The Methodology of Elaboration of the Production Account for Financial Activities in Accordance With SNA – 2008

Olga SÎRBU PhD Student
The Academy of Economic Studies of Moldova
Republic of Moldova
olga.sirbu@statistica.md

Abstract
In this article are described the new System of National Accounts 2008 adjustments, focusing on production account development for the financial activities, more detailed for National Bank, Commercial Banks, other financial intermediation, insurance companies, activities auxiliary to financial institutions in Republic of Moldova. Which are the advantages of switching to a new method of calculation of financial activities and which are sources of information to perform these calculations. The research methodology was based on traditional research methods and techniques – scientific abstraction, analogy, analysis and synthesis of data.

Key words: System of National Accounts, production account, intermediate consumption Gross Value Added, Classification of economic activities in the Republic of Moldova (CAEM), profit or loss account.

Introduction
The System of National Accounts is a system that describes the structures and transactions in the economy, in order to ensure necessary information for analysis and economic forecast. This system systematizes and ranks economic processes, and on this bases, measures the macroeconomic results.

Production account occupies an important place in the SNA, being one of the most important account used in statistics for the calculation of the most relevant macroeconomic indicators and providing the necessary information on: production of goods in the national economy, the structure and use of it, etc.

The production account is developed by sectors and by entirely national economy, through which it generalizes the transactions specifically to the production account of the economic subjects.

Given account is elaborated in accordance with the methodology of the System of National Account of Organisations of United Nations, 1993 version (SNA-OUN-93) in transition to SNA 2008.

Content
The institutional units forming national economy are grouped, in accordance with SNA-2008, in 6 sectors, namely:
1. non-financial corporations,
2. financial corporations,
3. public administration,
4. non-profit institutions serving households (NPISH),
5. households;
6. rest of the world.

Production account is elaborated:
1) by institutional sectors – production account in resources side has Output. In uses side it shows the Intermediate Consumption and the balance – Gross Value Added (GVA), which is calculated as difference between Output and Intermediate Consumption;

\[ \text{GVA current prices} = \text{Output basic prices} - \text{Intermediate Consumption market prices} \]

2) by economy – by economy level, production account in resources side has Output at basic prices, Taxes on products, Subsidies on products. In uses side it shows the Intermediate Consumption and the balance – Gross Domestic Product (GDP). In GDP compilation the sum of GVA by activities (sectors) is reduced by the amount of FISIM (financial intermediation services indirectly measured, which refers to intermediate consumption of the unit and is not distributed by activities and sectors) and increase with the net taxes on products and import duties (taxes on products and imports (TP) less subsidies on products and import(SP)).

\[ \text{GDP market prices} = (\sum \text{GVA market prices} - \text{FISIM}) + \text{TP} - \text{SP} \]

Financial corporations sector includes all establishments whose primary activity is the mediation and principally engaged in financing namely the collection, processing and redistribution of the financial assets. The principal resources of these units are made up of funds from contractual obligations (deposits, bonds, debentures, etc.) and interest received. In addition, this sector includes non-profit institutions engaged in financial activities whose revenues come from subscriptions of the financial companies whose role is to promote and defend the interests of those businesses.

The „Financial corporations” is presented according to CAEM as economic activity J „financial activities”.

Financial corporations include all units whose main activity is the brokerage and whose principal function is to finance, namely the collection, processing and redistribution of financial assets.

Next we present the structure of the classification categories „financial activities” as CAEM, and how to develop production account for this economic activity.

Table I

The detailed structure of the classification categories of „financial activities”.

---

Revista Română de Statistică Trim IV/2013- Supliment 141
<table>
<thead>
<tr>
<th>Section</th>
<th>Devision</th>
<th>Group</th>
<th>Class</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 3 4 5</td>
<td>J 65</td>
<td>651</td>
<td>6511</td>
<td>Financial activities except insurance activities and pension insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6512</td>
<td></td>
<td>Monetary intermediation.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>652</td>
<td></td>
<td>Other financial intermediation (financial leasing, investment funds and trust companies, other types that are not included in other categories).</td>
</tr>
<tr>
<td>66</td>
<td></td>
<td></td>
<td></td>
<td>Insurance companies</td>
</tr>
<tr>
<td>67</td>
<td></td>
<td></td>
<td></td>
<td>Auxiliary activities of financial institutions and insurance companies (stock markets, currency exchange etc.).</td>
</tr>
</tbody>
</table>

Source: Table is elaborated by the author, according to CAEM 2005

a) **The activity of the National Bank (BN), according to the CAEM-J6511.** The National Bank is an autonomous public legal person and is responsible to the Parliament, is not subject to registration in the State Register of enterprises and in the State Register of organizations, besides it can open branches and offices in the country and abroad where deemed necessary. It work is reflected in the report on „Financial results of the National Bank of Moldova (RNB)” (form no.2), annually and quarterly, which provides for the calculation of the volume of production (Output), intermediate consumption (IC), gross value added (GVA). Countries in transition to a market economy are recommended to calculate Output of the NB costs (compared with commercial banks to which it applies the income method). Therefore, the Output is determined based on the current expenditure, which is then distributed as: intermediate consumption, compensation of employees, other taxes linked to production and consumption of fixed capital.

\[
Output_{NB} = \sum \text{operational expenditure (note 25 the results of the NB)}
\]

\[
IC_{NB} = \text{Expenditure incurred in national currency + other operational expenses}
\]

\[
GV_{NB} = Output_{NB} - IC_{NB}
\]

b) **The activity of the comercial banks (CB), according to the CAEM - J6512.**

Production account for commercial banks is developed based on the reports submitted by each particulary bank, quarterly and annual to the National Bank, which in turn generalizes the data into a single report and submit it to the National Bureau of Statistics.
The activity of commercial banks is reflected in:

a) Generalized report on the banks profit and loss from RM (form nr. 2), by the end of 2011 they were prepared in accordance with National Accounting Standards (NAS).

b) Commercial Banks’s profit/ loss account (FIN2 Annex.1) from 01.01.2012 authorized banks carried out the transition to International Financial Reporting Standards (IFRS), and starting with January 2012, this report is prepared in accordance with the Instruction on situations FINREP individually applicable to banks.

Commercial Banks’s profit/ loss account (FIN2) has the following characteristics:

1) FIN 2 is the financial statement that contains basic information on income and expenditure in banks;

2) In preparing Commercial Banks’s profit/ loss account, banks are guided by the accounting chart of accounts in authorized banks in Moldova (Official Monitor of RM No. 33-34 of 22.05.1997), as amended and supplemented by International Standards Financial Reporting Standards (IFRS).

The calculation of the production account to the Commercial Bank in accordance with SNA-2008 is as follows:

1. Output\_CB = FISIM + Other income
   a. FISIM = Interest rates received by financial institutions - Interest rates paid by financial institutions

   Interest received from financial institutions under IFRS include: loans and receivables, but fines penalties and other sanctions are not used to develop the production account, they refer to current transfers.

   The interest paid by financial institutions include financial liabilities measured at amortized cost.

   b. Other income = Income from fees and commissions + Other operating income

2. IC\_CB = Fees and commissions + Other operating expenses + General and administrative expenses

   Moreover, The ICCB include full Output\_NB namely non-market expenses.

3. GVA\_CB = Output\_CB - IC\_CB

c) Other financial intermediation (OFI) according to the CAEM – J652.

This group includes financial intermediation, other than those conducted by monetary-lending institutions. In this sector are: financial leasing, investment funds and trust companies, other types not included in other categories.

Information about production, consumption, and their spending is obtained from the form no.5-c „Consumption and expenditure of the enterprise”, annual and quarterly.

\[ Output_{OFI} = Manufactured \text{ } production. \]

\[ IC_{OFI} = \text{ raw materials, materials, semi-finished products purchased} + \text{ construction materials for repair} \]
+ oil  
+ coal  
+ gas  
+ other  
+ electricity  
+ heat  
+ water  
+ other consumption and material costs  
+ transport  
+ communications  
+ the current renovation of fixed assets  
+ the processing of own raw materials  
+ banking  
+ audit  
+ audit, legal, notary and firefighters, security, advertising  
+ preparation and staff training  
+ sanitation, garbage disposal, elevator service+ alte servicii  
+ operational lease payment (current)  
+ travel expenses  
+ cost of representation  
+ expenses for personnel and assets.  

\[ GVA_{OFI} = Output_{OFI} - IC_{OFI} \]

d) **Insurance companies, according to the CAEM (I)-J66.** Within these institutions, insurance companies group the institutions that have the primary function of insurance, transforming individual risks into collective risks and which guarantees a payment to cover the risk. The main resources are formed from contractual premiums and the voluntary social contributions.  

The information necessary to calculate the output, IC, GVA and other indicators necessary here to glean from the statistical report no. 1-insurance „On the activity of the insurance undertaking”, annual and quarterly.  

1) The formula for calculating the volume of production for insurance may be represented as follows:  

\[ Output_i = \text{Insurance premiums} - \text{payment of damages} + \text{income from the investment of insurance reserves} - \text{change of the size of the insurance reserves} \]

where:  
Insurance premiums = Insurance premiums on direct insurance +  
+ insurance premiums and premiums on portfolio risks in reinsurance  
+ commission and broker's reward  
+ the reward percentage damage risks in reinsurance and retrocession charged  
+ other income from the insurance business.  

Payment of damages = Compensation insurance direct insurance
+ the reward percentage damage risks in reinsurance and retrocession
+ insurance premiums paid to the risks in reinsurance and retrocession
+ reward commission and broker, fees paid
+ other expenses of the insurance business.
Income from change insurance reserve size is reduced by changing the size of reserve expenses insurance.

2) Intermediate consumption:
\( IC_t = \) other payments being holders
+ expenditure on labor protection
+ entertainment expenses
+ travel expenses
+ expenses for banking services
+ payment for rent of fixed assets
+ transport costs
+ preparation and staff training
+ of the current renovation of fixed assets
+ postage
+ expenditures for the purchase of forms
+ other expenses in other general and administrative expenses
+ other expenses

\( GVA_t = Output_t - IC_t \)

e) **Auxiliary activities of financial institutions and insurance companies, according to the CAEM J-67.** This division includes services involved or closely related to financial intermediation but which are not financial intermediation themselves, they are:
- activities of stock exchanges;
- financial market management activities other than those conducted by state agencies;
- exchanges of trade in goods;
- currency exchanging apparatus service bureaus, etc..

Calculation of key indicators is carried out under cover of form 5-e „Consumption and expenditures of the enterprise”, annual and quarterly, and is analogous to „Other financial intermediation”.

**Conclusions and recommendations:**

The system of national accounts requires the reflection of economic flows through accounts built both in the sector and the entire economy.

Macroeconomic accounts provides the information necessary to calculate the basis of synthetic indicators of results on the economy as a whole. Macroeconomic indicators can be defined according to their nature, composition, the sphere of coverage and prices used for their valuation. Macroeconomic indicators, summarizes the transactions conducted between businesses within a
specified period (usually a year). These transactions are expressed both by actual flows, as well as through cash flows (revenues and expenses).

GDP and GVA are final account balances of production developed at national economy level, area of activity and institutional sector. These sizes are also synthetic, sizes and that measuring the results of economic downturns, form an overview concerning the place that they occupy in the economy at a given time.

So in order to improve the economic results of the methodology to be used for the calculation of macroeconomic indicators, namely the transition from SNA-1993 to SNA-2008, involving new requirements imposed on itself at international level and which bring clarity into the components that form the system of macroeconomic accounts.

The transition of Republic of Moldova to a new financial reporting system has the following advantages:
- ensure the consistency of accounting in banks and efficient management of banking risks;
- it is possible to strengthen the international financial statements for multinational companies and to increase confidence of potential foreign investors;
- secure and efficient function of the national and international markets;
- ensures greater transparency and comparability in reporting;
- reduces the costs of financial reporting and external audit thereof, eliminating the need for preparation of more sets of financial statements.

However for the elaboration of qualitative production account for commercial banks, the following amendments to FIN 2 are propose:

More detailed breakdown of the following positions, according to the bank chart account:
1) Loans and receivables;
2) Income from fees and commissions;
3) Other operating income;
4) Other operating expenses;
5) General and administrative expenses.

Since the total sum of these positions also includes components not used in the calculation of the production account.

-to achieve the purpose of research initially proposed, which is to describe the specific composition of the production account for commercial banks in accordance with the System of National Accounts - 2008 (SNA-2008), it is important:

-training and implementation of appropriate classification of methodology of 2008 SNA;
-increased cooperation of the National Bureau of Statistics with National Bank, insurance companies, etc.
Bibliography

Hotărârea nr. 279 din 01 decembrie 2011 „Cu privire la aprobarea Instrucțiunii privind modul de întocmire și prezentare de către bănci a rapoartelor în scopuri prudențiale”

Г.Д. Кулагиной. Национальное счетоводство. МЭСИ учебник. М.: Финансы и статистика, 1997 г.

Обзор основных положений пересмотренной СНС 1993 года (СНС 2008 года) и предложения по их поэтапному применению в статистике стран СНГ, Москва 2008 г.

Рекомендации по составлению финансового счета, Межгосударственный статистический комитет содружества независимых государств (Статкомитет СНГ), г. Москва 1996 г.


Европейская Экономическая Комиссия, Конференция Европейских Статистиков, Группа экспертов по национальным счетам, Специальное заседание для стран с переходной экономикой Женева, 30 апреля – 4 мая 2012 года.


www.bnm.md
www.eco.md