different conceptual framework. Internal satellite accounts re-present information within the production boundary. External satellite accounts present new information not covered by the core accounts.

## **Saving (B.8g)**

The balance on the use of income account. It is that part of disposable income that is not spent on final consumption and may be positive or negative.

## **Secondary market**

A market in which holders of financial instruments can re-sell all or part of their holding. The larger and more effective the secondary market for any particular financial instrument the more liquid that instrument is to the holder.

## **Sector**

See institutional sector.

## **Securities**

Tradable or potentially tradable financial instruments.

## **Standard Industrial Classification (SIC)**

The industrial classification applied to the collection and publication of a wide range of economic statistics. The current version, SIC 2007, is consistent with NACE, revision 2. See the NACE section of the glossary for further details.

## **System of National Accounts (SNA)**

The internationally agreed standard system for macroeconomic accounts. The latest version is described in System of National Accounts 2008.

## **Special drawing rights (SDRs) (F.12)**

These are reserve assets created and distributed by decision of the members of the International Monetary Fund (IMF). Participants accept an obligation to provide convertible currency to another participant, when designated by the IMF to do so, in exchange for SDRs equivalent to three times their own allocation. Only countries with a sufficiently strong balance of payments are so designated by the IMF. SDRs may also be used in certain direct payments between participants in the scheme and for payments of various kinds to the IMF.

## **Special purpose entities (SPEs)**

SPEs are generally organised or established in economies other than those in which the parent companies are resident; and engaged primarily in international transactions but in few or no local operations.

SPEs are defined either by their structure (for example, financing subsidiary, holding company, base company, regional headquarters), or their purpose (for example, sale and regional administration, management of foreign exchange risk, facilitation of financing of investment).

SPEs should be treated as direct investment enterprises if they meet the 10% criterion. SPEs are an integral part of direct investment networks as are, for the most part, SPE transactions with other members of the group.

## **Staged payments**

See advance and progress payments.

## **Standardised guarantees**

Standardised guarantees are normally issued in large numbers, usually for fairly small amounts, along identical lines. There are three parties involved in these arrangements; the debtor, the creditor and the guarantor. Either the debtor or creditor may contract with the guarantor to repay the creditor if the debtor defaults. The classic examples are export credit guarantees and student loan guarantees.

## **Subsidiaries**

Companies owned or controlled by another company. Under Section 1159 of the Companies Act (2006) this means, broadly speaking, that another company either holds a majority of the voting rights in it, is a member of it and has the right to appoint or remove a majority of its board of directors, or is a member of it and controls alone (pursuant to an agreement with other members) a majority of the voting rights in it. The category also includes subsidiaries of subsidiaries.

## **Subsidies (D.3)**

Current unrequited payments made by general government or the European Union to enterprises. Those made on the basis of a quantity or value of goods or services are classified as “subsidies on products” (D.31). Other subsidies based on levels of productive activity (for example, numbers employed) are designated “other subsidies on production” (D.39).

## **Suppliers' credit**

Export credit extended overseas directly by UK firms other than to related concerns.

## **Supply table**

Table of estimates of domestic industries' output by type of product. Compiled at basic prices and includes columns for imports of goods and services, for distributors' trading margins and for taxes less subsidies on products. The final column shows the value of the supply of goods and services at purchasers' prices. This table shows which industries make which products; columns represent the supplying industries, rows represent the products supplied.

## **Taxes**

Compulsory unrequited transfers to central or local government or the European Union. Taxation is classified in the following main groups:

- taxes on production and imports (D.2)
- current taxes on income wealth and so on (D.5)
- capital taxes (D.91)

## **Technical reserves (of insurance companies) (F.61)**

These reserves consist of pre-paid premiums, reserves against outstanding claims, actuarial reserves for life insurance and reserves for with-profit insurance. They are treated in the economic accounts as the property of policy-holders.

## **Terms of trade**

Ratio of the change in export prices to the change in import prices. An increase in the terms of trade implies that the receipts from the same quantity of exports will finance an increased volume of imports, so measurement of real national disposable income needs to take account of this factor.

## **Transfers**

Unrequited payments made by one unit to another. They may be current transfers (D.5 to 7) or capital transfers (D.9). The most important types of transfers are taxes, social contributions and benefits.

## **Treasury bills**

Short-term securities or promissory notes that are issued by government in return for funding from the money market. Each week in the UK, the Bank of England invites tenders for sterling Treasury bills from the financial institutions operating in the market. European currency unit (ECU) or euro-denominated bills were issued by tender each month but this programme has now wound down; the last bill was redeemed in September 1999. Treasury bills are an important form of short-term borrowing for the government, generally being issued for periods of three or six months.

# **11 . U to Z**

## **Unit trusts**

Institutions within sub-sector S.123 through which investors pool their funds to invest in a diversified portfolio of securities.

Individual investors purchase units in the fund representing an ownership interest in the large pool of underlying assets, giving them an equity stake. The selection of assets is made by professional fund managers. Unit trusts therefore give individual investors the opportunity to invest in a diversified and professionally managed portfolio of securities, without the need for detailed knowledge of the individual companies issuing the stocks and bonds.

They differ from investment trusts in that the latter are companies in which investors trade shares on the Stock Exchange, whereas unit trust units are issued and bought back on demand by the managers of the trust. The prices of unit trust units therefore reflect the value of the underlying pool of securities, whereas the price of shares in investment trusts are affected by the usual market forces.

## Uses

See resources and uses.

## Use table

See combined use table.

## United Kingdom (UK)

Broadly, in the accounts, the UK comprises Great Britain plus Northern Ireland and that part of the continental shelf deemed by international convention to belong to the UK. It excludes the Channel Islands and the Isle of Man.

## Valuables

Goods of considerable value that are not used primarily for production or consumption but are held as stores of value over time, for example, precious metals, precious stones, jewellery and works of art.

## Valuation

See basic prices, purchasers' prices, factor cost.

## Value added

The balance on the production account: output less intermediate consumption. Value added may be measured net or gross.

## Value Added Tax (VAT) (D.211)

A tax paid by enterprises. In broad terms an enterprise is liable for VAT on the total of its taxable sales but may deduct tax already paid by suppliers on its inputs (intermediate consumption). Therefore, the tax is effectively on the value added by the enterprise. Where the enterprise cannot deduct tax on its inputs the tax is referred to as non-deductible. VAT is the main UK tax on products (D.21).