

CHAPTER 2

UNITS AND GROUPINGS OF UNITS

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

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

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

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

THE LIMITS OF THE NATIONAL ECONOMY

- 2.04. The units, whether institutional, local kind-of-activity or of homogeneous production, which constitute the economy of a country and whose transactions are recorded in the ESA, are those which have a centre of economic interest on the economic territory of that country. These units, known as resident units, may or may not have the nationality of that country, may or may not be legal entities, and may or may not be present on the economic territory of the country at the time they carry out a transaction. Having thus defined the limits of the national economy in terms of resident units, it is necessary to define the meaning of the terms economic territory and centre of economic interest.
- 2.05. The term economic territory means:
- (a) the geographic territory administered by a government within which persons, goods, services and capital move freely;
 - (b) any free zones, including bonded warehouses and factories under customs control;
 - (c) the national air-space, territorial waters and the continental shelf lying in international waters, over which the country enjoys exclusive rights⁽¹⁾;
 - (d) territorial enclaves (i.e. geographic territories situated in the rest of the world and used, under international treaties or agreements between States, by general government agencies of the country (embassies, consulates, military bases, scientific bases, etc.));

⁽¹⁾ Fishing boats, other ships, floating platforms and aircraft are treated in the ESA just like any other mobile equipment, whether owned and/or operated by units resident in the country, or owned by non-residents and operated by resident units. Transactions involving the ownership (gross fixed capital formation) and use (renting, insurance, etc.) of this type of equipment are attributed to the economy of the country of which the owner and/or operator respectively are resident. In cases of financial leasing a change of ownership is assumed.

- (e) deposits of oil, natural gas, etc. in international waters outside the continental shelf of the country, worked by units resident in the territory as defined in the preceding subparagraphs.
- 2.06. The economic territory does not include extraterritorial enclaves (i.e. the parts of the country's own geographic territory used by general government agencies of other countries, by the institutions of the European Union or by international organizations under international treaties or agreements between States⁽²⁾).
- 2.07. The term centre of economic interest indicates the fact there exists some location within the economic territory on, or from, which a unit engages, and intends to continue to engage, in economic activities and transactions on a significant scale, either indefinitely or over a finite but long period of time (a year or more). It follows that a unit which carries out such transactions on the economic territory of several countries is deemed to have a centre of economic interest in each of them. The ownership of land and buildings within the economic territory is deemed to be sufficient in itself for the owner to have a centre of economic interest there.
- 2.08. On the basis of these definitions, units deemed to be residents of a country can be sub-divided into:
- (a) units which are principally engaged in production, finance, insurance or redistribution, in respect of all their transactions except those relating to ownership of land and buildings;
 - (b) units which are principally engaged in consumption⁽³⁾, in respect of all their transactions except those relating to ownership of land and buildings;
 - (c) all units in their capacity as owners of land and buildings with the exception of owners of extraterritorial enclaves which are part of the economic territory of other countries or are States *sui generis* (see paragraph 2.06.).
- 2.09. In the case of units which are principally engaged in production, finance, insurance or redistribution, in respect of all their transactions except those relating to ownership of land and buildings, the following two cases may be distinguished:
- (a) activity conducted exclusively on the economic territory of the country: units which carry out such activity are resident units of the country;
 - (b) activity conducted for a year or more on the economic territories of several countries: only that part of the unit which has a centre of economic interest on the economic territory of the country is deemed to be a resident unit. It may be:
 - 1. either an institutional resident unit (see paragraph 2.12.), whose activities conducted for a year or more in the rest of the world are excluded and treated separately⁽⁴⁾ or
 - 2. a notional resident unit (see paragraph 2.15.), in respect of the activity conducted in the country for a year or more by a unit which is resident in another country⁽⁴⁾.
- 2.10. In the case of units which are principally engaged in consumption, except in their capacity as owners of land and buildings, households which have a centre of economic interest in the country are deemed to be resident units, even if they go abroad for short periods (less than a year). They include, in particular, the following:
- (a) border workers, i.e. people who cross the frontier daily to work in a neighbouring country;

⁽²⁾ The territories used by the institutions of the European Union and international organizations thus constitute the territories of States *sui generis*. The feature of such States is that the only residents are the institutions themselves (see paragraph 2.10. e).

⁽³⁾ Consumption is not the only possible activity of households. Households may as entrepreneurs engage in any kind of economic activity.

⁽⁴⁾ It is only where such activity is carried on for less than a year that it should not be separated from the activities of the producer institutional unit. This may also be done where the activity, though conducted for a year or more, is insignificant, and in all circumstances for the installation of equipment abroad. But a unit which is resident in another country and which is carrying out a construction activity in the country for a duration of less than a year is deemed to have a centre of economic interest on the economic territory of the country if the output of the construction activity constitutes gross fixed capital formation. Such a unit should therefore be treated as a notional resident unit.

- (b) seasonal workers, i.e. people who leave the country for several months, but less than a year, to work in another country in sectors in which additional manpower is needed periodically;
- (c) tourists, patients, students⁽⁵⁾, visiting officials, businessmen, salesmen, artists and crew members who travel abroad;
- (d) locally recruited staff working in the extraterritorial enclaves of foreign governments;
- (e) the staff of the institutions of the European Union and of civilian or military international organizations which have their headquarters in extraterritorial enclaves;
- (f) the official, civilian or military representatives of the government of the country (including their households) established in territorial enclaves.

2.11. All units in their capacity as owners of land and/or buildings which form part of the economic territory are deemed to be resident units or notional resident units (see paragraph 2.15.) of the country in which the land or buildings in question are located.

THE INSTITUTIONAL UNITS

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

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

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

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

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

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

⁽⁵⁾ Students are always treated as residents, however long they study abroad.

- (f) quasi-corporations keep a complete set of accounts and have no independent legal status. However, they have an economic and financial behaviour that is different from that of their owners and similar to that of corporations. Therefore they are deemed to have autonomy of decision and are considered as distinct institutional units.

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

2.15. Notional resident units are defined as:

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

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

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

- (a) units which have a complete set of accounts and autonomy of decision:
1. private and public corporations;
 2. cooperatives or partnerships recognized as independent legal entities;
 3. public producers which by virtue of special legislation are recognized as independent legal entities;
 4. non-profit institutions recognized as independent legal entities;
 5. agencies of general government;
- (b) units which have a complete set of accounts and which are deemed to have autonomy of decision: quasi-corporations (see paragraph 2.13. f);
- (c) units which do not necessarily keep a complete set of accounts, but which by convention are deemed to have autonomy of decision:
1. households;
 2. notional resident units (see paragraph 2.15.).

THE INSTITUTIONAL SECTORS

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

Table 2.1 — Sectors and subsectors

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