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Foreword

Recent experiences, especially those during financial crises, have shown the importance of detecting sources of vulnerability early and taking timely corrective measures. One focus of the IMF's work in this area is on increasing the availability of key data. The IMF undertakes a range of activities for this purpose, including the IMF Statistics Department's work to prepare manuals describing methodologies that should be used to compile economic and financial statistics. In this regard, I am pleased to introduce the second edition of the *Government Finance Statistics Manual.* This manual takes its place alongside the other manuals prepared by the Statistics Department, including the *Balance of Payments Manual*, the *Monetary and Financial Statistics Manual*, and the *Quarterly National Accounts Manual*. Like the other manuals, this manual is harmonized with the *System of National Accounts 1993.*

This *Manual* represents a major step forward in the standards for compilation and presentation of fiscal statistics and thus takes its place as part of the worldwide effort to improve government accounting and transparency in operations. Government finance statistics are a key to fiscal analysis, and they play a vital role both in developing and monitoring sound financial programs and in conducting surveillance of economic policies. Of particular note is that the *Manual* introduces accrual accounting, balance sheets, and complete coverage of government economic and financial activities. Although only a few countries are currently capable of meeting the standards promulgated in this *Manual*, the number is increasing steadily and I hope that the trend continues. I commend the *Manual* to compilers and users as an important instrument in their work and urge member countries to adopt the guidelines of the *Manual* as the basis for compiling government finance statistics and for reporting this information to the Fund.

This *Manual* has been prepared by the Statistics Department in close consultation with experts in government financial statistics in member countries and international organizations. I would like to thank all of the experts involved for their invaluable assistance and for their collaborative and cooperative spirit.

Horst Köhler
Managing Director
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Preface

The *Government Finance Statistics Manual* is the latest in a series of international guidelines on statistical methodology that have been issued by the International Monetary Fund. The *Manual,* which updates the first edition published in 1986, is a major advance in the standards for compilation and presentation of fiscal statistics and part of a worldwide trend toward greater accountability and transparency in government finances, operations, and oversight. The *Manual* was produced by the IMF's Statistics Department in fulfillment of its mission to provide strong leadership for the development and application of sound statistical practices.

The *Manual* is designed for compilers of government finance statistics, fiscal analysts, and other users of fiscal data. It may also be useful to compilers and users of other macroeconomic statistics in understanding the relations between the various sets of statistics, in particular to compilers of the national accounts who may depend on government finance statistics as an input to their work. It is focused, however, on definitions, classifications, and guidelines for presenting government finance statistics. As such, it does not describe the methods to be used to compile the statistics. Practical guidance based on the *Manual* will be provided in a compilation guide and through technical assistance and training work with member countries. In addition to this English language version, the *Manual* will be published in Arabic, Chinese, French, Russian, and Spanish.

Fiscal analysis is rapidly evolving in response to the growing complexity of formulating and evaluating government fiscal policies. To meet these new requirements, the *Manual* introduces the accrual basis of recording economic events so that all resource flows are included, integrates balance sheets with transactions and other flows, and defines multiple balancing items so that a balancing item appropriate to a specific analytical need can be selected. Moreover, the concepts and principles set out in the *Manual* are harmonized with those of the *System of National Accounts 1993 (1993 SNA)* so that government finance statistics can be utilized jointly with other macroeconomic statistics.

The *Manual* is an ambitious step forward in statistical methodology. It is recognized that the implementation of the fully integrated system presented in this manual will take some time and will need to progress at a pace determined by the differing needs and circumstances of the country involved. In particular, many countries will need to revise their underlying accounting systems to reflect the accrual basis of recording and revised classifications.

The preparation of the *Manual* has been a long and complex endeavor involving a number of people with different skills who were able to build on each other's work over an extended period. The primary author of the *Manual* was Mr. John Pitzer, a consultant. The project was begun under the supervision of Mr. Thomas McLoughlin and completed under the guidance of Mr. Paul Cotterell, successive chiefs of the Government Finance Division in the IMF's Statistics Department. The drafting involved close consultation with experts in the IMF, member countries, and international organizations. Mr. Sean Culhane of the IMF's External Relations Department managed the production process of the final publication.

The publication of the *1993 SNA* and growing recognition of deficiencies in the methodology of the 1986 manual provided the impetus for this revision. In March 1995, an issues note and questionnaire was sent to compilers in member countries to gather views on a number of methodological issues and ascertain the availability of source data. In October 1995, an internal paper was prepared by Mr. McLoughlin that gave shape to the new system. In July 1996, an IMF working paper *The Case for Accrual Recording in the IMF's Government Finance Statistics System,* by Mr. Don Efford, a consultant, was distributed. It was a key document in the debate over the shift from the cash basis of recording to the accrual basis. In August 1996, *Government Finance Statistics: Annotated Outline* was circulated for comment and the first draft of a manual was written by Mr. Efford throughout 1996 and 1997. Mr. Pitzer oversaw the finalization of the *Manual* through successive rounds of review and redrafting to take account of comments from experts in member countries and by IMF staff. A meeting of government finance statistics experts was convened in February 2001 to discuss the *Manual* and a final round of changes made to incorporate conclusions that were reached at the meeting.

Particular note should be made of the collaboration between the IMF's Statistics and Fiscal Affairs Departments. Ms. Adrienne Cheasty took the lead in drafting Chapter 4, The Analytic Framework, and she and her colleagues provided valuable consultation and advice with respect to the entire manual.

The IMF staff wishes to acknowledge, with thanks, the contributions of the following experts who participated in the February 2001 meeting.

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1. Introduction

This chapter describes the purpose of this manual, the uses of government finance statistics, the structure of the government finance statistics system, major methodological changes from the previous edition of this manual, and methods of implementing the revised system.

A. Purpose of the manual

1.1 This second edition of the *Government Finance Statistics Manual* (*GFS Manual* or revised *GFS Manual*)[1] describes a specialized macroeconomic statistical system (the GFS system) designed to support fiscal analysis. The manual provides the economic and accounting principles to be used in compiling the statistics and guidelines for the presentation of fiscal statistics within an analytic framework that includes appropriate balancing items.[2] The manual does not treat systematically the practical aspects of compiling the statistics. These aspects of the GFS system will be addressed in a compilation guide.

1.2 The primary purpose of the *GFS Manual* is to provide a comprehensive conceptual and accounting framework suitable for analyzing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector of any country. The concept of a sector is described in Chapter 2. In short, the general government sector consists of entities that implement public policy through the provision of primarily nonmarket services and the redistribution of income and wealth, with both activities supported mainly by compulsory levies on other sectors. The public sector consists of the general government sector plus government-controlled entities, known as public corporations, whose primary activity is to engage in commercial activities.

1.3 Public finance analysts have traditionally used fiscal statistics to analyze the size of the public sector; its contribution to aggregate demand, investment, and saving; the impact of fiscal policy on the economy, including resource use, monetary conditions, and national indebtedness; the tax burden; tariff protection; and the social safety net (see Chapter 4, Box 1). In addition, analysts have become increasingly interested in assessing the effectiveness of spending on poverty alleviation, the sustainability of fiscal policies, net debt, net wealth, and contingent claims against government, including the obligations for social security pensions.

1.4 Achieving these analytic goals often requires the use of statistics for the public sector rather than the general government sector. Public corporations, nonfinancial as well as financial, can carry out government fiscal policies in a variety of ways, and analysis of their fiscal activities frequently requires statistics on all of their activities rather than isolated statistics on specific transactions. Even when statistics are compiled for only the general government sector, some information on public corporations is required to reflect the level and change in the level of equity ownership of public corporations held by units of the general government sector.

1.5 The basic concepts, classifications, and definitions employed in this manual depend on economic reasoning and principles that should be valid universally regardless of the circumstances in which they are applied. Therefore, the GFS system is applicable to all types of economies regardless of the institutional or legal structure of a country's government, the sophistication of its statistical development, the

[1] The first edition was published in 1986 with the title *A Manual on Government Finance Statistics.* It will be referred to as the *1986 GFS Manual.*

[2] Balancing items summarize the net value of the activities covered by a set of accounting entries, such as the net value of total revenue less total expense. Chapter 4 provides details on the analytic framework and its balancing items.

system of government financial accounting, or the extent of public ownership of for-profit entities. Nevertheless, the fact that countries differ greatly in their governmental and economic structures means that the various parts of this manual will not be equally relevant.

1.6 This edition of the *GFS Manual* updates the internationally recognized standards for the compilation of statistics required for fiscal analysis that were established by the *1986 GFS Manual*. The revised standards have been harmonized with the corresponding standards of other internationally recognized macroeconomic statistical systems to the extent consistent with the goal of supporting fiscal analysis. The other statistical systems are the overarching System of National Accounts (hereafter referred to as the *1993 SNA*) and two specialized systems that are focused on the balance of payments and monetary and financial statistics.[3] This manual draws heavily on the text of the *1993 SNA* to avoid an inference that a different meaning is intended.[4]

B. Uses of the GFS system

1.7 The GFS system is designed to provide statistics that enable policymakers and analysts to study developments in the financial operations, financial position, and liquidity situation of the general government sector or the public sector in a consistent and systematic manner. The GFS analytic framework can be used to analyze the operations of a specific level of government and transactions between levels of government as well as the entire general government or public sector.

1.8 One method used in the GFS system to produce summary information on the overall performance and financial position of the general government or public sector is through the use of a set of balancing items, such as the net operating balance, net lending/borrowing, and the change in net worth. Such balancing items are most effectively defined and measured within an integrated and comprehensive accounting framework such as the GFS system.

1.9 In contrast to summary measures, the detailed data of the GFS system can be used to examine specific areas of government operations. For example, one might want information about particular forms of taxation, the level of expense incurred on a type of social service, or the amount of government borrowing from the banking system.

1.10 The harmonization of the GFS system with other macroeconomic statistical systems means that data from the GFS system can be combined with data from other systems to assess general government or public sector developments in relation to the rest of the economy. Similarly, the establishment of internationally recognized standards permits government finance statistics to be used in cross-country analyses of government operations, such as comparisons of ratios of taxes or expense to gross domestic product.

C. Structure and features of the GFS system

1.11 The GFS system pertains to the general government and public sectors as defined in the *1993 SNA* and Chapter 2 of this manual. These sectors are defined in terms of institutional units, which are economic entities that are capable of owning assets, incurring liabilities, and engaging in economic activities and transactions with other entities in their own right. These characteristics render institutional units a subject of economic and statistical interest that can be satisfied by compilation of a full set of accounts for them, including balance sheets.

1.12 Two types of flows are recorded in the GFS system: transactions and other economic flows.[5] For the most part, transactions are interactions between two institutional units that take place by mutual agreement. The ***Statement of Government Operations*** (see Chapter 4) records the results of all transactions during an accounting period. They are classified as revenue, expense, net acquisitions of nonfinancial

[3] Commission of the European Communities, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations, World Bank, *System of National Accounts 1993* (Brussels/Luxembourg, New York, Paris, Washington, 1993). International Monetary Fund, *Balance of Payments Manual, 5th ed.* (Washington, 1993). International Monetary Fund, *Monetary and Financial Statistics Manual* (Washington, 2000).

[4] This manual also draws heavily on United Nations, *Classifications of Expenditure According to Purpose* (New York, 2000) for the Classification of Functions of Government introduced in Chapter 6 and on the annual publication of the Organisation for Economic Co-operation and Development, *Revenue Statistics* (Paris), for the descriptions of tax categories in Chapter 5.

[5] Flows reflect the creation, transformation, exchange, transfer, or extinction of economic value. Transactions and other economic flows are defined and described in greater detail in Chapter 3.

assets, net acquisitions of financial assets, or net incurrences of liabilities. Transactions that generate revenue or expense result in a change in net worth. Other types of transactions result in equal changes to assets and/or liabilities and do not result in a change to net worth.

1.13 Other economic flows include price changes and a variety of other economic events that affect the holdings of assets and liabilities, such as debt write-offs and catastrophic losses. The ***Statement of Other Economic Flows*** (see Chapter 4) summarizes these changes in assets, liabilities, and net worth.

1.14 The ***Balance Sheet*** (see Chapter 4) for the general government or public sector is a statement of the stocks of financial and nonfinancial assets owned, the stock of claims of other units against the owners of those assets in the form of liabilities, and the sector's net worth, equal to the total value of all assets less the total value of all liabilities.

1.15 The comprehensive treatment of transactions and other economic flows in the GFS system enables the opening and closing balance sheets to be reconciled fully. That is, the stock of a given type of asset or liability at the beginning of an accounting period plus the changes in that stock indicated by transactions and other economic flows equals the stock at the end of the period. Such an integrated statistical system permits the effects of policies and specific economic events to be described and analyzed fully.

1.16 Various classifications are applied to the flows and stocks recorded in the GFS system. For example, each revenue transaction is classified according to whether it is a tax or another type of revenue; expense transactions are classified by purpose and by economic type; assets are classified according to whether they are financial or nonfinancial; and financial assets and liabilities are classified both by type of instrument and the sector of the unit that issued the asset held by government or that holds the liability issued by government.

1.17 Despite harmonization of the GFS system with the *1993 SNA*, there are differences between the two statistical systems. The most important difference is that the focus of the GFS system is on financial transactions—taxing, spending, borrowing, and lending—while the *1993 SNA* also focuses on the production and consumption of goods and services. As a result, the treatment of government productive activities in the GFS system differs substantially from the treatment of those activities in the *1993 SNA*. Significant differences relate to the treatment of own-account capital formation, retirement schemes for government employees, and the degree of consolidation (for more details, see Appendix 3).

1.18 In many cases, the compilation of government finance statistics will be the first step in the compilation of statistics for the general government sector of the national accounts. For this reason, some data that normally would not appear in a standard GFS presentation should be maintained in subsidiary records because they are needed for the national accounts. For example, the detailed estimates of retirement schemes for government employees should be maintained so that the different treatment of such schemes in the *1993 SNA* can be accommodated.

1.19 Definitions of concepts in the GFS system are the same as in the *1993 SNA*, but the coverage of a particular category of transactions may be slightly different. For example, compensation of employees recorded as an expense in the GFS system does not include the compensation of employees engaged in own-account capital formation, but compensation of employees in the *1993 SNA* includes the compensation of all employees. The definition and composition of compensation of employees, however, is identical in both systems. Using the same name when the coverage is different could be misleading. To note where the coverage or some other aspect of a concept differs from the same concept in the *1993 SNA*, the indicator "[GFS]" is added after the GFS title and an explanation of the difference is provided.

1.20 Contingencies, such as loan guarantees and implicit guarantees to provide social benefits when various needs arise, can have important economic influences on the general economy but do not result in transactions or other economic flows recorded in the GFS system until the event or condition referred to actually occurs. As a result, provision is made for recording contingencies as memorandum items.

D. Methodological changes from the 1986 GFS system

1.21 The methodology for compiling government finance statistics described in this manual differs substantially from the methodology of the *1986*

GFS Manual. The following paragraphs summarize the major differences. Details are provided in Appendix 1.

1. Coverage

1.22 The focus of the coverage of the revised GFS system is the general government sector as defined in the *1993 SNA*, which is defined on the basis of institutional units. The coverage of the *1986 GFS Manual* is defined on a functional basis and includes the relevant transactions of any unit carrying out a function of government. Frequently, units of the broader public sector carry out some functions of government. To capture the fiscal transactions and activities taking place outside the general government sector, the compilation of statistics of the public sector and identification of the transactions between units of the general government sector and public corporations are encouraged.

2. Basis of recording economic events

1.23 In the revised GFS system, flows are recorded on an accrual basis, which means that flows are recorded at the time economic value is created, transformed, exchanged, transferred, or extinguished. In the *1986 GFS Manual*, transactions are recorded when cash is received or paid.

1.24 Using the accrual basis also means that nonmonetary transactions are fully integrated in the revised GFS system. In the *1986 GFS Manual* only selected nonmonetary transactions were recorded as memorandum items.

3. Valuation

1.25 Flows as well as assets, liabilities, and net worth are valued at current market prices in the revised *GFS Manual*, but with a provision for recording the nominal value of debt securities as a memorandum item. In the *1986 GFS Manual*, debt securities are valued at the amount the government is obligated to pay when the debt matures, which may differ from both the nominal value and the current market value.

4. Balance sheets

1.26 Complete balance sheets, which include all stocks of financial assets, nonfinancial assets, liabilities, and net worth, are included in the revised GFS system. The *1986 GFS Manual* includes only stocks of certain debt liabilities.

5. Integration of flows and stocks

1.27 The comprehensive recording of transactions and other economic flows permits a full integration of flows and stocks and the reconciliation of differences between the opening and closing balance sheets. Such a reconciliation of the stocks of the debt liabilities included in the *1986 GFS Manual* is not possible without the collection of additional information.

6. The analytic framework

1.28 In the revised GFS system several new balancing items are introduced. Associated with this change is the view that analysis of the general government sector or the public sector must include a variety of considerations and that no single measure is sufficient for all purposes. In the *1986 GFS Manual*, the emphasis of the analytic framework is focused on a single balancing item, the overall deficit/surplus.

1.29 The revised definitions of revenue and expense as changes in net worth resulting from transactions lead to a revision of the treatment of transactions in nonfinancial assets from the *1986 GFS Manual* and the introduction of new balancing items. Previously, cash transactions in nonfinancial assets were treated as capital revenue and expenditure, which affected the overall deficit/surplus. Now the difference between revenue and expense is a balancing item, the net operating balance, that measures the change in net worth resulting from transactions.

1.30 All transactions involving the acquisition or disposal of financial assets are now treated as financial transactions, and net lending/borrowing is a balancing item defined as the net acquisition of all financial assets less the net incurrence of all liabilities from transactions. In the *1986 GFS Manual*, the net acquisition of financial assets for policy purposes was designated as lending minus repayments and treated like expenditure in deriving the overall deficit/surplus. Provision is made in the revised system, however, for another balancing item, the overall balance, which allows the net acquisition of selected financial assets to be treated similarly to the net acquisition of financial assets for policy purposes in the *1986 GFS Manual* (see Chapter 4).

E. Implementation of the revised GFS system

1.31 Some countries may be able, at least initially, to compile only a small part of the revised GFS system. It is not appropriate to lay down general priorities for data collection when economic circumstances may vary so much from one country to another. In practice, priorities usually are best established by national authorities that are familiar with the situation, needs, and problems of the individual countries in question.

1.32 It is recognized that the implementation of the fully integrated GFS system presented in this manual will take some time and will need to progress at a pace determined by the differing needs and circumstances of the country involved. In particular, many countries will need to revise their underlying accounting systems to reflect the accrual accounting principles and revised classifications of the GFS system.[6]

1.33 Nonetheless, it is likely that many countries will follow a similar path as they implement the system. For example, a possible first step on the migration path could be that countries would adopt the revised classification structure of the Statement of Government Operations or Statement of Sources and Uses of Cash and adjust their existing cash-based statistics to allow for known deficiencies, such as by incorporating information on revenue or expense arrears. Another step might be the assembly of balance sheet information on financial assets and liabilities that would enable estimates to be made of the other economic flows of the system as they relate to these financial items. A more difficult step is likely to be the collection of a complete set of information about the stocks of nonfinancial assets held at a given time and their valuation at current market prices. Finally, a fully developed accrual accounting system could be introduced that provides for complete balance sheets to be prepared.

[6]Although the GFS system is described in standard accounting terms, it is important to remember that it is a statistical reporting system that might differ in important ways from the underlying financial accounting system from which most of the GFS statistics will be derived.

F. Structure of the manual

1.34 The remainder of this manual can be divided into two general topics. Chapters 2 through 4 develop the concepts used in the system, and Chapters 5 through 10 describe the classifications used and the types of flows or stocks included in each classification category.

1.35 Chapter 2 describes the coverage of the general government sector, the division of the sector into subsectors, and its expansion to the public sector. Chapter 3 first summarizes the concepts of transactions, other economic flows, and stocks of assets and liabilities. It then describes the accounting rules governing their recording, including timing, valuation, and consolidation. Chapter 4 describes the analytic framework, which is the presentation of transactions, other economic flows, and balance sheets in a manner that permits the calculation of balancing items as summary measures of the activities of the general government sector.

1.36 Chapters 5 through 10 describe the classifications of transactions, other economic flows, and stocks of assets and liabilities. Chapter 5 is devoted to revenue transactions, which represent increases in net worth. Chapter 6 describes expense transactions, which decrease net worth. Chapter 7 describes the balance sheet and the classification of stocks of assets, liabilities, and net worth. Chapter 8 provides a classification of transactions in nonfinancial assets, and Chapter 9 provides a classification of transactions in financial assets and liabilities. Finally, Chapter 10 covers other economic flows.

1.37 The manual includes four appendixes. Appendix 1 describes the methodological changes from the *1986 GFS Manual*; Appendix 2 describes the treatment of various debt and debt-related transactions and other economic flows; Appendix 3 summarizes the relationships between the GFS system and the *1993 SNA*; and Appendix 4 lists all of the classification codes used in the GFS system. An annex to Chapter 2 describes social protection, while an annex to Chapter 6 reproduces the Classification of the Functions of Government.

2. Coverage of the GFS System

This chapter defines the concepts of sectors and institutional units and then uses those concepts to define the general government sector and the public sector.

A. Introduction

2.1 The government of a country consists of the public authorities and their agencies, which are entities established through political processes that exercise legislative, judicial, and executive authority within a territorial area.[1] The principal economic functions of a government are (1) to assume responsibility for the provision of goods and services to the community on a nonmarket basis, either for collective or individual consumption, and (2) to redistribute income and wealth by means of transfer payments.[2] An additional characteristic of government is that these activities must be financed primarily by taxation or other compulsory transfers.[3] A government may, of course, also finance a portion of its activities in a specific period by borrowing or by acquiring funds from sources other than compulsory transfers, such as interest revenue, incidental sales of goods and services, or the rent of subsoil assets.

2.2 The goods and services provided to the community for collective consumption normally consist of services such as public administration, defense, and law enforcement. By definition, collective services are always provided free. Typical goods and services provided for individual consumption are education, health, housing, recreation, and cultural services. These services may be provided for free or the government may charge a fee. The goods and services provided to the community as a whole or to individuals may be produced by the government itself or the government may purchase them from a third party.

2.3 In principle, the GFS system covers all entities that materially affect fiscal policies. Normally, fiscal policies are implemented by entities wholly devoted to the economic functions of government, such as a government ministry. In addition to those entities, however, fiscal policy may be carried out by government-owned or controlled enterprises that engage primarily in commercial activities. These enterprises, such as the central bank or national railroad, which are referred to as public corporations, are not considered part of government, but statistics should be collected on them.

2.4 Determining the coverage of the entities included in the GFS system therefore requires consideration of two questions. First, what is the statistical unit from which it is feasible and meaningful to collect statistics? Second, which of those statistical units should be included in the GFS system?

2.5 Regarding the first question, the statistical unit employed in the GFS system is the institutional unit, the same unit that is the foundation of the *1993 SNA*. As explained later in this chapter, this type of unit can, in its own right, own assets, incur liabilities, and engage in economic activities and transactions with other entities. There are several reasons for choosing this unit:

- Statistics can be based on information from entities for which complete sets of accounts can be com-

[1] The term "government" is used here as a collective of all entities in a country that satisfy this definition. More often, reference will be made to the various individual governments of a country. For example, a country may have one central government; several state, provincial, or regional governments; and many local governments.

[2] The concepts of market and nonmarket output are described in paragraphs 2.31 to 2.37. Briefly, nonmarket output consists of goods and services distributed for free or sold at very low prices.

[3] The requirement of financing activities by compulsory transfers is necessary to differentiate a government from a nonprofit institution, which may carry out the same functions as a government but obtains its funds from voluntary transfers, property income, or sales. The receipt of compulsory transfers may be indirect. For example, a local government may finance its activities with grants from the central government.

piled, including balance sheets. Such accounts permit the integration of flows and stocks. That is, all changes in the balance sheet during an accounting period can be traced to a transaction or other identified event recorded in the system.

- The data needed for the compilation of statistics are usually available in existing accounting records or can be made available.

- Statistics for government can be harmonized with statistics of the *1993 SNA* because the entities for which statistics are compiled are defined identically.

2.6 An alternative to compiling GFS based on institutional units is to compile statistics from all units in the economy, but include only those statistics that relate directly to fiscal operations. Not only would it be impossible to construct balance sheets and explain changes in balance sheets with such statistics, but in practice, it is unlikely to be possible to separate the fiscal operations of public corporations from their normal commercial activities. For example, it is unlikely that loans issued by a public financial corporation with an interest rate deliberately set lower than the market rate can be separated from similar loans with a market rate.

2.7 With regard to the question of the institutional units for which statistics should be compiled, two principal constructs are developed in this manual. First, the general government sector is defined. It consists of all institutional units primarily engaged in nonmarket operations. Second, the public sector is defined to capture the impact on fiscal policy of the activities of public corporations. It includes all units of the general government sector plus all public corporations. In addition, a number of subsectors of the general government and public sectors are defined because of their likely analytic usefulness.

2.8 The remainder of this chapter first defines the concepts of sectors and institutional units in general. It then applies these concepts to the general government sector and the public sector. Finally, the other sectors mentioned in this manual and the concept of residency are described.

B. Sectors and institutional units[4]

1. Definition of a sector

2.9 The total economy of a country can be divided into ***sectors***, with each sector consisting of a number of ***institutional units***—defined in the following section—that are resident in the economy. This manual follows the *1993 SNA* by initially dividing the total economy into five mutually exclusive sectors. The units[5] in each sector have similar objectives and these objectives are, in turn, different from those of units in other sectors. The five sectors are as follows:

- The ***nonfinancial corporations sector***, which consists of entities created for the purpose of producing goods and nonfinancial services for the market;

- The ***financial corporations sector***, which consists of entities engaged in providing financial services for the market;

- The ***general government sector***, which consists of entities that fulfill the functions of government as their primary activity;

- The ***nonprofit institutions serving households sector***, which consists of all resident nonprofit institutions, except those controlled and mainly financed by government, that provide nonmarket goods or services to households; and

- The ***households sector***, which consists of small groups of persons who share the same living accommodation, pool some or all of their income and wealth, and consume certain types of goods and services collectively.

2.10 For analytic purposes each of these sectors may be divided into subsectors, and the subsectors can be combined in different ways to form other sectors. For example, the general government sector can be divided into central, state, and local government subsectors, and the nonfinancial corporations sector can be divided into public nonfinancial corporations and other nonfinancial corporations.

[4]The definitions and descriptions of sectors and institutional units are intended to be fully consistent with the equivalent definitions and descriptions in Chapter IV of the *1993 SNA*.
[5]Hereafter, "unit" will often be used as a short form for "institutional unit."

2. Definition of an institutional unit

2.11 An ***institutional unit*** is an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities. Some important features of institutional units follow:

- The ability of an institutional unit to own goods or assets in its own right means that it is also able to exchange the ownership of goods or assets in transactions with other institutional units.

- An institutional unit is able to take economic decisions and engage in economic activities for which it is itself held directly responsible and accountable at law.

- An institutional unit is able to incur liabilities on its own behalf, to take on other obligations or future commitments, and to enter into contracts.

- Either a complete set of accounts, including a balance sheet of assets, liabilities, and net worth, exists for an institutional unit, or it would be possible and meaningful, from both an economic and legal viewpoint, to compile a complete set of accounts if they were to be required.

2.12 There are two main types of entities that may qualify as institutional units: (1) persons or groups of persons in the form of households and (2) legal or social entities whose existence is recognized by law or society independently of the persons or other entities that may own or control them.

2.13 The four types of legal or social entities recognized in the *1993 SNA* and this manual as institutional units are corporations, quasi-corporations, nonprofit institutions, and government units.

2.14 ***Corporations*** are legal entities that are created for the purpose of producing goods or services for the market. They may be a source of profit or other financial gain to their owners. A corporation is collectively owned by shareholders who have the authority to appoint directors responsible for its general management. Institutional units owned or controlled by governments that qualify as corporations in the sense used here are known as public corporations. All corporations are members of the nonfinancial corporations sector or the financial corporations sector, depending on the nature of their primary activity.

2.15 The key to classifying a unit as a corporation is not its legal status but rather the characteristics of producing goods and services for the market and being a source of profit or other financial gain to the owners. Some nonprofit institutions and government units have the legal status of a corporation but are not considered corporations for the purposes of economic statistics because they do not produce for the market. Other nonprofit institutions are legal corporations that produce for the market but are not a source of financial gain to their owners. Conversely, some entities with different legal titles, such as joint-stock company, are considered corporations for economic statistics.

2.16 ***Quasi-corporations*** are entities that are not incorporated or otherwise legally established, but which function as if they were corporations, as defined in the previous two paragraphs. Quasi-corporations are also treated in the same way as corporations in the GFS system, which means that they are institutional units separate from the units to which they legally belong. They are classified as members of either the nonfinancial corporations sector or the financial corporations sector depending on the nature of their primary activity.

2.17 The concept of a quasi-corporation is intended to separate from their owners those unincorporated enterprises that are engaged in commercial activities and are sufficiently self-contained and independent that they behave in the same way as corporations. To be a quasi-corporation, there must be a complete set of accounts for the enterprise or it must be possible to construct such accounts, including any flows of income and capital between the quasi-corporation and its owner. A government printing office and an agency producing cultural services for sale to the public are examples of possible public quasi-corporations.

2.18 In order for a public quasi-corporation to exist, the government must allow the management of the enterprise considerable discretion with respect to the management of the production process and with the use of its funds. The quasi-corporation must be able to maintain its own working capital and be able to finance some or all of its capital formation, either from its own resources or by borrowing. The ability to distinguish flows of income and capital between a quasi-corporation and the government unit that owns it implies that the operating and financing activities of the quasi-corporation are not fully integrated with the parent's corresponding activities, despite the fact that the quasi-corporation is not a separate legal entity.

2.19 ***Nonprofit institutions (NPIs)*** are legal or social entities created for the purpose of producing or distributing goods and services, but they cannot be a source of income, profit, or other financial gain for the institutional units that established, control, or finance them. An NPI may engage in market or nonmarket production. If it engages in market production, such as a hospital that charges market prices or a university that charges tuition, then the NPI must either retain any surplus earned from its productive activities to support its future operations or distribute it to institutional units other than the units that established, control, or finance it. These market NPIs are, like corporations and quasi-corporations, members of either the nonfinancial corporations sector or the financial corporations sector. Other NPIs are members of either the nonprofit institutions serving households sector or the general government sector, depending on which units control and mainly finance the NPI.

2.20 ***Government units*** are institutional units that carry out the functions of government as their primary activity. That is, they have legislative, judicial, or executive authority over other institutional units within a given area; they assume responsibility for the provision of goods and services to the community as a whole or to individual households on a nonmarket basis; they make transfer payments to redistribute income and wealth; and they finance their activities, directly or indirectly, mainly by means of taxes and other compulsory transfers from units in other sectors. All government units are members of the general government sector.

2.21 A ***social security fund*** is a particular kind of government unit that is devoted to the operation of one or more social security schemes, which are defined in the annex to this chapter. A social security fund must satisfy the general requirements of an institutional unit. That is, it must be separately organized from the other activities of government units, hold its assets and liabilities separately, and engage in financial transactions on its own account.

3. Application of the definition of an institutional unit to government

2.22 Depending on the complexity of a government's organization, the identification of government units may be difficult. Most of the ministries, departments, agencies, boards, commissions, judicial authorities, legislative bodies, and other entities that make up a government are not institutional units because they generally do not have the authority to own assets, incur liabilities, or engage in transactions in their own right. In general, all entities funded by appropriations made in accordance with a budget controlled by the legislature must be amalgamated into a single institutional unit.

2.23 A government unit is not limited in its geographic location. For example, the individual ministries or departments of a particular government may be deliberately dispersed throughout the area of the government's jurisdiction. They remain, nevertheless, part of the same institutional unit. Similarly, a given ministry or department may maintain branch offices or agencies in many different locations to meet local needs. These offices and agencies are part of the same institutional unit.

2.24 There may, however, be government entities with a separate legal identity and substantial autonomy, including discretion over the volume and composition of their expenditures and a direct source of revenue, such as earmarked taxes. Such entities are often established to carry out specific functions, such as road construction or the nonmarket production of health or education services. These entities should be treated as separate government units if they maintain full sets of accounts, own goods or assets in their own right, engage in nonmarket activities for which they are held accountable at law, and are able to incur liabilities and enter into contracts.

2.25 Many governments allocate substantial volumes of resources to social protection through the provision of social benefits, which are payments in cash or in kind to protect the entire population or specific segments of it against certain social risks. A social risk is an event or circumstance that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or by reducing their incomes. Examples of social benefits are the provision of medical services, unemployment compensation, and social security pensions. Because of the large scale of social protection programs in many countries and the different organizational possibilities of such programs, an annex to this chapter describes the different types of programs and their effects on statistics of the general government sector.

2.26 When a government comprises two or more institutional units, there normally is one unit that controls the other units. The controlling unit most likely includes the legislature, head of state, and judiciary. In contrast to corporations, one government unit controls another government unit by appointing its managers and/or determining the laws and regulations that provide its finance rather than through equity ownership. No government unit owns another government unit, and government units do not issue equity securities.

2.27 Public corporations, in contrast to government units, are potential sources of financial gain to the government units that own or control them. In some cases, the corporation issues equity securities so that the financial gain or loss is clearly allocated to the owner or owners. In other cases, no equity securities are issued, but it is clear that a specific government unit controls the corporation's activities and is financially responsible for it. In those cases, the responsible government unit is assumed to own implicitly issued equity securities.

C. The general government sector and its subsectors

1. The general government sector

2.28 The general government sector consists of all government units and all nonmarket NPIs that are controlled and mainly financed by government units.[6] Hereafter the term ***general government unit*** will be used to refer to units of the general government sector.[7]

2.29 Nonmarket NPIs that are both controlled and mainly financed by government units are legally nongovernment entities, but they are considered to be carrying out government policies and effectively are part of government. Governments may choose to use nonprofit institutions rather than government agencies to carry out certain government policies because NPIs may be seen as detached, objective, and not subject to political pressures. For example, research and development and the setting and maintenance of standards in fields such as health, safety, the environment, and education are areas in which NPIs may be more effective than government agencies.

2.30 A government unit controls a nonmarket NPI when it has the ability to determine the general policy or program of the NPI. A government unit can determine the general policy or program by having the right to appoint the officers managing the NPI or through financial means. The amount of control provided by the supply of finance depends on the timing and restrictions attached to the funds as well as the amount of financing. It is necessary, therefore, to apply judgment based on the individual facts and circumstances of each case. An NPI is mainly financed by a government unit when the main portion of the NPI's operating funds is provided by a government unit.[8]

2.31 The general government sector does not include public corporations or quasi-corporations. When a unit sells some or all of its output, it can be difficult to decide whether to classify the unit as either a government unit or a public corporation or to decide whether a public quasi-corporation exists. In general, the decision is based on whether the unit sells its output at market prices. Any unit that sells all or almost all of its output at market prices is a corporation or quasi-corporation and all other units are government units. With public units, however, market prices are not always easy to identify. The concept of economically significant prices underlies the determination of prices as market or nonmarket and, therefore, the classification of units.

2.32 ***Economically significant prices*** are prices that have a significant influence on the amounts the producers are willing to supply and on the amounts purchasers wish to buy. This definition can be implemented, however, only with a great deal of judgment after considering all of the facts and circumstances. Although no precise guidelines can be provided, it is clear that an economically significant price does not have to be so high that all costs of production are covered. At the other extreme, a price that is not economically significant is one that is not quantitatively significant from the point of view of either supply or demand. Such prices are likely to be charged in order to raise some revenue or achieve some reduction in the excess demand that may occur when services are

[6] Only resident government units and NPIs are included in the general government sector, but it can be assumed that all government units and NPIs controlled by government are residents. The concept of residency is described in paragraphs 2.70 to.2.77.
[7] The term "general government unit" will generally be used in this manual, but in most cases the text is equally applicable to public corporations. In some cases, reference will be made to public corporations or public sector units for clarity. Otherwise an extension to the public sector can be assumed.

[8] In agreement with footnote 4, the assignment of NPIs to sectors should be identical to the assignment used in the national accounts.

provided completely free, but they are not intended to eliminate such excess demand. The price merely deters those units whose demands are the least pressing without greatly reducing the total level of demand.

2.33 ***Market output*** consists of goods and services that are sold at economically significant prices, otherwise disposed of on the market, or intended for sale or disposal on the market. ***Nonmarket output*** consists of goods and services that are supplied free or at prices that are not economically significant to other institutional units or the community as a whole.

2.34 A ***market producer*** is a unit that markets its entire output. In this context, market output includes output in the form of own-account fixed capital formation. A ***nonmarket producer*** is a unit that mainly supplies goods or services free or at prices that are not economically significant to households or the community as a whole. These producers may also have some sales of market output as a secondary activity.

2.35 Thus, when classifying units that sell some or all of their output, two questions must be considered. First, if a unit sells most or all of its output, are the prices economically significant? If they all are, then the unit is a public corporation. If none of the prices is economically significant, then the unit is a general government unit. Second, if only some of the prices are economically significant or if the unit sells only some of its output, is it possible to identify a quasi-corporation within the unit? If it is possible, then the organizational components that sell their output at economically significant prices and have a complete set of accounts are treated as a quasi-corporation. The remaining components would form a general government unit. If it is not possible to form a quasi-corporation, then the components selling their output for economically significant prices remain an integral part of the general government unit and their sales are part of the unit's revenue.

2.36 If a general government unit sells some of its output for economically significant prices, then one or more ***market establishments*** may exist. An establishment is an enterprise[9] or a part of an enterprise situated in a single location at which only a single productive activity is carried out, or where the principal productive activity accounts for most of the value added. In practice, an establishment is usually identified with an individual workplace at which a particular kind of productive activity is carried out. An institutional unit may be composed of one or more establishments.

2.37 A market establishment within a general government unit is an establishment that sells or otherwise disposes of all or most of its output at prices that are economically significant.[10] All other establishments are nonmarket establishments. A nonmarket producer, such as a general government unit, will have mostly nonmarket establishments, but it may have one or more market establishments. For example, a municipal swimming pool that charges entrance fees or a government publishing office that sells its publications might be a market establishment. The definition of a market establishment implies that complete accounting records about its production activities are available, including the value of its output and the cost of producing that output. It will not, however, have a complete balance sheet or be able to engage in financial transactions in its own name. If it had those qualities it would be treated as a quasi-corporation. The sales of market establishments are identified in Chapter 5 as a specific category of revenue. Sales by nonmarket establishments, whether at economically significant prices or not, are classified as a different category of revenue, incidental sales of goods and services.

2.38 There are two exceptions to these general rules about the classification of units. First, if the unit is an internal service organization that sells its output mainly to other government units, such as a transportation pool, a supply depot, or a munitions factory, then it is treated as an ancillary unit and its activities are consolidated with the other activities of the government unit that controls it. Second, in some cases a unit that appears to be a financial corporation is in fact a general government unit. Most typically, a government may establish a central borrowing authority that borrows on the market and then lends only to general government units, generally on commercial terms. Such organizations merely facilitate government borrowing and should be classified as general government units.[11]

2.39 An additional consequence of compiling statistics based on institutional units is that a part of the monetary authority may be included in the general government sector. Normally, the central bank is a

[9] An enterprise is an institutional unit engaged in production.

[10] A market establishment is the closest equivalent in this manual to the concept of a departmental enterprise in the *1986 GFS Manual.*

[11] If the unit mainly lends to public corporations, then it would be classified as a financial corporation.

separate institutional unit classified as a public corporation. In some countries, however, the central government may include units that engage in financial transactions that in other countries would be performed by central banks. In particular, government units may be responsible for the issue of currency, the maintenance of international reserves, the operation of exchange stabilization funds, or transactions with the IMF. When the units in question remain financially integrated with the government and under the direct control and supervision of the government, then they cannot be treated as separate institutional units and any monetary authority functions carried out by the government are recorded in the general government sector.

2. Subsectors of the general government sector

2.40 It is often necessary or desirable for analytic reasons to disaggregate the statistics of the general government sector. Two primary methods of constructing subsectors are presented. The difference between them is the result of alternative possible treatments of social security funds.

2.41 Depending on the administrative and legal arrangements, there may be more than one level of government within a country, and statistics should be compiled for each level. In the GFS system, provision is made for three levels of government: central; state, provincial, or regional; and local. Not all countries will have all three levels; some may have only a central government or a central government and one lower level. Other countries may have more than three levels. In that case, the various units should all be classified as one of the three levels suggested here. In addition to levels of government, the existence of social security funds and their role in fiscal policy may require that statistics for all social security funds be compiled as a separate subsector of the general government sector.

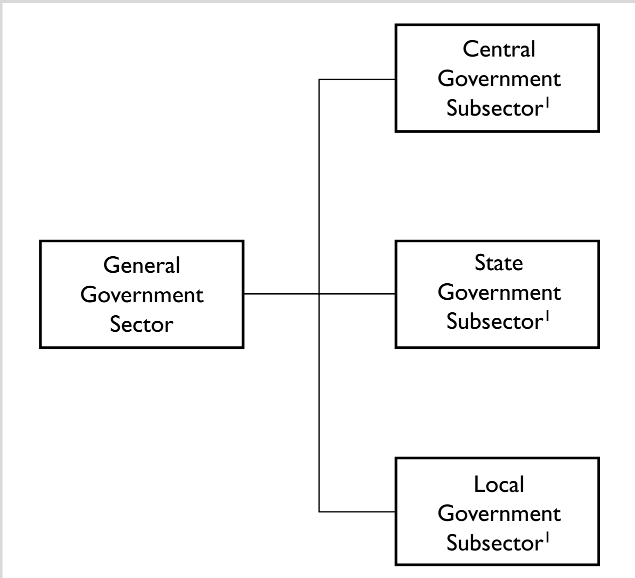
2.42 Classification problems may arise when government operations are carried out by a general government unit jointly responsible to two levels of government. This classification decision may be especially difficult if the agency has its own source of funding, such as earmarked taxes. Similarly, an NPI might be controlled and mainly financed by two or more government units at different levels of government. For example, a state government unit might have the right to appoint the majority of officers managing an NPI but the finance might be provided mainly by the central government. General government units subject to dual control should be classified to the level of government that predominates in financing or controlling its operations, but no precise rules can be formulated that cover all possible arrangements.

2.43 The requirements to classify general government units according to their level of government and whether they are a social security fund can be accommodated in two alternative sets of subsectors. First, all social security funds could be classified according to the level of government that operates them and combined with other general government units at that level. Thus, the subsectors would be central, state, and local government, assuming that all three levels of government exist (Figure 2.1). Second, all social security funds could be combined into a separate subsector and all other general government units could be classified according to their level. In that case, the central, state, and local government subsectors would consist of all government units other than social security funds.

2.44 The alternative methods of subsectoring are designed to accommodate different analytic needs. The decision as to which method is more appropriate in a given country depends on how well organized and important social security funds are and on the extent to which they are managed independently of the government units with which they are associated. If the management of social security funds is so closely integrated with the short- or medium-term requirements of the government's general economic policy that contributions and benefits are deliberately adjusted in the interests of overall economic policy, it becomes difficult, at a conceptual level, to draw any clear distinction between the management of social security and the other economic functions of government. In other countries, social security funds may exist in only a very rudimentary form. In either of these circumstances it is difficult to justify treating social security funds as a separate subsector on a par with central, state, and local government.

2.45 In addition to subsectors based on the level of government and the existence of social security funds, it may be possible to create subsectors at each level of government based on whether the units are financed by the legislative budgets of that level of government or by extrabudgetary sources. It is often analytically desirable to classify these types of units separately because of their differing sources of finance and different types of public oversight of their operations.

Figure 2.1: The General Government Sector and Its Subsectors



[1]Includes social security funds. Alternatively, social security funds can be combined into a seperate subsector.

2.46 In addition to the classification of units by level of government and by social security funds, some classifications of transactions are based on the other party to the transaction. In those instances, one grouping of units is "other general government units," which consists of all general government units other than the units for which the statistics are being compiled. For example, when statistics for the central government subsector are compiled, this grouping would include all general government units other than central government units.

2.47 The following sections define the levels of government. These definitions apply regardless of the selected treatment of social security funds.

a. Central government

2.48 The political authority of a country's central government extends over the entire territory of the country. The central government can impose taxes on all resident institutional units and on nonresident units engaged in economic activities within the country. The central government typically is responsible for providing collective services for the benefit of the community as a whole, such as national defense, relations with other countries, public order and safety, and the efficient operation of the social and economic system of the country. In addition, it may incur expenses on the provision of services, such as education or health, primarily for the benefit of individual households, and it may make transfers to other institutional units, including other levels of government.

2.49 The compilation of statistics for the central government is particularly important because of the special role it plays in monetary and economic analysis. It is mainly through central government finances that fiscal policy operates on inflationary or deflationary pressures within the economy. It is generally at the central government level alone that a decision-making body can formulate and carry out policies directed toward nationwide economic objectives. Other levels of government have neither national economic policies as their objective nor the central government's access to central bank credit.

2.50 The central government subsector is a large and complex subsector in most countries. It is generally composed of a central group of departments or ministries that make up a single institutional unit plus, in many countries, other units operating under the authority of the central government with a separate legal identity and enough autonomy to form additional government units.

b. State, provincial, or regional government

2.51 A state, province, or region is the largest geographical area into which the country as a whole may be divided for political or administrative purposes. These areas may be described by other terms, such as provinces, cantons, republics, prefectures, or administrative regions. For ease of expression and consistency with the *1993 SNA*, this level of government will be referred to hereafter as the state government.

2.52 The legislative, judicial, and executive authority of a state government extends over the entire area of an individual state, which usually includes numerous localities, but does not extend over other states. In some countries, individual states and state governments may not exist. In other countries, especially those with federal constitutions, considerable powers and responsibilities may be assigned to state governments.

2.53 A state government usually has the fiscal authority to levy taxes on institutional units that are resident in or engage in economic activities in its area of competence. To be recognized as a government unit the entity must be able to own assets, raise funds, and incur liabilities on its own account, and it must also be entitled to spend or allocate at least some of the taxes or other income that it receives according to its own policies. The entity may, however, receive transfers from the central government that are tied to certain specified purposes. A state government should also be able to appoint its own officers independently of external administrative control. If a government entity operating in a state is entirely dependent on funds from the central government, and if the central government also dictates the ways in which those funds are to be spent, then the entity should be treated as an agency of the central government.

2.54 If a state government exists, then its principal departments and ministries will constitute a single institutional unit in a manner similar to the core unit of the central government. In addition, there may be agencies operating under the authority of a state government with a separate legal identity and enough autonomy to form additional institutional units. There may also be institutional units whose authority extends over two or more states, but which are responsible to the respective state governments. Such units should also be included in the state government subsector.

c. Local government

2.55 The legislative, judicial, and executive authority of local government units is restricted to the smallest geographic areas distinguished for administrative and political purposes. The scope of a local government's authority is generally much less than that of the central or state governments, and such governments may or may not be entitled to levy taxes on institutional units or economic activities taking place in their areas. They are often heavily dependent on grants from higher levels of government, and they may also act as agents of central or state governments to some extent. To be treated as institutional units, however, they must be entitled to own assets, raise funds, and incur liabilities by borrowing on their own account. They must also have some discretion over how such funds are spent, and they should be able to appoint their own officers independently of external administrative control.

2.56 Local governments typically provide a wide range of services to local residents, some of which may be financed out of grants from higher levels of government. Statistics for local government may cover a wide variety of governmental units, such as counties, municipalities, cities, towns, townships, boroughs, school districts, and water or sanitation districts. Often local government units with different functional responsibilities have authority over the same geographic areas. For example, separate government units representing a town, a county, and a school district may have authority over the same area. In addition, two or more contiguous local governments may organize a government unit with regional authority that is accountable to the local governments. Such units should also be included in the local government subsector.

2.57 Some of the most typical functions of local governments include (1) educational establishments to which users' fees are small in relation to the main costs borne by the local government; (2) hospitals and social welfare establishments, such as kindergartens, nurseries, and welfare homes; (3) public sanitation and related entities, such as water purification systems and plants, refuse collection and disposal agencies, cemeteries, and crematoria; and (4) culture, leisure, and sports facilities, such as theaters, concerts, music halls, museums, art galleries, libraries, parks, and open spaces.

2.58 Government units serving both a state government and one or more local governments would be included with the level of government that predominates in its operations and finances. In some countries more than one level of government exists between the central government and the smallest governmental institutional units at a local level. In such cases, these intermediate levels of government are grouped together with the level of government, either state or local, with which they are most closely associated.

D. The public sector

2.59 Statistics should be compiled for the public sector as well as for the general government sector. For example, public corporations may carry out government operations at the behest of the government units that own them. Such activity can take place in a variety of forms. Most directly, a public corporation can engage in specific transactions to carry out a government operation, such as lending to particular parties at a lower-than-market interest rate or selling electric power to selected customers at reduced rates. More generally, however, a public corporation can carry out fiscal policy by employing more staff than required, purchasing extra inputs, paying above-market prices for inputs, or selling a large share of its output for prices that are less than what the market price would be if only private producers were involved.

2.60 Statistics on public corporations are also likely to be necessary to compile comprehensive statistics for the general government sector. For example, changes in the net worth of public corporations are reflected in the value of the equity of those corporations owned by general government units. The accounts of public corporations will help explain the source of changes in these assets, and that information will be useful for an analysis of sustainability and other aspects of fiscal analysis.

2.61 When compiling statistics of public corporations, various groupings—or subsectors of the public sector—may be desirable for analytic purposes. Four groupings of public corporations will likely form the foundation from which other groupings can be created. These four groupings are (Figure 2.2):

- Nonfinancial public corporations—all resident nonfinancial corporations controlled by general government units.

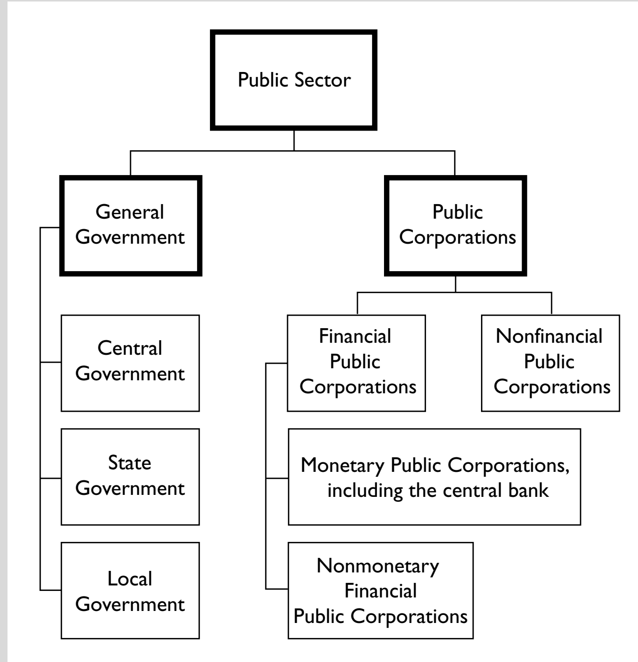
- Nonmonetary financial public corporations—all resident financial corporations controlled by general government units except the central bank and other public depository corporations. Depository corporations are financial corporations, quasi-corporations, or market NPIs whose principal activity is financial intermediation and who have liabilities in the form of deposits or financial instruments that are close substitutes for deposits.

- Monetary public corporations other than the central bank—all resident depository corporations other than the central bank that are controlled by general government units.

- The central bank, which consists of the central bank itself, currency boards or independent currency authorities that issue national currency that is fully backed by foreign exchange reserves, and other government-affiliated agencies that are separate institutional units and primarily perform central bank activities.

2.62 Starting with the four groupings just listed and the subsectors of the general government sector, other subsectors of the public sector can be created, including:

Figure 2.2: The Public Sector



- The nonfinancial public sector—the general government sector plus nonfinancial public corporations.

- The nonmonetary public sector—nonfinancial public corporations, nonmonetary financial public corporations, and the general government sector.

- Central government public sector—the central government subsector plus public corporations controlled by the central government.

E. Sectors other than the general government and public sectors

2.63 Certain transactions in the GFS system are classified by the sector of the other party to a financial instrument. For example, in Chapter 9 the incurrence of debt liabilities by the general government sector can be classified by the sectors in the rest of the economy or in other countries providing the finance. For this purpose, a classification of sectors other than the general government or the public sector is needed. This section summarizes the definitions of the sectors used in those classifications. In some cases, the sectors are identical to those defined in the *1993 SNA*. In other cases, different groupings of institutional units are appropriate for use in the GFS system. In particular, the term "sector" is used in the *1993 SNA* only in reference to resident institutional units. The aggregate of all nonresident institutional units is referred to as the rest of the world. In this manual, sector is used to refer to nonresident units in the same manner as it is used to refer to resident units.

2.64 The ***financial corporations sector*** consists of all corporations, quasi-corporations, and market NPIs principally engaged in financial intermediation or in auxiliary financial activities closely related to financial intermediation. In some cases, this sector is disaggregated into three subsectors: the central bank, other depository corporations, and financial corporations not elsewhere classified.

2.65 The ***other depository corporations subsector*** consists of all depository corporations, quasi-corporations, and market NPIs except the central bank.

2.66 The ***financial corporations not elsewhere classified subsector*** consists of all nondepository financial corporations, quasi-corporations, and market NPIs.[12] It includes units that raise funds on financial markets other than by deposits and use them to acquire other kinds of financial assets, such as investment corporations, corporations engaged in financial leasing, hire purchase corporations, other corporations engaged in the provision of personal finance or consumer credit, insurance corporations, and autonomous pension funds. It also includes corporations, quasi-corporations, and market NPIs engaged primarily in activities closely related to financial intermediation, such as public exchanges and securities markets, brokers and agents, foreign exchange companies, financial guarantee corporations, insurance and pension auxiliaries, and government-affiliated units established to regulate financial institutions.

2.67 The ***other nonresidents*** sector is an aggregation of all nonresident nonfinancial corporations, households, and NPIs serving households with which the general government sector had transactions.

2.68 The ***international organizations sector*** consists of all international organizations, all of which are nonresidents. As indicated in paragraph 2.76, supranational organizations are considered a type of international organization.

2.69 As described earlier, transactions between general government units and public corporations can have an important impact on statistics of the general government. In such cases, the financial and nonfinancial corporations sectors and subsectors can be divided into a public corporations subsector and an other corporations subsector. The latter would include all foreign-controlled corporations.

F. Residency

2.70 The concept of residency is important for determining the coverage of the GFS system and the classification of transactions. The total economy of a country consists of the set of all resident institutional units, and the general government sector consists of all resident general government units. In addition, as described in later chapters, some types of transactions and stocks of assets and liabilities of the general government sector are classified in the GFS system on the basis of the other party to a financial instrument, and one of the classification criteria is the residency of the other party.

2.71 An institutional unit is resident in a country if it has a center of economic interest in the economic territory of that country. Residency in the GFS system is not based on nationality or legal criteria, although it may be similar to the concepts of residency used for exchange control, taxes, or other purposes in many countries.

2.72 The economic territory of a country consists of the geographic territory administered by a government. The economic territory need not be identical to its physical or political borders, but it will usually correspond closely with these borders. In particular, the economic territory of a country includes the following:

- The airspace, territorial waters, and continental shelf lying in international waters over which the country enjoys exclusive rights or over which it claims to have jurisdiction in respect of the right to fish or to exploit fuels or minerals below the sea bed.

- Territorial enclaves physically located in other countries that a government owns or rents with the formal political agreement of the government of the country in which they are physically located.

[12] This subsector is the combination of three subsectors in the *1993 SNA*: other financial intermediaries, except insurance corporations and pension funds; financial auxiliaries; and insurance corporations and pension funds.

These enclaves are used for embassies, consulates, military bases, scientific stations, information offices, immigration offices, and aid agencies. Conversely, the economic territory of a country does not include the territorial enclaves that are physically located within the geographical boundaries of that country that are used by foreign governments or international organizations.

- Any islands belonging to a country that are subject to exactly the same fiscal and monetary authorities as the mainland.

- Free zones and bonded warehouses or factories within the geographical boundaries of a country that are operated by offshore enterprises under customs control.

2.73 An institutional unit has a center of economic interest within a country when there exists some location—a dwelling, place of production, or other premises—within the country's economic territory on or from which it engages, and intends to continue to engage, in economic activities and transactions on a significant scale indefinitely or over a finite but long period of time. In most cases, a long period of time may be interpreted as one year or more. The location need not be fixed so long as it remains within the economic territory.

2.74 On the basis of this definition of residency, all general government units are considered to be residents in their own country regardless of their physical location. Public corporations, however, are considered to be residents of the economies in whose territories they operate. Thus, a general government unit resident in one country can own a corporation resident in a second country. In particular, when a resident public corporation maintains a branch, office, or production site in another country in order to engage in a significant amount of production over a long period of time, the branch, office, or site is considered to be a quasi-corporation resident in the other country.

2.75 The economic territory of an international organization consists of the territorial enclaves over which it has jurisdiction. As a result, international organizations are not considered residents of any national economy, including the country in which they are located or conduct their affairs.

2.76 Supranational authorities are international organizations that have been endowed with the authority to raise taxes or other compulsory contributions within the territories of the countries that are members of the authority. Despite the fact that supranational authorities fulfill some of the functions of government within each member country, they are not resident units of any country. Thus, transactions between the supranational authority and resident institutional units outside the general government or public sectors are not included in the GFS system of an individual country. It is possible, however, to compile statistics for supranational authorities using the GFS framework as if they constituted a separate government. In doing so, the various categories of transactions and other economic flows should be classified according to the member country that is the counter party so that analytic measures can be compiled for individual countries that include the impact of supranationals.

2.77 A regional central bank is an international financial organization that acts as a common central bank for a group of member countries. Such a bank has its headquarters in one country and usually maintains national offices in each of the member countries. Each national office acts as the central bank for that country and is treated as a resident institutional unit in that country. The headquarters, however, is an international organization.

Annex to Chapter 2: Social Protection

This annex describes the various organizational structures used by government units to provide social benefits and the effects of those structures on statistics compiled for the general government sector or the public sector.

A. Introduction

1. Many governments devote considerable economic resources to ***social protection schemes***, which consist of systematic interventions intended to relieve households and individuals of the burden of a defined set of social risks. ***Social risks*** are events or circumstances that may adversely affect the welfare of households either by imposing additional demands on their resources or by reducing their incomes. The relief is provided in the form of ***social benefits***, which may be payable in cash or in kind. This annex describes the different ways in which the provision of social benefits can be organized and the effect of each type of organization on the statistics of the general government sector and the public sector.[1]

B. The nature of social benefits

2. There is no universally accepted definition of the scope of social benefits, and the social risks covered are liable to vary from scheme to scheme and from government to government. The following list of typical social benefits illustrates their general nature:[2]

- Medical, dental, and other treatments and hospital, convalescent, and long-term care as a result of sickness, injuries, maternity needs, chronic invalidity, or old age. These social benefits are usually provided in kind directly or by reimbursing households or individuals.

- Support of spouses, children, elderly relatives, invalids, and other dependents. These social benefits are usually paid in cash in the form of regular dependents' or family allowances.

- Compensation for a reduction in income as a result of not being able to work, either full or part time. These social benefits are usually paid regularly in cash for the duration of the condition or for a maximum period. In some instances, a lump sum may be provided additionally or instead of the regular payment. Included in this category are retirement benefits, unemployment compensation, and income replacement because of sickness, injury, the birth of a child, or other forced reductions in work.

- Compensation for a reduction in income because of the death of the main income earner. These social benefits are usually paid in cash, often in the form of regular allowances.

- Housing benefits in cash and housing services, which may be provided free, at prices that are not economically significant, or by reimbursing expenditures made by households.

- Allowances to cover education expenses or, occasionally, education services in kind.

3. Social benefits can be provided in cash or in kind. If provided in kind, the goods or services can be produced by the unit providing the benefits, they can be purchased by the unit providing the benefits from a market producer, or the households can purchase the

[1] A more complete discussion of the issues involved in the organization and treatment of social protection schemes is in The European Commission, *ESSPROS Manual 1996* (Luxembourg, 1996). ESSPROS stands for European System of Integrated Social Protection Statistics.

[2] This list is adapted from paragraph 8.56 of *1993 SNA*. The Classification of Functions of Government (see Chapter 6) has a category labeled social protection, but its scope differs from the benefits listed here, notably by excluding health care.

goods and services and be reimbursed. Protection also can be provided indirectly, such as through preferential tax allowances and wage subsidies. Benefits provided in this manner are not considered social benefits in this manual or in *1993 SNA*.

4. A social benefit is always a transfer payment and is always provided in a collective arrangement. A transfer payment means that the benefits are provided without the recipients being required to provide something of equivalent value in return. Thus, allowances provided as compensation of employees or loans provided by employers to employees are not social benefits. Transfers are defined in more detail in paragraph 3.8 of Chapter 3.

5. The collective requirement means that social protection schemes exclude individual insurance policies taken out on the private initiative of individuals or households solely in their own interest. Some social protection schemes may permit or require participants to take out policies in their own names. In order for an individual policy to be treated as part of a social protection scheme, the risks against which the insured are protected must be social risks as described in paragraph 2 and at least one of the following conditions must be satisfied:

- Participation in the scheme is obligatory, either by law or under the terms and conditions of employment.
- The scheme is a collective one operated for the benefit of a designated group of people and participation is restricted to members of that group.
- An employer makes an actual or imputed contribution to the scheme on behalf of an employee.

6. When individuals take out insurance policies in their own names, on their own initiative, and independently of their employers or government, the claims receivable are not treated as social benefits even if the policies are taken out against the same kinds of risks as listed in paragraph 2. Saving arrangements that maintain the integrity of the participants' contributions and are restricted to protecting against social risks are not social protection schemes, even if participation is compulsory, because no insurance is involved. Under such arrangements, the contributions of the participants and/or their employers are kept in a separate account and are withdrawable under specified circumstances such as retirement, unemployment, invalidity, and death. In particular, defined-contribution retirement schemes, as described in paragraph 21, are not social protection schemes.

C. Classification of social protection schemes

7. Social protection schemes can be classified in several ways. For example, schemes may be classified as (1) contributory versus noncontributory, (2) compulsory versus voluntary, or (3) that of an employer providing coverage for its employees versus that of a government providing coverage for the general population.

8. Contributory schemes require the payment of ***social contributions*** by the protected persons or by other parties on their behalf in order to secure entitlement to the benefits. These schemes are referred to as ***social insurance schemes***, and the benefits paid by them are ***social insurance benefits***. Schemes operated on an unfunded basis by employers without actual contributions by employees are considered contributory schemes because employers are imputed to pay, as compensation of employees, the amounts necessary to secure coverage against the specified social risks, and the employees are imputed to pay the same amounts to the employer as social contributions. With noncontributory schemes, the eligibility to receive social benefits is not conditional on the payment of contributions by the protected persons or by other parties on their behalf. There may, however, be other eligibility criteria, such as a means test. These schemes are referred to as ***social assistance schemes*** and the benefits paid by them are ***social assistance benefits***.

9. Participation in social protection schemes is either compulsory or voluntary. Compulsory schemes may be established by law and/or regulation or by agreement between employer and employees. In some cases, a scheme may be mixed, where some people are required to participate and others are allowed a choice.

10. The individuals or households eligible to receive social benefits are either a group of employees or a segment of the general population. All social assistance benefits are provided to the general population, although possibly limited by eligibility criteria. Social insurance schemes that are imposed, controlled, and financed by government units and that cover the entire community or large sections of it are referred to as

social security schemes and the benefits paid by such schemes are ***social security benefits***. Schemes in which employers provide social insurance benefits to their employees, former employees, or their beneficiaries are referred to as ***employer social insurance schemes***, and the benefits paid by such schemes are referred to as ***employer social benefits***.[3]

11. The classification of social benefits is based on the type of scheme supplying the benefits and not on the recipients. Thus any benefits received by government employees from social security and social assistance schemes are classified as social security and social assistance benefits even if the government employer has organized an employer social insurance scheme to provide other benefits to its employees. Indeed, employer social insurance schemes are often designed to cover only those risks not covered by social security and social assistance schemes.

D. The units involved in social protection schemes

12. As just described, social protection schemes can be organized as social assistance schemes, social security schemes, or employer social insurance schemes. The units involved in the organization and operation of schemes could be general government units, public corporations, or private corporations.

1. Social assistance schemes

13. All social assistance schemes are organized and operated by government units. The benefits are paid out of the unit's general resources according to the specified criteria. That is, no revenue is earmarked for social assistance schemes. The obligation to pay social assistance benefits is an expense in the period in which all eligibility requirements are fulfilled. Table 6.1 in Chapter 6 presents the GFS classification of expense, one category of which is social assistance benefits, which is further classified as benefits paid in cash or in kind. Some benefits may be payable over several accounting periods, such as disability payments, in which case a liability for the future payments has been incurred and the present value of those benefits should be recorded on the balance sheet as described in Chapter 7.

[3]Employer social insurance schemes are termed "private social insurance schemes" in *1993 SNA.*

2. Social security schemes

14. All social security schemes also are organized and operated only by government units. In many cases, however, entire institutional units are devoted to the operation of a social security scheme. Such units, referred to as ***social security funds***, are special types of government units. All social security funds must be identified to implement the alternative methods of constructing subsectors of the general government sector.

15. The existence of a social security fund depends on its organization, not on any characteristics of the scheme, such as types of benefits provided or sources of finance. For a social security fund to exist, it must be separately organized from the other activities of government units, hold its assets and liabilities separately, and engage in financial transactions on its own account.

16. The existence of social security funds, however, does not ensure that all social security schemes are operated by social security funds. It is quite possible that some social security schemes, especially at differing levels of government, are operated by government units that are not social security funds. That is, statistics for a social security subsector may not include all social security schemes. If a social security scheme is not a separate institutional unit, however, there may be separate accounts to manage the scheme's finances, which would permit certain comprehensive statistics on social security to be compiled.

17. The primary receipts of social security schemes are social contributions. As shown in Table 5.1 in Chapter 5, social security contributions are classified according to their source, which may be employees, employers on behalf of their employees, self-employed, or nonemployed participants. In addition, social security schemes may receive transfers from general government resources and they may earn property income from the investment of their assets. For determination of a fiscal burden measure (see Box 4.1 of Chapter 4), it would be necessary to classify social contributions as voluntary or compulsory.

18. Social security benefits are one category of total social benefits and are further classified in Table 6.1 as being payable in cash or in kind. Some social benefits, particularly retirement benefits, will be paid years after the corresponding social contributions have been received. Because social security benefits can be varied at will by the government as part of its overall economic policy, there is uncertainty about the eventual payment or level of payment of retirement benefits. As a result, no liabilities are associated with social security schemes in the GFS system and an expense is recorded only when payment of the benefits is required. Because of the high expectation that retirement benefits will be paid, however, a memorandum item equal to the present value of the benefits that have already been accrued should be estimated as described in paragraph 7.145 of Chapter 7.

3. Employer social insurance schemes

19. There are several types of employer social insurance schemes, each with a different impact on the statistics of the general government sector or the public sector. Social insurance schemes are either funded or unfunded. A social insurance scheme is funded if there are identified reserves or accounts assigned for the payment of benefits. There are three types of funded employer schemes: those operated by insurance enterprises, those operated as autonomous pension funds, and those operated as nonautonomous pension funds. Unfunded social insurance schemes are operated by the employer without assigning specific accounts or otherwise creating special reserves for the payment of benefits. Instead, the benefits are paid from the employer's general resources.

20. If a public-sector employer organizes an employer social insurance scheme but contracts with an insurance enterprise for its operation, then the general government unit or public corporation that is the employer will pay the required social contributions to the enterprise on behalf of its employees, and all other transactions of the social insurance scheme will be the responsibility of the insurance enterprise. If the insurance enterprise is a private corporation, then its transactions, such as the payment of benefits and administrative expenses, investment of assets, and incurrence and liquidation of retirement and other liabilities, will not affect the statistics of the general government sector or the public sector. If the insurance enterprise is a public corporation, then statistics of the public sector will be affected by the operations of the scheme, but not the statistics of the general government sector.

21. If a funded scheme is organized and operated by the employer, then the scheme may be structured as an autonomous or nonautonomous pension fund. A scheme that provides benefits other than for pensions and other retirement benefits is treated as an unfunded scheme because no reserves have to be established. In general, autonomous and nonautonomous pension funds may be organized as defined-benefit or defined-contribution schemes.[4] In a defined-benefit scheme, the level of retirement benefits promised by the employer to participating employees is guaranteed and usually is determined by a formula based on participants' length of service and salary. The liability of a defined-benefit scheme is the present value of the promised benefits. In a defined-contribution scheme, the level of contributions to the fund by the employer is guaranteed, but the benefits that will be paid depend on the assets of the fund. The liability of a defined-contribution scheme is the current market value of the fund's assets. It should be noted, however, that defined-contribution schemes are not social protection schemes because no insurance is involved.

22. A pension fund is autonomous if it is a separate institutional unit, which means it must have its own assets and liabilities and it must engage in financial transactions in the market on its own account. All autonomous pension funds organized and managed by government units are public financial corporations, which are members of the public sector but not the general government sector. Similar to schemes managed by a private insurance enterprise, a government unit's primary responsibility with respect to the scheme is to pay the social contributions on behalf of its employees. The assets of the pension fund and the present value of the liability to pay retirement benefits are assets and liabilities of the public sector. The receipt of social contributions by the pension fund is treated as the incurrence of a liability to pay future benefits by the public sector as described in Chapter 9. The property income earned from the investment of the pension fund's assets is revenue of the public sector (see Chapter 5), and the property expense of the liability for future retirement benefits is an expense (see Chapter 6). The payment of the retirement benefits is a reduction in liabilities of the public sector (Chapter 9).

23. A pension fund is nonautonomous if the employer has established segregated reserves, but the organization and operations of the scheme do not qualify as an institutional unit. All of the assets, liabilities, transactions, and other events of the pension fund are combined with the corresponding items of the employer operating the scheme, which may be a general government unit or a public corporation. The treatment

[4]Defined-contribution schemes are also referred to as money-purchase schemes.

of the assets, liabilities, transactions, and other events of the pension fund otherwise is the same as with an autonomous pension fund.

24. An employer social insurance scheme is unfunded when the employer pays social benefits to its employees, former employees, or their dependents out of its own resources without creating a special fund or segregated reserve for the purpose. An unfunded scheme can pay pensions and other retirement benefits that generate liabilities or it can pay other types of social benefits, such as health care. An unfunded scheme is similar to a nonautonomous pension fund except that many transactions and assets cannot be specifically identified as being related to the scheme. For example, the income earned on the investment of government financial assets cannot be separated into income of the social insurance scheme and other income. In particular, there may be no record of the employer paying social contributions because there are no specialized reserves to which funds can be transferred. To maintain consistency of treatment with funded schemes, transactions reflecting the employer's expense for the payment of social contributions should be imputed as described in paragraph 6.18 of Chapter 6.

3. Flows, Stocks, and Accounting Rules

This chapter describes the flows and stocks of the GFS system and the accounting rules used to determine their time of recording, valuation, and other aspects of recording.

A. Introduction

3.1 All of the data recorded in the GFS system are either flows or stocks. Flows are monetary expressions of economic actions engaged in by units and other events affecting the economic status of units that occur within an accounting period. Stocks refer to a unit's holdings of assets and liabilities at a specific time and the unit's resulting net worth, equal to total assets less total liabilities.

3.2 The flows and stocks recorded in the GFS system are integrated, which means that all changes in stocks can be fully explained by the flows. In other words, the following relationship is valid for each stock:

$$\boldsymbol{S_1 = S_0 + F}$$

where $\boldsymbol{S_0}$ and $\boldsymbol{S_1}$ represent the values of a specific stock at the beginning and end of an accounting period, respectively, and $\boldsymbol{F}$ represents the net value of all flows during the period that affected that particular stock. More generally, the value of any stock held by a unit at a given time is the cumulative value of all flows affecting that stock that have occurred since the unit first acquired the stock.

3.3 A great diversity of flows needs to be recorded in the GFS system. This chapter first describes several important characteristics of flows that underlie their classification and treatment. It then describes in a general way the accounting rules used for recording flows and stocks in the GFS system. Descriptions of specific categories of flows and stocks and the application of the general rules to their recording are discussed in later chapters.

B. Types of flows

3.4 Flows reflect the creation, transformation, exchange, transfer, or extinction of economic value. They involve changes in the volume, composition, or value of a unit's assets, liabilities, and net worth. A flow can be a single event, such as a cash payment for the purchase of goods, or the cumulative value of a set of events occurring during an accounting period, such as the continuous accrual of interest expense on a government bond. All flows are classified as transactions or as other economic flows. The following sections describe these two types of flows.

1. Transactions

3.5 A ***transaction*** is an interaction between two units by mutual agreement or an action within a unit that is analytically useful to treat as a transaction. Mutual agreement means that there was prior knowledge and consent by the units, but it does not mean that both units entered into the transaction voluntarily. Some transactions, such as the payment of taxes, are imposed by force of law. Although individual units are not free to fix the amounts of taxes they pay, there is collective recognition and acceptance by the community of the obligation to pay taxes. Thus, payments of taxes are considered transactions despite being compulsory. Similarly, the actions necessary to comply with judicial or administrative decisions may not be undertaken voluntarily, but they are taken with prior knowledge and consent of the parties involved.

3.6 Although most transactions take place between two units, in some cases a single unit acts in two different capacities and it is analytically useful to treat this act as a transaction. Such an act is referred to as an internal transaction. The choice of which internal actions to treat as transactions is subjective. This manual follows the *1993 SNA* by treating consumption of fixed capital, the transfer of materials and supplies from inventories to production, and other internal changes in inventories as transactions. This manual does not follow the *1993 SNA* with regard to the treatment of assets produced by a unit for its own use and goods and services produced by a general government unit and distributed to individuals or to the community as a whole without charge or for prices that are not economically significant.[1]

3.7 Every transaction is either an ***exchange*** or a ***transfer***. A transaction is an exchange if one unit provides a good, service, asset, or labor to a second unit and receives a good, service, asset, or labor of the same value in return.[2] Compensation of employees, purchases of goods and services, the incurrence of interest expense, the sale of an office building, and all internal transactions are exchanges.

3.8 A transaction is a transfer if one unit provides a good, service, asset, or labor to a second unit without receiving simultaneously a good, service, asset, or labor of any value in return. Typically, general government units engage in a large number of transfers, which may be compulsory or voluntary. Taxes and most social security contributions are compulsory transfers imposed by government units on other units. Subsidies, grants, and social assistance benefits are voluntary transfers from general government units to other units.

3.9 Some transactions appear to be exchanges but are actually combinations of an exchange and a transfer. In such cases, the actual transaction should be partitioned into two transactions, one that is only an exchange and one that is only a transfer. For example, a general government unit might sell an asset at a price that is clearly less than the market value of the asset. The sale should be divided into an exchange at the asset's market value and a transfer equal in value to the difference between the actual transaction value and the market value of the asset.[3]

3.10 Taxes are treated as transfers even though the units making these payments may receive some benefits from services provided by the government unit receiving the taxes. For example, no one can be excluded from sharing in the benefits provided by collective services such as public safety. In addition, a taxpayer may be able to consume certain individual services provided by government units. Usually, however, it is not possible to identify a direct link between the tax payments and the benefits received by individual units. Moreover, the value of the services received by a unit usually bears no relation to the amount of the taxes paid by the same unit.

3.11 Non-life insurance premiums and claims are also treated as transfers.[4] The premiums for this type of insurance entitle the units making the payment to benefits only if one of the events specified in the policy occurs. That is, one unit pays a second unit to accept the risk that a specified event may occur to the first unit. These transactions are considered transfers because it is uncertain if the first unit will receive any benefits and, if it does receive benefits, they may bear no relation to the amount of the premiums previously paid. Non-life insurance includes social security schemes and employer social insurance schemes for government employees that do not provide retirement benefits. Thus, social security contributions received and social security benefits paid by government units are treated as transfers in the GFS system.

3.12 All transactions can also be classified as monetary or nonmonetary. A ***monetary transaction*** is one in which one unit makes a payment or incurs a liability stated in units of currency and the second unit receives the payment or another asset, also stated in units of currency. For example, goods are usually purchased at a given number of units of currency per unit of the good, and social security benefits are often paid in fixed amounts of cash.

3.13 All other transactions are ***nonmonetary***, but they must be assigned a monetary value as the GFS system

[1]The scope of internal transactions is described in paragraphs 3.44 through 3.49 of the *1993 SNA*. Actions that are treated as internal transactions in the *1993 SNA* but not in this manual are described further in paragraphs 3.23 and 3.24.

[2]The term "provides a good, service, asset . . ." is meant to include one unit allowing a second unit to use an asset owned by the first unit as well as a change in the ownership of the asset. Interest and other property income transactions are exchanges because one unit provides an asset, such as cash or other means of payment, and the second unit provides the use of one of its assets.

[3]See paragraph 3.21 for a general statement of partitioning transactions.

[4]More precisely, the payment of a premium is the acquisition of a financial asset. As the insurance enterprise earns the premium over the period covered by the policy, the premium is converted to a transfer payment. In *1993 SNA*, a portion of each actual non-life insurance premium is considered the purchase of a service rather than a transfer. In the GFS system, the entire premium is treated as a transfer because estimating the service component requires statistics for all sectors of the economy.

deals only with flows and stocks expressed in monetary terms. The values assigned to nonmonetary transactions have a different economic significance than do cash payments of the same amount, as they are not freely disposable sums of money. Nevertheless, to have a comprehensive and integrated system, it is necessary to assign the best estimate of market values to the items involved in nonmonetary transactions.

3.14 Nonmonetary transactions can be either two-party transactions or internal transactions, and they can be exchanges or transfers. Barter, remuneration in kind, and other payments in kind are nonmonetary exchanges. Transfers in kind are nonmonetary transfers. Internal transactions were described in paragraph 3.6.

3.15 In a ***barter*** transaction, two units exchange goods, services, or assets other than cash of equal value. For example, a government unit may agree to trade a parcel of land in an industrial area to a private corporation for a different parcel that the government will use as a national park.

3.16 ***Remuneration in kind*** occurs when a government employee is compensated with goods, services, or assets other than money. Types of compensation that employers commonly provide without charge or at reduced prices to their employees include meals and drinks, uniforms, housing services, transportation services, and child care services.

3.17 ***Other payments in kind*** occur when a payment to settle a liability is made in the form of goods, services, or noncash assets rather than money. For example, a government unit may agree to settle a claim for past-due taxes if the taxpayer transfers ownership of land or fixed assets to the government.

3.18 ***Transfers in kind*** may be used rather than cash for efficiency or to insure that the intended goods and services are consumed. For example, aid after a natural disaster may be more effective and be delivered faster if it is provided in the form of medicine, food, and shelter instead of money. Also, a general government unit might provide medical and educational services in kind to make sure that the need for the services is met.

3.19 Some transactions are not recorded in the form in which they appear to take place. Instead they are modified to bring out their underlying economic relationships more clearly. Rerouting, partitioning, and reassignment are the three types of modifications employed in the GFS system.

3.20 ***Rerouting*** is required when a unit that is in fact a party to a transaction does not appear in the actual accounting records because of administrative arrangements. For example, if government employees are enrolled in a retirement scheme, accounting records may show the government unit making payments directly to the retirement scheme on behalf of its employees. In such a case it is necessary to reroute the payments so that the government is seen as paying the employees, who then are deemed to make payments of the same amount to the retirement scheme.

3.21 ***Partitioning*** is the division of a single transaction as viewed by the parties involved into two or more transactions for recording in the GFS system. For example, when a general government unit acquires a fixed asset under a financial lease, the periodic lease payments need to be partitioned into two transactions, a repayment of principal and a payment of interest. The division of actual transactions into an exchange and a transfer described in paragraph 3.9 is another example of partitioning.

3.22 ***Reassignment*** is required when a unit acts as an agent for another unit. For example, reassignment may occur when one government unit collects taxes and then transfers some or all of the taxes to another government unit. In some arrangements of this nature, the collecting unit retains a small portion of the tax collected in return for its collection efforts. The amount retained is treated as the sale of a service by the collecting unit. For guidelines on the reassignment or attribution of taxes to collecting or beneficiary governments, see paragraphs 5.24 to 5.28 of Chapter 5.

3.23 The treatment of some activities in the GFS system differs from the treatment of the same activities in the *1993 SNA*. For example, general government units are nonmarket producers, which means they normally consume economic resources in a production process, produce outputs of goods and services, and then distribute those goods and services without charge or for prices that are not economically significant to society collectively or to individual households. The production of the output and its distribution are both nonmonetary transactions that must be recorded in the *1993 SNA* to have a complete accounting of production. The GFS system, however, is focused on the financial activities of government. Because the value of the output produced and the value of the distribution are equal by definition, there cannot be any change in the financial position of the general government unit involved. As a result, these transactions do not need to be recorded to meet the purposes of the GFS system. The transactions associated with the production process, such as compensation of employees and the purchase of goods and services for use in production, do affect the financial position of the general government unit and are recorded in the GFS system. Despite different treatments of some activities, both systems include all flows that change stocks so that all changes in the balance sheet can be explained by the flows recorded.

3.24 The exact scope of flows recorded in the GFS system is specified in later chapters. In general, however, the transactions of the *1993 SNA* that are not recorded in the GFS system are explained in Appendix 3 and include the following:

- The output and simultaneous distribution of nonmarket goods and services;
- The output of fixed assets constructed on own account and the costs of producing those assets;
- Certain transactions related to employer social insurance schemes providing retirement benefits managed by general government units;[5] and
- Transactions reflecting the reinvestment of earnings on direct foreign investment.

2. Other economic flows

3.25 An ***other economic flow*** is a change in the volume or value of an asset or liability that does not result from a transaction. Volume changes are described as ***other changes in the volume of assets*** or, more simply, other volume changes, and value changes are described as ***holding gains and losses***.[6] In all cases, a reference to a change in the volume or value of an asset refers also to changes in liabilities as appropriate.

3.26 Other changes in the volume of assets cover a wide variety of events. For the purpose of description here, these events are divided into three groups. The first group consists of events that involve the addition to or deletion from the balance sheet of an existing asset or liability with no changes in its quantity or quality. The second group consists of events that change the quantity or quality of assets. The final group is made up of changes in the classification of assets.

3.27 An entity may be known to exist but not be on the balance sheet of a general government unit because its market value is zero, such as a proven reserve of subsoil assets that is not economically exploitable given current technology and relative prices. If the market value becomes positive because of a change in technology or relative prices, then an other volume change is recorded to add the item to the balance sheet. Conversely, an asset may need to be removed from the balance sheet because a change in technology or relative prices makes the asset no longer economically exploitable.

3.28 There is a wide range of events that could trigger this type of flow. A few examples follow:

- A subsoil deposit of minerals may become economically exploitable as a result of technological progress or an increase in market prices.
- Improved access may make commercial harvesting of timber feasible in a particular forest.
- A construction project might lose its economic rationale before it is completed and the partially completed asset is abandoned.
- A government might grant patent protection to an invention.
- A creditor may determine that a financial claim can no longer be collected because of the debtor's bankruptcy.

3.29 The second group of other volume changes includes changes in the quantities or qualities of assets. Such changes arise because the assets have been discovered, created, destroyed, cancelled, or seized by one unit from another unit. Some examples of these types of events include:

- The partial or complete catastrophic destruction of an asset resulting from a large-scale event, such as a major earthquake or hurricane.

[5]These transactions are explained in Chapters 5 and 6 in the sections about social contributions and social benefits.
[6]Holding gains and loses are also referred to as revaluations in the *1993 SNA*.

- An increase in the quantity of forests and fish-stocks from natural growth.

- A depletion of the volume of mineral deposits and natural forests as a result of the physical removal of the assets.

- The exhaustion of a patent over time.

- A unilateral change by an employer in the benefit structure of a retirement scheme.

- The creation of land by reclaiming it from the sea with the use of dikes or other sea barriers.

- The discovery of a new deposit of minerals.

- The seizure of assets by a government unit without full compensation for reasons other than the failure to pay taxes, fines, or similar levies.

- A decrease in the quality of an asset resulting from environmental damage, erosion, deforestation, or unforeseen obsolescence.

- A change in the permitted or designated use of a parcel of land, such as from agricultural use to a commercial building site.

3.30 The third category relates to changes resulting from reclassifications of entire units from one sector to another or the reclassification of individual assets and liabilities from one category to another category. Net worth will not change as a result of a classification change.

3.31 Several events can cause a change in the classification of units. If a government unit begins to charge economically significant prices for its output, then it would become a public corporation. All of its assets and liabilities would be reclassified from the general government sector to either the nonfinancial or financial corporations sector. At the same time, a financial asset with a value equal to the net value of the assets and liabilities reclassified would be added to the balance sheet of the general government sector, leaving its net worth unchanged. Conversely, a public corporation might cease charging economically significant prices and become a government unit. It is also possible for two units to merge or a single unit to split into two units.

3.32 It is also possible for individual assets or groups of assets to be reclassified from one category to another, usually because of a change in the purpose for which an asset is used. A conversion of gold from nonmonetary gold to monetary gold is one such event.

3.33 Holding gains and losses on assets and liabilities, together with the corresponding changes in net worth, arise as a result of changes in the prices of those assets and liabilities, including changes resulting from exchange rate movements. In concept, holding gains and losses are continuously recorded as prices change.

3.34 A holding gain or loss accrues purely as a result of holding an asset or liability over time without transforming it in any way. It can apply to virtually any type of asset, and it may accrue on an asset held for any length of time during the accounting period.

C. Accounting rules

3.35 Accounting rules for recording flows and stocks in the GFS system are designed to ensure that the data generated by the system conform with accepted standards for the compilation of economic statistics. With the exception of consolidation, as noted later in this chapter, the accounting rules of the GFS system are the same as those of the *1993 SNA*. There are also many similarities between the rules used in the GFS system and those applied by businesses and governments in their financial statements.[7] The following sections describe the type of accounting system used, the rules governing the time of recording and the valuation of flows and stocks, and miscellaneous other topics.

1. Type of accounting system

3.36 ***Double-entry accounting*** is used for recording flows. In a double-entry system each flow gives rise to two equal-value entries, traditionally referred to as a credit entry and a debit entry. A debit is an increase in an asset, a decrease in a liability, or a decrease in net worth. A credit is a decrease in an asset, an increase in a liability, or an increase in net worth. Revenue entries, which represent an increase in net worth, are recorded

[7] The relationship between statistics of the GFS system and the *1993 SNA* are discussed in more detail in Appendix 3. There is not a similar comparison with financial accounting standards in this manual, but it is recommended that, where possible, the financial statements of government entities compiled in accordance with international accounting standards for governments be reconciled with the equivalent GFS statements.

as credits. Conversely, an expense refers to a decrease in net worth and is recorded as a debit.

3.37 A balance sheet is a compilation of a unit's or sector's assets, liabilities, and net worth. The fundamental identity of the balance sheet and of accounting in general is that the total value of the assets always equals the total value of the liabilities plus net worth. Use of the double-entry system ensures that this identity is correctly maintained. There are several possible combinations of debits and credits affecting assets, liabilities, and net worth. For example, the purchase of a service by a general government unit with payment to be made in 30 days would be recorded as an expense (debit) and an increase in the liability, accounts payable (credit). Thus, net worth, through the expense, decreases by the same amount that liabilities increase, and assets are not affected. The subsequent payment would be recorded as a decrease in cash (credit) and a decrease in accounts payable (debit). In this case, assets and liabilities both decrease by the same amount and net worth is unaffected.

2. Time of recording flows

3.38 Once a flow has been identified, the time at which it occurred must be determined so that the results of all flows within a given accounting period can be compiled. Although this section is concerned with the time assigned to flows, the integrated nature of the system means that the stocks recorded on the balance sheet are also influenced by the timing of flows.

3.39 One of the problems in determining the timing of transactions is the frequent existence of a long period between the initiation of an action and its final completion. For instance, many purchases of goods commence with the signing of a contract between a seller and a buyer, followed by the initiation of production of the item ordered, completion of production, shipment from the seller's location, arrival at the buyer's location, preparation and mailing the invoice, receipt of the invoice, approval of payment, the beginning of interest accruing on a late payment or the expiration of a discount for prompt payment, signing a check for payment, mailing of the check by the buyer, receipt of the check by the seller, deposit of the check in the seller's bank, and finally the check is paid by the buyer's bank. Even then, the transaction may not be complete as there may be rights of return or warranty claims. Each of these distinct moments is to some extent economically relevant and may result in multiple transactions in the GFS system, but only one time can be attributed to each transaction.

a. Alternative recording bases

3.40 Broadly, the time of recording could be determined on four bases: the accrual basis, the due-for-payment basis, the commitments basis, and the cash basis.

3.41 With the ***accrual basis***, flows are recorded at the time economic value is created, transformed, exchanged, transferred, or extinguished. In other words, the effects of economic events are recorded in the period in which they occur, irrespective of whether cash was received or paid or was due to be received or paid. Nevertheless, the time at which the economic events occur is not always clear. In general, the time attributed to events is the time at which ownership of goods changes, services are provided, the obligation to pay taxes is created, the claim to a social benefit payment is established, or other unconditional claims are established.

3.42 If an economic event requires a subsequent cash flow, such as purchases of goods and services on credit, then the length of time between the time attributed to an event with the accrual basis and the time of the cash flow is bridged by recording a receivable or a payable. For example, when a general government unit purchases goods on credit, it records a debit to an inventory account and a credit to accounts payable when ownership of the goods shifts. When the cash payment is made, the general government unit records a debit to accounts payable and a credit to cash.

3.43 All events that result in the creation, transformation, exchange, transfer, or extinguishment of economic value are recorded with the accrual basis in the GFS system. Thus, all nonmonetary transactions are included in statistics compiled on the accrual basis.

3.44 With the ***due-for-payment basis***, flows that give rise to cash payments are recorded at the latest times they can be paid without incurring additional charges or penalties or, if sooner, when the cash payment is made. If a payment is made after it is due to be paid, then the gap is bridged by recording a receivable, just as with the accrual basis. If a payment is made before it is due, then no receivable is necessary. Depending on the goals of the accounting system, nonmonetary flows may or may not be recorded.

3.45 With the ***commitments basis***, flows are recorded when a general government unit has committed itself to a transaction. Normally, this basis applies only to purchases of assets, goods, and services, including compensation of employees. The time of recording generally is when a purchase order is issued by the general government unit. Flows for which the commitments basis is not applicable must be recorded on one of the other three bases. In-kind transactions may or may not be recorded.

3.46 With the ***cash basis***, flows are recorded when cash is received or disbursed. Although nonmonetary flows can be recorded, most accounting systems using the cash basis do not record nonmonetary flows because the focus is on cash management rather than resource flows.

b. The reasons for using the accrual basis in the GFS system

3.47 The GFS system uses the accrual basis, primarily because the time of recording matches the time of the actual resource flows. As a result, the accrual basis provides the best estimate of the macroeconomic impact of government fiscal policy. With the cash basis, the time of recording may diverge significantly from the time of the economic activities and transactions to which they relate. For example, the interest paid on a zero-coupon bond would not be recorded until the bond matures, which could be many years after the expense was incurred. The due-for-payment basis will frequently record transactions after the resource flows have taken place, although the very long delays permitted by the cash basis would, in most cases, be reduced. The timing of the commitments basis will precede the actual resource flow.

3.48 The accrual basis provides the most comprehensive information because all resource flows are recorded, including internal transactions, in-kind transactions, and other economic flows. Moreover, this comprehensive recording permits the integration of flows with changes in the balance sheet. In general, accounts using the due-for-payment, commitments, or cash basis are restricted to monetary transactions.

3.49 Payment arrears arise when an obligatory payment is not made by its due-for-payment date. Because this date is always the same or later than the date attributed to a flow under the accrual basis, all arrears will be included in statistics compiled with the accrual basis. Without supplementary information, however, it may be difficult to estimate the share of total accounts payable that is in arrears as opposed to the share that exists because of normal payment delays. By definition, the due-for-payment basis will show clearly the arrears arising from purchases on credit, but arrears from the failure to repay debt obligations, such as loans and securities other than shares, as scheduled will not be apparent without supplemental information. With the commitments basis, the availability of information on arrears will be the same as with the accrual basis. With the cash basis, there is no impact on the accounts when a general government unit does not pay for its purchases made on credit or comply with the terms for the repayment of debt. Thus, there will be no information on arrears unless a special compilation is made.

3.50 Managing liquidity is crucial for the operation of any unit. It is not necessary to use the cash basis to meet this need, however, as information on cash flows is not lost with the accrual basis. Normally a separate statement of cash flows is prepared. Moreover, it may be difficult to assess solvency and future cash flows with the cash basis because information on arrears is missing.

3.51 Accounts using the due-for-payment, commitments, or cash basis normally do not differentiate between expenses and acquisitions of nonfinancial assets. With the accrual basis, acquisitions of nonfinancial assets are recorded separately and the expense of using those assets in operating activities is matched with the period of their use rather than the period of their acquisition.

3.52 Additionally, the other major macroeconomic statistical systems (national accounts, balance of payments, and monetary and financial statistics) use the accrual basis. Thus, the joint use of statistics from two different systems is facilitated greatly by the use of the accrual basis in the GFS system.

3.53 Despite the advantages of the accrual basis, its implementation is likely to be more difficult than the other bases and will require more estimates. For example, it may be difficult for a government unit to know the full amount of tax revenue to which it is entitled because these amounts may depend on transactions and other events in which the government is not a party.

c. Implementation of the accrual basis

3.54 As a general rule, a flow is recorded under the accrual basis when the economic benefit associated with an event has flowed to or from the unit involved, or it is probable that a future benefit will flow to or from the unit and the monetary value of the event can be measured reliably. More specific guidelines for the application of the accrual recording basis are described in the following paragraphs.

3.55 Taxes and other compulsory transfers should be recorded when the activities, transactions, or other events occur that create the government's claim to the taxes or other payments. This time is not necessarily the time at which the event being taxed occurred. For example, the obligation to pay tax on capital gains normally occurs when an asset is sold, not when the asset's value appreciated.

3.56 Estimating the revenue from taxes and compulsory social insurance contributions must take many uncertainties into account. The primary uncertainty is that the government unit receiving the revenue is usually not a party to the transaction or other event that creates the obligation to pay the taxes or compulsory social security contributions. Consequently, many of these transactions and events permanently escape the attention of the tax authorities. The amount of revenue from taxes and social insurance contributions should exclude the amounts that possibly could have been received from such unreported events had the government learned about them. In other words, only those taxes and social security contributions that are evidenced by tax assessments and declarations, customs declarations, and similar documents are considered to create revenue for government units.

3.57 In addition, it is typical that some of the taxes and social insurance contributions that have been assessed will never be collected. It would be inappropriate to accrue revenue for an amount that the government unit does not realistically expect to collect. Thus, the difference between assessments and expected collections represents a claim that has no real value and should not be recorded as revenue. The amount of taxes and social security contributions that is recorded as revenue should be the amount that is realistically expected to be collected. The actual collection, however, may be in a later period, possibly much later.

3.58 If taxes are imposed on specific transactions or events, they are recorded at the times the underlying transaction or event occurs, even though these times may not coincide with the actual payment of the tax to the government. Examples include sales taxes, value-added taxes, import duties, and estate and gift taxes.

3.59 In principle, income taxes and social contributions based on income should be attributed to the period in which the income is earned, even though there may be a significant delay between the end of the accounting period and the time at which it is feasible to determine the actual liability. In practice, however, some flexibility is permitted. In particular, as a practical deviation from the general principle, income taxes deducted at source, such as pay-as-you-earn taxes, and regular prepayments of income taxes may be recorded in the periods in which they are paid, and any final tax liability on income may be recorded in the period in which it is determined.

3.60 Income taxes are normally imposed on the income earned during an entire year. If monthly or quarterly statistics are compiled, indicators of seasonal activity or other appropriate indicators may be utilized to allocate the annual totals.

3.61 Taxes on the ownership of specific types of property often are based on the value of the property at a particular time but are deemed to accrue continuously over the entire year or the portion of the year that the property was owned, if less than the entire year. Similarly, taxes on the use of goods or the permission to use goods or perform activities usually relate to a specific time period, such as a license to operate a business during a specific period.

3.62 Some compulsory transfers, such as fines, penalties, and property forfeitures, are determined at a specific time. These transfers are recorded when the government has a legal claim to the funds, which may be when a court renders judgment or an administrative ruling is published.

3.63 Determining the time of recording for grants and other voluntary transfers can be complex because there is a wide variety of eligibility conditions that have varying legal powers. In some cases, a potential grant recipient has a legal claim when it has satisfied certain conditions, such as the prior incurrence of expenses for a specific purpose or the passage of legislation. These transfers are recorded when all requirements and conditions are satisfied. In other cases, the grant recipient never has a claim on the donor, and the transfer should be attributed to the time at which the cash payment is made.

3.64 Dividends and withdrawals from income of quasi-corporations are recorded as of the date on which they are declared payable or actually take place if no prior declaration occurs.

3.65 Transactions in goods and nonfinancial assets are recorded when legal ownership changes, which may depend on the provisions in the sales contract. If that time cannot be determined precisely, recording may take place when there is a change in physical ownership or control. For example, a change of ownership is imputed to have taken place under a financial lease when the lessee takes control of the asset.

3.66 Transactions in services normally should be recorded when the services are provided. If a service, such as transportation, is delivered at a specific time, then the transaction is recorded at that time. Other services are supplied or take place on a continuous basis. For example, operating leasing, insurance, and housing services are continuous flows and, in concept, are recorded continuously as long as they are being provided. More practically, the value of the services attributed to a period is based on the quantity supplied during the period rather than the payments required.

3.67 Several other transactions also relate to flows that take place continuously or over extended periods. For example, consumption of fixed capital accrues continuously over the whole period a fixed asset is available for productive purposes and interest accrues continuously over the period that the financial claim exists. Often an interest-bearing financial claim calls for periodic interest payments. These payments, however, reduce the liability that has already accrued over the previous period and are not expense transactions.

3.68 Additions to inventories are recorded when products are purchased, produced, or otherwise acquired. Withdrawals from inventories are recorded when products are sold, used up in production, or otherwise relinquished. Additions to work-in-progress inventory are recorded continuously as work proceeds. When production is completed, the production costs accumulated to that point are transferred to finished-goods inventory.

3.69 A transaction in the use of goods or services is recorded when the good or service enters the production process. For goods, this time may be quite different from the time they were acquired. In the meantime, they are classified as inventories.

3.70 Transactions in many types of financial assets, such as securities, loans, currency, and deposits, are recorded when legal ownership changes. In some cases, the parties to a transaction may perceive ownership to change on different dates because they acquire the documents evidencing the transaction at different times. This variation usually is caused by the process of clearing, or the time checks are in the mail. The amounts involved in such "float" may be substantial in the case of transferable deposits and other accounts receivable or payable. If there is disagreement on a transaction between two general government units, the date on which the creditor records the transaction is the date of record.

3.71 The various types of accounts payable and receivable, such as general accounts payable, interest payable, and wages payable, are created by a counterpart transaction, such as the purchase of a good on credit, interest expense, and compensation of employees. These financial claims are deemed to arise when the counterpart flow occurs.

3.72 As indicated previously, there is a wide variety of other economic flows. Depending on the nature of the flow, they may take place at a specific time or continuously over a period. For example, the destruction of an asset by fire happens at a specific time, and holding gains and losses occur continuously as prices change.

3. Valuation

3.73 All flows and stocks should be valued at the amounts for which goods, assets other than cash, services, labor, or the provision of capital are in fact exchanged or could be exchanged for cash. These values are referred to as ***current market prices*** or values. Flows should be valued at the prices current on the dates for which they are recorded in accordance with the guidelines of the previous section. Stocks should be valued at the prices current on the balance sheet date.

3.74 In general, flows expressed in monetary terms when they occur can be recorded at their actual value because that value is presumed to be the current market value. Some transactions expressed in monetary terms need to be partitioned into two transactions, as described in paragraphs 3.9 and 3.21. In that case, the total value of the two transactions must equal the monetary value of the single transaction that actually occurred. If a government unit sells an asset for less than its market value or purchases an asset for more than its market value, the sale or purchase should be valued at the true market price and a transfer for the remaining amount should be imputed. Often transactions of this nature are structured so that the true market values are impossible to estimate accurately. Nevertheless, estimates should be made whenever possible.

3.75 Current market values of stocks are available for assets and liabilities that are traded in active markets, most commonly certain financial assets and their corresponding liabilities. Current market values of other assets and liabilities need to be estimated in a manner similar to nonmonetary flows, as described in paragraph 3.79.

3.76 Some financial assets and liabilities, such as bonds, have a nominal value as well as a current market value, and for some purposes supplemental data on the nominal values of stocks may be helpful.[8] Transactions in these assets and liabilities, however, should be valued at the prices actually paid and not at their nominal value. Similarly, the stocks of such assets and liabilities should be valued at their current market value when recorded on the balance sheet.

3.77 Another type of actual transaction that may require a valuation adjustment occurs when a unit sells an item and does not receive the corresponding payment for an unusually long time. If the amount of trade credit extended in this way is large, then value of the sale should be reduced by means of an appropriate discount rate and interest should be accrued until the actual payment is made.

3.78 Flows expressed in a foreign currency are converted to their value in the national currency at the rate prevailing when they take place, and stocks are converted at the rate prevailing on the balance sheet date. The midpoint between the buying and selling rates should be used. The valuation in the national currency of a purchase or sale on credit expressed in a foreign currency may differ from the value of the subsequent cash payment because the exchange rate changed in the interim. Both transactions should be valued at their current market values as of the dates they actually occurred, and a holding gain or loss resulting from the change in the exchange rate should be recorded for the period or periods in which it occurs.

[8]The nominal value is the amount that the debtor owes to the creditor at any moment. It reflects the value of the instrument at creation and subsequent economic flows, such as transactions, valuation changes (excluding market price changes), and other changes, such as debt forgiveness. Conceptually, the nominal value is equal to the required future payments of principal and interest discounted at the existing contractual interest rate. Nominal value is not necessarily face value, which is the undiscounted amount of principal to be repaid.

3.79 The values of flows that are not already expressed at their current market value, such as barter transactions, must be estimated. In addition, current market values for many stocks will not be readily available and must be estimated. The following list suggests several estimation possibilities. The choice of which method to use in a given circumstance depends on the information available.

- It may be possible to estimate the values of transactions based on values taken from markets in which similar transactions take place under similar conditions. The value of certain stocks, primarily financial assets, may also be estimated using market transactions involving similar assets that take place at the end of the accounting period.

- Flows and stocks involving existing fixed assets can be valued using the market price for similar new goods, properly adjusted for consumption of fixed capital and other events that may have occurred since they were produced.

- If there is no appropriate market in which a particular good or service is currently traded, the valuation of a flow involving that good or service may be derivable from the market prices of similar goods and services by making adjustments for quality and other differences.

- The value of flows and stocks of assets may be able to be estimated on the basis of the historical or acquisition cost of the item, adjusted for all changes that have occurred since it was purchased or produced, such as consumption of fixed capital, holding gains or losses, depletion, exhaustion, degradation, unforeseen obsolescence, and exceptional losses.

- Goods and services can be valued by the amount that it would cost to produce them currently.

- Assets can be valued at the discounted present value of their expected future returns. This method is particularly prominent for a number of financial assets, natural assets, and intangible assets.

4. Derived measures

3.80 Derived measures consist of aggregates and balancing items. They are important analytic tools that summarize the values of selected flows or stocks that have been individually recorded in the GFS system.

3.81 ***Aggregates*** are summations of elements in a class of flows or stocks. For example, tax revenue is the sum of all flows that are classified as taxes. Aggregates and classifications are closely linked in that classifications are designed to produce the aggregates thought to be most useful.

3.82 ***Balancing items*** are economic constructs obtained by subtracting one aggregate from a second aggregate. For example, the net operating balance is obtained by subtracting the total expense aggregate from the total revenue aggregate. Net worth is equal to total assets less total liabilities.

5. Netting of flows and stocks

3.83 It is feasible to present many categories of flows and stocks on a gross or net basis. An item presented on a net basis is calculated as the sum of one set of flows or stocks less the sum of a second set. For example, total tax revenue could be presented on a gross basis as the total amount of all taxes accrued, or on a net basis as the gross amount less taxes refunded for one reason or another. The choice depends on the category of flows or stocks, the nature of the items that might be subtracted to obtain the net value, and the analytic utility of the gross and net values. The following choices are used in the GFS system.

3.84 Revenue categories are presented gross of expense categories for the same or related category and likewise for expense categories. In particular, interest revenue and interest expense are both presented gross rather than only net interest expense or revenue. Similarly, social benefits and social contributions, grant revenue and expense, and rent revenue and expense are presented gross. Also, sales of goods and services are presented gross of the expenses incurred in their production.

3.85 Revenue categories are presented net of refunds of the relevant revenue, and expense categories are presented net of inflows of the same expense arising from erroneous or unauthorized transactions. For example, refunds of income taxes may be paid when the amount of taxes withheld or otherwise paid in advance of the final determination exceeds the actual tax due. Such refunds are recorded as negative tax revenue. Similarly, if social benefits that were paid in error are recovered, then such recoveries are recorded as a negative expense.

3.86 Acquisitions and disposals of nonfinancial assets other than inventories are presented gross. For example, acquisitions of land are presented separately from disposals of land. For analytic presentations, the net acquisition of each category of nonfinancial asset may be preferable and can be derived easily.

3.87 Changes in each type inventory are presented net. That is, the change in materials and supplies is presented as the net value of additions less withdrawals.

3.88 Acquisitions and disposals of each category of financial assets are presented net. For example, only the net change in the holding of cash is presented, not gross receipts and disbursements of cash. Similarly, additions to liabilities are presented net of repayments.

3.89 Other economic flows are presented net. That is, the net holding gain for each asset and liability is presented, not gross holding gains and gross holding losses.

3.90 Stocks of the same type of financial instrument held both as a financial asset and a liability are presented gross. For example, a unit's holding of bonds as assets is presented separately from its liability for bonds.

6. Consolidation

3.91 Consolidation is a method of presenting statistics for a set of units as if they constituted a single unit. In the GFS system, the data presented for a group of units normally are consolidated. In particular, statistics for the general government sector and each of its subsectors are presented on a consolidated basis. When units of the public sector are included in a presentation, the data for public corporations should be presented in two ways, as a separate sector and together with general government units. In both cases, the statistics should be presented on a consolidated basis within each group.

3.92 Consolidation involves the elimination of all transactions and debtor-creditor relationships that occur among the units being consolidated. In other words, a transaction of one unit is paired with the same transaction as recorded for the second unit and both transactions are eliminated. For example, if one general government unit owns a bond issued by a second general government unit and data for the two units are being consolidated, then the stocks of bonds held as assets and liabilities are reported as if the bond did not exist. At the same time, consolidated interest revenue and expense exclude the interest paid by the debtor general government unit to the creditor. Similarly, sales of goods and services between consolidated units are also eliminated.

3.93 The *1993 SNA* recommends that statistics of institutional units should not be consolidated and, in addition, sales of one establishment of an institutional unit to a second establishment of the same institutional unit also should not be consolidated. The difference between the *1993 SNA* and this manual reflects the different uses of the statistics. The GFS system is designed to produce statistics suitable for use in the analysis of the impact of government operations, either the entire general government sector or a specific subsector. In particular, assessing the overall impact of government operations on the total economy or the sustainability of government operations is more effective when the measure of government operations is a set of consolidated statistics rather than unconsolidated statistics. The GFS system also is not intended to produce a measure of production taking place in the general government sector. The *1993 SNA*, on the other hand, serves a much wider range of uses, including a comprehensive measure of production and relations among sectors.

3.94 In financial accounting reports, statistics are often presented on a consolidated basis for the reporting entity and all of its controlled entities without regard to whether the controlled entities are general government units or public corporations, as those terms are used in the manual. This use of consolidation attempts to portray the operations and financial position of a parent and its subsidiaries as though the group of enterprises were a single unit. For example, a financial report for a state government would include all public corporations controlled by that government but would not include the statistics of any other state government. In contrast, the consolidated statistics of the state government subsector in the GFS system would include all state government units but would exclude all public corporations owned or controlled by state governments.

7. Contingencies

3.95 Contingencies are conditions or situations that may affect the financial performance or position of the general government sector depending on the occurrence or nonoccurrence of one or more future events. For example, a general government unit's guarantee of a loan may result in an expense if the debtor defaults, but it will not be known whether the expense will be incurred or, if it is incurred, how much the expense will be until a default occurs or the loan is repaid fully. In another example, a government unit's tax assessment may be contested in court by the unit assessed. This contingent revenue will not be resolved until an agreement is reached by the two parties or a court issues a ruling and no further appeals are possible or planned.

3.96 This manual follows the *1993 SNA* by not treating any contingencies as financial assets or liabilities because they are not unconditional claims or obligations. Nevertheless, contingencies, especially those that may result in an expense, can be particularly significant for the general government sector. Aggregate data on all important contingencies should be recorded as memorandum items. In addition to the gross amount of possible revenue or expense, estimates of expected revenue or expense should be presented. This position is somewhat different from that of financial accounting standards, which recognize contingent liabilities when it is probable that future events will confirm that an asset has been impaired or a liability incurred and that a reasonable estimate of the amount can be made.

3.97 When a contingency is recognized as a liability of a general government unit, a flow is recorded with an expense as the debit and an increase in a liability as the credit. For example, if a loan guarantee has been called and the general government unit has no claim on the defaulter, then the general government unit would record a transfer to the defaulter and an incurrence of a liability to the creditor.

4. The Analytic Framework

This chapter introduces the analytic framework of the GFS system and describes the relationships among its elements.

A. Introduction

4.1 A government and its public enterprises carry out a multitude of transactions. To manage the internal operations of government and assess the government's impact on the economy, these transactions must be organized into a framework within which they can be summarized and analyzed. For accountability purposes, transactions may be organized according to the government unit that carries them out. For detailed purchasing or planning purposes, transactions may be organized by the kind of item purchased or service provided. For billing or control purposes, transactions may be organized by the particular transactors with whom the government deals. The government finance statistics framework, on the other hand, is designed to facilitate macroeconomic analysis. While there is clearly a close link between accounting data and economic statistics, they do not serve the same objectives and may differ in the treatment of particular items.

4.2 Traditionally, governments have kept their accounts on a cash basis; this is reflected in the analytic framework of the *1986 GFS Manual*. Including only cash revenues and expenditures has the advantage of focusing the government's attention on its financing constraint, which has traditionally been viewed as its most binding priority. However, governments have become less liquidity constrained in carrying out fiscal policy and have become more adept at separating the time of a fiscal action from the time it is paid for, so that cash transactions do not adequately capture either the timing of the action or its impact on the economy. In consequence, there has been increasing dissatisfaction with cash transactions as the basis for assessing fiscal policy, and a worldwide shift is under way toward resource-based accounting.[1]

4.3 The analytic framework in this manual reflects these developments and is presented in the form of a set of interrelated statements derived from the *1993 SNA* that integrate flows and stocks. This framework differs considerably from the cash-based framework of the *1986 GFS Manual*, which focused on selected stocks and flows and did not integrate them. The new framework facilitates a more comprehensive assessment of the economic impact of government activity and the sustainability of fiscal policy. More specifically, the introduction of the accrual basis and the integration of balance sheets with flows for government are consistent with the need for government behavior to be determined in the context of its intertemporal budget constraint. For example, a government's policies will not be sustainable if they reduce its net worth too much. The framework also provides an improved basis for monitoring efficiency in the allocation and use of government resources.

B. Analytic objectives

4.4 The GFS system is a quantitative tool that supports fiscal analysis. To permit effective analysis of fiscal policy, the statistical output of the system must facilitate the identification, measurement, monitoring, and assessment of the impact on the economy of a government's economic policies and other activities, as well as the sustainability of those policies and activities.

4.5 To achieve the analytic objectives, the GFS statistical framework should generate data that (1)

[1]For example, see Part III of International Federation of Accountants, *Government Financial Reporting: Accounting Issues and Practices* (New York, 2000).

are closely linked to other macroeconomic statistical systems (national accounts, balance of payments, and monetary and financial statistics) and (2) enable the analyst to assess the financial soundness of the general government sector in ways commonly applied to other organizations in the economy.[2]

C. Construction of the framework: Relation to the previous GFS system

4.6 The analytic framework builds on the 1986 GFS system and extends it by incorporating additional elements that are useful in assessing fiscal policy. Three types of changes have been made:

- The definitions of individual statistical variables have been aligned more closely with economic concepts. An important example is the treatment of nonfinancial assets, where the sale of such assets is no longer included in revenue and their purchase is no longer included in expense.

- A number of conceptual modifications have been made to harmonize the GFS system with the 1993 SNA. Important changes include the shift from a functional-based definition of government to one built on institutional units (see Chapter 2), a switch from cash to accrual accounting (see Chapter 3), and the complete integration of flows and stocks.

- The previous GFS analytic framework has been extended to include nonmonetary transactions, flows other than transactions, and balance sheets.

4.7 The central coverage of the GFS system encompasses the general government sector. Once an institutional unit has been classified to a sector (as defined in Chapter 2), then all its stocks and flows are recorded in that sector.[3] Some types of analysis may be more effectively carried out if they are based on statistics that include the operations of public corporations. Thus, statistics for the public sector as well as for the general government sector should be compiled. The analytic framework described in this chapter can be applied to both sectors regardless of the coverage selected.

D. Components and concepts of the analytic framework

4.8 The core of the analytic framework is a set of four financial statements. Three of the statements can be combined to demonstrate that all changes in stocks result from flows (see Figure 4.1). These are (1) the Statement of Government Operations; (2) the Statement of Other Economic Flows; and (3) the Balance Sheet. In addition, the framework includes a Statement of Sources and Uses of Cash to provide key information on liquidity.

4.9 The ***Statement of Government Operations*** is a summary of the transactions of the general government sector in a given accounting period. In essence, transactions represent changes to stocks that arise from mutually agreed interactions between institutional units, such as the sale of a good or service by one unit and its purchase by another. The framework also recognizes that a unit can act in two capacities of economic interest and includes as transactions some items that do not involve another institutional unit. For example, consumption of fixed capital recognizes that a unit is both the owner of a fixed asset and the consumer of the services provided by the asset. Taken together, transactions constitute the largest share of the implementation of fiscal policy. As described in the following section, the transactions are classified to demonstrate the effect of fiscal policy on the net worth of the general government sector, on its demand for credit, and on its holdings of assets and liabilities.

4.10 The ***Statement of Other Economic Flows*** tabulates changes to stocks of assets, liabilities, and net worth that come about from sources other than transactions. More specifically, *holding gains* represent changes to stocks that arise from price movements, including exchange rate movements.[4] *Other changes in the volume of assets* relate to changes to stocks arising from events such as the discovery of new assets (e.g., mineral deposits) and depletion or destruction of assets.

[2] Organizations in other sectors of the economy record their operations in the form of integrated accounting systems that include income statements, balance sheets, and cash flow statements.

[3] As described in Chapter 2, the central bank and other public financial and nonfinancial corporations belong to the public sector but not to the general government sector.

[4] "Holding gains" is used as a short form of the more general term, "holding gains and losses."

Figure 4.1. Structure of the GFS Analytic Framework

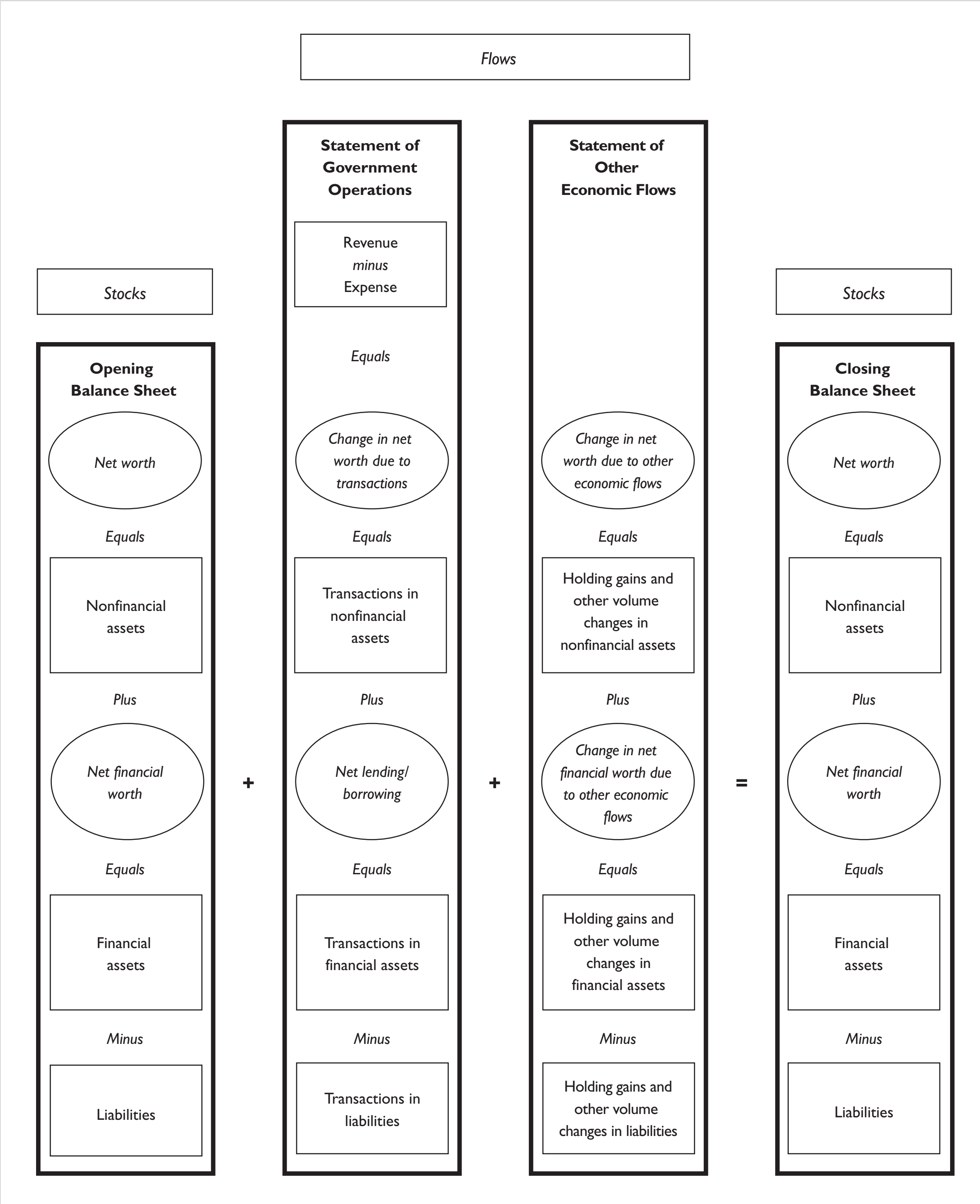


Table 4.1: Statement of Government Operations

TRANSACTIONS AFFECTING NET WORTH:
REVENUE
Taxes
Social contributions [GFS]
Grants
Other revenue
EXPENSE
Compensation of employees [GFS]
Use of goods and services
Consumption of fixed capital [GFS]
Interest [GFS]
Subsidies
Grants
Social benefits [GFS]
Other expense
NET/GROSS OPERATING BALANCE[1]
TRANSACTIONS IN NONFINANCIAL ASSETS:
NET ACQUISITION OF NONFINANCIAL ASSETS[2]
Fixed assets
Change in inventories
Valuables
Nonproduced assets
NET LENDING/BORROWING [GFS][3]
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):
NET ACQUISITION OF FINANCIAL ASSETS
Domestic
Foreign
NET INCURRENCE OF LIABILITIES
Domestic
Foreign

[1]The net operating balance equals revenue minus expense. The gross operating balance equals revenue minus expense other than consumption of fixed capital.
[2]Acquisitions minus disposals and consumption of fixed capital.
[3]Net lending/borrowing equals the net operating balance minus the net acquisition of nonfinancial assets. It is also equal to the net acquisition of financial assets minus the net incurrence of liabilities.

4.11 The ***Balance Sheet*** records the stocks of assets, liabilities, and net worth of the general government sector at the end of each accounting period.

4.12 By breaking down the total assets and total liabilities into their constituents and establishing the sources of changes in them from one period to another in terms of transactions and other economic flows as defined above, the framework provides a strong statistical explanation of the factors causing the change in the net worth of government.

4.13 The ***Statement of Sources and Uses of Cash*** records cash inflows and outflows using a classification similar to that of the Statement of Government Operations.

E. The Statement of Government Operations

4.14 The Statement of Government Operations (Table 4.1) presents details of transactions in revenue, expense, the net acquisition of nonfinancial assets, the net acquisition of financial assets, and the net incurrence of liabilities.[5] Revenue is defined as the increase in net worth resulting from transactions, and expense as the decrease in net worth resulting from transactions. The net acquisition of nonfinancial assets equals gross fixed capital formation less consumption of fixed capital plus changes in inventories and transactions in other nonfinancial assets.

4.15 Two important analytic balances are derived in the Statement of Government Operations. Revenue less expense equals the ***net operating balance***. The subsequent deduction of the net acquisition of nonfinancial assets results in ***net lending (+)/borrowing (–)***, which is also equal to the net result of transactions in financial assets and liabilities. In addition, Box 4.1 describes a number of other important variables used in fiscal analysis.[6]

4.16 The net operating balance is a summary measure of the ongoing sustainability of government operations. It is comparable to the national accounting concept of saving plus net capital transfers receivable. It should be noted that the net operating balance (and the equivalent change in net worth due to transactions) as defined here excludes gains and

[5]As explained in Chapter 3, government finance statistics are intended to be compiled using the accrual basis of recording transactions. It is recognized, however, that many governments may be able to compile statistics only on a cash or partial accrual basis for some time. If only cash data are available, the classification of cash flows shown in Table 4.2 should be used. Otherwise, with accrual or partial accrual data, the classification of transactions shown in Table 4.1 should be used. With the exception of consumption of fixed capital and accounts receivable/payable, all of the line items in the table can be applied to both cash and accrual data. However, the benefits of the fully integrated system can only be derived from using accrual data.

[6]The European Central Bank (ECB) defines revenue in the same way as this manual and expenditure as the sum of expense and the net acquisition of nonfinancial assets. The ECB deficit/surplus is defined as revenue minus expenditure and is equivalent to net lending/borrowing. Expenditure is one of the fiscal variables included in Box 4.1.

losses resulting from changes in price levels and other changes in the volume of assets. The component of the change in net worth that is due to transactions can be attributed directly to government policies since governments have control over their transactions. The same cannot be said for the other components of the total change in net worth, as governments do not directly control them.

4.17 Net lending (+)/borrowing (–) is a summary measure indicating the extent to which government is either putting financial resources at the disposal of other sectors in the economy or utilizing the financial resources generated by other sectors. It may therefore be viewed as an indicator of the financial impact of government activity on the rest of the economy. It differs from the *1993 SNA* concept of net lending/borrowing to the extent that a government maintains an unfunded retirement scheme for its employees. In the GFS system, the present value of the obligations to pay retirement benefits is recognized as a liability, while in *1993 SNA* it is not recognized.[7]

4.18 In addition, the ***gross operating balance*** is presented in Table 4.1. It differs from the net operating balance in that it does not include consumption of fixed capital as an expense. Consumption of fixed capital can be difficult to measure in practice and a satisfactory estimate may not be possible. If so, the gross operating balance may be more practical for analysis than the net operating balance. The net operating balance is, however, preferred because it captures all current costs of government operations.

4.19 Table 4.1 is divided into three sections: (1) revenue and expense transactions, (2) transactions in nonfinancial assets, and (3) transactions in financial assets and liabilities. The following paragraphs follow that structure in summarizing the various categories of transaction. These definitions and descriptions are not intended to be comprehensive. In each section, reference is made to the chapter that contains more detailed information.

1. Revenue

4.20 All transactions that increase the net worth of the general government sector are classified as revenue.[8] Governments receive three major types of revenue from their fiscal operations: taxes, social contributions, and other revenue. For many governments, the revenue from these sources is supplemented by grants. It should be noted that the sale of a nonfinancial asset is not revenue because it has no effect on net worth. Rather, it changes the composition of the balance sheet by exchanging one asset (the nonfinancial asset) for another (the proceeds of the sale). (The detailed classification of revenue is described in Chapter 5.)

4.21 ***Taxes*** are compulsory transfers received by the general government sector. They include fees that are clearly out of all proportion to the costs of providing services, but exclude compulsory social contributions, fines, and penalties.

4.22 ***Social contributions [GFS]***[9] include receipts of social security schemes and employer social insurance schemes that provide benefits other than retirement benefits. Social security contributions may be compulsory or voluntary and may be made by employees, employers on behalf of employees, self-employed persons, or nonemployed persons. Compulsory social security contributions differ from taxes in that the payments entitle the contributors and other beneficiaries to certain social benefits if specified events should take place, such as sickness and old age. Compulsory payments assessed on a basis other than pay, payroll, or the number of employees but earmarked for social security schemes are taxes. Also, contributions to employer retirement schemes are not treated as social contributions in the GFS system.

4.23 ***Grants*** are noncompulsory transfers received from other governments or from international organizations. They supplement the revenue from a government's own resources. They may be received in cash or in kind.[10]

[7] Net lending/borrowing in the GFS system also differs from the comparable concept in *1993 SNA* because of a different treatment of reinvested earnings on direct foreign investment, as described in Chapter 5.

[8] In general, transactions that increase net worth result from current operations. Capital transfers receivable is a possible exception. As defined in the *1993 SNA*, a capital transfer is a transfer of a noncash asset, the cancellation of a liability by a creditor, the transfer of cash that was raised by disposing of an asset, or the transfer of cash that the recipient is expected or required to use for the acquisition of an asset. (In each case inventories are excluded.) In the GFS system, capital transfers receivable are classified as revenue because they increase government's net worth and they are often indistinguishable from current transfers in their effect on government operations.

[9] [GFS] indicates that this item has the same name in *1993 SNA* but different coverage.

[10] In the *1986 GFS Manual*, grants were treated as an inflow separately from revenue. They have been included as part of revenue in this manual because they meet the criterion of increasing net worth.

4.24 ***Other revenue*** includes all revenue transactions not classified as taxes, social contributions, or grants. The major items are sales of goods and services,[11] interest and other types of property income, voluntary transfers in cash or in kind other than grants, and fines and penalties.

2. Expense

4.25 All transactions that decrease the net worth of the general government sector are classified as expense.[12] The purchase of a nonfinancial asset is not an expense because it has no effect on net worth. Rather, it changes the composition of the balance sheet by exchanging one asset (the nonfinancial asset) for another or a liability (the payment for the asset). The major types of expense are compensation of employees, use of goods and services, consumption of fixed capital, interest, subsidies, grants, social benefits, and other expense. In addition, expense can be classified according to functional purpose, such as health or social protection. (Both classifications of expense are described in Chapter 6.)

4.26 ***Compensation of employees [GFS]*** is the remuneration, in cash or in kind, payable to an employee in return for work done. In addition to wages and salaries, compensation of employees includes social insurance contributions made by a general government unit on behalf of its employees. Excluded is any compensation of employees related to own-account capital formation.[13] As a result, total compensation of employees in *1993 SNA* is larger by this amount than compensation of employees shown in Table 4.1.

4.27 ***Use of goods and services*** is the total value of goods and services purchased by the general government sector for use in a production process or acquired for resale less the net change in inventories of those goods and services.[14] Goods and services acquired for use as in-kind transfers to households or as grants without being used in a production process are excluded. Parallel to compensation of employees, any goods and services used in own-account capital formation are treated as acquisitions of nonfinancial assets.

4.28 ***Consumption of fixed capital [GFS]*** is the decline in the value of the stock of fixed assets during the accounting period as a result of physical deterioration, normal obsolescence, and normal accidental damage.[15] It is always a noncash expense. Because of the difficulty in estimating this expense, the gross operating balance, as shown in Table 4.1, is sometimes computed in place of, or in addition to, the net operating balance.

4.29 ***Interest [GFS]*** is an expense incurred by a debtor for the use of another unit's funds. An interest-bearing financial instrument can be classified as deposits, securities other than shares, loans, or accounts receivable/payable.

4.30 ***Subsidies*** are current transfers that government units pay to enterprises either on the basis of the levels of their production activities or on the basis of the quantities or values of the goods or services that they produce, sell, or import. Included are transfers to public corporations and other enterprises that are intended to compensate for operating losses.

4.31 ***Grants*** are noncompulsory transfers, in cash or in kind, paid to another general government unit or an international organization.

4.32 ***Social benefits [GFS]*** are current transfers to households to provide for needs arising from events such as sickness, unemployment, retirement, housing, or family circumstances. The benefits may be paid in cash or in kind. The costs of social benefits in kind produced by a general government unit are recorded against the relevant expenses that were incurred to produce the goods and services rather than included in this category.[16]

4.33 ***Other expense*** includes all expense transactions not elsewhere classified. Transactions recorded here include property expense other than interest; taxes, fines, and penalties imposed by one government on another; current transfers to nonprofit institutions serving households; capital transfers other than capital grants, and non-life insurance premiums and claims.

[11]In the *1986 GFS Manual,* the net value of sales of market establishments less their operating costs is shown as revenue (or as expense if the operating costs exceed revenue). In this manual, the gross amount of sales is to be shown as revenue and the various operating costs are to be distributed among each category of expense as appropriate.

[12]As with revenue, capital transfers paid or otherwise obligated are classified as expense. See footnote 8.

[13]These transactions are classified as acquisitions of nonfinancial assets.

[14]For example, goods purchased but not used in the same period would be shown as an increase in inventories and not as use of goods and services, while goods withdrawn from inventories would be shown as a reduction in inventories and an addition to use of goods and services.

[15]Consumption of fixed capital related to fixed assets used in own-account capital formation is excluded from this category and included as part of the value of the asset produced.

[16]Pensions and other retirement benefits are also classified as social benefits in *1993 SNA*, but in the GFS system they are classified as reductions in liabilities.

3. Treatment of social security and unfunded government employer retirement schemes

4.34 In the GFS system, social security contributions are treated as revenue (and therefore as an increase in net worth), and social security benefits as expense (a decrease in net worth). This treatment is in line with conventional fiscal analysis. Some analysts argue that, in a full intertemporal framework, social security contributions may be seen more appropriately as a buildup of assets associated with future liabilities. Likewise, many social security benefits may be seen as the extinction of previously incurred government liabilities. This approach is not taken in this manual because it is considered that social security schemes do not result in a contractual liability for the government, i.e., there is no direct link between the contributions made and the benefits eventually paid. Indeed, it is not uncommon for governments to change unilaterally the structure of benefits (e.g., by changing the circumstances under which the benefits become payable or the amount of the benefit). Nonetheless, it is important for a government to be aware of the contingent liability that arises from its social security program. As a result, a memorandum item is included in Chapter 7 to recognize the net present value of future benefits that have already been earned according to the existing laws and regulations.

4.35 Contrary to the *1993 SNA*, transactions in unfunded government employer retirement schemes are considered in this manual to involve a contractual liability for a government to its employees. As a result, the receipt of contributions to such schemes is considered to be an incurrence of a liability, and the payment of retirement benefits is considered to be a reduction of the same liability.

4. Transactions in nonfinancial assets[17]

4.36 The second section of Table 4.1 records transactions that change a government's holdings of nonfinancial assets. These assets are classified as fixed assets, inventories, valuables, and nonproduced assets. (Transactions in nonfinancial assets are described further in Chapter 8.)

[17] This section deals only with direct acquisitions and disposals of nonfinancial assets (including consumption of fixed capital). Government units may facilitate public capital formation by transferring funds to other governments or to public corporations with a requirement that the funds be used to acquire nonfinancial assets. These transactions are included in capital grants or other expense as relevant.

4.37 ***Fixed assets*** are produced assets that are used repeatedly or continuously in processes of production for more than one year. Transactions in fixed assets can refer to acquisitions of new assets, construction of new assets on own account, acquisitions and disposals of existing assets, and major improvements to fixed assets and nonproduced assets. Assets can be acquired or disposed of by purchase, sale, barter, or transfer.

4.38 ***Inventories*** are stocks of goods held by general government units that are intended for sale, use in production, or other use at a later date. They can be strategic stocks, materials and supplies, work in progress, finished goods, or goods held for resale. Withdrawals from inventories are valued at current market prices rather than their acquisition prices. Any change in the value of inventories between the time of acquisition and withdrawal should be shown as a holding gain in the Statement of Other Economic Flows and not as revenue (gain) or expense (loss).

4.39 ***Valuables*** are produced assets that are not used primarily for purposes of production or consumption but are held as stores of value over time.

4.40 ***Nonproduced assets*** are assets needed for production that have not themselves been produced, such as land, subsoil assets, and certain intangible assets.

5. Transactions in financial assets and liabilities

4.41 The third section of Table 4.1 records financial transactions, which are transactions that change a government's holdings of financial assets and liabilities. Financial assets are mainly claims on other institutional units and therefore have counterpart liabilities.[18] (Transactions in financial assets and liabilities are described in Chapter 9.)

4.42 Transactions in financial assets can be classified in multiple ways; for ease of presentation, Table 4.1 indicates only a classification of financial assets according to whether the counterpart liability was incurred by a resident (indicated by "domestic" in the table) or a nonresident (foreign) and vice versa for the classification of liabilities.

4.43 There are two other classifications of financial transactions in the GFS system. The first classification is based on the type of financial instruments involved

[18] Monetary gold and SDRs are exceptions in that they are financial assets that are not claims on other units.

in the transactions. The categories are monetary gold and SDRs, currency and deposits, loans, securities other than shares, shares and other equity, insurance technical reserves, financial derivatives, and other accounts receivable/payable (see Table 9.1 in Chapter 9). The second classification is based on the sector of the counterparty of the financial instrument. That is, liabilities are classified according to whether the current holder of the counterpart financial asset is a financial corporation, nonfinancial corporation, household, and so forth (see Table 9.2 in Chapter 9).

4.44 In general, transactions in liabilities can be classified in the same way as transactions in financial assets. One additional classification that could be employed is whether a liability has become past due for payment and is in arrears. By showing a reduction in a liability when it is due for payment and a corresponding increase in a separate liability, the accumulation of debt amortization arrears can be indicated as a source of financing. Such treatment is explained in more detail in Appendix 2.

4.45 An additional possible classification of a financial asset is whether it was acquired or disposed of for the purpose of public policy or liquidity management. This distinction is not included in the Statement of Government Operations, but is used to define the ***overall balance*** in Box 4.1. Policy-related assets may be acquired for a variety of reasons, such as fostering new industries, assisting ailing government corporations, or helping particular businesses suffering economic adversity. Such transactions can take a variety of forms, including loans, equity securities, and debt securities. Given that there is often a subsidy component of such transactions, it is useful to identify them in a separate category so that for some analyses they can be treated as flows with characteristics similar to revenue and expense.[19] All other transactions in financial assets are assumed to be for liquidity management purposes. That is, the assets are acquired to earn a market rate of return while keeping sufficient funds on hand to finance day-to-day operations.

Table 4.2: Statement of Sources and Uses of Cash

CASH FLOWS FROM OPERATING ACTIVITIES:
CASH RECEIPTS FROM OPERATING ACTIVITIES
Taxes
Social contributions
Grants
Other receipts
CASH PAYMENTS FOR OPERATING ACTIVITIES
Compensation of employees
Purchases of goods and services
Interest
Subsidies
Grants
Social benefits
Other payments
Net cash inflow from operating activities
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS:
PURCHASES OF NONFINANCIAL ASSETS
Fixed assets
Strategic stocks
Valuables
Nonproduced assets
SALES OF NONFINANCIAL ASSETS
Fixed assets
Strategic stocks
Valuables
Nonproduced assets
Net cash outflow from investments in nonfinancial assets
CASH SURPLUS/DEFICIT[1]
CASH FLOWS FROM FINANCING ACTIVITIES:
NET ACQUISITION OF FINANCIAL ASSETS OTHER THAN CASH
Domestic
Foreign
NET INCURRENCE OF LIABILITIES
Domestic
Foreign
Net cash inflow from financing activities
NET CHANGE IN THE STOCK OF CASH[2]

[1] Net cash inflow from operating activities minus the net cash outflow from investments in nonfinancial assets.
[2] Cash surplus/deficit plus the net cash inflow from financing activities.

F. Government cash operations

4.46 While it is desirable to record flows on an accrual basis, information on the sources and uses of cash is important for assessing the liquidity of the general government sector. The ***Statement of Sources and Uses of Cash*** (Table 4.2) shows the total amount of cash generated or absorbed by (1) current operations, (2) transactions in nonfinancial assets, and (3) transactions involving financial assets and liabilities other than cash itself. The net change

[19] The net acquisition of financial assets for policy purposes was called "lending minus repayments" in the *1986 GFS Manual* and was often referred to as "net lending." These terms should not be confused with the term "net lending/borrowing" used in this manual.

in the government's cash position is the sum of the net cash received from these three sources.

4.47 Cash refers to cash on hand and cash equivalents. Cash on hand refers to notes and coins held and deposits held on demand with a bank or other financial institution. Cash equivalents are highly liquid investments that are readily convertible to cash on hand at the government's option and overdrafts considered integral to the cash management function.

4.48 Unlike the accrual-based Statement of Government Operations (Table 4.1), the Statement of Sources and Uses of Cash (Table 4.2) reflects a cash basis of recording. This in effect means that transactions are captured when cash is received or when cash payments are made. Additional useful information is obtained from an analysis of the differences between Tables 4.1 and 4.2. There are two broad categories of transactions that are recorded in Table 4.1 but not in Table 4.2:

- ***Transactions that will be settled in cash in the future.*** With accrual recording, a purchase of goods and services is recognized when the ownership of goods changes hands or services are provided. The associated cash payment may not take place until a subsequent accounting period, in which case it would not be included in Table 4.2 in the same period as it appears in Table 4.1. Similarly, revenue can be received in cash before it is earned by the delivery of goods or provision of services to the purchaser. There may also be transactions in assets and liabilities that will be settled in cash in future periods, such as the interest accruing from the amortization of the discount on a zero-coupon or other discounted bond.

- ***Transactions that are not in cash by their nature***. Consumption of fixed capital, imputed transactions, barter, and other transactions in kind can only be noncash transactions.

G. The Statement of Other Economic Flows

4.49 Table 4.3, the Statement of Other Economic Flows, presents influences on the government's net worth that are not the result of government transactions. They are classified as changes either in the value or volume of assets, liabilities, and net worth. The balancing item of this statement is the ***change in net worth resulting from other economic flows***. (Other economic flows are described in Chapter 10.)

Table 4.3: Statement of Other Economic Flows

CHANGE IN NET WORTH RESULTING FROM OTHER ECONOMIC FLOWS

- NONFINANCIAL ASSETS
  - Holding gains
  - Other volume changes
- FINANCIAL ASSETS
  - Holding gains
  - Other volume changes
- LIABILITIES
  - Holding gains
  - Other volume changes

4.50 Changes in the value of assets, liabilities, and net worth due solely to price effects are called holding gains. They can result from changes in the general price level or in relative prices. Changes in the exchange rate will also cause holding gains of financial assets and liabilities denominated in a foreign currency.

4.51 Changes in the volume of assets and liabilities other than from transactions may arise for a variety of reasons. They can be described as resulting from exceptional or unexpected events, from normal events, or from reclassifications.

- ***Exceptional or unexpected events*** include losses from earthquakes, floods, fires, wind, wars, and other catastrophes. They also include bad debts written off by creditors, uncompensated seizures, abandonment of production facilities before construction is completed, unforeseen obsolescence of assets, unforeseen degradation of fixed assets from pollution, and exceptional losses of inventories.

- ***Normal events*** include the discovery of a subsoil asset, the depletion of subsoil assets through extraction, the registration of a patent, a change in the liability of a defined benefit pension plan resulting from a change in the benefits covered, the designation of a structure as a historic monument, and the natural growth of noncultivated biological resources.

- ***Reclassifications*** occur when a part of a general government unit begins to operate with sufficient independence that it is classified as a quasi-corporation, when a general government unit is converted to a public corporation or vice versa because of a change in its operations or the prices that it charges for its services, and when there is a restructuring or merger of general government units and public corporations. In these cases, assets and liabilities may be added to or removed from the balance sheet of the general government sector.

H. The Balance Sheet

4.52 The ***Balance Sheet*** is shown in Table 4.4. It presents the stocks of assets and liabilities at the end of the accounting period. Also included is ***net worth***, defined as total assets less total liabilities. The change in net worth is the preferred measure for assessing the sustainability of fiscal activities.

4.53 It may be difficult to attach market values to some government nonfinancial assets, and certain analyses are focused only on the financial assets of the general government sector rather than its total assets. As a result, ***net financial worth,*** also shown in Table 4.4, is defined as total financial assets less total liabilities.

1. Government assets

4.54 The assets included in the Balance Sheet of the general government sector are assets over which general government units enforce ownership rights and from which they may derive economic benefits by holding or using them over a period of time. Assets not owned and controlled by a general government unit and assets that have no economic value are excluded.

4.55 As shown in Table 4.4, assets are classified in the same way that transactions in assets are classified. Assets are either nonfinancial or financial. Nonfinancial assets are further classified as fixed assets, inventories, valuables, or nonproduced assets. Financial assets are classified by residency of the counterparty and by type of instrument. Financial assets can also be classified by sector of the counterparty. (The classification of assets is described in Chapter 7.)

2. Government liabilities

4.56 Liabilities are obligations to provide economic value to another institutional unit. Most classifications that apply to financial assets also apply to liabilities. Table 4.4 shows a classification first by the residency and then by type of instrument. (The classification of liabilities is described in Chapter 7.)

I. Additional summary measures for fiscal policy

4.57 Depending on the objectives of the analysis being undertaken, it is likely that variables and balances other than those included in the main tables of the GFS framework will be useful. Some of the most important indicators that are likely to be employed are described in Box 4.1.

Table 4.4: Balance Sheet

	Opening balance sheet	Closing balance sheet
NET WORTH		
NONFINANCIAL ASSETS		
Fixed assets		
Inventories		
Valuables		
Nonproduced assets		
FINANCIAL ASSETS		
Domestic		
Currency and deposits		
Securities other than shares		
Loans		
Shares and other equity		
Insurance technical reserves		
Financial derivatives		
Other accounts receivable		
Foreign		
Currency and deposits		
Securities other than shares		
Loans		
Shares and other equity		
Insurance technical reserves		
Financial derivatives		
Other accounts receivable		
Monetary gold and SDRs		
LIABILITIES		
Domestic		
Currency and deposits		
Securities other than shares		
Loans		
Shares and other equity (public corporations only)		
Insurance technical reserves [GFS]		
Financial derivatives		
Other accounts payable		
Foreign		
Currency and deposits		
Securities other than shares		
Loans		
Shares and other equity (public corporations only)		
Insurance technical reserves [GFS]		
Financial derivatives		
Other accounts payable		

Box 4.1: Analytical Measures for Fiscal Policy

For macroeconomic analysis, fiscal policy measures include the three core balances in the GFS system, other balances used by various institutions (including the IMF), and other important macroeconomic measures of flows and stocks. These variables could apply to the different levels of government, the general government sector or to the public sector.

Core GFS balances	
Net/gross operating balance	the net operating balance equals revenue minus expense. The gross operating balance equals revenue minus expense other than consumption of fixed capital
Net lending/borrowing	net operating balance minus the net acquisition of nonfinancial assets (or the gross operating balance minus the net acquisition of nonfinancial assets that also excludes consumption of fixed capital). Net lending/borrowing is also equal to the net acquisition of financial assets minus the net incurrence of liabilities
Cash surplus/deficit	net cash inflow from operating activities minus the net cash outflow from investments in nonfinancial assets
Other balances	
Overall fiscal balance	net lending/borrowing adjusted through the rearrangement of transactions in assets and liabilities that are deemed to be for public policy purposes. Notably, all proceeds under privatization (including fixed asset sales) would be included as financial items; and subsidies given in the form of loans would be recognized as an expense[1]
Adjusted overall fiscal balance	overall fiscal balance (or net lending/borrowing) adjusted to exclude some or all revenue grants, certain enclave activities such as the oil sector, and/or large and infrequent transactions that could distort the fiscal analysis[1]
Overall primary balance	overall fiscal balance plus net interest expense
Primary operating balance	net operating balance plus net interest expense
Gross saving	gross operating balance minus net capital transfers receivable, including net capital grants and capital taxes (GFS codes 1133 and 1135)
Other macroeconomic variables	
Fiscal burden	tax revenue plus compulsory social security contributions (as a percent of GDP)
Total expenditure	expense plus the net acquisition of nonfinancial assets (excluding valuables, if possible)
Total expenditure composition	disaggregation of total expenditure through the functional classification (COFOG, see Chapter 6)
Government final consumption expenditure	approximated by compensation of employees, plus the use of goods and services, plus consumption of fixed capital, minus the sales of goods and services, plus purchases for direct transfer to households (mainly social benefits in kind)
Gross investment	acquisition less disposal of nonfinancial assets (excluding valuables, if possible)
Wealth and Debt	
Net wealth position	net worth, which equals the total stock of assets minus liabilities
Net financial wealth position	total stock of financial assets minus liabilities
Gross debt position	stock of all liabilities except shares and other equity and financial derivatives
Contingent liabilities	stock of explicit government (public sector) guarantees plus the net present value of the obligations of social security schemes

[1] The net operating balance, the cash surplus/deficit, and other balances could be adjusted similarly.

5. Revenue

This chapter defines the concept of revenue and describes its classification.

A. Revenue and its components

5.1 ***Revenue*** is an increase in net worth resulting from a transaction. For general government units, there are four main sources of revenue: taxes and other compulsory transfers imposed by government units, property income derived from the ownership of assets, sales of goods and services, and voluntary transfers received from other units.

5.2 ***Tax revenue***, which forms the dominant share of revenue for many government units, is composed of compulsory transfers to the general government sector. Certain compulsory transfers, such as fines, penalties, and most social security contributions, are excluded from tax revenue. Refunds and corrections of erroneously collected tax revenue have the appearance of transactions that decrease the net worth of the government unit imposing the tax. More accurately, they are adjustments that allow the excessive increase in net worth previously recorded to be corrected. As such, these transactions are treated as negative revenue.

5.3 All other types of revenue are frequently combined into a heterogeneous category of nontax revenue. In this manual, however, the various other types of revenue are separately identified and include social contributions, grants, property income, sales of goods and services, and miscellaneous other revenue.

5.4 ***Social contributions [GFS]***[1] are actual or imputed receipts from either employers on behalf of their employees or from employees, self-employed, or nonemployed persons on their own behalf that secure entitlement to social benefits for the contributors, their dependents, or their survivors. The contributions may be compulsory or voluntary.

5.5 ***Grants*** are noncompulsory transfers received by government units from other government units or international organizations. When statistics are compiled for the general government sector, grants from other domestic government units would be eliminated in consolidation so that only grants from foreign governments and international organizations would appear. Grants may be classified as capital or current and can be received in cash or in kind.

5.6 ***Property income [GFS]*** is received when general government units place financial assets and/or nonproduced assets at the disposal of other units. Interest, dividends, and rent are the major components of this category.

5.7 ***Sales of goods and services*** include sales by market establishments, administrative fees, incidental sales by nonmarket establishments, and imputed sales of goods and services. Some administrative fees are so high that they are clearly out of proportion to the cost of the services provided. Such fees are classified as taxes.

5.8 Sales of goods and services are recorded as revenue without deduction of the expenses incurred in generating that revenue. It is quite possible for general government units to sell their output at prices that are less than the cost of production. Indeed, as nonmarket producers, most general government units distribute their output without charge or for prices that are not economically significant. In these cases, the net worth of the unit has decreased because the expense from production is higher than the revenue from the sale of the goods and services

[1][GFS] indicates that this item has the same name but different coverage in the *1993 SNA*.

in question. In a broader perspective, however, the general government unit is seen as having decided to produce the goods or services as a matter of public policy and to impose some fees or sell some items, rather than give them away, to defray some of the costs or to eliminate some of the excess demand that otherwise would exist. In this view, the resources have already been committed and the fees or sales receipts are an increase in the unit's net worth.

5.9 Other types of nontax revenue that might be received are fines, penalties, forfeits, settlements arising from judicial processes, voluntary transfers other than grants, and sales of existing goods, including used military items.

5.10 The disposal of a nonfinancial asset other than inventory by sale or barter does not affect net worth and these transactions are not revenue. They are transactions in nonfinancial assets as described in Chapter 8.

5.11 Fiscal analysis often makes use of the concept of "fiscal burden," which is the amount of compulsory transfers imposed by units of the general government sector on the rest of the economy. While not a part of the revenue classification, it can be approximated by the sum of tax revenue and social security contributions. Depending on the analytic purpose, if a supranational organization also imposes compulsory transfers, they may need to be added. To the extent that voluntary social security contributions exist, they should be subtracted. Fines, penalties, and forfeits are compulsory transfers but are not normally part of the fiscal burden.

B. Classification and recording of revenue

5.12 Revenue is composed of heterogeneous elements. Accordingly, the elements are classified according to different characteristics depending on the type of revenue. For taxes the classification scheme is determined mainly by the base on which the tax is levied. Grants are classified by the source from which the revenue is derived, and property income is classified by type of income. The complete classification system is shown in Table 5.1.

5.13 Revenue should be recorded according to the accrual basis, which is when the activities, transactions, or other events occur that create the claims to receive the taxes or other types of revenue. The application of the general rule to the various types of revenue is indicated in each section of the classification as necessary.

5.14 With the exception of taxes and social contributions, the amount of revenue to be recorded is the entire amount to which the general government unit has an unconditional claim. As indicated in Chapter 3, the amount of taxes and social contributions recorded must take into account the fact that the government unit receiving the revenue is usually not a party to the transaction or other event that creates the obligation to pay the taxes or social insurance contributions. Consequently, many of these transactions and events permanently escape the attention of the tax authorities. The amount of revenue from taxes and social insurance contributions should exclude the amounts that possibly could have been received from such unreported events had the government learned about them. In other words, only those taxes and social insurance contributions that are evidenced by tax assessments and declarations, customs declarations, and similar documents are considered to create revenue for government units.

5.15 In addition, it is typical that some of the taxes and social insurance contributions that have been assessed will never be collected. It would be inappropriate to accrue revenue for an amount that the government unit does not realistically expect to collect. Thus, the difference between assessments and expected collections represents a claim that has no real value and should not be recorded as revenue. The amount of taxes and social insurance contributions that is recorded as revenue should be the amount that is realistically expected to be collected. The actual collection, however, may be in a later period, possibly much later.

5.16 It is not always clear whether a compulsory transfer is a tax or a social security contribution. Social security contributions include all compulsory payments made by insured persons, or their employers, to government units providing social security benefits in order to secure entitlement to those benefits, provided the contributions are levied as a function of earnings, payroll, or the number of employees. When income is used as a proxy for gross wages, as for the self-employed, the receipts are included as social security contributions. Voluntary contributions also may be made to secure the entitlement.

5.17 Compulsory transfers levied on other bases and earmarked for social security expenditures are taxes and are classified according to their respective tax

Table 5.1: Classification of Revenue

1	**Revenue**	**12**	**Social contributions [GFS]**
11	**Taxes**	121	Social security contributions
111	Taxes on income, profits, and capital gains	1211	Employee contributions
1111	Payable by individuals	1212	Employer contributions
1112	Payable by corporations and other enterprises	1213	Self-employed or nonemployed contributions
1113	Unallocable	1214	Unallocable contributions
112	Taxes on payroll and workforce	122	Other social contributions
113	Taxes on property	1221	Employee contributions
1131	Recurrent taxes on immovable property	1222	Employer contributions
1132	Recurrent taxes on net wealth	1223	Imputed contributions
1133	Estate, inheritance, and gift taxes	**13**	**Grants**
1134	Taxes on financial and capital transactions	131	From foreign governments
1135	Other nonrecurrent taxes on property	1311	Current
1136	Other recurrent taxes on property	1312	Capital
114	Taxes on goods and services	132	From international organizations
1141	General taxes on goods and services	1321	Current
11411	Value-added taxes	1322	Capital
11412	Sales taxes	133	From other general government units
11413	Turnover and other general taxes on goods and services	1331	Current
		1332	Capital
1142	Excises	**14**	**Other revenue**
1143	Profits of fiscal monopolies	141	Property income [GFS]
1144	Taxes on specific services	1411	Interest [GFS]
1145	Taxes on use of goods and on permission to use goods or perform activities	1412	Dividends
		1413	Withdrawals from income of quasi-corporations
11451	Motor vehicle taxes	1414	Property income attributed to insurance policyholders
11452	Other taxes on use of goods and on permission to use goods or perform activities	1415	Rent
1146	Other taxes on goods and services	142	Sales of goods and services
115	Taxes on international trade and transactions	1421	Sales by market establishments
1151	Customs and other import duties	1422	Administrative fees
1152	Taxes on exports	1423	Incidental sales by nonmarket establishments
1153	Profits of export or import monopolies	1424	Imputed sales of goods and services
1154	Exchange profits	143	Fines, penalties, and forfeits
1155	Exchange taxes	144	Voluntary transfers other than grants
1156	Other taxes on international trade and transactions	1441	Current
116	Other taxes	1442	Capital
1161	Payable solely by business	145	Miscellaneous and unidentified revenue
1162	Payable by other than business or unidentifiable		

base. In particular, receipts based on net income personalized by adjustments for personal deductions and exemptions are classified as income taxes, even if earmarked for the payment of social security benefits. Compulsory payments levied as a function of earnings, payroll, or the number of employees that do not secure entitlement to social security benefits are classified as taxes on payroll or workforce.

1. Taxes (11)[2]

5.18 The coverage, timing, and valuation of tax revenue in the GFS system and *1993 SNA* are identical, but the classification systems differ. The *1993 SNA* has provisions for compilation of (i) taxes on production and imports; (ii) current taxes on income, wealth, etc.; and (iii) capital taxes. The approach adopted in the GFS system is to classify taxes mainly by the base on which the tax is levied. Taxes are grouped into six major categories: (i) taxes on income, profits, and capital gains; (ii) taxes on payroll and workforce; (iii) taxes on property; (iv) taxes on goods and services; (v) taxes on international trade and transactions; and (vi) other taxes. The borderlines between these categories are not always clear, and the text provides additional commentary in questionable cases.

5.19 Normally, designating a tax for a particular use does not affect its classification. An exception is the distinction between taxes on payroll and workforce

[2]The numbers in parentheses after each classification category are the GFS classification codes. Appendix 4 provides all classification codes used in the GFS system.

and social security contributions. If the revenue is designated for use in a social security scheme, then it is a social security contribution. Otherwise, it is a tax on payroll and workforce.

5.20 The classification of taxes in this manual is quite similar to the classification employed in *Revenue Statistics*, which is published annually by the Organisation for Economic Co-operation and Development. The two primary differences are that in *Revenue Statistics* compulsory social security contributions are treated as taxes and the categories of taxes on goods and services and taxes on international trade and transactions are combined into a single category.

5.21 Taxes and other compulsory transfers should be recorded when the activities, transactions, or other events occur that create government claims to the taxes or other payments. This time is not necessarily the time at which the event being taxed occurred. For example, the obligation to pay tax on capital gains normally occurs when an asset is sold, not when its value appreciates.

5.22 Tax refunds generally are treated as negative taxes. Refunds are adjustments for overpayments. They are attributed to the period in which the event occurred that generated the overpayment. In the case of a value-added-type tax, taxpayers other than final consumers normally are allowed a refund of taxes paid on purchases. If this refund exceeds the taxes paid by that taxpayer, the net refund is treated as a negative tax.

5.23 Tax credits are amounts deductible from the tax that otherwise would be payable. Some types of credits can result in a government unit making a net payment to the taxpayer. Such net payments are treated as an expense rather than a negative tax.

5.24 In some cases, one government unit collects taxes and then transfers some or all of them to another government unit. Depending on the arrangement, the taxes passed on to the second government unit may be reassigned as tax revenue of that unit or they can be recorded as tax revenue of the collecting unit and a grant from that unit to the second government unit.

5.25 In general, a tax is attributed to the government unit that (a) exercises the authority to impose the tax (either as a principal or through the delegated authority of the principal), (b) has final discretion to set and vary the rate of the tax, and (c) has final discretion over the use of the funds.

5.26 Where an amount is collected by one government for and on behalf of another government, and the latter government has the authority to impose the tax, set and vary its rate, and determine the use of the proceeds, then the former is acting as an agent for the latter and the tax is reassigned. Any amount retained by the collecting government as a collection charge should be treated as a payment for a service. Any other amount retained by the collecting government, such as under a tax-sharing arrangement, should be treated as a current grant. If the collecting government was delegated the authority to set and vary the rate as well as decide on the ultimate use of the proceeds, then the amount collected should be treated as tax revenue of this government.

5.27 Where different governments jointly and equally set the rate of a tax and jointly and equally decide on the distribution of the proceeds, with no individual government having ultimate overriding authority, then the tax revenues are attributed to each government according to its respective share of the proceeds. If an arrangement allows one government unit to exercise ultimate overriding authority, then all of the tax revenue is attributed to that unit.

5.28 There may also be the circumstance where a tax is imposed under the constitutional or other authority of one government, but other governments individually set the tax rate in their jurisdictions and individually decide on the use of the proceeds of the tax generated in their jurisdictions. The proceeds of the tax generated in each respective government's jurisdiction are attributed as tax revenues of that government.

a. Taxes on income, profits, and capital gains (111)

5.29 Taxes on income, profits, and capital gains generally are levied on (i) wages, salaries, tips, fees, commissions, fringe benefits, and other compensation for labor services; (ii) interest, dividends, rent, and royalty incomes; (iii) capital gains and losses, including capital gain distributions of investment funds; (iv) profits of corporations, partnerships, sole proprietorships, estates, and trusts; (v) taxable portions of social security, pension, annuity, life insurance, and other retirement account distributions; and (vi) miscellaneous other income items.

5.30 Taxes on income, profits, and capital gains are attributed either to ***individuals*** **(1111)** or to ***corporations and other enterprises*** **(1112)**. When the information needed to determine whether taxes should be attributed to either of these categories is not available, the taxes are treated as ***unallocable*** **(1113)**. Income taxes on estates are treated as taxes on individuals. Income taxes on nonprofit units are treated as taxes on corporations. Income taxes on trusts are treated as taxes on individuals when the beneficiaries are individuals, and as taxes on corporations otherwise.

5.31 These taxes may be levied on actual or estimated income and profits and on realized or unrealized capital gains. The amount of income subject to tax is usually less than gross income because various deductions are permitted. A profits tax is levied on revenue less allowable deductions.

5.32 In principle, income taxes and social contributions based on income should be attributed to the period in which the income is earned, even though there may be a significant delay between the end of the accounting period and the time at which it is feasible to determine the actual liability of the taxpayer. In practice, however, some flexibility is permitted. In particular, as a practical deviation from the general principle, income taxes deducted at source, such as pay-as-you-earn taxes, and regular prepayments of income taxes may be recorded in the periods in which they are paid and any final tax liability on income may be recorded in the period in which the liability is determined.

5.33 Income taxes are normally imposed on the income earned during an entire year. If monthly or quarterly statistics are compiled, indicators of seasonal activity or other appropriate indicators may be used to allocate the annual totals.

5.34 Under imputation systems of corporate income tax, shareholders are wholly or partly relieved on their liability for an income tax on dividends paid by the corporation out of income or profits liable to corporate income tax. The relief is usually called a tax credit although it actually is a means of allocating a tax among taxpayers. If the relief exceeds a shareholder's total tax liability, the excess may be payable to the shareholder. Because this "tax credit" is an integral part of the imputation system of corporate income tax, any net payment to shareholders is treated as a negative tax rather than expense. This treatment differs from the general treatment of tax credits described in paragraph 5.23. The total tax paid by the corporation is attributed to corporations (1112) and the credits are attributed to the shareholders.

b. Taxes on payroll and workforce (112)

5.35 This category consists of taxes that are collected from employers or the self-employed either as a proportion of payroll size or as a fixed amount per person and that are not earmarked for social security schemes. Payments earmarked for social security schemes are classified as *social security contributions* (121).

c. Taxes on property (113)

5.36 This item includes taxes on the use, ownership, or transfer of wealth. The taxes may be levied at regular intervals, one time only, or on a change in ownership.

5.37 Taxes on the ownership or use of specific types of property often are based on the value of the property at a particular time but are deemed to accrue continuously over the entire year or the portion of the year that the property was owned, if less than the entire year. Taxes on the transfer of wealth are recorded at the time of the transfer, and some taxes on the ownership or use of property are recorded at a specific time, such as a one-time tax on net wealth.

5.38 The following taxes are similar to taxes on property but are classified elsewhere: Taxes on immovable property that are levied on the basis of a presumed net income are recorded as *taxes on income, profits, and capital gains* (111).

- Taxes on the use of property for residence, where the tax is payable by either proprietor or tenant and the amount payable is a function of the user's personal circumstances, such as pay or the number of dependents, are treated as *taxes on income, profits, and capital gains* (111).

- Taxes on construction, enlargement, or alteration of all buildings, or those whose value or use density exceeds a certain threshold, are included in *taxes on use of goods and on permission to use goods or perform activities* (1145).

- Taxes on use of one's own property for special trading purposes, such as selling alcohol, tobacco, or meat, are recorded under *taxes on use of goods and on permission to use goods or perform activities* (1145).

- Taxes on exploitation of land and subsoil assets not owned by government units, including taxes on extraction and exploitation of minerals and other resources, are recorded in *other taxes on goods and services* (1146). Payments to a government unit as the owner of land and subsoil assets are recorded in *rent* (1415). Payments for licenses for the permission to exploit land and subsoil assets are classified in *taxes on use of goods and on permission to use goods or perform activities* (1145).

- Taxes on capital gains resulting from the sale of property are included in *taxes on income, profits, and capital gains* (111).

5.39 Taxes on property are divided into six categories: recurrent taxes on immovable property; recurrent taxes on net wealth; estate, inheritance, and gift taxes; taxes on financial and capital transactions; other nonrecurrent taxes on property; and other recurrent taxes on property.

5.40 ***Recurrent taxes on immovable property*** **(1131).** This item covers taxes levied regularly on the use or ownership of immovable property, which includes land, buildings, and other structures. The taxes can be levied on proprietors, tenants, or both. The amount of the taxes is usually a percentage of an assessed property value that is based on a notional rental income, sales price, capitalized yield, or other characteristics such as size or location. Unlike *recurrent taxes on net wealth* (1132), liabilities incurred on the property are usually not taken into account in assessment of these taxes.

5.41 ***Recurrent taxes on net wealth*** **(1132).** This item covers taxes levied regularly on net wealth, which is usually defined as the value of a wide range of movable and immovable property less liabilities incurred on that property.

5.42 ***Estate, inheritance, and gift taxes*** **(1133).**[3] This item covers taxes on transfers of property at death and on gifts. Taxes on the transfer of property at death include estate taxes, which are usually based on the size of the total estate, and inheritance taxes, which may be determined by the amount received by beneficiaries and/or their relationship to the deceased.

5.43 ***Taxes on financial and capital transactions*** **(1134).** This item includes taxes on change of ownership of property, except those classified as gifts, inheritance, or estate transactions. Included are taxes on the issue, purchase, and sale of securities, taxes on checks and other forms of payment, and taxes levied on specific legal transactions, such as the validation of contracts and the sale of immovable property. This category does not include taxes on the use of goods (part of 1145); taxes on capital gains (part of 111); *recurrent taxes on net wealth* (1132); *other nonrecurrent taxes on property* (1135); fees paid to cover court charges or for birth, marriage, or death certificates (part of 1422); *sales taxes* (11412); or general stamp taxes (part of 116).

5.44 ***Other nonrecurrent taxes on property*** **(1135).**[4] This item covers taxes on net wealth and property that are levied on a one-time basis or at irregular intervals. It includes taxes on net wealth levied to meet emergency expenditures or to effect a redistribution of wealth; taxes on property, such as betterment levies, that take account of increases in land values due to government permission to develop the land or the provision by government of additional local facilities; taxes on the revaluation of capital; and any other exceptional taxes on particular items of property.

5.45 ***Other recurrent taxes on property*** **(1136).** This item includes any recurrent taxes on property not included in categories 1131, 1132, or 1134, such as recurrent gross taxes on personal property, jewelry, cattle, other livestock, other particular items of property, and external signs of wealth. Taxes on the use of particular types of movable property, such as motor vehicles and guns, are classified in *taxes on use of goods and on permission to use goods or perform activities* (1145).

d. Taxes on goods and services (114)

5.46 Included in this item are all taxes levied on the production, extraction, sale, transfer, leasing, or delivery of goods and rendering of services. Also included are taxes on the use of goods and on permission to use goods or perform activities. Taxes on goods and services include

[3] This category is one of the two categories of taxes that are considered to be capital taxes in the *1993 SNA*. The other category is *other nonrecurrent taxes on property* (1135). Capital taxes are taxes levied at irregular and very infrequent intervals on the values of the assets or net worth owned by institutional units or on the values of assets transferred between institutional units as a result of legacies, gifts *inter vivos*, or other transfers. The identification of capital taxes is necessary to calculate gross and net saving, which are two of the supplemental balances described in Chapter 4 and are also balances in the *1993 SNA*.

[4] This category is classified as capital taxes in the *1993 SNA*, which are described in footnote 3.

- Value-added taxes.
- General sales taxes, whether levied at manufacturer/production, wholesale, or retail level.
- Single-stage taxes and cumulative multistage taxes, where "stage" refers to stage of production or distribution.
- Excises.
- Taxes levied on the use of motor vehicles or other goods.
- Taxes levied on permission to use goods or perform certain activities.
- Taxes on the extraction, processing, or production of minerals and other products.

5.47 This category does not include *taxes levied on international trade and transactions* (115) but does include taxes levied upon importation or at the border if the liability does not result solely from the fact that the goods have crossed the border and is applicable to domestic goods or transactions as well. Taxes on goods and services are divided into six categories as described in the following paragraphs.

5.48 ***General taxes on goods and services*** **(1141).** This item includes all taxes, other than *customs and other import duties* (1151) and *taxes on exports* (1152), levied on the production, leasing, delivery, sale, purchase, or other change of ownership of a wide range of goods and the rendering of a wide range of services. Such taxes may be levied regardless of whether the goods or services are produced domestically or imported, and they may be imposed at any stage of production or distribution. Receipts from adjustments made in connection with these taxes when goods cross a border are included. Conversely, refunds of these taxes when goods are exported are treated as negative taxes within this category. When taxes are levied on a limited range of goods rather than a wide range, they are included in *excises* (1142). Borderline cases are resolved on the basis of the predominant character of the tax. This item is subdivided into the following categories.

- ***Value-added taxes*** **(11411).** A value-added tax (VAT) is a tax on goods or services collected in stages by enterprises but which is ultimately charged in full to the final purchasers. It is described as a deductible tax because producers are not usually required to pay the government the full amount of the tax they invoice to their customers, as they are permitted to deduct the amount of tax they have been invoiced on their own purchases of goods or services intended for intermediate consumption or fixed capital formation. VAT is usually calculated on the price of the good or service, including any other tax on the product. VAT may also be payable on imports of goods or services in addition to any import duties or other taxes on the imports.
- ***Sales taxes*** **(11412).** This category includes all general taxes levied at one stage only, whether at manufacturing or production stages or on wholesale or retail trade.
- ***Turnover and other general taxes on goods and services*** **(11413).** This category includes multistage cumulative taxes, which include a tax each time a transaction takes place without deduction for taxes paid on inputs and all general consumption taxes where elements of value-added, sales, or multistage taxes are combined.

5.49 ***Excises*** **(1142).** Excises are taxes levied on particular products, or on a limited range of products, that are not classifiable under *general taxes on goods and services* (1141); *profits of fiscal monopolies* (1143); *customs and other import duties* (1151); or *taxes on exports* (1152). Excises may be imposed at any stage of production or distribution and are usually assessed by reference to the value, weight, strength, or quantity of the product. Included are special taxes on individual products such as sugar, beetroot, matches, and chocolates; taxes levied at varying rates on a certain range of goods; and taxes levied on tobacco goods, alcoholic drinks, motor fuels, and hydrocarbon oils. If a tax collected principally on imported goods also applies, or would apply, under the same law to comparable domestically produced goods, then the revenue therefrom is classified as arising from excises rather than from import duties. This principle applies even if there is no comparable domestic production or no possibility of such production. Taxes on electricity, gas, and energy are regarded as taxes on goods and are included under excises rather than *taxes on specific services* (1144).

5.50 ***Profits of fiscal monopolies*** **(1143).** This item covers that part of the profits of fiscal monopolies that is transferred to the government. Fiscal monopolies are public corporations or public quasi-corporations that exercise the taxing power of government by the use of monopoly powers over the production or distribution of a particular kind of good or service. The monopolies are created to raise government revenues that could otherwise be gathered through taxes on private sector production or distribution of the commodities concerned. Typical commodities subject to fiscal monopolies are tobacco products, alcoholic beverages, salt, matches, petroleum products, and agricultural products.

5.51 Fiscal monopolies are distinguished from public enterprises such as rail transport, electricity, post offices, and other communications services. Such enterprises may enjoy a monopoly or quasi-monopoly but normally exist primarily to further the interests of public economic or social policy rather than to raise revenue for government. Transfers to government from such public enterprises are treated as *dividends* (1412) or *withdrawals of income from quasi-corporations* (1413). The concept of fiscal monopoly does not extend to state lotteries, the profits of which are also regarded as *dividends* (1412) or *withdrawals of income from quasi-corporations* (1413). Export and import monopoly profits transferred from marketing boards or other enterprises dealing with international trade are similar to fiscal monopoly profits, but are classified as *profits of export or import monopolies* (1153).

5.52 While in principle only the excess of the monopoly profits over some notional "normal" profits should be treated as taxes, it is difficult to estimate this amount, and, in practice, the value of the taxes should be taken as equal to the amount of the profits actually transferred from fiscal monopolies to government. Any reserves retained by fiscal monopolies are excluded. The taxes are recorded when the transfer takes place rather than when the profits were earned.

5.53 ***Taxes on specific services* (1144).** All taxes levied on payments for specific services, such as taxes on transport charges, insurance premiums, banking services, entertainment, restaurants, and advertising charges, are included here. Also included in this item are taxes levied on gambling and betting stakes for horse races, football pools, lotteries, and so forth. Taxes on entry to casinos, races, etc. are also classified as selective taxes on services. If, however, the taxes form part of a general tax on goods and services, the revenue is recorded under category 1141. Taxes on individual gains from football pools or other gambling proceeds are classified in *taxes on income, profits, and capital gains* (111). Profits transferred to government from state lotteries are regarded as *dividends* (1412) or *withdrawals of income from quasi-corporations* (1413). Taxes on checks and on the issue, transfer, or redemption of securities are classified as *taxes on financial and capital transactions* (1134). Stamp tax revenues that cannot be assigned to taxes on services or other transactions are classified as *other taxes* (116). Taxes on electricity, gas, and energy are included under *excises* (1142).

5.54 ***Taxes on use of goods and on permission to use goods or perform activities* (1145).** One of the regulatory functions of government is to forbid the ownership or use of certain goods or the pursuit of certain activities unless specific permission is granted by issuing a license or other certificate for which a fee is demanded. If the issue of such licenses involves little or no work on the part of government, the licenses being granted automatically on payment of the amounts due, it is likely that they are simply a device to raise taxes, even though the government may provide some kind of certificate, or authorization, in return. However, if the government uses the issue of licenses to exercise a regulatory function—for example, checking the competence or qualifications of the person concerned, checking the efficient and safe functioning of the equipment in question, or carrying out some other form of control that it would otherwise not be obliged to do—the receipts should be treated as sales of services rather than receipts of taxes, unless the receipts are clearly out of all proportion to the costs of providing the services. The borderline between taxes and *administrative fees* (1422) is not always clear-cut in practice.

5.55 More specifically, the following types of fees are considered taxes: (a) fees where the payer of the levy is not the receiver of the benefit, such as a fee collected from slaughterhouses to finance a service provided to farmers; (b) fees where government is not providing a specific service in return for the levy even though a license may be issued to the payer, such as a hunting, fishing, or shooting license that is not accompanied by the right to use a specific area of government land; and (c) fees where benefits are received only by those paying the fee but the benefits received by each individual are not necessarily in proportion to the payments, such as a milk marketing levy paid by dairy farmers and used to promote the consumption of milk.

5.56 Although taxes in this category are levied on the use of goods rather than on the ownership or transfer of goods, registration of the ownership of goods may generate the tax claim. For example, registration of the ownership of animals or motor vehicles may be the event that causes a tax on the use of these items to be assessed. Taxes on the use of goods may apply even to functionally unusable goods, such as antique motor vehicles or guns.

5.57 Borderline cases arise with taxes on the permission to perform business activities, which are levied on a combined income, payroll, or turnover base. If it is possible to estimate receipts related to each base, then the total should be allocated among the bases. If separate amounts cannot be estimated, but it is known that most of the receipts are derived from one base, then the whole of the receipts are classified according to that base. Borderline cases also arise with taxes on the ownership or use of property that could be classified as *recurrent taxes on immovable property* (1131), *recurrent taxes on net wealth* (1132), or *other recurrent taxes on property* (1136). Unlike the taxes under this item, category 1131 is confined to taxes on the ownership or tenancy of immovable property and such taxes normally are related to the value of the property. The taxes included in 1132 and 1136 are confined to ownership rather than use of assets, apply to groups of assets rather than particular goods, and are based on the value of assets.

5.58 This category is subdivided into motor vehicle taxes and other taxes on the use of goods and on the permission to use goods or perform services:

- ***Motor vehicle taxes* (11451).** This category includes taxes on the use of motor vehicles or permission to use motor vehicles. It does not include taxes on motor vehicles as property or net wealth or tolls for use of roads, bridges, and tunnels.

- ***Other taxes on use of goods and on permission to use goods or perform services* (11452).** Business and professional licenses are included in this category. Such licenses can take the form of taxes on permission to carry on a business in general or a particular business or profession. General business taxes or licenses levied in a fixed amount, on a schedule according to the kind of business, or on the basis of various indicators such as floor space, installed horsepower, capital, or shipping tonnage would be included. It would not cover business taxes levied on gross sales, which would be classified under *general taxes on goods and services* (1141). Taxes or licenses for particular kinds of businesses would include permission to sell goods or provide services. These taxes may be levied at regular intervals, on a one-time basis, or each time goods are used. Also included in this category are pollution taxes levied on the emission or discharge into the environment of noxious gases, liquids, or other harmful substances.

  Taxes in this category other than business and professional licenses include taxes on permission to hunt, shoot, or fish, and taxes on the ownership of pets when the right to carry out these activities is not granted as part of a normal commercial transaction. They also include radio and television licenses, unless the public authorities provide general broadcasting services, in which case a service payment, rather than a tax, is involved.

5.59 ***Other taxes on goods and services* (1146).** This item includes taxes on the extraction of minerals, fossil fuels, and other exhaustible resources from deposits owned privately or by another government and any other taxes on goods or services not included in categories 1141 through 1145. Taxes on the extraction of exhaustible resources usually are a fixed amount per unit of quantity or weight, but can be a percentage of value. The taxes are recorded when the resources are extracted. Payments for the extraction of exhaustible resources from deposits owned by the government unit receiving the payment are classified as *rent* (1415).

e. *Taxes on international trade and transactions (115)*

5.60 ***Customs and other import duties* (1151).** This item covers revenue from all levies collected on goods because they are entering the country or services because they are delivered by nonresidents to residents. The levies may be imposed for revenue or protection purposes and may be determined on a specific or ad valorem basis, but they must be restricted by law to imported products. Included are duties levied under the customs tariff schedule and its annexes, including surtaxes that are based on the tariff schedule, consular fees, tonnage charges, statistical taxes, fiscal duties, and surtaxes not based on the customs tariff schedule. Taxes that fall on imports only because the imports fall into a wider category of goods that are subject to the tax are recorded under *general taxes on goods and services* (1141) or *excises* (1142).

5.61 ***Taxes on exports* (1152).** This category includes all levies based on the fact that goods are being transported out of the country or services are being delivered to nonresidents by residents. Rebates on exported goods that are repayments of previously paid general consumption taxes, excises, or import duties are deducted from the gross amounts receivable from the respective taxes, not from amounts receivable in this category.

5.62 ***Profits of export or import monopolies*** **(1153)**. Governments may establish enterprises with the monopoly right to export or import particular goods and/or control services provided to or received from nonresidents to raise revenue that could be gathered through taxes on exports, imports, or dealings in foreign exchange. When such monopolies exist, the profits remitted to government by the monopolistic enterprises or marketing boards are considered to be taxes. Such profits are recorded as tax revenue when transferred to the government and do not include the retained reserves of the enterprises or marketing boards.[5] Profits received from export or import enterprises or marketing boards that do not represent monopoly profits are recorded as *property income* (141). Profits transferred to the government from public enterprises or marketing boards dealing in commodities domestically, outside of international trade, are recorded under *property income* (141) or *profits of fiscal monopolies* (1143).

5.63 ***Exchange profits*** **(1154).** When the monopoly powers of government or monetary authorities are exercised to extract a margin between the purchase and sale prices of foreign exchange, other than to cover administrative costs, the revenue derived constitutes a compulsory levy exacted from both purchaser and seller of foreign exchange. It is the common equivalent of an import duty and export duty levied in a single exchange rate system or of a tax on the sale or purchase of foreign exchange. Like the profits of export or import monopolies, the revenue represents the exercise of monopoly powers for tax purposes and is included in tax revenues when received by government. This category does not include any transfer to government of exchange profits realized other than as a result of maintenance of an exchange rate differential.

5.64 ***Exchange taxes*** **(1155).** This item covers taxes that are levied upon the sale or purchase of foreign exchange, whether at a unified exchange rate or at different exchange rates. Included are taxes on remittances abroad if the taxes are levied on the purchase of foreign exchange that is to be remitted. Remittance taxes that are not levied on the purchase of foreign exchange are recorded under *other taxes on international trade and transactions* (1156).

[5]If an enterprise of this type both obtains profits from its exports or imports of some products and provides a subsidy on other products, then the taxes and subsidies should be separately recorded to the extent possible rather than recording only the net value of taxes less subsidies.

5.65 ***Other taxes on international trade and transactions*** **(1156).** This item includes other taxes levied on various aspects of international trade and transactions, such as taxes levied exclusively or predominantly on travel abroad, taxes on insurance or investment abroad, and taxes on remittances abroad, excluding taxes levied on the purchase of foreign exchange to be remitted abroad, which are included in *exchange taxes* (1155).

f. Other taxes (116)

5.66 This item covers revenue from taxes levied predominantly on a base or bases other than those described under the preceding tax headings. Also included is revenue from unidentified taxes and interest and penalties collected for late payment or nonpayment of taxes but not identifiable by tax category. The item is subdivided into ***other taxes paid solely by business*** **(1161)** and ***other taxes paid by other than business or unidentifiable*** **(1162).** The item includes taxes on persons that are not based on income or presumptive income, sometimes referred to as poll taxes, head taxes, or capitation taxes. Personal taxes based on actual or presumptive income are recorded as *taxes on income, profits, and capital gains* (111). Also included are stamp taxes that do not fall exclusively or predominantly on a single class of transactions or activities covered by other taxes. Examples would be revenues from the sale of stamps required to be affixed to contracts and checks. Revenues from the sale of stamps assignable to a single category, such as liquor and cigarettes, would be shown as taxes on those products, either *excises* (1142) or *taxes on specific services* (1144). Also included would be an expenditure tax that is levied on purchases but is personalized by the application of personal deductions and exemptions and revenue from taxes levied on a combination of several tax bases, where the revenue cannot be readily allocated to each tax base or to one predominant tax base.

2. Social contributions [GFS] (12)

5.67 As defined in paragraph 5.4, social contributions are actual or imputed receipts either from employers on behalf of their employees or from employees, self-employed, or nonemployed persons on their own behalf that secure entitlement to social benefits for the contributors, their dependents, or their survivors.[6] The contributions may be compulsory or voluntary. Social contributions are classified as social security contributions (121) or other social contributions (122) depending on the type of scheme receiving them.

5.68 The coverage of social contributions in the GFS system is more restricted than in the *1993 SNA*. In the GFS system, social contributions consist of all social security contributions and all contributions to unfunded employer social insurance schemes that provide benefits other than retirement benefits. In the *1993 SNA*, social contributions also include contributions to autonomous and nonautonomous pension funds and to unfunded schemes that provide retirement benefits. The transactions that are treated as social contributions in the *1993 SNA* but not in the GFS system are treated as incurrences of liabilities in the GFS system.

5.69 Social contributions are levied as a function of earnings, payroll, or the number of employees. When income is used as a proxy for gross wages, however, as for the self-employed, the receipts are included here. Compulsory payments assessed on a different base but earmarked for social insurance schemes are treated as taxes.

5.70 As discussed in paragraphs 5.14 and 5.15, the amount of social contributions recorded as revenue should only be the amount that is realistically expected to be collected. The actual collection, however, may be in a later period, perhaps much later.

a. Social security contributions (121)

5.71 Contributions to social security schemes are classified by the source of the contribution. ***Employee contributions*** **(1211)** are either paid directly by employees or are deducted from employees' wages and salaries and transferred on their behalf by the employer. ***Employer contributions*** **(1212)** are paid directly by employers on behalf of their employees. Amounts paid by general government employers are not eliminated by consolidation when the paying and receiving units are in the same sector or subsector because the contributions are considered to be rerouted as described in paragraph 3.20 of Chapter 3 and then paid by the employees. ***Self-employed or nonemployed contributions*** **(1213)** are paid by contributors who are not employees. ***Unallocable contributions*** **(1214)** are those contributions whose source cannot be determined. If any contributions were voluntary, a memorandum item of their total amount would be useful for computing the fiscal burden and other uses.

b. Other social contributions (122)

5.72 Other social contributions include actual and imputed contributions to social insurance schemes operated by governments as employers on behalf of their employees that do not provide retirement benefits. Unlike social security schemes, social insurance schemes for government employees generally tie the level of benefits directly to the level of contributions. Such schemes usually are operated by a government only for its own employees, but they can be operated by one government on behalf of the employees of many governments.

5.73 ***Employee contributions*** **(1221)** include amounts paid directly by employees or transferred from wages and salaries and other compensation by employers on behalf of employees. ***Employer contributions*** **(1222)** include amounts paid by employers on behalf of their employees. As with employer contributions to social security schemes, these contributions are not eliminated by consolidation when the paying and receiving governments are in the same sector or subsector.

5.74 ***Imputed contributions*** **(1223)** arise when government employers provide social benefits directly to their employees, former employees, or dependents out of their own resources without involving an insurance enterprise or an autonomous or nonautonomous pension fund. In this situation, existing employees are considered protected against various specified social risks, even though no payments are being made to cover them. The amount of revenue accrued in this category is the value of employer social contributions that would be needed to secure the de facto entitlements to the social benefits.

3. Grants (13)

5.75 Grants are noncompulsory current or capital transfers received by a government unit from either another government unit or an international organization. Grants are classified first by the type of unit paying the grant and then by whether the grant is current or capital.

5.76 Three sources of grants are recognized in the GFS system: ***grants from foreign governments*** **(131)**, ***grants from international organizations***

[6] The coverage of social benefits is described in Chapter 6.

(132), and ***grants from other general government units* (133).** The last category, grants from other general government units, is required only when statistics are compiled for a subsector of the general government sector. Otherwise these transactions are eliminated in consolidation.

5.77 Current grants are those made for purposes of current expenditure and are not linked to or conditional on the acquisition of an asset by the recipient. Capital grants involve the acquisition of assets by the recipient and may consist of a transfer of cash that the recipient is expected or required to use for the acquisition of an asset or assets (other than inventories), the transfer of an asset (other than inventories and cash), or the cancellation of a liability by mutual agreement between the creditor and debtor.[7] If doubt exists regarding the character of a grant, it should be classified as current.[8]

5.78 Grants in kind should be valued at current market prices. If market prices are not available then the value should be the explicit costs incurred in providing the resources or the amounts that would be received if the resources were sold. In some cases, the donor and the recipient may view the value quite differently. In this case, the valuation from the viewpoint of the donor should be used.

5.79 Grants are recorded when all requirements and conditions for receiving them are satisfied and the receiving unit has an unconditional claim. Determining this time can be complex because there is a wide variety of eligibility conditions that have varying legal powers. In some cases, a potential grant recipient has a legal claim when it has satisfied certain conditions, such as the prior incurrence of expenses for a specific purpose or the passage of legislation. In many cases, the grant recipient never has a claim on the donor and it should be attributed to the time at which the cash payment is made.

4. Other revenue (14)

5.80 In addition to taxes, social contributions, and grants, revenue includes property income, sales of goods and services, and miscellaneous other types of revenue.

[7]Appendix 2 provides details on this and other types of government debt operations.

[8]The identification of capital grants is necessary to calculate gross and net saving.

a. Property income [GFS] (141)

5.81 Property income includes a variety of forms of revenue earned by a general government unit when it places financial and/or nonproduced assets that it owns at the disposal of other units. Revenue in this category may take the form of interest, dividends, withdrawals from income of quasi-corporations, property income attributed to insurance policyholders, or rent.[9]

5.82 ***Interest [GFS]* (1411)** is receivable by general government units that own certain kinds of financial assets, namely deposits, securities other than shares, loans, and accounts receivable.[10] These types of financial assets are created when a general government unit lends funds to another unit. Interest is the revenue earned by the creditor for permitting the debtor to use its funds. Interest revenue accrues continuously over the period that the financial asset exists. The rate at which interest accrues may be stated as a percentage of the outstanding principal, a predetermined sum of money, or both.

5.83 The contract between creditor and debtor may call for periodic payments equal to the amount of interest that has accrued but not yet been paid, but in other cases there may be no such requirement so that the interest accrued is not due to be paid until the end of the contract. Combinations of these methods are also possible. To the extent that interest has accrued without being paid, the debtor's total liability to the creditor has increased. Any periodic or other payments reduce the total liability but are not revenue transactions.

5.84 Many considerations must be taken into account when determining the amount of interest revenue to record. To avoid repetition, interest is described in more detail in paragraphs 6.39 to 55 of Chapter 6.

[9]In the *1993 SNA*, reinvested earnings on direct foreign investment is another type of property income. Briefly, a direct foreign investment enterprise is either an unincorporated branch of a nonresident enterprise or a corporation in which at least one foreign investor owns sufficient shares to have an effective voice in its management. An increase in retained earnings of a direct foreign investment enterprise is treated as if it were remitted to the foreign direct investors in proportion to their ownership of the equity of the enterprise and then reinvested in additional equity. The imputed remittance of these retained earnings is treated as property income in the *1993 SNA* but not in the GFS system. Such an increase in the value of the equity held by a government unit that is a direct foreign investor is accounted for as a holding gain in the same way as it is for other equity holdings (see Chapter 10). This different treatment causes net lending/borrowing in the two systems to differ. Reinvested earnings on direct foreign investment are described in paragraphs 7.119 to 7.122 of the *1993 SNA*.

[10]Financial assets and their classification are defined in Chapter 7.

5.85 ***Dividends*** **(1412).** General government units, in their capacity as shareholders and owners of a corporation, become entitled to receive dividends as a result of placing equity funds at the disposal of that corporation. Equity funds do not entitle shareholders to a fixed or predetermined income. Instead, the board of directors or other managers of the corporation must declare a dividend payable on their own volition. Dividends are recorded either on the date they are declared payable or, if no prior declaration occurs, on the date the payment is made.

5.86 General government units may receive dividends from private or public corporations. Distributions of profits by public corporations may take place irregularly and may not be explicitly labeled as dividends. Nevertheless, except for the distributions noted below, dividends include all distributions of profits by corporations to their shareholders or owners, including profits of central banks transferred to government units, profits derived from the operation of monetary authority functions outside the central bank, and profits transferred by state lotteries. Distributions of *profits of fiscal monopolies* (1143) and *profits of export or import monopolies* (1153), however, are classified as taxes, as described in paragraphs 5.50 and 5.62.

5.87 When payments are received from public corporations, it can be difficult to decide whether they are dividends or withdrawals of equity. Dividends are payments a corporation makes out of its current income, which is derived from its ongoing productive activities. A corporation may, however, smooth the dividends its pays from one period to the next so that in some periods it pays more in dividends than it earns from its productive activities. Such payments are still dividends. Distributions by corporations to shareholders of proceeds from privatization receipts and other sales of assets and large and exceptional one-off payments based on accumulated reserves or holding gains are withdrawals of equity rather than dividends.

5.88 ***Withdrawals from income of quasi-corporations*** **(1413).** By definition, quasi-corporations cannot distribute income in the form of dividends, but the owner may choose to withdraw some or all of the income. Conceptually, the withdrawal of such income is equivalent to the distribution of corporate income through dividends and is treated the same way. The amount of income that the owner of a quasi-corporation chooses to withdraw will depend largely on the size of its net income. All such withdrawals are recorded on the date the payment actually occurs.

5.89 As with dividends, withdrawals from income of quasi-corporations do not include withdrawals of funds realized from the sale or other disposal of the quasi-corporation's assets. The transfer of funds resulting from such disposals is recorded as a reduction of the equity of quasi-corporations owned by government. Similarly, funds withdrawn by liquidating large amounts of accumulated retained earnings or other reserves of the quasi-corporation are treated as withdrawals from equity.

5.90 ***Property income attributed to insurance policyholders*** **(1414).** Insurance enterprises hold technical reserves in the form of prepayments of premiums, reserves against outstanding claims, and actuarial reserves against outstanding risks in respect of life insurance policies. These reserves are considered to be assets of the policyholders or beneficiaries, including any general government units that are policyholders, and liabilities of the insurance enterprises. Any income received from the investment of insurance technical reserves is also considered to be the property of the policyholders or beneficiaries and is described as property income attributed to insurance policyholders. This type of property income, which is likely to be rare and/or small for general government units, is described in greater detail in paragraphs 6.76 to 6.80 of Chapter 6.

5.91 ***Rent*** **(1415).** Rent is the property income received from certain leases of land, subsoil assets, and other naturally occurring assets. Other leases of these types of assets, especially leases of the electromagnetic spectrum, may be considered the sale of an intangible nonproduced asset. The terms and conditions governing the classification of leases of naturally occurring assets were still under discussion at the time of publication of this manual. The remainder of this section concerns only those leases classified as rent.

5.92 As with interest, rent accrues continuously to the asset's owner throughout the period of the contract. The rent recorded for a particular accounting period is, therefore, equal to the value of the accumulated rent that becomes payable over the accounting period and may differ from the amount of rent that becomes due for payment or is actually paid during the period.

5.93 General government units may own subsoil assets in the form of deposits of minerals or fossil fuels and may grant leases that permit other units to extract these deposits over a specified period of time in return for a payment or series of payments. These payments are often described as "royalties," but they are rents that accrue to owners of assets in return for putting the assets at the disposal of other units for specified periods of time. The rents may take the form of periodic payments of fixed amounts, irrespective of the rate of extraction, or, more usually, will be derived according to the quantity, volume, or value of the asset extracted. Enterprises engaged in exploration on government land may make payments to general government units in exchange for the right to undertake test drilling or otherwise investigate the existence and location of subsoil assets. Such payments are also treated as rents even though no extraction may take place.

5.94 Other types of rent include payments for the right to cut timber on noncultivated government land, to exploit bodies of unmanaged water for recreational or commercial purposes, including fishing, to use water for irrigation, and to graze animals on government land.

5.95 Rent should not be confused with severance taxes, business licenses, or other taxes. Severance taxes are imposed on the extraction of minerals and fossil fuels from land owned privately or by another government. If the payment counts toward the taxes on profits, then it should be classified as *taxes on income, profits, and capital gains* (111). Payments counted toward a tax on the gross value of production should be classified as *other taxes on goods and services* (1146). Payments for a license or permit to conduct extraction operations should be classified as *taxes on use of goods and on permission to use goods or perform activities* (1145).

5.96 Rent should also not be confused with the rental of produced assets, which is treated as *sales of goods and services* (142). The difference in treatment arises because lessors of produced assets are engaged in a production process whereby they provide services to the lessees, such as maintaining inventories of fixed assets available for lease at short notice and repairing and maintaining the leased assets. General government units that own land, subsoil assets, or the electromagnetic spectrum and merely place these assets at the disposal of other units are not considered to be engaged in productive activity. The rentals paid by tenants are treated as payments for the provision of building or housing services.

5.97 A single transaction may comprise both rent and sales of goods and services. Such an event can occur, for instance, when a general government unit, in a single contract, leases land and buildings situated on the land, and the contract does not separately identify the rent on the land from rental of the buildings. If there is no objective basis on which to apportion the payment between rent on land and rental on the buildings, the whole amount is recorded as a rental if the value of the building is greater than the value of the land and vice versa.

b. Sales of goods and services (142)

5.98 ***Sales by market establishments*** **(1421).** As defined in Chapter 2, an establishment is a part of an enterprise situated in a single location and at which only a single productive activity is carried out or the principal productive activity accounts for most of the value added. A market establishment within a government unit is an establishment that sells or otherwise disposes of all or most of its output at prices that are economically significant. This category consists of the sales of all market establishments that are part of the units for which statistics are being compiled. Because all establishments of public corporations are market establishments, all sales of public corporations are included here. Rentals of produced assets are treated as sales of services and are included in this category. Sales of nonfinancial assets are disposals of nonfinancial assets as described in Chapter 8 and are not sales of goods and services.

5.99 ***Administrative fees*** **(1422).** This item includes fees for compulsory licenses and other administrative fees that are sales of services. Examples are drivers' licenses, passports, court fees, and radio and television licenses when public authorities provide general broadcasting services. For these fees to be considered a sale of a service, the general government unit must exercise some regulatory function—for example, checking the competence or qualifications of the person concerned, checking the efficient and safe functioning of the equipment in question, or carrying out some other form of control that it would otherwise not be obliged to do. If a payment is clearly out of all proportion to the cost of providing the service, then the fee is classified as *taxes on use of goods and on permission to use goods or perform activities* (1145).

5.100 ***Incidental sales by nonmarket establishments*** **(1423).** This item covers sales of goods and services by nonmarket establishments of general government units other than administrative fees.

Included are sales incidental to the usual social or community activities of government departments and agencies, such as sales of products made at vocational schools, seeds from experimental farms, postcards and art reproductions by museums, fees at government hospitals and clinics, tuition fees at government schools, and admission fees to government museums, parks, and cultural and recreational facilities that are not organized as public corporations.

5.101 ***Imputed sales of goods and services*** **(1424).** When a unit produces goods and services for the purpose of using them as compensation of employees in kind, the unit is acting in two capacities: as an employer and as a general producer of goods and services. In order to indicate the total amount paid as compensation of employees, it is necessary to treat the amount paid in kind as if it had been paid in cash as wages and salaries and then the employees had used the cash to purchase the goods and services. This category includes the total value of these imputed sales.

5.102 Sales of goods are recorded when legal ownership changes. If that time cannot be determined precisely, recording may take place when there is a change in physical ownership or control. Transactions in services normally are recorded when the services are provided. Some services are supplied or take place on a continuous basis. For example, operating leasing, and housing services are continuous flows and, in concept, are recorded continuously as long as they are being provided.

c. Fines, penalties, and forfeits (143)

5.103 Fines and penalties are compulsory current transfers imposed on units by courts of law or quasi-judicial bodies for violations of laws or administrative rules. Out-of-court agreements are also included. Forfeits are amounts that were deposited with a general government unit pending a legal or administrative proceeding and that have been transferred to the general government unit as part of the resolution of that proceeding.

5.104 Fines and penalties assessed for infringement of regulations identified as relating to a particular tax are recorded together with that tax. Other fines and penalties identifiable as relating to tax offenses are classified as *other taxes* (116).

5.105 Most fines, penalties, and forfeits are determined at a specific time. These transfers are recorded when the general government unit has a legal claim to the funds, which may be when a court renders judgment or an administrative ruling is published, or it may be when a late payment or other infringement automatically causes a fine or penalty.

d. Voluntary transfers other than grants (144)

5.106 This category includes gifts and voluntary donations from individuals, private nonprofit institutions, nongovernmental foundations, corporations, and any other source other than governments and international organizations. ***Current voluntary transfers other than grants*** **(1441)** include, for example, contributions to government of food, blankets, and medical supplies for relief purposes. ***Capital voluntary transfers other than grants*** **(1442)** include transfers for the construction or purchase of hospitals, schools, museums, theaters, and cultural centers and gifts of land, buildings, or intangible assets such as patents and copyrights. If it is not clear whether the transfer is current or capital, it is classified as current.[11]

e. Miscellaneous and unidentified revenue (145)

5.107 Included in this category are all revenues that do not fit into any other category. Items that might appear here are sales of used military and other goods that were not classified as assets, sales of scrap, non-life insurance claims against insurance corporations, non-life insurance premiums of government-operated insurance schemes, payments received for damage to government property other than payments from a judicial process, and any revenues for which adequate information is not available to permit their classification elsewhere.

[11]The identification of capital transfers is necessary to calculate gross and net saving.

6. Expense

This chapter defines the concept of expense and describes the manner in which expense is classified.

A. Classifications of expense

6.1 ***Expense*** is a decrease in net worth resulting from a transaction. Governments have two broad economic responsibilities: to assume responsibility for the provision of selected goods and services to the community on a nonmarket basis and to redistribute income and wealth by means of transfer payments. These responsibilities are largely fulfilled through expense transactions, which are classified in two ways in the GFS system: an economic classification and a functional classification.

6.2 When supplying nonmarket goods and services to the community, a government unit may produce the goods and services itself and distribute them, purchase them from a third party and distribute them, or transfer cash to households so they can purchase the goods and services directly. The economic classification identifies the types of expense incurred for these activities. Compensation of employees, use of goods and services, and consumption of fixed capital all relate to the costs of production undertaken by government itself. Subsidies, grants, social benefits, and miscellaneous other expense relate to transfers in cash or in kind and purchases from third parties of goods and services for delivery to other units. The functional classification provides information on the purpose for which an expense was incurred. Examples of functions are education and environmental protection.

6.3 The functional classification described in this chapter is not limited to expense transactions. Acquisitions of nonfinancial assets can also be classified using the functional classification. The term "outlays" is used in connection with the functional classification to include these acquisitions of assets as well as expense. In addition, the economic and functional classifications can be cross-classified to show the types of transactions engaged in to carry out a given function.

6.4 Two types of transactions are treated as expense despite a surface impression that they may increase net worth. First, refunds, recoveries of overpayments and erroneous payments, and similar transactions appear to increase net worth. More accurately, they are adjustments that correct the excessive decrease in net worth previously recorded. As such, these transactions are treated as negative expense. Second, the costs incurred in the production of goods and services are recorded as expense despite the fact that the goods and services may have been sold for a price that exceeded the cost of production, thereby increasing net worth.

6.5 The acquisition of a nonfinancial asset by purchase or barter does not affect net worth, and the transaction is not an expense. It is a transaction in nonfinancial assets as described in Chapter 8. When ownership of an asset is given up without receiving anything of value in return, the net worth of the unit has decreased and the expense is recorded as a type of capital transfer, such as a capital grant.

6.6 The time at which expense transactions should be recorded is determined according to the accrual basis, which is when the activities, transactions, or other events occur that create the unconditional obligation of general government units to make payments or otherwise give up resources. Complications arise, however, in regard to the acquisition and subsequent use of goods. In concept, the purchase of goods that are not immediately used in some manner is an addition to inventories rather than an expense. When the goods are consumed in production or otherwise utilized, a transaction must be recorded to reduce inventories and increase an expense or other category depending on the use made of the goods.

Other applications of the accrual basis to expense transactions are indicated in each section of the economic classification as necessary.

B. The economic classification of expense

6.7 Table 6.1 shows the economic classification of expense, and the following paragraphs describe each category in detail.

1. Compensation of employees [GFS][1] (21)[2]

6.8 Compensation of employees is the total remuneration, in cash or in kind, payable to a government employee in return for work done during the accounting period, except for work connected with own-account capital formation. (The same exception applies to each subcategory of compensation of employees.) It includes both ***wages and salaries* (211)** and ***social contributions* (212)** made on behalf of employees to social insurance schemes. Excluded are amounts payable to contractors, self-employed outworkers, and other workers who are not employees of general government units. Any such amounts are recorded under *use of goods and services* (22). Compensation of employees engaged in own-account capital formation, which is the production of nonfinancial assets for own use, is recorded as the acquisition of nonfinancial assets (see Chapter 8).

6.9 Compensation of employees is measured by the value of the remuneration in cash or in kind an employee becomes entitled to receive from an employer for work done during the relevant period, whether paid in advance, simultaneously, or in arrears of the work itself. To the extent that payment has not been made for work performed, the general government unit must record an entry in accounts payable (see Chapter 7).

a. Wages and salaries [GFS] (211)

6.10 Wages and salaries consist of all compensation of government employees except for *social contributions* (212) by employers. It includes pay in cash or in kind.

[1][GFS] indicates that this item has the same name but different coverage in the *1993 SNA*.

[2]The numbers in parentheses after each classification category are the GFS classification codes. Appendix 4 provides all classification codes used in the GFS system.

Table 6.1: Economic Classification of Expense

2	**Expense**
21	**Compensation of employees [GFS]**
211	Wages and salaries [GFS]
2111	Wages and salaries in cash [GFS]
2112	Wages and salaries in kind [GFS]
212	Social contributions [GFS]
2121	Actual social contributions [GFS]
2122	Imputed social contributions [GFS]
22	**Use of goods and services**
23	**Consumption of fixed capital [GFS]**
24	**Interest [GFS]**
241	To nonresidents
242	To residents other than general government
243	To other general government units
25	**Subsidies**
251	To public corporations
2511	To nonfinancial public corporations
2512	To financial public corporations
252	To private enterprises
2521	To nonfinancial private enterprises
2522	To financial private enterprises
26	**Grants**
261	To foreign governments
2611	Current
2612	Capital
262	To international organizations
2621	Current
2622	Capital
263	To other general government units
2631	Current
2632	Capital
27	**Social benefits [GFS]**
271	Social security benefits
2711	Social security benefits in cash
2712	Social security benefits in kind
272	Social assistance benefits
2721	Social assistance benefits in cash
2722	Social assistance benefits in kind [GFS]
273	Employer social benefits
2731	Employer social benefits in cash
2732	Employer social benefits in kind
28	**Other expense**
281	Property expense other than interest
2811	Dividends (public corporations only)
2812	Withdrawals from income of quasi-corporations (public corporations only)
2813	Property expense attributed to insurance policyholders [GFS]
2814	Rent
282	Miscellaneous other expense
2821	Current
2822	Capital

Social contributions paid by deduction from employees' wages and salaries are included in this category.

6.11 Wages and salaries exclude the reimbursement of expenditures made by employees in order to enable them to take up their jobs or to carry out their work. For example, the reimbursement of travel, removal, or related expenses incurred by employees when they take up new jobs or are required by their employers to move their homes are classified as *use of goods and services* (22) rather than wages and salaries. Also excluded are reimbursements of expenditures by employees on tools, equipment, special clothing, or other items that are needed exclusively or primarily to enable them to carry out their work. The amounts reimbursed are treated as *use of goods and services* (22).

6.12 Wages and salaries also exclude social benefits paid by employers in the form of children's, spouse's, family, education, or other allowances in respect of dependents; payments made at full or reduced wage or salary rates to workers absent from work because of illness, accidental injury, or maternity leave; and severance payments to workers, or their survivors, who lose their jobs because of redundancy, incapacity, or accidental death. These social benefits are included in *employer social benefits* (273).

6.13 ***Wages and salaries in cash [GFS]* (2111).** This category consists of payments in cash to employees in return for services rendered, before deduction of withholding taxes and employees' contributions to social insurance schemes. Included are basic wages and salaries; extra pay for overtime, night work, and weekend work; cost of living allowances, local allowances, and expatriation allowances; bonuses; annual supplementary pay, such as "13th month" pay; allowances for transportation to and from work; holiday pay for official holidays or annual holidays; and housing allowances.

6.14 ***Wages and salaries in kind [GFS]* (2112).** This category consists of payments in kind to employees in return for services rendered. Examples are meals and drinks, including those consumed when traveling on business; housing services or accommodation of a type that can be used by all members of the household to which the employee belongs; uniforms or other forms of special clothing that employees choose to wear frequently outside of the workplace as well as at work; the services of vehicles or other durables provided for the personal use of employees; goods and services produced by the employer, such as free travel on government airplanes; sports, recreation, or holiday facilities for employees and their families; transportation to and from work; car parking; and day care for the children of employees. Also included is the value of interest foregone when loans are provided to employees at reduced or zero rates of interest. If goods and services are provided to employees at reduced cost, then only the net cost to the employer is recorded in this category.

b. Social contributions [GFS] (212)

6.15 Social contributions are payments, actual or imputed, made by general government units to social insurance schemes to obtain entitlement to social benefits for their employees, including pensions and other retirement benefits. Social benefits are described in the annex to Chapter 2.

6.16 Some social contributions are paid directly by the general government unit that is the employer to a second general government unit, usually a social security fund. These transactions are not eliminated in consolidation because they are rerouted, as described in paragraph 3.20 of Chapter 3, first to the employees and then from the employees to the social insurance schemes.

6.17 ***Actual social contributions [GFS]* (2121).** This category consists of contributions payable to insurance enterprises, social security funds, or other institutional units responsible for the administration and management of social insurance schemes, including general government units operating nonautonomous pension funds.

6.18 ***Imputed social contributions [GFS]* (2122).** Some governments provide social benefits directly to their employees, former employees, or dependents out of their own resources without involving an insurance enterprise or an autonomous or nonautonomous pension fund. In this situation, social contributions equal in value to the amount of social contributions that would be needed to secure the de facto entitlements should be imputed.

2. Use of goods and services (22)

6.19 This category consists of goods and services used for the production of market and nonmarket goods and services—except for own-account capital formation—plus goods purchased for resale less the net change in inventories of work in progress, finished goods, and goods held for resale.[3] General government units may engage in a number of transactions in goods and services that are not classified as use of goods and services. In particular:

- Goods acquired for use as fixed assets or valuables or for use in own-account capital formation are classified as acquisitions of fixed assets or valuables. Expenditures on inexpensive durable goods, such as hand tools, are treated as use of goods and services when such expenditures are made regularly and are small compared with expenditures on machinery and equipment.

- Goods and services acquired to increase inventories of strategic stocks or of materials and supplies are classified as *changes in inventories*, a type of acquisition of nonfinancial assets (see Chapter 8).

- Goods and services used as compensation of employees in kind are classified as *compensation of employees* (21).

- Goods and services acquired and transferred in kind without being used by the general government unit in a production process are classified as transfer payments, such as *subsidies* (25), *grants* (26), *social benefits* (27), or *other expense* (28), depending on the reason for the transfer.

- Reimbursements by a general government unit for purchases of goods and services by households in connection with social assistance or social insurance schemes are classified as *social benefits* (27).

6.20 Fees and charges collected for goods and services provided by general government units, such as for certain types of social benefits or grants, should be shown as revenue rather than deducted from expense.

6.21 The value of goods and services used in production is recorded when the goods or services are actually used rather than when they were acquired. In practice, the two times coincide for inputs of services but not for goods, which may be acquired some time in advance of their use. The value of goods purchased and held for resale is recorded as use of goods and services when they are sold. Sales of goods acquired and held as strategic stocks are recorded as disposals of nonfinancial assets rather than as sales revenue. Therefore, the transaction has no effect on use of goods and services.

6.22 In practice, units do not usually record the actual use of goods in production directly. Instead, they keep records of purchases of materials and supplies intended to be used as inputs and also of any changes in the amounts of such goods held in inventory. An estimate of use of goods and services during a given accounting period can then be derived by subtracting the value of changes in inventories of materials and supplies from the value of purchases made.

6.23 Goods and services consumed for the maintenance and repair of fixed assets constitute use of goods and services. Major renovations, reconstructions, or enlargements of existing fixed assets are treated as acquisitions of fixed assets. Maintenance and repairs are distinguished by two features: (a) they are activities that owners or users of fixed assets are obliged to undertake periodically in order to be able to utilize such assets over their expected service lives and (b) they do not change the fixed asset or its performance, but simply maintain it in good working order or restore it to its previous condition in the event of a breakdown. In contrast, major improvements to fixed assets are distinguished by the following features: (a) the decision to renovate, reconstruct, or enlarge a fixed asset is a deliberate investment decision that may be undertaken at any time and is not dictated by the condition of the asset and (b) renovations or enlargements increase the performance or capacity of existing fixed assets or significantly extend their previously expected service lives.

6.24 Goods and services used for research and development, staff training, market research, and similar activities are treated as use of goods and services rather than acquisitions of intangible fixed assets even though some of them may bring benefits for more than one year.

6.25 Materials to produce coins or notes of the national currency or amounts payable to contractors to produce the currency are included as use of goods and services. The issuance of the coins or notes is a financial transaction that does not involve revenue or expense.

6.26 Use of goods and services includes purchases of weapons (for example, rockets, missiles, and the associated warheads) and equipment used to deliver those weapons (for example, rocket launchers, warships, submarines, and tanks). Purchases of items that

[3]Use of goods and services is closely related to intermediate consumption in the *1993 SNA*. The relationship between the two concepts is explained in Appendix 3.

can be used for civilian purposes in the same way as they are used for military purposes, such as military airfields, docks, colleges, hospitals, and office machinery, are treated as acquisitions of fixed assets. Weapons or armored vehicles acquired by police and internal security services, however, are treated as acquisitions of fixed assets even though expenditures on the same kind of equipment by the military would be treated as use of goods and services.

6.27 Depending on the purpose made of them, goods and services purchased by government units and consumed by their employees could be use of goods and services or compensation of employees in kind. In general, when employees are obliged to use the goods or services in order to enable them to carry out their work, that constitutes use of goods and services. On the other hand, when the goods or services are used by employees in their own time and at their own discretion for the direct satisfaction of their needs or wants, that constitutes compensation of employees. The following types of goods and services provided to employees are treated as use of goods and services: (a) tools or equipment used exclusively or mainly at work; (b) clothing or footwear worn exclusively or mainly at work, such as protective clothing, overalls, or uniforms; (c) accommodation services at the place of work that cannot be used by the households to which the employees belong, such as barracks, cabins, dormitories, and huts; (d) special meals or drinks necessitated by exceptional working conditions, and meals or drinks provided to servicemen or others while on active duty; (e) transportation and hotel services provided while the employee is traveling on business; (f) changing facilities, washrooms, showers, and baths necessitated by the nature of the work; and (g) first aid facilities, medical examinations, or other health checks required because of the nature of the work. Employees may sometimes be responsible for purchasing the kinds of goods or services listed above and are subsequently reimbursed by the employer. Such reimbursements are treated as use of goods and services rather than as wages and salaries.

6.28 All transfers of goods and services to other governments or international organizations other than goods and services produced by the donor government unit are treated as *grants* (26). Such grants may entail the transfer of government-owned fixed assets, the transfer of goods held in inventory, the construction of fixed assets, or the purchase and simultaneous transfer of either fixed assets or goods and services for current consumption. Examples are transfers of food, clothing, blankets, and medicines as emergency aid after natural disasters; transfers of machinery and other equipment; the direct provision of the construction of buildings or other structures; and transfers of military equipment of all types. Goods and services used to produce nonmarket goods and services consumed by other governments and international organizations are included in use of goods and services. An example would be the goods and services acquired so that government employees can conduct relief operations in a foreign country after a natural disaster.

6.29 Use of goods and services includes all goods and services consumed by a general government unit to produce nonmarket goods and services that are distributed either as social benefits in kind or distributed to households in particular circumstances, such as following a natural disaster. Such social benefits can be distributed through social security schemes; social insurance schemes operated for the benefit of government employees, their dependents, or survivors; or social assistance schemes. A common type of social benefit likely to be produced by general government units and distributed in kind is related to health care, such as medical or dental treatments, surgery, hospital accommodation, home care, and similar services. Benefits for government employees and dependents typically include general medical services not related to the employee's work, convalescent and retirement homes, education services, and access to recreation or holiday facilities. Any nominal payments made by the households should be deducted from use of goods and services expense.

6.30 Goods and services that were not produced by the donor government unit, but are distributed as social benefits in kind or distributed to households in particular circumstances, are classified as *social benefits* (27) rather than use of goods and services. Such distributions include transfers of goods held in inventory, the purchase and simultaneous transfer of goods and services from market producers, and the reimbursement of expenditures by households on specified goods or services, such as expenditures on medicines, medical or dental treatments, hospital bills, and optometrists' bills.

6.31 Use of goods and services includes payments for the rental of produced assets, especially buildings, transport equipment, and machinery. Payment for the rent of nonproduced naturally occurring assets, such as land, is classified as *rent* (2814). The difference in treatment arises because lessors of produced assets are engaged in a production process whereby they provide services to the lessees, such as maintaining inventories of fixed assets available for lease at short notice and repairing and maintaining the leased assets. Owners of land and other nonproduced assets, however, merely place these assets at the disposal of other units. Hence, they are not considered to be engaged in productive activity.

6.32 On occasion, government units engage in transfer payments by purchasing goods and services for prices that greatly exceed their market value. As described in paragraph 3.9 of Chapter 3, when such transactions can be detected, they should be partitioned into a purchase of goods and services at their true market value and a transfer payment of the appropriate category.

3. Consumption of fixed capital [GFS] (23)

6.33 Consumption of fixed capital is the decline during the course of an accounting period in the value of fixed assets owned and used by a general government unit as a result of physical deterioration, normal obsolescence, or normal accidental damage.[4] It is valued in the average prices of the period. Consumption of fixed capital may deviate considerably from depreciation as recorded in government financial records, which is normally calculated using the original costs of fixed assets.

6.34 Consumption of fixed capital is a forward-looking measure because its value is based on future events rather than past events. The value of a fixed asset is the present discounted value of the stream of rentals that the owner of a fixed asset could expect if it were rented out over the remainder of its service life. The rentals, in turn, depend upon the benefits that units expect to derive from using the asset. Thus, consumption of fixed capital is the decrease in the present value of the remaining sequence of rentals, with the rentals valued at the average prices of the period. The extent of the decrease will be influenced not only by the decrease in the benefits derived from the asset, or its efficiency, during the current period, but also by the shortening of its service life and the rate at which its efficiency is expected to decline over its remaining service life. Furthermore, changes in the price of the asset must be excluded from consumption of fixed capital. Price changes are recorded as holding gains, as described in Chapter 10.

6.35 Consumption of fixed capital is estimated with respect to all tangible and intangible fixed assets, including infrastructure assets, major improvements to land, and the costs of ownership transfer incurred on the acquisition of valuables and nonproduced assets. Although some fixed assets, such as roads or railway tracks, may appear to have infinite service lives if properly maintained, their value may nevertheless decline because of a decrease in the demand for their services as a result of technical progress and the appearance of substitutes. Many fixed assets are scrapped or demolished only because they have become obsolete. Consequently, consumption of fixed capital must include an allowance for anticipated obsolescence.

6.36 If a general government unit engages in own-account capital formation, then this category of expense does not include the consumption of fixed capital related to the fixed assets used in that production process. As described in the previous sections on compensation of employees and use of goods and services, the costs incurred in own-account capital formation, including consumption of fixed capital, are classified as acquisitions of fixed assets.

6.37 Consumption of fixed capital also excludes the loss of value when fixed assets are destroyed by acts of war, natural disasters, and other exceptional events. Similarly, it excludes losses due to unexpected technological developments that may significantly shorten the service life of an existing fixed asset and the depletion or degradation of nonproduced assets such as land and subsoil assets. These events are treated as other economic flows, as described in Chapter 10.

6.38 To compute consumption of fixed capital, the fixed assets purchased in the past and still in use have to be revalued at the average prices of the current period and assumptions have to be made regarding the remaining service lives of each asset and the rate at which their efficiency is expected to diminish. Linear or geometric patterns of decline, or some combination of them, are the patterns most

[4]The concept of consumption of fixed capital is identical to the concept used in the *1993 SNA*. The coverage of consumption of fixed capital expense may differ from the amount recorded in the production account of the *1993 SNA* because of the GFS treatment of own-account capital formation. When nonfinancial assets are produced on own account, some consumption of fixed capital is recorded in the GFS system as acquisitions of fixed assets rather than expense (see paragraph 6.36). Consumption of fixed capital is described in the *1993 SNA* in paragraphs 6.179 through 6.203.

commonly assumed.[5] In limited cases, it may be possible to estimate consumption of fixed capital from observations of used asset prices in markets.

4. Interest [GFS] (24)

6.39 Interest is payable by units that incur certain kinds of liabilities, namely deposits, securities other than shares, loans, and accounts payable.[6] These liabilities are created when a general government unit borrows funds from another unit. Interest is the expense that the general government unit (the debtor) incurs for the use of the principal outstanding, which is the economic value that has been provided by the creditor.

6.40 Interest expense accrues continuously over the period that the liability exists. The rate at which interest accrues may be stated as a percentage of the outstanding principal per time period, a predetermined sum of money, a variable sum of money dependent on a defined indicator, or some combination of these methods. Interest normally is not paid until the expense has accrued. That is, if interest on a loan is paid monthly, the amount paid is usually the expense that has accrued during the previous month. Until a payment takes place, the debtor's total liability to the creditor has increased by the amount of interest expense incurred but not paid. What are commonly referred to as interest payments, therefore, are reductions of the debtor's existing liability, part of which was created by the already incurred interest expense.

6.41 This manual recommends that accrued but unpaid interest be added to the principal of the underlying instrument. That is, as interest accrues on a government bond, the principal of the bond would increase. It is recognized, however, that interest accruing on deposits and loans may have to follow national practices and be classified under accounts payable.

6.42 With the exception of index-linked securities, including floating-rate notes, the rate at which interest expense accrues is determined when the contract is established and the funds have been borrowed.[7] In the simplest case, a sum of money is borrowed, periodic payments are made equal to the interest expense incurred during the previous period, and at the end of the contract a final interest payment is made together with the original amount borrowed. The amount of interest expense incurred each period is equal to the interest rate stated in the contract multiplied by the amount borrowed. As each period passes, the amount of principal outstanding increases as interest expense is incurred. At the end of the period, the payment reduces the principal to the amount originally borrowed. Unless the end of the accounting period coincides with a periodic payment, the total liability at the end of the period will include some amount of interest incurred but not yet paid.

6.43 Certain financial instruments, such as bills and zero-coupon bonds, are such that the debtor is under no obligation to make any payments to the creditor until the liability matures. In effect, no interest is due for payment until the liability matures, at which point the debtor's liability is discharged by a single payment covering both the amount of the funds originally borrowed and the interest accrued and accumulated over the entire life of the liability. Instruments of this type are said to be discounted because the amount initially borrowed is less than the amount to be repaid. The difference between the amount repaid at the end of the contract and the amount originally borrowed is interest that must be allocated over the accounting periods between the beginning and end of the contract. The interest accruing each period is treated as being paid by the debtor and then borrowed as an additional amount of the same liability. Thus, interest expense and an increase in the liability are recorded each period. When more than one accounting period is involved, there is a number of ways to allocate the total amount of interest among the periods involved. The most common and among the simplest is to assume that the interest rate is constant throughout the contract period.

6.44 A slightly more complicated case consists of a discounted instrument that also requires periodic payments. In such cases, the interest expense is the amount of the money income payable periodically plus the amount of interest accruing each period attributable to the difference between the redemption price and the issue price. Again, the most common assumption is that the interest rate is constant over the entire period of the contract. This interest rate is the one that makes the sum of all future payments equal to the amount initially borrowed when the future payments are discounted by the interest rate.

[5]Organisation for Economic Co-operation and Development, *Measuring Capital—OECD Manual: Measurement of Capital Stocks, Consumption of Fixed Capital and Capital Services* (Paris, 2001) contains an extensive discussion of the methods for estimating consumption of fixed capital.

[6]Financial assets and their classification are defined in Chapter 7.

[7]An alternative view of the computation of interest is explained in paragraphs 6.48 to 6.50.

6.45 In some cases, securities other than shares are issued at a premium rather than a discount. The method of determining the interest expense is identical to the case of a discounted instrument except that the premium (the difference between the redemption price and the issue price) is treated as negative interest expense.

6.46 Loans are often structured with periodic payments that incorporate both interest and principal payments. The excess of the periodic payment over the interest accrued reduces the original principal. Over time, the share of the payment allocated to the payment of accrued interest decreases and the share allocated to reducing the original principal increases.

6.47 Index-linked securities are financial instruments for which the amounts of the periodic payments and/or the principal outstanding are linked to a price index or an exchange rate index. When the periodic payments are index linked, as with floating-rate notes, the full amounts of such payments are treated as interest. When the value of the principal is index linked, the difference between the eventual redemption price and the issue price is treated as interest accruing over the life of the asset in the same way as for a discounted security whose redemption price is fixed in advance. In practice, the change in the value of the principal outstanding between the beginning and end of a particular accounting period due to the movement in the relevant index may be treated as interest accruing in that period in addition to any interest due for payment in that period. As with discounted instruments, the interest accruing as a result of the indexation is treated as being paid by the debtor and then borrowed as an additional amount of the same liability.

6.48 In some cases the value of a liability and the current market interest rate are interrelated. When the future cash flows associated with a financial instrument are fixed, then the market value of the instrument is the sum of the future flows discounted by the current market interest rate. An example is a bond that calls for fixed periodic monetary payments and a final repayment of principal when the bond matures. If the market interest rate increases, then the market value of the bond decreases because the future cash flows are discounted by a larger amount. When the current market interest changes, therefore, a holding gain or loss occurs with respect to many financial assets and liabilities. The change in interest rates also raises the question of how to determine interest expense from that point forward.

6.49 There are three general possibilities, which are referred to as the debtor, creditor, and acquisition approaches. The debtor approach assumes that interest expense is determined for the entire life of a financial instrument when it is created, except for changes in index-linked securities. If interest rates change, for example increase, then the market value of the instrument will change, in this case decrease. The decrease in the debtor's liability is treated as a holding gain. If there are no further changes in the interest rate, then over the remaining period of the contract, the market value of the instrument will increase gradually until at maturity it equals the amount the debtor is obligated to pay. These increases in the market value are treated as holding losses. The debtor approach is the one that is generally understood to be embedded in the *1993 SNA* and is the approach followed in this manual.

6.50 With the creditor approach, it is assumed that future interest expense is recalculated each time there is a change in the interest rate. To use the same example, an increase in the interest rate leads to a decrease in the market value of the instrument and there has been a holding gain for the debtor. At this point, the instrument is treated as a new instrument that was issued at a discount. If there are no further changes in the interest rate, then the gradual increases in the market value of the instrument over the remaining period will be treated as interest expense. The acquisition approach is the same as the debtor approach except that changes in the interest rate are acknowledged when there is a change in the ownership of the instrument, usually from trading in a secondary market.

6.51 The interest expense payable to financial intermediaries recorded in this manual differs from the amount recorded in *1993 SNA*. A financial intermediary sets its interest rates for depositors and borrowers at levels that will provide a margin large enough to defray the costs of providing its services to its depositors and borrowers without explicit fees. In concept, the value of the services provided by financial intermediaries to a borrowing general government unit should be treated as a use of goods and services expense. To accomplish this treatment, the actual interest expense payable to financial intermediaries would need to be decreased by the value of the services. The value of the financial services, however, can be estimated only indirectly by compilers of the national accounts because data for all depositors and borrowers of financial intermediaries are required. Thus, in this manual, no adjustment is made for financial services indirectly measured.

6.52 Government units may make interest payments on loans and other interest-bearing liabilities of other units for which they act as guarantors. These payments should not be classified as interest until the government unit has assumed the debt. If the government unit has not assumed the debt, then two transactions are possible. First, if the government unit does not receive a financial claim on the other unit or receives a financial claim that is not likely to be paid, then the transaction should be recorded as a *subsidy* (25) if the other unit is a corporation, as a *grant* (26) if the other unit is another general government unit, or as *other expense* (28) if the other unit is a household or a nonprofit institution serving households. If the government unit receives a financial claim on the other unit for the amount paid and the claim is likely to be paid, then the transaction should be recorded by the government unit as an acquisition of a financial asset. [8]

6.53 In the *1993 SNA* as originally published, payments related to certain derivatives were treated as interest expense. Subsequently, the *1993 SNA* was amended so that no payments related to derivatives are considered to be interest. This manual follows that amendment.[9]

6.54 As noted in Chapter 5, interest assessed on the late payment of taxes or that is otherwise related to an infringement of tax regulations is treated as tax revenue by the receiving government unit. If this interest is paid by a general government unit, then it is classified as a tax payment, a component of *miscellaneous other expense* (282).

6.55 Total interest payable is subdivided into *interest payable to nonresidents* (241), *interest payable to residents other than general government* (242), and *interest payable to other general government units* (243). Interest payable to other general government units is required only when statistics are compiled for a subsector of the general government sector. Otherwise all such transactions are eliminated in consolidation.

5. Subsidies (25)

6.56 Subsidies are current unrequited payments that government units make to enterprises on the basis of the levels of their production activities or the quantities or values of the goods or services they produce, sell, export, or import. Subsidies may be designed to influence levels of production, the prices at which outputs are sold, or the remuneration of the enterprises.

6.57 Subsidies are payable to producers only, not to final consumers, and are current transfers only, not capital transfers. Transfers that government units make directly to households as consumers and most transfers to nonprofit institutions serving households are treated as either *social benefits* (27) or *miscellaneous other expense* (282) depending on the reason for the payment. Most transfers made to general government units are included in *grants* (26).[10] Payments to enterprises to finance their capital formation, to compensate them for damage to nonfinancial assets, or to cover large operating deficits accumulated over two or more years are *miscellaneous other capital expense* (2822).

6.58 Subsidies can be payable on specific products or on production in general. A subsidy on a product is a subsidy payable per unit of a good or service. The subsidy may be a specific amount of money per unit of quantity of a good or service, or it may be calculated ad valorem as a specified percentage of the price per unit. A subsidy may also be calculated as the difference between a specified target price and the market price actually paid by a buyer. A subsidy on a product usually becomes payable when the good or service is produced, sold, exported, or imported, but it may also be payable in other circumstances, such as when a good is transferred, leased, delivered, or used for own consumption or own capital formation.

6.59 Subsidies on production consist of subsidies that enterprises receive as a consequence of engaging in production but that are not related to specific products. Included are subsidies on payroll or workforce, which are payable on the total wage or salary bill, the size of the total workforce, or the employment of particular types of persons; subsidies to reduce pollution; and payments of interest on behalf of corporations.

6.60 Subsidies also include transfers to public corporations and quasi-corporations to compensate for losses they incur on their productive activities as a result of charging prices that are lower than their

[8]Additional information on debt operations is provided in Appendix 2.

[9]International Monetary Fund, *The New International Standards for the Statistical Measurement of Financial Derivatives: Changes to the Text of the 1993 SNA* (Washington, 2000).

[10]In rare cases payments to general government units and nonprofit institutions serving households can be classified as subsidies. The payments must depend on general regulations applicable to all producers, nonmarket as well as market. For example, a government may pay a subsidy to all employers that employ members of a specified profession or people with a specified disability.

average costs of production as a matter of deliberate government economic and social policy. If such losses have been accumulated over two or more years, the payments are classified as *miscellaneous other capital expense* (2822).

6.61 Subsidies are classified first by whether the recipient is a public or private producer and then by whether the producer is a nonfinancial or financial enterprise. The four possibilities are *public nonfinancial corporations* (2511), *public financial corporations* (2512), *private nonfinancial enterprises* (2521), and *private financial enterprises* (2522).

6. Grants (26)

6.62 Grants are noncompulsory current or capital transfers from one government unit to another government unit or an international organization.[11] Grants are classified first by the type of unit receiving the grant and then by whether the grant is current or capital.

6.63 Three types of recipients of grants are recognized in the GFS system: ***grants to foreign governments* (261)**, ***grants to international organizations* (262)**, and ***grants to other general government units* (263)**. The category of grants to other general government units is required only when statistics are compiled for a subsector of the general government sector. Otherwise these transactions are eliminated in consolidation.

6.64 Current grants are those made for purposes of current expense and are not linked to or conditional on the acquisition of an asset by the recipient. Capital grants involve the acquisition of assets by the recipient and may consist of a transfer of cash that the recipient is expected or required to use to acquire an asset or assets (other than inventories), the transfer of an asset (other than inventories and cash), the cancellation of a liability by mutual agreement between the creditor and debtor, or the assumption of another unit's debt.[12] If doubt exists regarding the character of a grant, it should be classified as current.[13]

6.65 Grants in kind should be valued at current market prices. If market prices are not available, then the value should be the explicit costs incurred in providing the resources or the amounts that would be received if the resources were sold.

6.66 Grants are recorded when all requirements and conditions for receiving them are satisfied and the donor unit has an unconditional obligation. Determining this time can be complex because there is a wide variety of eligibility conditions that have varying legal powers. In some cases, a potential grant recipient has a legal claim when it has satisfied certain conditions, such as the prior incurrence of expenses for a specific purpose or the passage of legislation. In many cases, the grant recipient never has a claim on the donor and the grant should be attributed to the time at which the payment is made.

7. Social benefits [GFS] (27)

6.67 Social benefits are defined in the annex to Chapter 2 as transfers in cash or in kind to protect the entire population or specific segments of it against certain social risks. A social risk is an event or circumstance that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or by reducing their incomes. Examples of social benefits are the provision of medical services, unemployment compensation, and social security pensions. They are classified according to the type of scheme governing their payment, which are social security, social assistance, and employer social insurance schemes.

6.68 Not all social benefits as defined in the annex to Chapter 2 are treated as expense. The payment of pensions and other retirement benefits through employer social insurance schemes are treated as reductions in liabilities.[14] Social benefits produced by a general government unit and transferred to households are expense transactions but are not classified as social benefits. Instead, the expenses of producing them are part of compensation of employees, use of goods and services, and consumption of fixed capital.[15] All social benefits are current transfers; none are capital transfers.

[11] See footnote 10 for an exception.

[12] Appendix 2 provides details on debt cancellation, debt assumption, and other government debt operations.

[13] The identification of capital grants is necessary to calculate gross and net saving.

[14] In the *1993 SNA*, payments of retirement benefits by autonomous and nonautonomous pension funds are treated as transfer payments as well as reductions in liabilities. An adjustment entry is made to remove the double counting of the payment. Payments by unfunded retirement schemes are only transfer payments.

[15] In the *1993 SNA*, when a general government unit produces goods and services that are distributed as social benefits, the costs of producing them, such as compensation of employees, are classified in the same way as in this manual. In addition, the value of the goods and services produced is included as social benefits.

6.69 ***Social security benefits*** **(271)** are social benefits payable in cash or in kind to households by social security schemes. Typical social security benefits in cash include sickness and invalidity benefits, maternity allowances, children's or family allowances, unemployment benefits, retirement and survivors' pensions, and death benefits.

6.70 Social security benefits in kind consist of goods and services purchased from a market producer on behalf of households and reimbursements of benefits purchased by households in accordance with the rules of the scheme. These benefits are likely to consist of medical or dental treatments, surgery, hospital accommodation, spectacles or contact lenses, pharmaceutical products, home care, and similar goods or services.

6.71 ***Social assistance benefits*** **(272)** are transfers payable to households to meet the same needs as social insurance benefits but which are not made under a social insurance scheme. Social assistance benefits may be payable when no social insurance scheme exists to cover the circumstances in question, certain households do not participate in existing social insurance schemes, or social insurance benefits are deemed inadequate to meet particular needs. Social assistance benefits do not include transfers made in response to events or circumstances that are not normally covered by social insurance schemes, such as natural disasters. Such transfers are recorded under *miscellaneous other expense* (282). Social assistance benefits in kind consist of transfers to households similar in nature to social security benefits in kind and provided under the same circumstances as social assistance benefits.

6.72 ***Employer social benefits*** **(273)** are social benefits payable in cash or in kind by government units to their employees or employees of other government units participating in the scheme (or to survivors and dependents of the employees who are eligible for such payments). The kinds of benefits provided are similar to those listed for social security schemes, such as the continued payment of wages during periods of absence from work as a result of ill health, accidents, maternity, etc.; family, education, or other allowances; severance allowances in the event of redundancy, incapacity, or accidental death; general medical expenses not related to the employees' work; and charges for convalescent and retirement homes. Outlays on pensions and other retirement benefits are reductions in liabilities, not social benefits expense.

8. Other expense (28)

a. Property expense other than interest (281)

6.73 Property expense is the expense payable by a general government unit to the owner of a financial asset or a tangible nonproduced asset when the general government unit makes use of such an asset. One type of property expense is interest, which is classified in category 24. Property expense other than interest may take the form of dividends, withdrawals from income of quasi-corporations, property expense attributed to insurance policyholders, or rent.[16] Dividends and withdrawals from income of quasi-corporations apply only to public corporations.

6.74 ***Dividends*** **(2811).** Because public corporations receive equity funds from general government units and possibly other units, they may pay dividends to those units. Such payments are not required; the board of directors or other managers of the corporation must declare a dividend payable on their own volition. Distributions of profits by public corporations may take place irregularly and may not be explicitly labeled as dividends. Nevertheless, except for distributions by fiscal, export, or import monopolies, dividends include all distributions of profits by public corporations to their shareholders or owners.[17] Dividends are recorded either on the date they are declared payable or, if no prior declaration occurs, on the date the payment is made. Large and exceptional one-off payments based on accumulated reserves, privatization receipts and other sales of assets, or holding gains are withdrawals of equity rather than dividends. See paragraphs 5.85 to 5.87 of Chapter 5.

6.75 ***Withdrawals from income of quasi-corporations*** **(2812).** By definition, quasi-corporations cannot

[16] In the *1993 SNA*, reinvested earnings on direct foreign investment is a type of property expense that conceivably could apply to a public corporation. Briefly, a direct foreign investment enterprise is a public corporation in which at least one foreign investor owns sufficient shares to have an effective voice in its management. An increase in retained earnings of a direct foreign investment enterprise is treated as if it were remitted as a form of property expense to the foreign direct investors in proportion to their ownership of the equity of the enterprise and then reinvested in additional equity. The imputed remittance of these retained earnings is treated as property expense in the *1993 SNA* but not in the GFS system. Such an increase in the value of the equity held by a direct foreign investor is accounted for as a holding gain in the same way as it is for other equities (see Chapter 10). This different treatment causes net lending/borrowing in the two systems to differ. Reinvested earnings on direct foreign investment are described in paragraphs 7.119 to 7.122 of the *1993 SNA*.

[17] Distributions of profits by fiscal, export, and import monopolies are treated as taxes, classified as *miscellaneous other expense* (282).

distribute income in the form of dividends, but the owner may choose to withdraw some or all of the income. Conceptually, the withdrawal of such income is equivalent to the distribution of corporate income through dividends and is treated in the same way. The amount of income that the owner of a quasi-corporation chooses to withdraw will depend largely on the size of its net income. All such withdrawals are recorded on the date the payment actually occurs. As with dividends, withdrawals from income of quasi-corporations do not include withdrawals of funds realized by the sale or other disposal of assets. See paragraphs 5.88 and 5.89 of Chapter 5.

6.76 ***Property expense attributed to insurance policyholders [GFS]*** **(2813).** Public corporations can be insurance enterprises, in which case they will hold technical reserves in the form of reserves against outstanding risks in respect of life insurance policies, including reserves for with-profit policies that add to the value on maturity of with-profit endowments or similar policies; prepayments of premiums; and reserves against outstanding claims. The reserves are considered to be assets of the policyholders or beneficiaries and liabilities of the insurance enterprises. In general, any income received from the investment of insurance technical reserves is also considered to belong to the policyholders or beneficiaries and therefore a property expense is recorded to reflect the increase in liabilities.

6.77 General government units are less likely to operate an insurance scheme, but if they do and if they maintain separate reserves, the property expense attributed to insurance policyholders would be recorded in the same manner as for a public corporation. If the general government unit does not maintain separate reserves, then no property expense is recorded. A change in the amount of the liability would be recorded as a revaluation.

6.78 Retirement schemes for government employees and their dependents and other beneficiaries are treated differently.[18] There are three types of employer retirement schemes: autonomous pension funds, nonautonomous pension funds, and unfunded retirement schemes. Autonomous and nonautonomous pension funds hold reserves dedicated to the payment of pensions and other retirement benefits to the employees of general government units and their dependents or other beneficiaries. Both types of funds have liabilities equal to the present value of the promised benefits. An unfunded retirement scheme does not hold reserves dedicated to the payment of benefits, but the general government unit operating the scheme does have a liability equal to the present value of the promised benefits, just as with autonomous and nonautonomous pension funds. The property expense attributed to insurance policyholders for all three types of schemes is a component of the change in the scheme's liability.

6.79 There are two basic types of retirement schemes: defined benefit and defined contribution.[19] With a defined-benefit scheme, the future retirement benefits are defined by some formula normally related to participants' length of service and salary. The nominal values of the retirement benefits to be paid in the future are determined actuarially based on estimates of variables such as expected retirement ages, mortality rates, expected inflation, and expected salary increases. The nominal values can then be converted to present values using an appropriate discount rate. Over time, the total liability of the pension scheme will change because of the receipt of additional contributions, the payment of benefits, changes in the actuarial assumptions, and the passage of time. The property expense attributed to insurance policyholders is equal to the increase in the liability resulting from the passage of time, which occurs because the future benefits are discounted over fewer accounting periods.

6.80 With defined-contribution schemes, the level of contributions to the fund, rather than the level of benefits, is guaranteed by the employer. All defined-contribution schemes are funded, and the liability of a defined-contribution scheme is equal to the current market value of the fund's assets. Therefore, the property expense attributed to insurance policyholders is just the property income received from the investment of the fund's assets. Any holding gains received on the fund's assets are recorded as equal-valued holding losses for the unit's liability to the beneficiaries.

6.81 ***Rent*** **(2814).** Rent is the expense incurred in connection with certain leases of land, subsoil assets, and other naturally occurring assets. Other leases of these types of assets, notably leases of the

[18] Because no liabilities are recorded for pensions paid by social security schemes, no property expense is attributed to insurance policyholders.

[19] Defined-contribution schemes are also known as money-purchase schemes.

electromagnetic spectrum, may be considered to be intangible nonproduced assets. The terms and conditions governing the classification of leases of naturally occurring assets were still under discussion at the time of publication of this manual. The remainder of this section concerns only those leases classified as rent.

6.82 Rent accrues continuously to the asset's owner throughout the period of the contract. The rent recorded for a particular accounting period is, therefore, equal to the value of the accumulated rent that becomes payable over the accounting period and may differ from the amount of rent that becomes due for payment or is actually paid during the period.

6.83 Payments for the extraction of minerals or fossil fuels are often described as royalties but are actually rents that accrue to owners of assets in return for putting the assets at the disposal of general government units for specified periods of time. The rents may take the form of periodic payments of fixed amounts, irrespective of the rate of extraction, or, more usually, will be derived according to the quantity, volume, or value of the asset extracted. Payments in exchange for the right to undertake test drilling or otherwise investigate the existence and location of subsoil assets are also treated as rents even though no extraction may take place. The actual outlays on drilling and other exploration are treated as the acquisition of a nonfinancial asset, as described in Chapter 8.

6.84 Other types of rent include payments for the right to cut timber on noncultivated land, to exploit bodies of unmanaged water for recreational or commercial purposes, including fishing, to use water for irrigation, and to graze animals on land owned by other units.

6.85 Rent should not be confused with the rental of produced assets, which is treated as *use of goods and services* (22). The difference in treatment arises because lessors of produced assets are engaged in a production process whereby they provide services to the lessees, such as maintaining inventories of fixed assets available for lease at short notice and repairing and maintaining the leased assets. In particular, the rentals paid by general government units as tenants are treated as payments for the provision of building or housing services. Units that own land or subsoil assets and merely place these assets at the disposal of general government units are not considered to be engaged in productive activity.

6.86 A single transaction may comprise both rent and use of goods and services. Such an event can occur, for instance, when a general government unit, in a single contract, leases land and buildings situated on the land, and the contract does not separately identify the rent of the land from rental of the buildings. If there is no objective basis on which to apportion the payment between rent on land and rental on the buildings, the whole amount is recorded as a rental if the value of the building is greater than the value of the land and vice versa.

b. Miscellaneous other expense (282)

6.87 Miscellaneous other expense includes a number of transfers serving quite different purposes and any other expense transaction not elsewhere classified. The most important types of transfers in this category follow:

- Current transfers to nonprofit institutions serving households. These transfers usually consist of cash in the form of membership dues, subscriptions, and voluntary donations, whether made on a regular or occasional basis. Such transfers are intended to cover the costs of the production of nonprofit institutions serving households or to provide the funds out of which current transfers may be made to households in the form of social assistance benefits. This category also covers transfers in kind in the form of food, clothing, blankets, and medicines to charities for distribution to households.

- Current and capital taxes, compulsory fees, and fines imposed by one level of government on another level. These transfers are subject to elimination by consolidation.

- Net tax credits. When the amount of a tax credit exceeds the amount of tax otherwise receivable from a taxpayer and the excess is paid to the taxpayer, the net payment is treated as expense rather than negative tax.

- Fines and penalties imposed by courts of law or quasi-judicial bodies. These transfers can be payable to any sector.

- Payments of compensation for injuries or damages caused by natural disasters.

- Payments of compensation for injury to persons or damage to property caused by general government units, excluding payments of non-life insurance claims. These payments can be either compulsory payments awarded by courts of law or ex gratia payments agreed out of court.

- Scholarships and other educational benefits.

- Capital transfers to market enterprises and nonprofit institutions serving households in cash or in kind to finance all or part of the costs of acquiring nonfinancial assets, to cover large operating deficits accumulated over two or more years, to cancel a debt by mutual agreement with the debtor, or to assume a debt.

- Non-life insurance premiums payable to insurance corporations to obtain cover against various events or accidents. Such payments are always treated as current transfers.[20]

- Non-life insurance claims payable by insurance schemes operated by a general government unit in settlement of claims that become due during the current accounting period. Claims become due when the eventuality occurs that gives rise to a valid claim. Such payments are always treated as current transfers, even when large sums are involved.

- Purchases of goods and services from market producers that are distributed directly to households for final consumption other than social benefits.

6.88 Other expense is subdivided into ***miscellaneous other current expense*** **(2821)** and ***miscellaneous other capital expense*** **(2822).** It may be of analytic interest to classify this group of transactions according to their recipients, such as residents and nonresidents. Among residents, it may also be of interest to classify them according to whether they are households, nonprofit institutions serving households, public nonfinancial corporations, public financial corporations, or private corporations.

C. The functional classification of expense

6.89 The Classification of Functions of Government (COFOG) is a detailed classification of the functions, or socioeconomic objectives, that general government units aim to achieve through various kinds of outlays. It is one of a family of four classifications referred to as classifications of expenditure according to purpose.[21]

6.90 COFOG provides a classification pertaining to outlays by governments on functions that experience has shown to be of general interest and amenable to a wide variety of analytic applications. Statistics on health, education, social protection, and environmental protection, for example, can be used to study the effectiveness of government programs in those areas.

6.91 The classification codes of COFOG are somewhat different from the structure of other GFS classification codes. The functions are classified using a three-level scheme. There are 10 first-level, or two-digit, categories, referred to as divisions. Examples are health (Division 07) and social protection (Division 10). Within each division, there are several groups, or three-digit categories, such as hospital services (073) and sickness and disability (101). Within each group, there are one or more classes, or four-digit categories, such as nursing and convalescent home services (0734) and disability (1012). All three classification levels and detailed descriptions of the contents of each class are reproduced in the annex to this chapter. Table 6.2 lists the divisions and groups. In this manual, the prefix "7" has been added to align the COFOG codes with other GFS classification codes.

6.92 All outlays for a particular function are collected in one category of COFOG regardless of how the outlays are implemented. That is, cash transfer payments designed to be used for a particular function, the purchase of goods and services from a market producer that are transferred to households for the same function, the production of goods and services by a general government unit, or the acquisition of an asset for that same function are all in the same category.

6.93 COFOG permits trends in government outlays on particular functions or purposes to be examined over time. Conventional government accounts are not usually suitable for this purpose because they reflect the organizational structures of governments. Not only might time series be distorted by organizational changes, but at a specific time some organizations may be responsible for more than one function,

[20] In the *1993 SNA*, payments of non-life insurance premiums are partitioned into a purchase of a service and a transfer payment. In the GFS system, the entire premium is considered a transfer payment.

[21] COFOG was produced by the Organisation for Economic Co-operation and Development and was published together with the other three classifications in United Nations, *Classifications of Expenditure According to Purpose* (New York, 2000). Material in this section is adapted from that publication.

Table 6.2: Classification of Expense by Function of Government

7	**Total outlays**	**706**	**Housing and community amenities**
701	**General public services**	7061	Housing development
7011	Executive and legislative organs, financial and fiscal affairs, external affairs	7062	Community development
7012	Foreign economic aid	7063	Water supply
7013	General services	7064	Street lighting
7014	Basic research	7065	R&D Housing and community amenities
7015	R&D[1] General public services	7066	Housing and community amenities n.e.c.
7016	General public services n.e.c.[2]	**707**	**Health**
7017	Public debt transactions	7071	Medical products, appliances, and equipment
7018	Transfers of a general character between different levels of government	7072	Outpatient services
702	**Defense**	7073	Hospital services
7021	Military defense	7074	Public health services
7022	Civil defense	7075	R&D Health
7023	Foreign military aid	7076	Health n.e.c.
7024	R&D Defense	**708**	**Recreation, culture, and religion**
7025	Defense n.e.c.	7081	Recreational and sporting services
703	**Public order and safety**	7082	Cultural services
7031	Police services	7083	Broadcasting and publishing services
7032	Fire protection services	7084	Religious and other community services
7033	Law courts	7085	R&D Recreation, culture, and religion
7034	Prisons	7086	Recreation, culture, and religion n.e.c.
7035	R&D Public order and safety	**709**	**Education**
7036	Public order and safety n.e.c.	7091	Pre-primary and primary education
704	**Economic affairs**	7092	Secondary education
7041	General economic, commercial, and labor affairs	7093	Postsecondary nontertiary education
7042	Agriculture, forestry, fishing, and hunting	7094	Tertiary education
7043	Fuel and energy	7095	Education not definable by level
7044	Mining, manufacturing, and construction	7096	Subsidiary services to education
7045	Transport	7097	R&D Education
7046	Communication	7098	Education n.e.c.
7047	Other industries	**710**	**Social protection**
7048	R&D Economic affairs	7101	Sickness and disability
7049	Economic affairs n.e.c.	7102	Old age
705	**Environmental protection**	7103	Survivors
7051	Waste management	7104	Family and children
7052	Waste water management	7105	Unemployment
7053	Pollution abatement	7106	Housing
7054	Protection of biodiversity and landscape	7107	Social exclusion n.e.c.
7055	R&D Environmental protection	7108	R&D Social protection
7056	Environmental protection n.e.c.	7109	Social protection n.e.c.

[1]R&D = Research and development.
[2]n.e.c. = not elsewhere classified.

and responsibility for one function might be divided among several organizations. For example, if a government establishes a new department that brings together some of the functions previously administered by several departments or at several levels of government, it will not usually be possible to use conventional government accounts to compare outlays on these purposes over time.

6.94 COFOG is also used for making international comparisons of the extent to which governments are involved in economic and social functions. Just as COFOG avoids the problems of organizational changes in a single government, so too does it avoid the problems of organizational differences among countries. In one country, for example, all functions connected with water supply may be undertaken by a single government agency, while in another country they may be distributed among departments dealing with the environment, housing, and industrial development.

6.95 Government services can benefit the community either individually or collectively. COFOG is used to distinguish between the individual and collective services provided by general government. The COFOG functions are defined so that they represent individual or collective consumption, but not both. In the annex, each class is marked “CS” or “IS” to designate it as collective services or individual services, respectively. Purchases of goods and services that are transferred to individual households or persons are treated as social transfers in kind in the *1993 SNA* so that the actual final consumption of government and households, in addition to their final consumption expenditure, can be computed. Thus statistics compiled by function will be useful for compiling national accounts according to the *1993 SNA*.

6.96 The items classified should be, in principle, individual transactions. Each purchase of goods and services, wage payment, transfer, or other outlay should be assigned a COFOG code according to the function that the transaction serves. For most outlays, however, it will generally not be possible to use transactions as the classification items. Instead, COFOG codes may have to be assigned to all transactions of agencies, offices, program units, bureaus, and similar units within government departments or ministries.

6.97 When government bodies rather than transactions are used for classification, it may happen that the smallest bodies that can be identified in the government accounts may perform more than one COFOG function. If possible, the outlays of multifunction bodies should be allocated among COFOG functions using a relevant physical indicator, such as hours worked by employees. It may be possible only to assign all outlays by multifunction units to whichever purpose appears to account for the largest part of total outlays.

6.98 A single classification cannot serve all analytic purposes. The selection of functions in COFOG is not unique. The scope of each function could be broader or narrower, and completely different functions could have been included. For example, outlays for medical schools are classified in COFOG as education rather than health. Also, research and development could be a function of its own, but in COFOG research and development outlays are classified according to the function the goal of the research and development most closely serves. Thus, COFOG statistics must be used with care to be sure that the desired coverage is obtained for a specific analytic purpose.

6.99 Government ministries generally are responsible for the formulation, administration, coordination, and monitoring of overall policies, plans, programs, and budgets; for the preparation and enforcement of legislation; and for the production and dissemination of general information, technical documentation, and statistics. Consequently, the outlays of these ministries have to be shared across the classes for which they are responsible. For example, the outlays of a ministry of transport should be divided between *road transport* (70451), *water transport* (70452), *railway transport* (70453), *air transport* (70454), and *pipeline and other transport* (70455).

6.100 Administrative outlays on general services, such as personnel services, supply and purchasing services, accounting and auditing services, and computer and data processing services, undertaken by ministries or units within ministries should be classified at the most detailed level possible. If administrative outlays overlap two or more classes, an attempt should be made to apportion outlays between the classes concerned. If this approach is not feasible, the total should be allocated to that class that accounts for the largest part of the total outlay.

6.101 Particular difficulties may arise with regard to subsidies. The main objective behind such government support may be, for example, to assure capacity to build naval vessels considered vital to national defense, to maintain living standards of important groups such as farmers or miners, or to provide employment for workers in underutilized hospitals. These political objectives are not to be confused with functions as the term is used in COFOG. Hence a government subsidy to shipyards is classified under *manufacturing* (70442); and grants to hospitals are classified under *hospital services* (7073) regardless of the ultimate purposes. Subsidies and grants designed chiefly to increase employment opportunities in general are an exception to this rule. As such programs do not focus on any single industry, they are classified under *general labor affairs* (70412).

6.102 It is likely that consumption of fixed capital will be difficult to allocate by function, especially if only aggregated figures for total government capital stock and consumption of fixed capital are compiled. In these circumstances, approximations will have to be used. One possibility may be to distribute consumption of fixed capital according to book value depreciation, if it is available for detailed organizational units within government. Another approach would be to distribute consumption of fixed capital among functions in proportion to gross fixed capital formation over a number of earlier years.

6.103 A final caution regarding the use of COFOG statistics relates to outlays for nonfinancial assets. Because expense transactions classified by COFOG include consumption of fixed capital, which represents part of the resource cost of using previously acquired fixed assets, there is an overlap between the COFOG statistics for the current period and COFOG statistics for the periods in which the assets were acquired. Thus, COFOG statistics should be cross-classified at least with total expense and acquisitions of nonfinancial assets. A cross-classification of COFOG with all categories of the economic classification of expense would be even more beneficial (see Table 6.3).

D. Cross-classification of expense

6.104 The economic and functional classifications of expense can be cross-classified as illustrated in Table 6.3. The table includes a column for acquisitions of nonfinancial assets in addition to columns for each type of expense.

Table 6.3: Cross-Classification of Functional and Economic Classifications of Expense

	Compen-sation of employees [GFS]	Use of goods and services	Consumption of fixed capital [GFS]	Interest [GFS]	Subsidies	Grants	Social benefits [GFS]	Other expense	Acquisition of nonfinancial assets
General public services									
Defense									
Public order and safety									
Economic affairs									
Environmental protection									
Housing and community amenities									
Health									
Recreation, culture, and religion									
Education									
Social protection									

Annex to Chapter 6: Classification of the Functions of Government

The Classification of the Functions of Government (COFOG) was developed by the Organization for Economic Co-operation and Development and published by the United Nations Statistical Division. It can be applied to government expense and the net acquisition of nonfinancial assets. COFOG has three levels of detail: Divisions, Groups, and Classes. The Divisions could be seen as the broad objectives of government, while the Groups and Classes detail the means by which these broad objectives are achieved. For further information on COFOG, see Classifications of Expenditure According to Purpose (United Nations, Department of Economic and Social Affairs, Statistics Division, Statistical Papers, Series M, No. 84, New York, 2000). The initials "CS" or "IS" follow the title of each Class in parentheses to indicate whether the services produced by general government units and included in this Class are collective or individual services. This distinction is used for the computation of final consumption expenditure and actual final consumption in the national accounts, as described in Appendix 3. The classification numbers have been modified slightly to conform with the coding system of this manual. The numeral "7" is prefixed to all codes and the punctuation separating Divisions, Groups, and Classes are deleted.

701 GENERAL PUBLIC SERVICES

7011 EXECUTIVE AND LEGISLATIVE ORGANS, FINANCIAL AND FISCAL AFFAIRS, EXTERNAL AFFAIRS

70111 Executive and legislative organs (CS)

– Administration, operation or support of executive and legislative organs.

Includes: office of the chief executive at all levels of government - office of the monarch, governor-general, president, prime minister, governor, mayor, etc.; legislative bodies at all levels of government -parliaments, chambers of deputies, senates, assemblies, town councils, etc.; advisory, administrative and political staffs attached to chief executive offices and legislatures; libraries and other reference services serving mainly executive and legislative organs; physical amenities provided to the chief executive, the legislature and their aides; permanent or ad hoc commissions and committees created by or acting on behalf of the chief executive or legislature.

Excludes: ministerial offices, offices of heads of departments of local governments, interdepartmental committees, etc. concerned with a specific function (classified according to function).

70112 Financial and fiscal affairs (CS)

– Administration of financial and fiscal affairs and services; management of public funds and public debt; operation of taxation schemes;

– operation of the treasury or ministry of finance, the budget office, the inland revenue agency, the customs authorities, the accounting and auditing services;

– production and dissemination of general information, technical documentation and statistics on financial and fiscal affairs and services.

Includes: financial and fiscal affairs and services at all levels of government.

Excludes: underwriting or flotation charges and interest payments on government loans (70170); supervision of the banking industry (70411).

70113 External affairs (CS)

- Administration of external affairs and services;
- operation of the ministry of external affairs and diplomatic and consular missions stationed abroad or at offices of international organizations; operation or support of information and cultural services for distribution beyond national boundaries; operation or support of libraries, reading rooms and reference services located abroad;
- regular subscriptions and special contributions to meet general operating expenses of international organizations.

Excludes: economic aid to developing countries and countries in transition (70121); economic aid missions accredited to foreign governments (70121); contributions to aid programs administered by international or regional organizations (70122); military units stationed abroad (70210); military aid to foreign countries (70230); general foreign economic and commercial affairs (70411); tourism affairs and services (70473).

7012 FOREIGN ECONOMIC AID

70121 Economic aid to developing countries and countries in transition (CS)

- Administration of economic cooperation with developing countries and countries in transition;
- operation of economic aid missions accredited to foreign governments; operation or support of technical assistance programs, training programs and fellowship and scholarship schemes;
- economic aid in the form of grants (in cash or in kind) or loans (regardless of interest charged).

Excludes: contributions to economic development funds administered by international or regional organizations (70122); military aid to foreign countries (70230).

70122 Economic aid routed through international organizations (CS)

- Administration of economic aid routed through international organizations;
- contributions in cash or in kind to economic development funds administered by international, regional or other multinational organizations.

Excludes: aid to international peacekeeping operations (70230).

7013 GENERAL SERVICES

This group covers services that are not connected with a specific function and which are usually undertaken by central offices at the various levels of government. It also covers those services connected with a particular function that are undertaken by such central offices. For example, the compilation of industry, environment, health or education statistics by a central statistical agency is included here.

70131 General personnel services (CS)

- Administration and operation of general personnel services, including development and implementation of general personnel policies and procedures covering selection, promotion, rating methods, the description, evaluation and classification of jobs, the administration of civil service regulations and similar matters.

Excludes: personnel administration and services connected with a specific function (classified according to function).

70132 Overall planning and statistical services (CS)

- Administration and operation of overall economic and social planning services and of overall statistical services, including formulation, coordination and monitoring of overall economic and social plans and programs and of overall statistical plans and programs.

Excludes: economic and social planning services and statistical services connected with a specific function (classified according to function).

70133 Other general services (CS)

- Administration and operation of other general services such as centralized supply and purchasing services, maintenance and storage of government records and archives, operation of government owned or occupied buildings, central motor vehicle pools, government operated printing offices, centralized computer and data processing services, etc.

Excludes: other general services connected with a specific function (classified according to function).

7014 BASIC RESEARCH

Basic research is experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without any particular application or use in view.

70140 Basic research (CS)

- Administration and operation of government agencies engaged in basic research;
- grants, loans or subsidies to support basic research undertaken by non-government bodies such as research institutes and universities.

Excludes: applied research and experimental development (classified by function).

7015 R&D GENERAL PUBLIC SERVICES

Applied research is original investigation undertaken in order to acquire new knowledge, but directed primarily towards a specific practical aim or objective.

Experimental development is systematic work, drawing on existing knowledge gained from research and practical experience, that is directed to producing new materials, products and devices; to installing new processes, systems and services; or to improving substantially those already produced or installed.

70150 R&D General public services (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to general public services;
- grants, loans or subsidies to support applied research and experimental development related to general public services undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

7016 GENERAL PUBLIC SERVICES N.E.C.

70160 General public services n.e.c. (CS)

– Administration, operation or support of general public services such as registration of voters, holding of elections and referendums, administration of non-self-governing and trust territories, etc.

Includes: general public services that cannot be assigned to (7011), (7012), (7013), (7014) or (7015).

Excludes: public debt transactions (7017); transfers of a general character between different levels of government (7018).

7017 PUBLIC DEBT TRANSACTIONS

70170 Public debt transactions (CS)

– Interest payments and outlays for underwriting and floating government loans.

Excludes: administrative costs of public debt management (70112).

7018 TRANSFERS OF A GENERAL CHARACTER BETWEEN DIFFERENT LEVELS OF GOVERNMENT

70180 Transfers of a general character between different levels of government (CS)

– Transfers between different levels of government that are of a general character and not allocated to a particular function.

702 DEFENSE

7021 MILITARY DEFENSE

70210 Military defense (CS)

– Administration of military defense affairs and services;

– operation of land, sea, air and space defense forces; operation of engineering, transport, communication, intelligence, personnel and other non-combat defense forces; operation or support of reserve and auxiliary forces of the defense establishment.

Includes: offices of military attachés stationed abroad; field hospitals.

Excludes: military aid missions (70230); base hospitals (7073); military schools and colleges where curricula resemble those of civilian institutions even though attendance may be limited to military personnel and their families (7091), (7092), (7093) or (7094); pension schemes for military personnel (7102).

7022 CIVIL DEFENSE

70220 Civil defense (CS)

– Administration of civil defense affairs and services; formulation of contingency plans; organization of exercises involving civilian institutions and populations;

– operation or support of civil defense forces.

Excludes: civil protection services (70320); purchase and storage of food, equipment and other supplies for emergency use in the case of peacetime disasters (71090).

7023 FOREIGN MILITARY AID

70230 Foreign military aid (CS)

- Administration of military aid and operation of military aid missions accredited to foreign governments or attached to international military organizations or alliances;
- military aid in the form of grants (in cash or in kind), loans (regardless of interest charged) or loans of equipment; contributions to international peacekeeping forces including the assignment of manpower.

7024 R&D DEFENSE

Definitions of basic research, applied research and experimental development are given under (7014) and (7015).

70240 R&D Defense (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to defense;
- grants, loans or subsidies to support applied research and experimental development related to defense undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

7025 DEFENSE N.E.C.

70250 Defense n.e.c. (CS)

- Administration, operation or support of activities such as formulation, administration, coordination and monitoring of overall policies, plans, programs and budgets relating to defense; preparation and enforcement of legislation relating to defense; production and dissemination of general information, technical documentation and statistics on defense; etc.

Includes: defense affairs and services that cannot be assigned to (7021), (7022), (7023) or (7024).

Excludes: administration of war veterans' affairs (7102).

703 PUBLIC ORDER AND SAFETY

7031 POLICE SERVICES

70310 Police services (CS)

- Administration of police affairs and services, including alien registration, issuing work and travel documents to immigrants, maintenance of arrest records and statistics related to police work, road traffic regulation and control, prevention of smuggling and control of offshore and ocean fishing;
- operation of regular and auxiliary police forces, of port, border and coast guards, and of other special police forces maintained by public authorities; operation of police laboratories; operation or support of police training programs.

Includes: traffic wardens.

Excludes: police colleges offering general education in addition to police training (7091), (7092), (7093) or (7094).

7032 FIRE PROTECTION SERVICES

70320 Fire protection services (CS)

- Administration of fire prevention and fire fighting affairs and services;
- operation of regular and auxiliary fire brigades and of other fire prevention and fire fighting services maintained by public authorities; operation or support of fire prevention and fire fighting training programs.

Includes: civil protection services such as mountain rescue, beach surveillance, evacuation of flooded areas, etc.

Excludes: civil defense (70220); forces especially trained and equipped for fighting or preventing forest fires (70422).

7033 LAW COURTS

70330 Law courts (CS)

- Administration, operation or support of civil and criminal law courts and the judicial system, including enforcement of fines and legal settlements imposed by the courts and operation of parole and probation systems;
- legal representation and advice on behalf of government or on behalf of others provided by government in cash or in services.

Includes: administrative tribunals, ombudsmen and the like.

Excludes: prison administration (70340).

7034 PRISONS

70340 Prisons (CS)

- Administration, operation or support of prisons and other places for the detention or rehabilitation of criminals such as prison farms, workhouses, reformatories, borstals, asylums for the criminally insane, etc.

7035 R&D PUBLIC ORDER AND SAFETY

Definitions of basic research, applied research and experimental development are given under (7014) and (7015).

70350 R&D Public order and safety (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to public order and safety;
- grants, loans or subsidies to support applied research and experimental development related to public order and safety undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

7036 PUBLIC ORDER AND SAFETY N.E.C.

70360 Public order and safety n.e.c. (CS)

- Administration, operation or support of activities such as formulation, administration, coordination and monitoring of overall policies, plans, programs and budgets relating to public order and safety; preparation and enforcement of legislation and standards for the provision of public order and safety; production and dissemination of general information, technical documentation and statistics on public order and safety.

Includes: public order and safety affairs and services that cannot be assigned to (7031), (7032), (7033), (7034) or (7035).

704 ECONOMIC AFFAIRS

7041 GENERAL ECONOMIC, COMMERCIAL, AND LABOR AFFAIRS

70411 General economic and commercial affairs (CS)

- Administration of general economic and commercial affairs and services, including general foreign commercial affairs; formulation and implementation of general economic and commercial policies; liaison among different branches of government and between government and business;
- regulation or support of general economic and commercial activities such as export and import trade as a whole, commodity and equity markets, overall income controls, general trade promotion activities, general regulation of monopolies and other restraints on trade and market entry, etc.; supervision of the banking industry;
- operation or support of institutions dealing with patents, trademarks, copyrights, company registration, weather forecasting, standards, hydrologic surveys, geodesic surveys, etc.;
- grants, loans or subsidies to promote general economic and commercial policies and programs.

Includes: consumer education and protection.

Excludes: economic and commercial affairs of a particular industry (classified to (7042) through (7047) as appropriate).

70412 General labor affairs (CS)

- Administration of general labor affairs and services; formulation and implementation of general labor policies; supervision and regulation of labor conditions (hours of work, wages, safety, etc.); liaison among different branches of government and between government and overall industrial, business and labor organizations;
- operation or support of general programs or schemes to facilitate labor mobility, to reduce sex, race, age and other discrimination, to reduce the rate of unemployment in distressed or underdeveloped regions, to promote the employment of disadvantaged or other groups characterized by high unemployment rates, etc.; operation of labor exchanges; operation or support of arbitration and mediation services;
- production and dissemination of general information, technical documentation and statistics on general labor affairs and services;
- grants, loans or subsidies to promote general labor policies and programs.

Excludes: labor affairs of a particular industry (classified to (7042) through (7047) as appropriate); provision of social protection in the form of cash benefits and benefits in kind to persons who are unemployed (71050).

7042 AGRICULTURE, FORESTRY, FISHING AND HUNTING

70421 Agriculture (CS)

- Administration of agricultural affairs and services; conservation, reclamation or expansion of arable land; agrarian reform and land settlement; supervision and regulation of the agricultural industry;

- construction or operation of flood control, irrigation and drainage systems, including grants, loans or subsidies for such works;
- operation or support of programs or schemes to stabilize or improve farm prices and farm incomes; operation or support of extension services or veterinary services to farmers, pest control services, crop inspection services and crop grading services;
- production and dissemination of general information, technical documentation and statistics on agricultural affairs and services;
- compensation, grants, loans or subsidies to farmers in connection with agricultural activities, including payments for restricting or encouraging output of a particular crop or for allowing land to remain uncultivated.

Excludes: multi-purpose development projects (70474).

70422 Forestry (CS)

- Administration of forestry affairs and services; conservation, extension and rationalized exploitation of forest reserves; supervision and regulation of forest operations and issuance of tree-felling licenses;
- operation or support of reforestation work, pest and disease control, forest fire-fighting and fire prevention services and extension services to forest operators;
- production and dissemination of general information, technical documentation and statistics on forestry affairs and services;
- grants, loans or subsidies to support commercial forest activities.

Includes: forest crops in addition to timber.

70423 Fishing and hunting (CS)

This class covers both commercial fishing and hunting, and fishing and hunting for sport. The fishing and hunting affairs and services listed below refer to activities that take place outside natural parks and reserves.

- Administration of fishing and hunting affairs and services; protection, propagation and rationalized exploitation of fish and wildlife stocks; supervision and regulation of freshwater fishing, coastal fishing, ocean fishing, fish farming, wildlife hunting and issuance of fishing and hunting licenses;
- operation or support of fish hatcheries, extension services, stocking or culling activities, etc.;
- production and dissemination of general information, technical documentation and statistics on fishing and hunting affairs and services;
- grants, loans or subsidies to support commercial fishing and hunting activities, including the construction or operation of fish hatcheries.

Excludes: control of offshore and ocean fishing (70310); administration, operation or support of natural parks and reserves (70540).

7043 FUEL AND ENERGY

70431 Coal and other solid mineral fuels (CS)

This class covers coal of all grades, lignite and peat irrespective of the method used in their extraction or beneficiation and the conversion of these fuels to other forms such as coke or gas.

- Administration of solid mineral fuel affairs and services; conservation, discovery, development and rationalized exploitation of solid mineral fuel resources; supervision and regulation of the extraction, processing, distribution and use of solid mineral fuels;
- production and dissemination of general information, technical documentation and statistics on solid mineral fuel affairs and services;
- grants, loans or subsidies to support the solid mineral fuel industry and the coke, briquette or manufactured gas industries.

Excludes: solid mineral fuel transportation affairs (classified to the appropriate class of group 7045).

70432 Petroleum and natural gas (CS)

This class covers natural gas, liquefied petroleum gases and refinery gases, oil from wells or other sources such as shale or tar sands and the distribution of town gas regardless of its composition.

- Administration of petroleum and natural gas affairs and services; conservation, discovery, development and rationalized exploitation of petroleum and natural gas resources; supervision and regulation of the extraction, processing, distribution and use of petroleum and natural gas;
- production and dissemination of general information, technical documentation and statistics on petroleum and natural gas affairs and services;
- grants, loans or subsidies to support the petroleum extraction industry and the industry refining crude petroleum and related liquid and gaseous products.

Excludes: petroleum or gas transportation affairs (classified to the appropriate class of group 7045).

70433 Nuclear fuel (CS)

- Administration of nuclear fuel affairs and services; conservation, discovery, development and rationalized exploitation of nuclear material resources; supervision and regulation of the extraction and processing of nuclear fuel materials and of the manufacture, distribution and use of nuclear fuel elements;
- production and dissemination of general information, technical documentation and statistics on nuclear fuel affairs and services;
- grants, loans or subsidies to support the nuclear materials mining industry and the industries processing such materials.

Excludes: nuclear fuel transportation affairs (classified to the appropriate class of group 7045); disposal of radioactive wastes (70510).

70434 Other fuels (CS)

- Administration of affairs and services involving fuels such as alcohol, wood and wood wastes, bagasse and other non-commercial fuels;
- production and dissemination of general information, technical documentation and statistics on availability, production and utilization of such fuels;
- grants, loans or subsidies to promote the use of such fuels for the production of energy.

Excludes: forest management (70422); wind and solar heat (70435) or (70436); geothermal resources (70436).

70435 Electricity (CS)

This class covers both traditional sources of electricity such as thermal or hydro supplies and newer sources such as wind or solar heat.

- Administration of electricity affairs and services; conservation, development and rationalized exploitation of electricity supplies; supervision and regulation of the generation, transmission and distribution of electricity;
- construction or operation of non-enterprise-type electricity supply systems;
- production and dissemination of general information, technical documentation and statistics on electricity affairs and services;
- grants, loans or subsidies to support the electricity supply industry, including such outlays for the construction of dams and other works designed chiefly to provide electricity.

Excludes: non-electric energy produced by wind or solar heat (70436).

70436 Non-electric energy (CS)

- Administration of non-electric energy affairs and services which chiefly concern the production, distribution and utilization of heat in the form of steam, hot water or hot air;
- construction or operation of non-enterprise-type systems supplying non-electric energy;
- production and dissemination of general information, technical documentation and statistics on availability, production and utilization of non-electric energy;
- grants, loans or subsidies to promote the use of non-electric energy.

Includes: geothermal resources; non-electric energy produced by wind or solar heat.

7044 MINING, MANUFACTURING, AND CONSTRUCTION

70441 Mining of mineral resources other than mineral fuels (CS)

This class covers metal-bearing minerals, sand, clay, stone, chemical and fertilizer minerals, salt, gemstones, asbestos, gypsum, etc.

- Administration of mining and mineral resource affairs and services; conservation, discovery, development and rationalized exploitation of mineral resources; supervision and regulation of prospecting, mining, marketing and other aspects of mineral production;
- production and dissemination of general information, technical documentation and statistics on mining and mineral resource affairs and services;
- grants, loans or subsidies to support commercial mining activities.

Includes: issuance of licenses and leases, regulation of production rates, inspection of mines for conformity to safety regulations, etc.

Excludes: coal and other solid fuels (70431), petroleum and natural gas (70432) and nuclear fuel materials (70433).

70442 Manufacturing (CS)

- Administration of manufacturing affairs and services; development, expansion or improvement of manufacturing; supervision and regulation of the establishment and operation of manufacturing plants; liaison with manufacturers' associations and other organizations interested in manufacturing affairs and services;
- production and dissemination of general information, technical documentation and statistics on manufacturing activities and manufactured products;
- grants, loans or subsidies to support manufacturing enterprises.

Includes: inspection of manufacturing premises for conformity with safety regulations, protection of consumers against dangerous products, etc.

Excludes: affairs and services concerning the coal processing industry (70431), the petroleum refinery industry (70432) or the nuclear fuel industry (70433).

70443 Construction (CS)

- Administration of construction affairs and services; supervision of the construction industry; development and regulation of construction standards;
- production and dissemination of general information, technical documentation and statistics on construction affairs and services.

Includes: issuance of certificates permitting occupancy, inspection of construction sites for conformity with safety regulations, etc.

Excludes: grants, loans and subsidies for the construction of housing, industrial buildings, streets, public utilities, cultural facilities, etc. (classified according to function); development and regulation of housing standards (70610).

7045 TRANSPORT

70451 Road transport (CS)

- Administration of affairs and services concerning operation, use, construction and maintenance of road transport systems and facilities (roads, bridges, tunnels, parking facilities, bus terminals, etc.);
- supervision and regulation of road users (vehicle and driver licensing, vehicle safety inspection, size and load specifications for passenger and freight road transport, regulation of hours of work of bus, coach and lorry drivers, etc.), of road transport system operations (granting of franchises, approval of freight tariffs and passenger fares and of hours and frequency of service, etc.) and of road construction and maintenance;
- construction or operation of non-enterprise-type road transport systems and facilities;
- production and dissemination of general information, technical documentation and statistics on road transport system operations and on road construction activities;
- grants, loans or subsidies to support the operation, construction, maintenance or upgrading of road transport systems and facilities.

Includes: highways, urban roads, streets, bicycle paths and footpaths.

Excludes: road traffic control (70310); grants, loans and subsidies to road vehicle manufacturers (70442); street cleaning (70510); construction of noise embankments, hedges and other anti-noise facilities including the resurfacing of sections of urban highways with noise reducing surfaces (70530); street lighting (70640).

70452 Water transport (CS)

- Administration of affairs and services concerning operation, use, construction and maintenance of inland, coastal and ocean water transport systems and facilities (harbors, docks, navigation aids and equipment, canals, bridges, tunnels, channels, breakwaters, piers, wharves, terminals, etc.);
- supervision and regulation of water transport users (registration, licensing and inspection of vessels and crews, regulations concerning passenger safety and freight security, etc.), of water transport system operations (granting of franchises, approval of freight tariffs and passenger fares and of hours and frequency of service, etc.) and of water transport facility construction and maintenance;

- construction or operation of non-enterprise-type water transport systems and facilities (such as ferries);
- production and dissemination of general information, technical documentation and statistics on water transport system operations and on water transport facility construction activities;
- grants, loans or subsidies to support the operation, construction, maintenance or upgrading of water transport systems and facilities.

Includes: radio and satellite navigation aids; emergency rescue and towing services.

Excludes: grants, loans and subsidies to shipbuilders (70442).

70453 Railway transport (CS)

- Administration of affairs and services concerning operation, use, construction or maintenance of railway transport systems and facilities (railway roadbeds, terminals, tunnels, bridges, embankments, cuttings, etc.);
- supervision and regulation of railway users (rolling stock condition, roadbed stability, passenger safety, security of freight, etc.), of railway transport system operations (granting of franchises, approval of freight tariffs and passenger fares and of hours and frequency of service, etc.) and of railway construction and maintenance;
- construction or operation of non-enterprise-type railway transport systems and facilities;
- production and dissemination of general information, technical documentation and statistics on railway transport system operations and on railway construction activities;
- grants, loans or subsidies to support the operation, construction, maintenance or upgrading of railway transport systems and facilities.

Includes: long-line and interurban railway transport systems, urban rapid transit railway transport systems and street railway transport systems; acquisition and maintenance of rolling stock.

Excludes: grants, loans and subsidies to rolling stock manufacturers (70442); construction of noise embankments, hedges and other anti-noise facilities including the resurfacing of sections of railways with noise reducing surfaces (70530).

70454 Air transport (CS)

- Administration of affairs and services concerning operation, use, construction and maintenance of air transport systems and facilities (airports, runways, terminals, hangars, navigation aids and equipment, air control amenities, etc.);
- supervision and regulation of air transport users (registration, licensing and inspection of aircraft, pilots, crews, ground crews, regulations concerning passenger safety, investigation of air transport accidents, etc.), of air transport system operations (allocation of routes, approval of freight tariffs and passenger fares and of frequency and levels of service, etc.) and of air transport facility construction and maintenance;
- construction or operation of non-enterprise-type public air transport services and facilities;
- production and dissemination of general information, technical documentation and statistics on air transport system operations and on air transport facility construction;
- grants, loans or subsidies to support the operation, construction, maintenance or upgrading of air transport systems and facilities.

Includes: radio and satellite navigation aids; emergency rescue services; scheduled and non-scheduled freight and passenger services; regulation and control of flying by private individuals.

Excludes: grants, loans and subsidies to aircraft manufacturers (70442).

70455 Pipeline and other transport (CS)

- Administration of affairs and services concerning operation, use, construction and maintenance of pipeline and other transport systems (funiculars, cable cars, chairlifts, etc.);
- supervision and regulation of users of pipeline and other transport systems (registration, licensing, inspection of equipment, operator skills and training; safety standards, etc.); of pipeline and other transport systems operations (granting of franchises, setting tariffs, frequency and levels of service, etc.) and of pipeline and other transport systems construction and maintenance;
- construction or operation of non-enterprise-type pipeline and other transport systems;
- production and dissemination of general information, technical documentation and statistics on the operation and construction of pipeline and other transport systems;
- grants, loans or subsidies to support the operation, construction, maintenance or upgrading of pipeline and other transport systems.

7046 COMMUNICATION

70460 Communication (CS)

- Administration of affairs and services concerning construction, extension, improvement, operation and maintenance of communication systems (postal, telephone, telegraph, wireless and satellite communication systems);
- regulation of communication system operations (granting of franchises; assignment of frequencies, specification of markets to be served and tariffs to be charged, etc.);
- production and dissemination of general information, technical documentation and statistics on communication affairs and services;
- grants, loans or subsidies to support the construction, operation, maintenance or upgrading of communication systems.

Excludes: radio and satellite navigation aids for water transport (70452) and air transport (70454); radio and television broadcasting systems (70830).

7047 OTHER INDUSTRIES

70471 Distributive trades, storage, and warehousing (CS)

- Administration of affairs and services concerning the distributive trade and the storage and warehousing industry;
- supervision and regulation of wholesale and retail trade (licensing, sales practices, labeling of packaged food and other goods intended for household consumption, inspection of scales and other weighing machines, etc.) and of the storage and warehousing industry (including licensing and control of government-bonded warehouses, etc.);
- administration of price control and rationing schemes operating through retailers or wholesalers regardless of the type of goods involved or intended consumer; administration and provision of food and other such subsidies to the general public;
- production and dissemination of information to the trade and to the public on prices, on the availability of goods and on other aspects of the distributive trade and the storage and warehousing industry; compilation and publication of statistics on the distributive trade and the storage and warehousing industry;
- grants, loans or subsidies to support the distributive trade and to the storage and warehousing industry.

Excludes: administration of price and other controls applied to the producer (classified according to function); food and other such subsidies applicable to particular population groups or individuals (710).

70472 Hotels and restaurants (CS)

- Administration of affairs and services concerning construction, extension, improvement, operation and maintenance of hotels and restaurants;
- supervision and regulation of hotel and restaurant operations (regulations governing prices, cleanliness and sales practices, hotel and restaurant licensing, etc.);
- production and dissemination of general information, technical documentation and statistics on hotel and restaurant affairs and services;
- grants, loans or subsidies to support the construction, operation, maintenance or upgrading of hotels and restaurants.

70473 Tourism (CS)

- Administration of tourism affairs and services; promotion and development of tourism; liaison with the transport, hotel and restaurant industries and other industries benefiting from the presence of tourists;
- operation of tourist offices at home and abroad, etc.; organization of advertising campaigns, including the production and dissemination of promotional literature and the like;
- compilation and publication of statistics on tourism.

70474 Multipurpose development projects (CS)

Multipurpose development projects typically consist of integrated facilities for generation of power, flood control, irrigation, navigation and recreation.

- Administration of affairs and services concerning construction, extension, improvement, operation and maintenance of multi-purpose projects;
- production and dissemination of general information, technical documentation and statistics on multi-purpose development project affairs and services;
- grants, loans or subsidies to support the construction, operation, maintenance or upgrading of multi-purpose development projects;

Excludes: projects with one main function and other functions that are secondary (classified according to main function).

7048 R&D ECONOMIC AFFAIRS

Definitions of basic research, applied research and experimental development are given under (7014) and (7015).

70481 R&D General economic, commercial, and labor affairs (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to general economic, commercial and labor affairs;
- grants, loans or subsidies to support applied research and experimental development related to general economic, commercial and labor affairs undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

70482 R&D Agriculture, forestry, fishing and hunting (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to agriculture, forestry, fishing and hunting;
- grants, loans or subsidies to support applied research and experimental development related to agriculture, forestry, fishing and hunting undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

70483 R&D Fuel and energy (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to fuel and energy;
- grants, loans or subsidies to support applied research and experimental development related to fuel and energy undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

70484 R&D Mining, manufacturing, and construction (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to mining, manufacturing and construction;
- grants, loans or subsidies to support applied research and experimental development related to mining, manufacturing and construction undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

70485 R&D Transport (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to transport;
- grants, loans or subsidies to support applied research and experimental development related to transport undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

70486 R&D Communication (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to communication;
- grants, loans or subsidies to support applied research and experimental development related to communication undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

70487 R&D Other industries (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to other sectors;
- grants, loans or subsidies to support applied research and experimental development related to other sectors undertaken by non-government bodies such as research institutes and universities.

Includes: distributive trades, storage and warehousing; hotels and restaurants; tourism and multi-purpose development projects.

Excludes: basic research (70140).

7049 ECONOMIC AFFAIRS N.E.C.

70490 Economic affairs n.e.c. (CS)

- Administration, operation or support activities relating to general and sectoral economic affairs that cannot be assigned to (7041), (7042), (7043), (7044), (7045), (7046), (7047) or (7048).

705 ENVIRONMENTAL PROTECTION

The breakdown of environmental protection is based upon the Classification of Environmental Protection Activities (CEPA) as elaborated in the European System for the Collection of Economic Information on the Environment (SERIEE) of the Statistical Office of the European Communities (Eurostat).

7051 WASTE MANAGEMENT

This group covers collection, treatment and disposal of waste.

Waste collection includes sweeping of streets, squares, paths, markets, public gardens, parks, etc.; collection of all types of waste, whether selective by type of product or undifferentiated covering all waste, and their transport to place of treatment or discharge.

Waste treatment includes any method or process designed to change the physical, chemical or biological character or composition of any waste so as to neutralize it, to render it non-hazardous, to make it safer for transport, to make it amenable for recovery or storage or to reduce it in volume.

Waste disposal includes final placement of waste for which no further use is foreseen by landfill, containment, underground disposal, dumping at sea or any other relevant disposal method.

70510 Waste management (CS)

- Administration, supervision, inspection, operation or support of waste collection, treatment and disposal systems;
- grants, loans or subsidies to support the operation, construction, maintenance or upgrading of such systems.

Includes: collection, treatment and disposal of nuclear waste.

7052 WASTE WATER MANAGEMENT

This group covers sewage system operation and waste water treatment.

Sewage system operation includes management and construction of the system of collectors, pipelines, conduits and pumps to evacuate any waste water (rainwater, domestic and other available waste water) from the points of generation to either a sewage treatment plant or to a point where waste water is discharged to surface water.

Waste water treatment includes any mechanical, biological or advanced process to render waste water fit to meet applicable environment standards or other quality norms.

70520 Waste water management (CS)

- Administration, supervision, inspection, operation or support of sewage systems and waste water treatment;
- grants, loans or subsidies to support the operation, construction, maintenance or upgrading of such systems.

7053 POLLUTION ABATEMENT

This group covers activities relating to ambient air and climate protection, soil and groundwater protection, noise and vibration abatement and protection against radiation.

These activities include construction, maintenance and operation of monitoring systems and stations (other than weather stations); construction of noise embankments, hedges and other anti-noise facilities including the resurfacing of sections of urban highways or railways with noise reducing surfaces; measures to clean pollution in water bodies; measures to control or prevent the emissions of greenhouse gases and pollutants that adversely affect the quality of the air; construction, maintenance and operation of installations for the decontamination of polluted soils and for the storage of pollutant products; transportation of pollutant products.

70530 Pollution abatement (CS)

– Administration, supervision, inspection, operation or support of activities relating to pollution abatement and control;

– grants, loans or subsidies to support activities relating to pollution abatement and control.

7054 PROTECTION OF BIODIVERSITY AND LANDSCAPE

This group covers activities relating to the protection of fauna and flora species (including the reintroduction of extinct species and the recovery of species menaced by extinction), the protection of habitats (including the management of natural parks and reserves) and the protection of landscapes for their aesthetic values (including the reshaping of damaged landscapes for the purpose of strengthening their aesthetic value and the rehabilitation of abandoned mines and quarry sites).

70540 Protection of biodiversity and landscape (CS)

– Administration, supervision, inspection, operation or support of activities relating to the protection of biodiversity and landscape;

– grants, loans or subsidies to support activities relating to the protection of biodiversity and landscape.

7055 R&D ENVIRONMENTAL PROTECTION

Definitions of basic research, applied research and experimental development are given under (7014) and (7015).

70550 R&D Environmental protection (CS)

– Administration and operation of government agencies engaged in applied research and experimental development related to environmental protection;

– grants, loans or subsidies to support applied research and experimental development related to environmental protection undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

7056 ENVIRONMENTAL PROTECTION N.E.C.

70560 Environmental protection n.e.c. (CS)

– Administration, management, regulation, supervision, operation and support of activities such as formulation, administration, coordination and monitoring of overall policies, plans, programs and budgets for the promotion of environmental protection; preparation and enforcement of legislation and standards for the provision of environmental protection services; production and dissemination of general information, technical documentation and statistics on environmental protection.

Includes: environmental protection affairs and services that cannot be assigned to (7051), (7052), (7053), (7054) or (7055).

706 HOUSING AND COMMUNITY AMENITIES

7061 HOUSING DEVELOPMENT

70610 Housing development (CS)

- Administration of housing development affairs and services; promotion, monitoring and evaluation of housing development activities whether or not the activities are under the auspices of public authorities; development and regulation of housing standards;
- slum clearance related to provision of housing; acquisition of land needed for construction of dwellings; construction or purchase and remodeling of dwelling units for the general public or for people with special needs;
- production and dissemination of public information, technical documentation and statistics on housing development affairs and services;
- grants, loans or subsidies to support the expansion, improvement or maintenance of the housing stock.

Excludes: development and regulation of construction standards (70443); cash benefits and benefits in kind to help households meet the cost of housing (71060).

7062 COMMUNITY DEVELOPMENT

70620 Community development (CS)

- Administration of community development affairs and services; administration of zoning laws and land-use and building regulations;
- planning of new communities or of rehabilitated communities; planning the improvement and development of facilities such as housing, industry, public utilities, health, education, culture, recreation, etc. for communities; preparation of schemes for financing planned developments;
- production and dissemination of general information, technical documentation and statistics on community development affairs and services.

Excludes: plan implementation, that is, the actual construction of housing, industrial buildings, streets, public utilities, cultural facilities, etc. (classified according to function); agrarian reform and land resettlement (70421); administration of construction standards (70443) and housing standards (70610).

7063 WATER SUPPLY

70630 Water supply (CS)

- Administration of water supply affairs; assessment of future needs and determination of availability in terms of such assessment; supervision and regulation of all facets of potable water supply including water purity, price and quantity controls;
- construction or operation of non-enterprise-type of water supply systems;

- production and dissemination of general information, technical documentation and statistics on water supply affairs and services;
- grants, loans or subsidies to support the operation, construction, maintenance or upgrading of water supply systems.

Excludes: irrigation systems (70421); multi-purpose projects (70474); collection and treatment of waste water (70520).

7064 STREET LIGHTING

70640 Street lighting (CS)

- Administration of street lighting affairs; development and regulation of street lighting standards;
- installation, operation, maintenance, upgrading, etc. of street lighting.

Excludes: lighting affairs and services associated with the construction and operation of highways (70451).

7065 R&D HOUSING AND COMMUNITY AMENITIES

Definitions of basic research, applied research and experimental development are given under (7014) and (7015).

70650 R&D Housing and community amenities (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to housing and community amenities;
- grants, loans or subsidies to support applied research and experimental development related to housing and community amenities undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140); applied research and experimental development into construction methods or materials (70484).

7066 HOUSING AND COMMUNITY AMENITIES N.E.C.

70660 Housing and community amenities n.e.c. (CS)

- Administration, operation or support of activities such as formulation, administration, coordination and monitoring of overall policies, plans, programs and budgets relating to housing and community amenities; preparation and enforcement of legislation and standards relating to housing and community amenities; production and dissemination of general information, technical documentation and statistics relating to housing and community amenities.

Includes: administration, operation or support activities relating to housing and community amenities that cannot be assigned to (7061), (7062), (7063), (7064) or (7065).

707 HEALTH

Government outlays on health include expenditures on services provided to **individual** persons and services provided on a **collective** basis. Expenditures on individual services are allocated to groups (7071) through (7074); expenditures on collective services are assigned to groups (7075) and (7076).

Collective health services are concerned with matters such as formulation and administration of government policy; setting and enforcement of standards for medical and paramedical personnel and for hospitals, clinics, surgeries, etc.; regulation and licensing of providers of health services; and applied research and experimental development into medical and health-related matters. However, overhead expenses connected with administration or functioning of a group of hospitals, clinics, surgeries, etc. are considered to be individual expenditures and are classified to groups (7071) through (7074) as appropriate.

7071 MEDICAL PRODUCTS, APPLIANCES, AND EQUIPMENT

This group covers medicaments, prostheses, medical appliances and equipment and other health-related products obtained by individuals or households, either with or without a prescription, usually from dispensing chemists, pharmacists or medical equipment suppliers. They are intended for consumption or use outside a health facility or institution. Such products supplied directly to outpatients by medical, dental and paramedical practitioners or to in-patients by hospitals and the like are included in outpatient services (7072) or hospital services (7073).

70711 Pharmaceutical products (IS)

- Provision of pharmaceutical products such as medicinal preparations, medicinal drugs, patent medicines, serums and vaccines, vitamins and minerals, cod liver oil and halibut liver oil, oral contraceptives;
- administration, operation or support of the provision of pharmaceutical products.

70712 Other medical products (IS)

- Provision of medical products such as clinical thermometers, adhesive and non-adhesive bandages, hypodermic syringes, first-aid kits, hot-water bottles and ice bags, medical hosiery items such as elasticated stockings and knee-pads, pregnancy tests, condoms and other mechanical contraceptive devices;
- administration, operation or support of the provision of prescribed other medical products.

70713 Therapeutic appliances and equipment (IS)

- Provision of therapeutic appliances and equipment such as corrective eyeglasses and contact lenses, hearing aids, glass eyes, artificial limbs and other prosthetic devices, orthopedic braces and supports, orthopedic footwear, surgical belts, trusses and supports, neck braces, medical massage equipment and health lamps, powered and unpowered wheelchairs and invalid carriages, “special” beds, crutches, electronic and other devices for monitoring blood pressure, etc.;
- administration, operation or support of the provision of prescribed therapeutic appliances and equipment.

Includes: dentures but not fitting costs; repair of therapeutic appliances and equipment.

Excludes: hire of therapeutic equipment (70724).

7072 OUTPATIENT SERVICES

This group covers medical, dental and paramedical services delivered to outpatients by medical, dental and paramedical practitioners and auxiliaries. The services may be delivered at home, in individual or group consulting facilities, dispensaries or the outpatient clinics of hospitals and the like.

Outpatient services include the medicaments, prostheses, medical appliances and equipment and other health-related products supplied directly to outpatients by medical, dental and paramedical practitioners and auxiliaries.

Medical, dental and paramedical services provided to in-patients by hospitals and the like are included in hospital services (7073).

70721 General medical services (IS)

This class covers the services provided by general medical clinics and general medical practitioners.

General medical clinics are defined as institutions which chiefly provide outpatient services which are not limited to a particular medical specialty and which are chiefly delivered by qualified medical doctors. General medical practitioners do not specialize in a particular medical specialty.

- Provision of general medical services;
- administration, inspection, operation or support of general medical services delivered by general medical clinics and general medical practitioners.

Excludes: services of medical analysis laboratories and x-ray centers (70724).

70722 Specialized medical services (IS)

This class covers the services of specialized medical clinics and specialist medical practitioners.

Specialized medical clinics and specialist medical practitioners differ from general medical clinics and general medical practitioners in that their services are limited to treatment of a particular condition, disease, medical procedure or class of patient.

- Provision of specialized medical services;
- administration, inspection, operation or support of specialized medical services delivered by specialized medical clinics and specialist medical practitioners.

Includes: services of orthodontic specialists.

Excludes: dental clinics and dentists (70723); services of medical analysis laboratories and x-ray centers (70724).

70723 Dental services (IS)

This class covers the services of general or specialist dental clinics and dentists, oral hygienists or other dental operating auxiliaries.

Dental clinics provide outpatient services. They are not necessarily supervised or staffed by dentists; they may be supervised or staffed by oral hygienists or by dental auxiliaries.

- Provision of dental services to outpatients;
- administration, inspection, operation and support of dental services delivered by general or specialist dental clinics and by dentists, oral hygienists or other dental auxiliaries.

Includes: fitting costs of dentures.

Excludes: dentures (70713); services of orthodontic specialists (70722); services of medical analysis laboratories and x-ray centers (70724).

70724 Paramedical services (IS)

- Provision of paramedical health services to outpatients;
- administration, inspection, operation or support of health services delivered by clinics supervised by nurses, midwives, physiotherapists, occupational therapists, speech therapists or other paramedical personnel and of health services delivered by nurses, midwives and paramedical personnel in non-consulting rooms, in patients' homes or other non-medical institutions.

Includes: acupuncturists, chiropodists, chiropractors, optometrists, practitioners of traditional medicine, etc.; medical analysis laboratories and x-ray centers; hire of therapeutic equipment; medically prescribed corrective-gymnastic therapy; outpatient thermal bath or sea-water treatments; ambulance services other than ambulance services operated by hospitals.

Excludes: public health service laboratories (70740); laboratories engaged in determining the causes of disease (70750).

7073 HOSPITAL SERVICES

Hospitalization is defined as occurring when a patient is accommodated in a hospital for the duration of the treatment. Hospital day-care and home-based hospital treatment are included, as are hospices for terminally ill persons.

This group covers the services of general and specialist hospitals, the services of medical centers, maternity centers, nursing homes and convalescent homes which chiefly provide in-patient services, the services of military base hospitals, the services of institutions serving old people in which medical monitoring is an essential component and the services of rehabilitation centers providing in-patient health care and rehabilitative therapy where the objective is to treat the patient rather than to provide long-term support.

Hospitals are defined as institutions which offer in-patient care under direct supervision of qualified medical doctors. Medical centers, maternity centers, nursing homes and convalescent homes also provide in-patient care but their services are supervised and frequently delivered by staff of lower qualification than medical doctors.

The group does not cover facilities such as military field hospitals (7021), surgeries, clinics and dispensaries devoted exclusively to outpatient care (7072), institutions for disabled persons and rehabilitation centers providing primarily long-term support (71012), retirement homes for elderly persons (71020). Neither does it cover payments to patients for loss of income due to hospitalization (71011).

Hospital services include medicaments, prostheses, medical appliances and equipment and other health-related products supplied to hospital patients. It also includes non-medical expenditure of hospitals on administration, non-medical staff, food and drink, accommodation (including staff accommodation), etc.

70731 General hospital services (IS)

- Provision of general hospital services;
- administration, inspection, operation or support of hospitals that do not limit their services to a particular medical specialty.

Excludes: medical centers not under the direct supervision of a qualified medical doctor (70733).

70732 Specialized hospital services (IS)

Specialized hospitals differ from general hospitals in that their services are limited to treatment of a particular condition, disease, or class of patient, for example, diseases of the chest and tuberculosis, leprosy, cancer, otorhinolaryngology, psychiatry, obstetrics, pediatrics, and so forth.

- Provision of specialized hospital services;
- administration, inspection, operation or support of hospitals that limit their services to a particular medical specialty.

Excludes: maternity centers not under the direct supervision of a qualified medical doctor (70733).

70733 Medical and maternity center services (IS)

- Provision of medical and maternity center services;
- administration, inspection, operation or support of medical and maternity center services.

70734 Nursing and convalescent home services (IS)

Nursing and convalescent homes provide in-patient services to persons recovering from surgery or a debilitating disease or condition that requires chiefly monitoring and administering of medicaments, physiotherapy and training to compensate for loss of function or rest.

- Provision of nursing and convalescent home services;
- administration, inspection, operation or support of nursing and convalescent home services.

Includes: institutions serving old people in which medical monitoring is an essential component; rehabilitation centers providing in-patient health care and rehabilitative therapy where the objective is to treat the patient rather than to provide long-term support.

7074 PUBLIC HEALTH SERVICES

70740 Public health services (IS)

- Provision of public health services;
- administration, inspection, operation or support of public health services such as blood-bank operation (collecting, processing, storing, shipping), disease detection (cancer, tuberculosis, venereal disease), prevention (immunization, inoculation), monitoring (infant nutrition, child health), epidemiological data collection, family planning services and so forth;
- preparation and dissemination of information on public health matters.

Includes: public health services delivered by special teams to groups of clients, most of whom are in good health, at workplaces, schools or other non-medical settings; public health services not connected with a hospital, clinic or practitioner; public health services not delivered by medically qualified doctors; public health service laboratories.

Excludes: medical analysis laboratories (70724); laboratories engaged in determining the causes of disease (70750).

7075 R&D HEALTH

Definitions of basic research, applied research and experimental development are given under (7014) and (7015).

70750 R&D Health (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to health;
- grants, loans and subsidies to support applied research and experimental development related to health undertaken by non-government bodies such as research institutes and universities.

Includes: laboratories engaged in determining the causes of disease.

Excludes: basic research (70140).

7076 HEALTH N.E.C.

70760 Health n.e.c. (CS)

- Administration, operation or support of activities such as formulation, administration, coordination and monitoring of overall health policies, plans, programs and budgets; preparation and enforcement of legislation and standards for the provision of health services, including the licensing of medical establishments and medical and paramedical personnel; production and dissemination of general information, technical documentation and statistics on health.

Includes: health affairs and services that cannot be assigned to (7071), (7072), (7073), (7074) or (7075).

708 RECREATION, CULTURE, AND RELIGION

Government outlays on recreation, culture, and religion include expenditures on services provided to **individual** persons and households and expenditures on services provided on a **collective** basis. Individual expenditures are allocated to groups (7081) and (7082); expenditures on collective services are assigned to groups (7083) to (7086).

Collective services are provided to the community as a whole. They include activities such as formulation and administration of government policy; formulation and enforcement of legislation and standards for providing recreational and cultural services; and applied research and experimental development into recreational, cultural and religious affairs and services.

7081 RECREATIONAL AND SPORTING SERVICES

70810 Recreational and sporting services (IS)

- Provision of sporting and recreational services; administration of sporting and recreational affairs; supervision and regulation of sporting facilities;
- operation or support of facilities for active sporting pursuits or events (playing fields, tennis courts, squash courts, running tracks, golf courses, boxing rings, skating rinks, gymnasia, etc.); operation or support of facilities for passive sporting pursuits or events (chiefly specially equipped venues for playing cards, board games, etc.); operation or support of facilities for recreational pursuits (parks, beaches, camping grounds and associated lodging places furnished on a non-commercial basis, swimming pools, public baths for washing, etc.);
- grants, loans or subsidies to support teams or individual competitors or players.

Includes: facilities for spectator accommodation; national, regional or local team representation in sporting events.

Excludes: zoological or botanical gardens, aquaria, arboreta and similar institutions (70820); sporting and recreational facilities associated with educational institutions (classified to the appropriate class of Division 709).

7082 CULTURAL SERVICES

70820 Cultural services (IS)

- Provision of cultural services; administration of cultural affairs; supervision and regulation of cultural facilities;
- operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.); production, operation or support of cultural events (concerts, stage and film productions, art shows, etc.);
- grants, loans or subsidies to support individual artists, writers, designers, composers and others working in the arts or to organizations engaged in promoting cultural activities.

Includes: national, regional or local celebrations provided they are not intended chiefly to attract tourists.

Excludes: cultural events intended for presentation beyond national boundaries (70113); national, regional or local celebrations intended chiefly to attract tourists (70473); production of cultural material intended for distribution by broadcasting (70830).

7083 BROADCASTING AND PUBLISHING SERVICES

70830 Broadcasting and publishing services (CS)

- Administration of broadcasting and publishing affairs; supervision and regulation of broadcasting and publishing services;
- operation or support of broadcasting and publishing services;
- grants, loans or subsidies to support: the construction or acquisition of facilities for television or radio broadcasting; the construction or acquisition of plant, equipment or materials for newspaper, magazine or book publishing; the production of material for, and its presentation by, broadcasting; the gathering of news or other information; the distribution of published works.

Excludes: government printing offices and plants (70133); provision of education by radio or television broadcasting (709).

7084 RELIGIOUS AND OTHER COMMUNITY SERVICES

70840 Religious and other community services (CS)

- Administration of religious and other community affairs;
- provision of facilities for religious and other community services, including support for their operation, maintenance and repair;
- payment of clergy or other officers of religious institutions; support for the holding of religious services; grants, loans or subsidies to support fraternal, civic, youth and social organizations or labor unions and political parties.

7085 R&D RECREATION, CULTURE, AND RELIGION

Definitions of basic research, applied research and experimental development are given under (7014) and (7015).

70850 R&D Recreation, culture, and religion (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to recreation, culture and religion;
- grants, loans and subsidies to support applied research and experimental development related to recreation, culture and religion undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

7086 RECREATION, CULTURE, AND RELIGION N.E.C.

70860 Recreation, culture, and religion n.e.c. (CS)

- Administration, operation or support of activities such as formulation, administration, coordination and monitoring of overall policies, plans, programs and budgets for the promotion of sport, recreation, culture and religion; preparation and enforcement of legislation and standards for the provision of recreational and cultural services; production and dissemination of general information, technical documentation and statistics on recreation, cultural and religion.

Includes: affairs and services relating to recreation, culture and religion that cannot be assigned to (7081), (7082), (7083), (7084) or (7085).

709 EDUCATION

Government outlays on education include expenditures on services provided to **individual** pupils and students and expenditures on services provided on a **collective** basis. Expenditures on individual services are allocated to groups (7091) through (7096); expenditures on collective services are assigned to groups (7097) and (7098).

Collective educational services are concerned with matters such as formulation and administration of government policy; setting and enforcement of standards; regulation, licensing and supervision of educational establishments; and applied research and experimental development into education affairs and services. However, overhead expenses connected with administration or functioning of a group of schools, colleges, etc. are considered to be individual expenditures and are classified to groups (7091) through (7096) as appropriate.

The breakdown of education is based upon the level categories of the 1997 International Standard Classification of Education (ISCED-97) of the United Nations Educational, Scientific and Cultural Organization (UNESCO).

This division includes military schools and colleges where curricula resemble those of civilian institutions, police colleges offering general education in addition to police training and the provision of education by radio or television broadcasting. Expenditures so incurred are classified to groups (7091) to (7095) as appropriate.

7091 PRE-PRIMARY AND PRIMARY EDUCATION

70911 Pre-primary education (IS)

- Provision of pre-primary education at ISCED-97 level 0;
- administration, inspection, operation or support of schools and other institutions providing pre-primary education at ISCED-97 level 0.

Excludes: subsidiary services to education (70960).

70912 Primary education (IS)

- Provision of primary education at ISCED-97 level 1;
- administration, inspection, operation or support of schools and other institutions providing primary education at ISCED-97 level 1.

Includes: literacy programs for students too old for primary school.

Excludes: subsidiary services to education (70960).

7092 SECONDARY EDUCATION

70921 Lower-secondary education (IS)

- Provision of lower-secondary education at ISCED-97 level 2;
- administration, inspection, operation or support of schools and other institutions providing lower-secondary education at ISCED-97 level 2;
- scholarships, grants, loans and allowances to support pupils pursuing lower-secondary education at ISCED-97 level 2.

Includes: out-of-school lower-secondary education for adults and young people.

Excludes: subsidiary services to education (70960).

70922 Upper-secondary education (IS)

- Provision of upper-secondary education at ISCED-97 level 3;
- administration, inspection, operation or support of schools and other institutions providing upper-secondary education at ISCED-97 level 3;
- scholarships, grants, loans and allowances to support pupils pursuing upper-secondary education at ISCED-97 level 3.

Includes: out-of-school upper-secondary education for adults and young people.

Excludes: subsidiary services to education (70960).

7093 POST-SECONDARY NON-TERTIARY EDUCATION

70930 Post-secondary non-tertiary education (IS)

- Provision of post-secondary non-tertiary education at ISCED-97 level 4;
- administration, inspection, operation or support of institutions providing post-secondary non-tertiary education at ISCED-97 level 4;
- scholarships, grants, loans and allowances to support students pursuing post-secondary non-tertiary education at ISCED-97 level 4.

Includes: out-of-school post-secondary non-tertiary education for adults and young people.

Excludes: subsidiary services to education (70960).

7094 TERTIARY EDUCATION

70941 First stage of tertiary education (IS)

- Provision of tertiary education at ISCED-97 level 5;
- administration, inspection, operation or support of universities and other institutions providing tertiary education at ISCED-97 level 5;
- scholarships, grants, loans and allowances to support students pursuing tertiary education at ISCED-97 level 5.

Excludes: subsidiary services to education (70960).

70942 Second stage of tertiary education (IS)

- Provision of tertiary education at ISCED-97 level 6;
- administration, inspection, operation or support of universities and other institutions providing tertiary education at ISCED-97 level 6;
- scholarships, grants, loans and allowances to support students pursuing tertiary education at ISCED-97 level 6.

Excludes: subsidiary services to education (70960).

7095 EDUCATION NOT DEFINABLE BY LEVEL

70950 Education not definable by level (IS)

- Provision of education not definable by level (that is, educational programs, generally for adults, which do not require any special prior instruction, in particular vocational training and cultural development);

- administration, inspection, operation or support of institutions providing education not definable by level;
- scholarships, grants, loans and allowances to support students pursuing education programs not definable by level.

7096 SUBSIDIARY SERVICES TO EDUCATION

70960 Subsidiary services to education (IS)

- Provision of subsidiary services to education;
- administration, inspection, operation or support of transportation, food, lodging, medical and dental care and related subsidiary services chiefly for students regardless of level.

Excludes: school health monitoring and prevention services (70740); scholarships, grants, loans and allowances in cash to defray the costs of subsidiary services (7091), (7092), (7093), (7094) or (7095).

7097 R&D EDUCATION

Definitions of basic research, applied research and experimental development are given under (7014) and (7015).

70970 R&D Education (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to education;
- grants, loans and subsidies to support applied research and experimental development related to education undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

7098 EDUCATION N.E.C.

70980 Education n.e.c. (CS)

- Administration, operation or support of activities such as formulation, administration, coordination and monitoring of overall educational policies, plans, programs and budgets; preparation and enforcement of legislation and standards for the provision of education, including licensing of educational establishments; production and dissemination of general information, technical documentation and statistics on education.

Includes: education affairs and services that cannot be assigned to (7091), (7092), (7093), (7094), (7095), (7096) or (7097).

710 SOCIAL PROTECTION

Government outlays on social protection include expenditures on services and transfers provided to **individual** persons and households and expenditures on services provided on a **collective** basis. Expenditures on individual services and transfers are allocated to groups (7101) through (7107); expenditures on collective services are assigned to groups (7108) and (7109).

Collective social protection services are concerned with matters such as formulation and administration of government policy; formulation and enforcement of legislation and standards for providing social protection; and applied research and experimental development into social protection affairs and services.

The social protection functions and their definitions are based on the 1996 European System of integrated Social Protection Statistics (ESSPROS) of the Statistical Office of the European Communities (Eurostat).

In ESSPROS, social protection includes health care, but this division does not include health care. Health care is covered by Division 707. Hence, medical goods and services provided to persons who receive the cash benefits and benefits in kind specified in groups (7101) through (7107) are classified under (7071), (7072) or (7073) as appropriate.

7101 SICKNESS AND DISABILITY

71011 Sickness (IS)

- Provision of social protection in the form of cash benefits or benefits in kind that replace in whole or in part loss of earnings during a temporary inability to work due to sickness or injury;
- administration, operation or support of such social protection schemes;
- cash benefits, such as flat-rate or earnings-related sick leave payments, miscellaneous payments provided to help persons temporarily unable to work due to sickness or injury;
- benefits in kind, such as assistance with daily tasks provided to persons temporarily unable to work due to sickness or injury (home help, transport facilities, etc.).

71012 Disability (IS)

- Provision of social protection in the form of cash benefits or benefits in kind to persons who are fully or partially unable to engage in economic activity or lead a normal life due to a physical or mental impairment that is either permanent or likely to persist beyond a minimum prescribed period;
- administration, operation or support of such social protection schemes;
- cash benefits, such as disability pensions paid to persons below the standard retirement age who encounter a disability which impairs their ability to work, early retirement benefits paid to older workers who retire before reaching the standard retirement age due to reduced capacity to work, care allowances, allowances paid to disabled persons undertaking work adapted to their condition or undergoing vocational training, other periodic or lump-sum payments paid to disabled persons for social protection reasons;
- benefits in kind, such as lodging and possibly board provided to disabled persons in appropriate establishments, assistance provided to disabled persons to help them with daily tasks (home help, transport facilities etc.), allowances paid to the person who looks after the disabled person, vocational and other training provided to further the occupational and social rehabilitation of disabled persons, miscellaneous services and goods provided to disabled persons to enable them to participate in leisure and cultural activities or to travel or to participate in community life.

Excludes: cash benefits and benefits in kind paid to disabled persons on reaching the standard retirement age (71020).

7102 OLD AGE

71020 Old age (IS)

- Provision of social protection in the form of cash benefits and benefits in kind against the risks linked to old age (loss of income, inadequate income, lack of independence in carrying out daily tasks, reduced participation in social and community life, etc.);
- administration, operation or support of such social protection schemes;

- cash benefits, such as old-age pensions paid to persons on reaching the standard retirement age, anticipated old-age pensions paid to older workers who retire before the standard retirement age, partial retirement pensions paid either before or after the standard retirement age to older workers who continue working but reduce their working hours, care allowances, other periodic or lump-sum payments paid upon retirement or on account of old age;
- benefits in kind, such as lodging and sometimes board provided to elderly persons either in specialized institutions or staying with families in appropriate establishments, assistance provided to elderly persons to help them with daily tasks (home help, transport facilities etc.), allowances paid to the person who looks after an elderly person, miscellaneous services and goods provided to elderly persons to enable them to participate in leisure and cultural activities or to travel or to participate in community life.

Includes: pension schemes for military personnel and for government employees.

Excludes: early retirement benefits paid to older workers who retire before reaching standard retirement age due to disability (71012) or unemployment (71050).

7103 SURVIVORS

71030 Survivors (IS)

- Provision of social protection in the form of cash benefits and benefits in kind to persons who are survivors of a deceased person (such as the person's spouse, ex-spouse, children, grandchildren, parents or other relatives);
- administration, operation or support of such social protection schemes;
- cash benefits, such as survivors' pensions, death grants, other periodic or lump-sum payments to survivors;
- benefits in kind, such as payments towards funeral expenses, miscellaneous services and goods provided to survivors to enable them to participate in community life.

7104 FAMILY AND CHILDREN

71040 Family and children (IS)

- Provision of social protection in the form of cash benefits and benefits in kind to households with dependent children;
- administration, operation or support of such social protection schemes;
- cash benefits, such as maternity allowances, birth grants, parental leave benefits, family or child allowances, other periodic or lump-sum payments to support households and help them meet the costs of specific needs (for example, those of the lone parent families or families with handicapped children);
- benefits in kind, such as shelter and board provided to pre-school children during the day or part of the day, financial assistance towards payment of a nurse to look after children during the day, shelter and board provided to children and families on a permanent basis (orphanages, foster families, etc.), goods and services provided at home to children or to those who care for them, miscellaneous services and goods provided to families, young people or children (holiday and leisure centers).

Excludes: family planning services (70740).

7105 UNEMPLOYMENT

71050 Unemployment (IS)

- Provision of social protection in the form of cash benefits and benefits in kind to persons who are capable of work, available for work but are unable to find suitable employment;
- administration, operation or support of such social protection schemes;
- cash benefits, such as full and partial unemployment benefits, early retirement benefits paid to older workers who retire before reaching the standard retirement age due to unemployment or job reduction caused by economic measures, allowances to targeted groups in the labor force who take part in training schemes intended to develop their potential for employment, redundancy compensation, other periodic or lump-sum payments to the unemployed, particularly the long-term unemployed;
- benefits in kind, such as mobility and resettlement payments, vocational training provided to persons without a job or retraining provided to persons at risk of losing their job, accommodation, food or clothes provided to unemployed persons and their families.

Excludes: general programs or schemes directed towards increasing labor mobility, reducing the rate of unemployment or promoting the employment of disadvantaged or other groups characterized by high unemployment (70412); cash benefits and benefits in kind paid to unemployed persons on reaching the standard retirement age (71020).

7106 HOUSING

71060 Housing (IS)

- Provision of social protection in the form of benefits in kind to help households meet the cost of housing (recipients of these benefits are means-tested);
- administration, operation or support of such social protection schemes;
- benefits in kind, such as payments made on a temporary or long-term basis to help tenants with rent costs, payments to alleviate the current housing costs of owner-occupiers (that is to help with paying mortgages or interest), provision of low-cost or social housing.

7107 SOCIAL EXCLUSION N.E.C.

71070 Social exclusion n.e.c. (IS)

- Provision of social protection in the form of cash benefits and benefits in kind to persons who are socially excluded or at risk of social exclusion (such as persons who are destitute, low-income earners, immigrants, indigenous people, refugees, alcohol and substance abusers, victims of criminal violence, etc.);
- administration and operation of such social protection schemes;
- cash benefits, such as income support and other cash payments to the destitute and vulnerable persons to help alleviate poverty or assist in difficult situations;
- benefits in kind, such as short-term and long-term shelter and board provided to destitute and vulnerable persons, rehabilitation of alcohol and substance abusers, services and goods to help vulnerable persons such as counseling, day shelter, help with carrying out daily tasks, food, clothing, fuel, etc.

7108 R&D SOCIAL PROTECTION

Definitions of basic research, applied research and experimental development are given under (7014) and (7015).

71080 R&D Social protection (CS)

– Administration and operation of government agencies engaged in applied research and experimental development related to social protection;

– grants, loans and subsidies to support applied research and experimental development related to social protection undertaken by non-government bodies such as research institutes and universities.

Excludes: basic research (70140).

7109 SOCIAL PROTECTION N.E.C.

71090 Social protection n.e.c. (CS)

– Administration, operation or support of activities such as formulation, administration, coordination and monitoring of overall social protection policies, plans, programs and budgets; preparation and enforcement of legislation and standards for the provision of social protection; production and dissemination of general information, technical documentation and statistics on social protection.

Includes: provision of social protection in the form of cash benefits and benefits in kind to victims of fires, floods, earthquakes and other peacetime disasters; purchase and storage of food, equipment and other supplies for emergency use in the case of peacetime disasters; other social protection affairs and services that cannot be assigned to (7101), (7102), (7103), (7104), (7105), (7106), (7107) or (7108).

7. The Balance Sheet

This chapter defines assets, liabilities, and net worth and describes their classification and the various balance sheet memorandum items.

A. Introduction

7.1 This chapter and the following three chapters are concerned with the stocks and flows of assets and liabilities. A balance sheet, or compilation of stocks, is a statement of the values of the assets owned at a specific time and the financial claims, or liabilities, held by other units against the owner of those assets.[1] The total value of the assets owned less the total value of liabilities is defined as net worth and is an indicator of wealth. Net worth can also be viewed as a stock resulting from the transactions and other economic flows of all previous periods. A balance sheet is typically compiled at the end of each accounting period, which is also the beginning of the next accounting period. A highly abbreviated version of a balance sheet is shown in Table 7.1.

7.2 This chapter first defines assets and liabilities in general and the two major types of assets, financial and nonfinancial assets. The following section describes the principles used to value assets and liabilities. The chapter then describes the classification of assets and liabilities and the types of assets and liabilities included in each category of the classification. The final sections describe net worth, recommended memorandum items, and a supplemental cross-classification of financial assets or liabilities with the sectors of the other party to the financial instrument underlying the financial asset or liability.

[1]A balance sheet can be compiled for an individual unit or any collection of units, such as the public sector, the general government sector, or a subsector of the general government sector. It is often convenient to describe a balance sheet in reference to a single institutional unit, but any such statement applies equally to the balance sheet of a sector or subsector.

B. Definitions of assets and liabilities

7.3 This section first defines an economic asset and the asset boundary used in the GFS system. It then describes the two major types of assets as financial and nonfinancial and defines a liability as the counterpart of a financial asset.

1. The asset boundary

7.4 All assets recorded in the GFS system are ***economic assets***, which are 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 or using them over a period of time.

7.5 The value of an asset at any given time is its current market value, which is defined as the amount that would have to be paid to acquire the asset on the valuation date, taking into account its age, condition, and other relevant factors. This amount depends on the economic benefits that the owner of the asset can derive by holding or using it. The remaining benefits expected to be received from some assets diminish with the passage of time, which will reduce the value of the asset, and the value of the remaining benefits may increase or decrease because of changes in prices.

7.6 Every economic asset provides benefits by functioning as a store of value. In addition:

- Some benefits are derived by using assets, such as buildings or machinery, in the production of goods and services; and
- Some benefits consist of property incomes, such as interest, dividends, and rents received by the owners of financial assets, land, and certain other assets.

Table 7.1: The Balance Sheet

Assets	Opening Balance Sheet	Closing Balance Sheet	Liabilities and Net Worth	Opening Balance Sheet	Closing Balance Sheet
Nonfinancial assets			Liabilities		
Financial assets			Net worth		
Total assets			Total liabilities and net worth		
Memorandum items					

7.7 When ownership rights are established and enforced, the entity is an economic asset regardless of who receives the benefits. For example, a government may own land in a national park with the intention that its benefits accrue directly to the community at large.

7.8 To be an economic asset, an entity must also be able to supply economic benefits given the technology, scientific knowledge, economic infrastructure, available resources, and relative prices existing at a given time or expected in the foreseeable future. Thus, a known deposit of minerals is an economic asset only if it is already commercially exploitable or is expected to become commercially exploitable in the foreseeable future.

7.9 Some entities would be economic assets except that ownership rights over them have not been established or are not enforced. For example, it may not be feasible to establish ownership rights over the atmosphere and certain other naturally occurring assets. In other cases, ownership rights may be established, but it may not be feasible to enforce them, such as government-owned land that is so remote or inaccessible that the government cannot exercise effective control over it or the government does not choose to enforce its ownership rights. In such cases, it can be a matter of judgment as to whether the degree of control exercised by the government is sufficient for the land to be classified as an economic asset.

7.10 Governments use assets to produce goods and services much like corporations. For example, office buildings, together with the services of government employees, office equipment, and other goods and services, are used to produce collective or individual services such as general administrative services. In addition, however, governments often own assets whose services are consumed directly by the general public and assets that need to be preserved because of their historic or cultural importance. Thus, when the asset boundary is applied to the general government sector, it often incorporates a wider range of assets than is normally owned by a private organization. That is, government units frequently own

- General-purpose assets, which are assets that other units would be likely to possess and use in similar ways, such as schools, road-building equipment, fire engines, office buildings, furniture, and computers.

- Infrastructure assets, which are immovable nonfinancial assets that generally do not have alternative uses and whose benefits accrue to the community at large. Examples are streets, highways, lighting systems, bridges, communication networks, canals, and dikes.

- Heritage assets, which are assets that a government intends to preserve indefinitely because they have unique historic, cultural, educational, artistic, or architectural significance.

7.11 In some cases, governments can create economic assets by exercising their sovereign powers or other powers delegated to them. For example, a government may have the authority to assert ownership rights over naturally occurring assets that otherwise would not be subject to ownership, such as the electromagnetic spectrum and natural resources in international waters subject to designation as an exclusive economic zone. These assets are economic assets only if the government uses its authority to establish and enforce ownership rights.

2. An overview of assets and liabilities

7.12 ***Financial assets*** consist of financial claims, monetary gold, and Special Drawing Rights (SDRs) allocated by the IMF. Financial claims are assets that entitle one unit, the owner of the asset (i.e., the creditor), to receive one or more payments from a second unit, the debtor, according to the terms and conditions specified in a contract between the two units. A financial claim is an asset because it provides benefits to the creditor by acting as a store of value. The creditor may receive additional benefits in the form of interest or other property income payments and/or holding gains. Typical types of financial claims are cash, deposits, loans, bonds, financial derivatives, and accounts receivable.

7.13 Most contracts, also referred to as instruments or financial instruments, that underlie a financial claim are created when one unit provides funds to a second unit and the second unit agrees to repay the funds in the future.[2] In many cases, financial claims are explicitly identified by formal documents expressing the debtor-creditor relationship. In some cases, however, a financial claim is created by an implicit provision of funds by the creditor to the debtor. For example, a government unit may acquire a claim on another unit when the other unit does not make payments as obligations arise, such as transferring sales taxes immediately after a sale. In other cases, the GFS system creates claims to bring out the underlying economic reality of a transaction, such as the creation of a notional loan when an asset is acquired under a financial lease. Regardless of how a financial claim is created, it is extinguished when the debtor pays the sum agreed in the contract.[3]

7.14 When a financial claim is created, a ***liability*** of equal value is simultaneously incurred by the debtor as the counterpart of the financial asset. That is, the payment or payments that the creditor has a contractual right to receive are also the payment or payments that the debtor is contractually obligated to provide. Thus, liabilities are obligations to provide economic benefits to the units holding the corresponding financial claims.

7.15 Shares and other equities issued by corporations and similar legal forms of organization are treated as financial claims even though their holders do not have a fixed or predetermined monetary claim on the corporation. Shares and other equities do, however, entitle their owners to benefits in the form of any dividends and other ownership distributions, and they often are held with the expectation of receiving holding gains. In the event the issuing unit is liquidated, shares and other equities become claims on the residual value of the unit after the claims of all creditors have been met.

7.16 Because of their treatment as financial claims, shares and other equities must also be treated as liabilities of the issuing units. If a public corporation has formally issued shares or another form of equity, then the shares are a liability of that unit and an asset of the government or other unit that owns them. If a public corporation has not issued any type of equity, then the implicit existence of shares is imputed. General government units are not owned by other units. Hence, the existence of shares or other equities is never imputed for them.

7.17 Contingent assets or liabilities are not treated as financial assets and liabilities. Also, sums set aside in business accounting as provisions to provide for a unit's future liabilities, either certain or contingent, or for a unit's future expenditures are not recognized in the GFS system. Only actual current liabilities to another party or parties are included.

7.18 Monetary gold and SDRs are not financial claims, which means that they are not the liability of any other unit. They do, however, provide economic benefits by serving as a store of value and they are used as a means of payment to settle financial claims and finance other types of transactions. As a result, they are, by convention, treated as financial assets.

7.19 ***Nonfinancial assets*** are all economic assets other than financial assets. By implication, nonfinancial assets do not represent claims on other units. As with financial assets, nonfinancial assets are stores of value. In addition, most nonfinancial assets provide benefits either through their use in the production of goods and services or in the form of property income.

7.20 Nonfinancial assets may come into existence as outputs from a production process, be naturally occurring, or be constructs of society. As described later in this chapter, produced assets are classified as fixed assets, inventories, or valuables:

- Fixed assets are produced assets that are used repeatedly or continuously in processes of production for more than one year.
- Inventories are goods and services held by producers for sale, use in production, or other use at a later date.

[2] The contracts underlying certain types of financial derivatives do not involve one unit providing funds to a second unit.

[3] A liability can be extinguished in other ways, such as cancellation by the creditor.

- Valuables are produced goods of considerable value that are acquired and held primarily as stores of value over time and are not used primarily for purposes of production or consumption.

7.21 Naturally occurring assets and constructs of society are both referred to as nonproduced assets. Naturally occurring assets include land, subsoil mineral deposits, fish in open but territorial waters, and the electromagnetic spectrum when ownership rights are enforced. Constructs of society that are assets include patents and leases.[4]

C. Valuation of assets and liabilities

7.22 As stated in paragraph 7.5, all assets and liabilities should be valued at their current market value, which is defined as the amount that would have to be paid to acquire the asset on the valuation date. This value includes all transport and installation charges and all costs of ownership transfer for nonfinancial assets but not for financial assets. Costs of ownership transfer include fees paid to surveyors, engineers, architects, lawyers, and estate agents and taxes payable on the transfer. The costs of ownership transfer are excluded from the current market value of financial assets in part because counterpart financial assets and liabilities refer to the same financial instrument and should have the same value.

7.23 The ideal source of price observations on which to base a valuation is a market in which the identical assets are traded in considerable volume and their market prices are listed at regular intervals. Such prices are often available for financial claims, transportation equipment, crops, livestock, and inventories.

7.24 If there are no observable prices because the assets in question are not currently traded on a market or traded only infrequently, then a price or value has to be estimated. The following paragraphs provide general descriptions of possible methods of estimating current market prices. Additional guidance on the valuation of specific types of assets and liabilities is included in the relevant parts of the section that describes the classification of assets and liabilities. Because the valuation of liabilities is the same as the valuation of the corresponding financial assets, in most cases the remainder of this chapter will refer only to financial assets, but such references should be read as including liabilities equally.

7.25 If assets of the same kind are still being produced and sold on the market, an existing asset may be valued at the current market price of a newly produced asset adjusted for consumption of fixed capital in the case of fixed assets, and any other differences between the existing asset and a newly produced asset. The allowance for consumption of fixed capital should be calculated on the basis of the prices prevailing at the time the balance sheet is drawn up rather than the actual amounts previously recorded as an expense.

7.26 Information from markets may also be used to price assets that are not being traded currently but are similar to assets that are traded. For example:

- It may be possible to use information on securities that are traded on a stock exchange to value similar securities by analogy, making an allowance for the inferior marketability of the nontraded securities.

- Appraisals of tangible assets for insurance or other purposes generally are based on observed prices for items that are close substitutes. These appraisals may be usable for balance sheet valuations.

- If an existing fixed asset is no longer being produced but has been replaced by an asset whose characteristics are significantly different in some specific aspects but otherwise are broadly similar (for example, new models of vehicles or aircraft), then it may be reasonable to assume that the price of the existing asset would have moved in the same way as the price of the asset currently being sold.

7.27 It may be possible to value assets at their initial acquisition costs plus an appropriate revaluation for subsequent price changes and minus an allowance for consumption of fixed capital, amortization, or depletion.

- Most fixed assets are recorded in the balance sheet at their "written-down replacement cost." This value is the original acquisition value of the asset adjusted by an allowance for price changes and then written down for the accumulated consumption of fixed capital.

- Nonproduced intangible assets, such as patented entities, are typically valued at their initial acquisition costs (appropriately revalued) less an allowance

[4]In the *1993 SNA*, naturally occurring assets are referred to as tangible nonproduced assets. With the inclusion of the electromagnetic spectrum in this category, naturally occurring assets is a more accurate title. Constructs of society are referred to as intangible nonproduced assets in the *1993 SNA* and elsewhere in this manual.

for amortization. For this method, a pattern of decline must be chosen, which may be based on tax laws and accounting conventions.

- It may be possible to value subsoil assets at their initial acquisition costs (appropriately revalued) less an allowance for depletion.

7.28 The perpetual inventory method is commonly used to estimate the written-down replacement cost of a category of assets, especially tangible fixed assets. With this method, the value of the stock is based on estimates of acquisitions and disposals that have been accumulated (after deduction of the accumulated consumption of fixed capital, amortization, or depletion) and revalued over a long enough period to cover the acquisition of all assets in the category.

7.29 In other cases, market prices may be approximated by the present value of the future economic benefits expected from a given asset. This method may be feasible for a number of financial assets, naturally occurring assets, and intangible assets. For example, timber and subsoil assets are assets whose benefits are normally received well in the future and/or spread over several years. Current prices can be used to estimate the gross return from the disposition of these assets and the costs of bringing them to market. These returns and costs can then be discounted to estimate the present value of the expected benefits.

7.30 The value of assets and liabilities denominated in foreign currencies should be converted into the national currency at the market exchange rate prevailing on the date to which the balance sheet relates. The rate used should be the midpoint between the buying and selling spot rates for currency transactions. When a multiple exchange rate system is in operation, the valuation should be based on the rate applicable to the type of asset in question.

D. Classification of assets and liabilities

1. Nonfinancial assets (61)[5]

7.31 Nonfinancial assets were defined in paragraph 7.19 as all economic assets other than financial assets. At the first level of classification, there are four categories of nonfinancial assets. The first three categories are produced assets—***fixed assets*** **(611)**, ***inventories*** **(612)**, and ***valuables*** **(613)**—and the fourth consists of all ***nonproduced assets*** **(614)**. The complete classification of nonfinancial assets is shown in Table 7.2.

Table 7.2: Classification of Nonfinancial Assets

61	**Nonfinancial assets**
611	**Fixed assets**
6111	Buildings and structures
61111	Dwellings
61112	Nonresidential buildings
61113	Other structures
6112	Machinery and equipment
61121	Transport equipment
61122	Other machinery and equipment
6113	Other fixed assets
61131	Cultivated assets
61132	Intangible fixed assets
612	**Inventories**
6121	Strategic stocks
6122	Other inventories
61221	Materials and supplies
61222	Work in progress
61223	Finished goods
61224	Goods for resale [GFS]
613	**Valuables**
614	**Nonproduced assets**
6141	Land
6142	Subsoil assets
6143	Other naturally occurring assets
6144	Intangible nonproduced assets

a. Fixed assets (611)

7.32 Fixed assets are produced assets that are used repeatedly or continuously in production processes for more than one year. The distinguishing feature of a fixed asset is not that it is durable in some physical sense, but that it may be used repeatedly or continuously in production over a long period of time. Some goods, such as coal used as fuel, may be highly durable physically but cannot be fixed assets because they can be used only once. Fixed assets are further classified as ***buildings and structures*** **(6111)**, ***machinery and equipment*** **(6112)**, and ***other fixed assets*** **(6113)**.

7.33 In general, fixed assets are most effectively valued when the current written-down replacement cost is used as a proxy for the current market value. In the remainder of this section, it is noted when a particular type of fixed asset is likely to be more accurately valued by another method.

7.34 The production of some fixed assets, primarily buildings and structures, may span two or more

[5]The numbers in parentheses after each classification category are the GFS classification codes. Appendix 4 provides all classification codes used in the GFS system.

accounting periods. Uncompleted structures that are being acquired through progress payments required under a contract of sale are classified as fixed assets on the purchaser's balance sheet rather than as a financial asset for any progress payments made. Similarly, fixed assets being constructed on own account are treated as fixed assets rather than work-in-progress inventories.

7.35 Fixed assets acquired under a financial lease, most likely machinery and equipment, are treated as if purchased and owned by the user or lessee rather than the legal owner, the lessor. The acquisition is treated as being financed by a financial claim, classified as a loan. For example, if a bank purchases a railway car and then leases it to the national railroad, then the railway car is recorded as an asset of the railroad and a loan is recorded as a liability of the railroad and an asset of the bank.

7.36 Weapons (for example, missiles, rockets, and bombs) are not treated as fixed assets because they are single-use goods rather than goods used repeatedly or continuously in production. By extension, vehicles, other equipment, and structures whose function is to release such weapons (for example, warships, submarines, military aircraft, tanks, and missile carriers and silos) also are not treated as fixed assets. On the other hand, structures and equipment possessed by the military that are used in much the same way as similar items are used by civilian producers, such as military airfields, docks, colleges, hospitals, and office machinery, are treated as fixed assets. All light weapons and armored vehicles used by nonmilitary organizations engaged in internal security or policing activities are classified as fixed assets notwithstanding the fact that such items are not assets when owned by the armed forces.

(i) Buildings and structures (6111)

7.37 Buildings and structures consist of ***dwellings* (61111)**, ***nonresidential buildings* (61112)**, and ***other structures* (61113)**. The value of buildings and structures includes the costs of site clearance and preparation and the value of all fixtures, facilities, and equipment that are integral parts of the structures.

7.38 Some structures are major improvements to land, such as dikes, ditches, and sea walls constructed for flood control, drainage, or land reclamation. These assets are constructed to obtain more or better land and are not used directly to produce other goods and services. Their value is included with the value of the land.

7.39 Buildings and structures that are also historic monuments are included within the appropriate category of buildings and structures. Historic monuments are structures or sites of special archaeological, historic, or cultural significance. They are usually accessible to the general public, and visitors are often charged for admission to the monuments or their vicinity. General government units typically use historic monuments to produce cultural or entertainment-type services. They can be valued directly, however, only when their significance has been recognized by someone other than the owner, typically by a sale or a formal appraisal. Historic monuments should be valued at the most recent sale price, updated, if need be, by a general price index. If no sale price is available, then an alternative valuation, such as an insurance appraisal, should be used.

Dwellings (61111)

7.40 Dwellings are buildings that are used entirely or primarily as residences, including garages and other associated structures. Houseboats, barges, mobile homes, and caravans that are used as principal residences are also included. Dwellings acquired for military personnel are included because they are used in the same way as dwellings acquired by civilians. Because dwellings are traded in the normal course of events, prices observed in the real estate market may supplement or replace the valuation at written-down replacement cost.

Nonresidential buildings (61112)

7.41 Nonresidential buildings are all buildings other than dwellings. Examples of types of buildings included in this category are office buildings, schools, hospitals, buildings for public entertainment, warehouse and industrial buildings, commercial buildings, hotels, and restaurants. Buildings and structures acquired for military purposes are included to the extent that they are similar to civilian buildings acquired for purposes of production and can be used in the same way.

Other structures (61113)

7.42 This category consists of all structures other than buildings. Included are the following:

- Highways, streets, roads, bridges, elevated highways, tunnels, railways, subways, and airfield runways.

- Sewers, waterways, harbors, dams, and other waterworks.

- Shafts, tunnels, and other structures associated with mining subsoil assets.

- Communication lines, power lines, and pipelines.

- Outdoor sport and recreation facilities.

7.43 Structures acquired for military purposes are included to the extent that they resemble civilian structures and can be used in the same way.

(ii) Machinery and equipment (6112)

7.44 Machinery and equipment is divided into ***transport equipment*** **(61121)** and ***other machinery and equipment*** **(61122)**. Machinery and equipment forming an integral part of a building or other structure is included in the value of the building or structure rather than in machinery and equipment. Tools that are inexpensive and purchased at a relatively steady rate, such as hand tools, are not considered fixed assets unless they form a large share of the stock of machinery and equipment.

Transport equipment (61121)

7.45 Transport equipment consists of equipment for moving people and objects, including motor vehicles, trailers and semitrailers, ships, railway locomotives and rolling stock, aircraft, motorcycles, and bicycles. Markets for existing automobiles, aircraft, and some other types of transportation equipment may be sufficiently representative to yield price observations that are superior to valuations at written-down replacement cost.

Other machinery and equipment (61122)

7.46 This category consists of all machinery and equipment other than transport equipment. Types of assets that would be included are general- and special-purpose machinery; office, accounting, and computing equipment; electrical machinery; radio, television, and communication equipment; medical appliances; precision and optical instruments; furniture; watches, and clocks; musical instruments; and sports goods. It also includes paintings, sculptures, other works of art or antiques, and other collections of considerable value that are owned and displayed by government museums and similar organizations for the purpose of producing nonmarket services, mostly collective services. Items of this nature not intended for use in production would be classified as valuables.

(iii) Other fixed assets (6113)

7.47 Other fixed assets consist of ***cultivated assets*** **(61131)** and ***intangible fixed assets*** **(61132)**.

Cultivated assets (61131)

7.48 Cultivated assets consist of animals and plants that are used repeatedly or continuously for more than one year to produce other goods or services. The types of animals included in this category include breeding stocks (including fish and poultry), dairy cattle, draft animals, sheep or other animals used for wool production, and animals used for transportation, racing, or entertainment. The types of plants in this category include trees, vines, and shrubs cultivated for fruits, nuts, sap, resin, bark, and leaf products. Animals and plants for one-time use, such as cattle raised for slaughter and trees grown for timber, are classified as inventories rather than fixed assets.

7.49 Only animals and plants cultivated under the direct control, responsibility, and management of general government units are cultivated assets or inventories. All other animals and plants either are classified as nonproduced assets or are not economic assets.

7.50 Animals in this category usually can be valued on the basis of the current market prices for similar animals of a given age. Such information is less likely to be available for plants; more likely they will have to be valued at the written-down replacement cost.

Intangible fixed assets (61132)

7.51 Intangible fixed assets consist of mineral exploration; computer software; entertainment, literary, and artistic originals; and miscellaneous other intangible fixed assets. To qualify as a fixed asset, the item must be intended for use in production for more than one year and its use must be restricted to the units that have established ownership rights over it or to units licensed by the owner. Outlays on research and development, staff training, market research, and similar activities are not treated as intangible fixed assets even though some of them may bring future benefits. These outlays are treated as expense.

7.52 Mineral exploration is undertaken to discover new deposits of petroleum, natural gas, and other subsoil assets that may be exploited commercially. The information obtained from exploration influences the production activities of those who obtain it over a number of years.

7.53 The value of the resulting asset is measured by the value of the resources allocated to exploration because it is not possible to value the information obtained. In addition to the costs of actual test drilling and boring, mineral exploration includes any prelicense, license, acquisition, and appraisal costs, the costs of aerial and other surveys, and transportation and other costs incurred to make the exploration possible. Exploration undertaken in the past whose value has not yet been fully written off should be revalued at the prices and costs of the current period.

7.54 Computer software includes computer programs, program descriptions, and supporting materials for both systems and applications software that are expected to be used for more than one year. The software may be purchased from other units or developed on own account. Large expenditures on the purchase, development, or extension of computer databases that are expected to be used in production for more than one year are also included.

7.55 The value of computer software should be based on the amount paid for the software if acquired from another unit or on the costs of production when produced on own account. Software acquired in previous years and not yet fully written off should be revalued at current prices or costs.

7.56 Entertainment, literary, and artistic originals are original films, sound recordings, manuscripts, tapes, and models in which drama performances, radio and television programming, musical performances, sporting events, and literary and artistic output are recorded or embodied. They should be valued at their current market price when they are actually traded. Otherwise, they should be valued either on the basis of their acquisition price or costs of production, appropriately revalued at the prices of the current period and written down; or on the basis of the net present value of the expected future receipts.

7.57 Other intangible fixed assets consist of new information and specialized knowledge not elsewhere classified, the use of which is restricted to the units that have established ownership rights over the information or to other units licensed by the owners. The assets should be valued at their current written-down cost of production or the present value of expected future receipts.

b. Inventories (612)

7.58 Inventories are goods and services held by producers for sale, use in production, or other use at a later date. Inventories are classified as ***strategic stocks* (6121)** and ***other inventories* (6122)**. Inventories should be valued at their current market prices on the balance sheet date rather than their acquisition prices. In principle, current market prices should be available for most types of inventories, but in practice the values of inventories frequently are estimated by adjusting book or acquisition values of inventories with the aid of price indexes.

(i) Strategic stocks (6121)

7.59 Strategic stocks include goods held for strategic and emergency purposes, goods held by market regulatory organizations, and commodities of special importance to the nation, such as grain and petroleum. This category is not in the *1993 SNA*, which treats strategic stocks as goods for resale (61224). Such stocks may be quite large for some governments and represent important components of government policies.

(ii) Other inventories (6122)

7.60 Other inventories consist of ***materials and supplies* (61221)**, ***work in progress* (61222)**, ***finished goods* (61223)**, and ***goods for resale* (61224)**.

Materials and supplies (61221)

7.61 Materials and supplies consist of all goods held with the intention of using them as inputs to a production process. General government units may hold a variety of goods as materials and supplies, including office supplies, fuels, and foodstuffs. Every general government unit may be expected to hold some materials and supplies, if only office supplies. Materials and supplies often can be valued on the basis of the current market prices for the same goods.

Work in progress (61222)

7.62 Work in progress consists of goods and services that have been partially processed, fabricated, or assembled by the producer but that are not usually sold, shipped, or turned over to others without further processing and whose production will be continued in a subsequent period by the same producer.[6] General government units that primarily produce nonmarket services are likely to have little or no work in progress as the production of most such services is completed in a short time span or continuously.

7.63 Work-in-progress inventories are valued on the basis of the current price of the production costs incurred as of the balance sheet date. The value of standing timber and other cultivated crops may be estimated by discounting the future proceeds of selling the final product at current prices and the expenses of bringing the product to maturity.

Finished goods (61223)

7.64 Finished goods consist of goods that are the output of a production process, are still held by their producer, and are not expected to be processed further by the producer before being supplied to other units. General government units will have finished goods only if they produce goods for sale or transfer to other units. Inventories of finished goods are valued at their current sales value.

Goods for resale [GFS][7] (61224)

7.65 Goods for resale are goods acquired for the purpose of reselling or transferring to other units without being further processed.[8] Goods for resale may be transported, stored, graded, sorted, washed, or packaged by their owners to present them for resale in ways that are attractive to their customers, but they are not otherwise transformed. Any general government unit that sells goods for economically significant prices, such as a museum gift shop, is likely to possess an inventory of goods for resale. This category also includes goods purchased by general government units for provision free of charge or at prices that are not economically significant to other units. Inventories of goods intended for resale are valued at their current replacement prices.

[6]As noted in paragraphs 7.34 and 7.48, uncompleted fixed assets, including immature animals and plants that will be used repeatedly or continuously for more than one year to produce other goods and services, that are being produced on own account are treated as fixed assets rather than work in progress. Immature animals and plants being raised for one-time use, such as livestock raised for slaughter and trees grown for timber, are work in progress.

[7][GFS] indicates that this item has the same name but different coverage in the *1993 SNA*.

[8]Strategic stocks are included in this category in the *1993 SNA* but are separately classified in the GFS system.

c. Valuables (613)

7.66 Valuables are produced goods of considerable value acquired and held primarily as stores of value and not used primarily for purposes of production or consumption. They are expected to appreciate, or at least not to decline, in real value, and they do not deteriorate over time under normal conditions.

7.67 Valuables consist of

- Precious stones and metals such as diamonds, nonmonetary gold, platinum, and silver that are not intended to be used as intermediate inputs into processes of production.
- Paintings, sculptures, and other objects recognized as works of art or antiques.
- Jewelry of significant value fashioned out of precious stones and metals, collections, and miscellaneous other valuables.

  Most items fitting the description of a valuable that are owned by general government units will be classified as other machinery and equipment (61122) because they are used primarily in museums to produce services for the public rather than held as stores of value.

7.68 To the extent that there are well-organized markets for valuables, they can be valued at current market prices, including any agents' fees or commissions. Otherwise the amounts for which they are insured against fire, theft, and other risks may be appropriate.

d. Nonproduced assets (614)

7.69 Nonproduced assets consist of tangible, naturally occurring assets over which ownership rights are enforced, and ***intangible nonproduced assets*** **(6144)** that are constructs of society. Naturally occurring assets include ***land*** **(6141)**, ***subsoil assets*** **(6142)**, ***other naturally occurring assets*** **(6143)**. If ownership rights have not or cannot be enforced over naturally occurring entities, then they are not economic assets.

(i) Land (6141)

7.70 Land is the ground itself, including the soil covering, associated surface water, and major improvements that cannot be physically separated from the land, but excluding the following:

- Buildings and other structures constructed on the land or through it, such as roads, office buildings, and tunnels.
- Cultivated vineyards, orchards, and other plantations of trees, animals, and crops.
- Subsoil assets.
- Noncultivated biological resources.
- Water resources below the ground.

  The associated surface water includes any reservoirs, lakes, rivers, and other inland waters over which ownership rights can be exercised and which can, therefore, be the subject of transactions between units.

7.71 The value of major improvements that cannot be physically separated from the land is included in the value of the land. Such improvements either increase the quantity, quality, or productivity of land or prevent its deterioration. Examples of major improvements are land reclaimed from the sea by the construction of dikes, sea walls, or dams; forests cleared to enable land to be used in production for the first time; drained marshes; and breakwaters, sea walls, or other barriers constructed to prevent floods. The value of major improvements is normally determined by their written-down replacement costs.

7.72 The value of land can vary enormously depending on its location and the uses for which it is suitable or sanctioned. As a result, these factors must be taken into account when the current market price for the land is determined. In a number of instances, it may be difficult or impractical to separate the value of land from the value of structures erected on the land. One valuation method is to calculate general ratios of the value of land to the value of structures from appraisals. A second method is to deduct the current written-down replacement cost of a structure from the combined market value of the land and structure.

(ii) Subsoil assets (6142)

7.73 Subsoil assets are proven reserves of oil, natural gas, coal (including anthracite, bituminous, and brown coal), metallic mineral reserves (including ferrous, nonferrous, and precious metal ores), and nonmetallic mineral reserves (including stone quarries, clay and sand pits, chemical and fertilizer mineral deposits, and deposits of salt, quartz, gypsum, natural gem stones, asphalt, bitumen, and peat). Mine shafts, wells, and other subsoil extraction facilities are fixed assets (611) rather than subsoil assets.

7.74 The deposits may be located on or below the earth's surface, including deposits under the sea, but they must be economically exploitable. The value of the reserves is usually estimated as the present value of the expected net returns resulting from their commercial exploitation, but if the ownership of subsoil assets changes frequently on markets, then it may be possible to obtain appropriate prices.

(iii) Other naturally occurring assets (6143)

7.75 Other naturally occurring assets include noncultivated biological resources, water resources, and the electromagnetic spectrum. Noncultivated biological resources are animals and plants that are subject to ownership rights that are enforced but whose natural growth and/or regeneration is not under the direct control, responsibility, and management of any unit. Examples are virgin forests and fisheries that are commercially exploitable. Only those resources that have economic value that is not included in the value of the associated land are included. As observed prices are not likely to be available, such assets are usually valued at the net present value of expected future returns.

7.76 Water resources are aquifers and other groundwater resources that are sufficiently scarce to warrant enforcement of ownership and/or use rights, that are exploitable for economic purposes or are likely to be exploitable soon, and that have economic value that is not included in the value of the associated land. As observed prices are not likely to be available, such assets are usually valued at the net present value of expected future returns.

7.77 The electromagnetic spectrum consists of the range of radio frequencies used in the transmission of sound, data, and television. The value of the spectrum is usually determined as the net present value of expected future returns. If a long-term contract to use the spectrum has been let, it can be used as a basis for estimating the total value of the asset.[9]

(iv) Intangible nonproduced assets (6144)

7.78 Intangible nonproduced assets are constructs of society evidenced by legal or accounting actions. Some entitle their owners to engage in certain specific

[9]The treatment and valuation of the electromagnetic spectrum when a long-term contract for its use has been let was a topic still under discussion at the time of publication of this manual.

Table 7.3: Classification of Financial Assets and Liabilities

62	**Financial assets**	**63**	**Liabilities**
621	**Domestic**	**631**	**Domestic**
6212	Currency and deposits	6312	Currency and deposits
6213	Securities other than shares	6313	Securities other than shares
6214	Loans	6314	Loans
6215	Shares and other equity	6315	Shares and other equity (public corporations only)
6216	Insurance technical reserves	6316	Insurance technical reserves [GFS]
6217	Financial derivatives	6317	Financial derivatives
6218	Other accounts receivable	6318	Other accounts payable
622	**Foreign**	**632**	**Foreign**
6222	Currency and deposits	6322	Currency and deposits
6223	Securities other than shares	6323	Securities other than shares
6224	Loans	6324	Loans
6225	Shares and other equity	6325	Shares and other equity (public corporations only)
6226	Insurance technical reserves	6326	Insurance technical reserves [GFS]
6227	Financial derivatives	6327	Financial derivatives
6228	Other accounts receivable	6328	Other accounts payable
623	**Monetary gold and SDRs**		

activities or to produce certain specific goods or services and to exclude other units from doing so except with the permission of the owner. The owners of the assets may be able to earn monopoly profits by restricting the use of the assets to themselves. Intangible nonproduced assets include patented entities, leases and other contracts, and purchased goodwill. Whenever possible, intangible assets should be valued at current prices when they are actually traded on markets. Otherwise, it may be necessary to use estimates of the net present value of expected future returns.

7.79 Patents provide protection, by law or by judicial decision, for inventions. Examples of inventions that can be protected include constitutions of matter, processes, mechanisms, electrical and electronic circuits and devices, pharmaceutical formulations, and new varieties of living things produced by artifice.

7.80 Leases and other contracts that might be classified as economic assets include leases of land, buildings, and other structures; concessions or exclusive rights to exploit mineral deposits or the electromagnetic spectrum; contracts with athletes and authors; and options to buy tangible assets not yet produced. The criteria for determining which leases or other contracts are economic assets was a topic still under discussion at the time of publication of this manual.

7.81 Purchased goodwill is the difference between the value paid for an enterprise as a going concern and the sum of its assets less the sum of its liabilities. The value of goodwill, therefore, includes anything of long-term benefit to the business that has not been separately identified as an asset, as well as the value of the fact that the group of assets is used jointly and is not simply a collection of separable assets. Purchased goodwill should be valued at its acquisition cost less accumulated amortization, appropriately revalued.

2. Financial assets (62) and liabilities (63)

7.82 Financial assets and liabilities were defined in paragraphs 7.12 and 7.14. The classifications of financial assets and liabilities are based primarily on the liquidity and legal characteristics of the instruments that describe the underlying creditor-debtor relationships.[10] The liquidity of a financial instrument embraces characteristics such as negotiability, transferability, marketability, and convertibility.

7.83 In addition to classifying financial assets and liabilities by the characteristics of the financial instrument, they are also classified according to the residence of the other party to the instrument (the debtors for financial assets and the creditors for liabilities). Residency is defined in paragraph 2.71 of Chapter 2. The classifications of financial assets and liabilities are shown in Table 7.3.

7.84 Because a given financial instrument is common to a financial asset and a liability, the same descriptions of instruments can be used for both. For simplicity, the descriptions will refer only to financial assets unless there is a specific need to refer to liabilities.

[10] There is no underlying creditor-debtor relationship for monetary gold and SDRs.

7.85 In principle, all financial claims should be valued at their current market price. That value, however, may differ from a claim's nominal value.[11] Because the debtor can extinguish the claim on the date of the balance sheet by buying back the security at its current market price, it is that price that is relevant for the balance sheet. The current market price excludes any service charges, fees, commissions, and similar payments for services that would be necessary to acquire the asset or incur the liability.

7.86 Some financial assets and liabilities, most typically deposits, securities other than shares, loans, and accounts payable/receivable, require the debtor to pay interest. The interest accrues continuously and increases the total amount that the debtor will be required to pay. This manual recommends that accrued but unpaid interest be added to the principal of the underlying instrument. That is, as interest accrues on a government bond, the principal of the bond would increase. It is recognized, however, that interest accruing on deposits and loans may have to follow national practices and be classified under accounts payable.

7.87 The definition of the overall balance in Box 4.1 of Chapter 4 includes a provision for treating financial assets acquired by government units in support of their fiscal policies differently than financial assets acquired for liquidity management. The distinction between these two types of financial assets would be required to compute the overall balance but is not included in the classification of financial assets because it rests on the judgment of the analyst and the particular purpose for employing the overall balance.

7.88 Some fiscal policies that may lead to the ownership of financial claims include fostering new industries, assisting ailing government corporations, or helping particular businesses that are suffering economic adversity. For example, a government unit may provide loans at subsidized rates to a particular economic sector, acquire shares in a corporation active in an area that the government wishes to promote, or sell shares in a public corporation for less than their market value.

7.89 Liquidity management, on the other hand, refers to actions taken to ensure the availability of financial assets to fulfill requirements for short-term funds and to ensure that such funds earn the best available rate of return. Prudent financial management requires that government units acquire and dispose of financial assets in the process of financing government operations. The motive underlying these transactions is the effective management of finances.

7.90 Some factors that should be considered when identifying policy-related financial assets are as follows:

- Nonnegotiable financial assets usually are policy related.[12]
- A government statement about the acquisition of a financial asset may indicate the purpose.
- Noncommercial terms favoring the borrower generally indicate a policy-motivated purpose, such as concessional interest rates on loans or arrangements for repayment that do not meet normal commercial standards.
- Financial assets acquired for a policy purpose typically involve shares and other equity, securities other than shares, or loans, especially when the issuer of the instrument is a public corporation. In addition, negotiable financial claims issued by a lower level of government and held by a higher level of government are often acquired for a policy purpose.
- Assets acquired as a result of government units acting as guarantors are likely to be policy related.
- Assets acquired through nationalization are policy related.
- Holdings of monetary gold, SDRs, currency, and insurance technical reserves are always liquidity related. Deposits may be acquired for policy or liquidity purposes.

7.91 In addition to identifying financial assets issued by public corporations in order to compute the overall balance, a classification of financial assets and liabilities according to whether the other party to the instrument is a public corporation would be necessary to compile consolidated statistics for the public sector. This distinction is also not a part of the GFS classification system, but it should be part of the underlying accounting records.

[11] Nominal value is defined in footnote 8 of Chapter 3.

[12] A negotiable financial instrument is one whose legal ownership is capable of being transferred from one unit to another unit by delivery or endorsement.

a. Monetary gold and SDRs (623)

7.92 Monetary gold consists of gold coins, ingots, and bars with a purity of at least 995/1000 that are

- Owned by units that undertake monetary authority functions and
- A component of the nation's official reserve assets The monetary authority will normally be the central bank, but it is possible for a unit of the general government sector to undertake some functions of the monetary authority.[13]

7.93 Monetary gold is a financial asset for which there is no corresponding liability on the part of another unit. It is valued at the current price established in organized markets or in bilateral arrangements between monetary authorities.

7.94 Any gold held by a government unit that does not satisfy the definition of monetary gold is treated as a nonfinancial asset, either a type of *inventory* (612) or a *valuable* (613). Deposits, loans, and securities denominated in gold are treated as deposits, loans, and securities and not as monetary gold. A gold swap is treated as a loan.

7.95 SDRs are international reserve assets created by the IMF and allocated to its members to supplement existing reserve assets. SDRs are held only by the monetary authorities of IMF member countries and a limited number of authorized international financial institutions. An SDR is a financial asset for which there is no corresponding liability, and the members to whom they have been allocated do not have an unconditional liability to repay their SDR allocations. A general government unit will hold SDRs only when it acts as the monetary authority.

7.96 An SDR represents an unconditional right to obtain foreign exchange or other reserve assets from other IMF members. They can be sold, loaned, or used to settle financial obligations. The value of the SDR is determined by the IMF as a weighted average of selected major currencies. Both the currencies and the weights are revised from time to time.

[13]Gold held by other units that is subject to the effective control of the central bank or the general government sector acting as the monetary authority is also treated as monetary gold.

b. Currency and deposits (6212, 6222, 6312, 6322)

7.97 Currency consists of the notes and coins in circulation that are commonly used to make payments. They are issued either by the central bank or government units and are a liability of the units that issue them. Domestic currency has a fixed nominal value. Any currency that is an asset and a liability of the same unit or sector should be eliminated in accordance with the principle of consolidation described in Chapter 3. Unissued currency held by a government unit is not treated as an asset. Gold and commemorative coins that are not in circulation as legal tender are classified as nonfinancial assets rather than currency.

7.98 The value of foreign-denominated currency is converted to the domestic currency at the exchange rate valid on the date to which the balance sheet relates. Depending on the amount of foreign currency owned, it may be useful to subclassify the total amount of currency held according to whether it is denominated in the domestic currency or a foreign currency.

7.99 Deposits also are financial assets that have fixed nominal values and are used to make payments. They are stores of value and, depending on the type of deposit, may be a direct medium of exchange and may earn interest or entitle the deposit holder to specific services. The value of a domestic deposit is its nominal value, which is the amount that the debtor is contractually obliged to repay to the creditor when the deposit is liquidated.

7.100 Most government units can be expected to hold a variety of deposits as assets, including deposits in foreign currencies. It is also possible for a government unit to incur liabilities in the form of deposits. For example, a court or tax authority may hold a security deposit pending resolution of a dispute. It may be useful to subclassify deposits according to whether they are denominated in the domestic currency or a foreign currency.

7.101 Deposits can be transferable or nontransferable. Transferable deposits comprise all deposits that are (a) exchangeable, without penalty or restriction, on demand at par and (b) directly usable for making third-party payments by check, draft, giro order, direct debit/credit, or other direct payment facility. Included are shares of money market mutual funds that offer unrestricted check-writing privileges.

7.102 Some types of deposit accounts embody limited features of transferability. For example, some deposits have restrictions on the number of third-party payments that can be made per period and/or the minimum size of individual third-party payments. Judgment must be applied in deciding whether deposits with less-than-full transferability features should be classified as transferable or nontransferable deposits.[14]

7.103 Nontransferable deposits include all other financial claims represented by evidence of deposit, including the following:

- Sight deposits that permit immediate cash withdrawals but not direct third-party transfers.
- Savings and fixed-term deposits, including nonnegotiable certificates of deposit. Negotiable certificates of deposit are classified as securities other than shares.
- Financial corporations' liabilities in the form of shares or similar evidence of deposit that are, legally or in practice, redeemable immediately or at relatively short notice.
- Shares of money market mutual funds whose restrictions on transferability, such as the number of checks that may be written per period or the minimum amount per check, prevent them from being classified as transferable deposits.
- Repurchase agreements that are included in the national measures of broad money.[15]
- Deposits that are required of importers in advance of importation.
- Transferable deposits that have been posted to depositors' accounts but cannot be drawn upon until the deposited items, such as checks or drafts, have been collected by the depository corporations that accepted them.
- Compulsory savings deposits arising from an official requirement that a share of a worker's earnings be placed in a deposit account that can be accessed only after a specified period or from which withdrawals may be made only for specified purposes.
- Foreign currency deposits that are blocked because of the rationing of foreign exchange as a matter of national policy.
- Deposits in financial corporations that are closed pending liquidation or reorganization.
- Claims on the IMF that are components of international reserves and are not evidenced by loans.

c. Securities other than shares (6213, 6223, 6313, 6323)

7.104 Securities other than shares are negotiable financial instruments serving as evidence that units have obligations to settle by means of providing cash, a financial instrument, or some other item of economic value. The security normally specifies a schedule for interest payments and principal repayments. Examples of securities other than shares are

- Bills.
- Bonds and debentures, including bonds that are convertible into shares.
- Commercial paper.
- Negotiable certificates of deposit.
- Tradable depository receipts.
- Notes issued through revolving underwriting facilities and note-issuance facilities.
- Securitized mortgage loans and credit card receivables.
- Loans that have become marketable de facto.
- Preferred stocks or shares that pay a fixed income but do not provide for participation in the distribution of the residual value of a corporation on dissolution.
- Bankers' acceptances.

7.105 Bills, negotiable certificates of deposit, banker's acceptances, and commercial paper are short-term securities that give the holder the unconditional right to receive a stated fixed sum on a specified date. They are issued and traded at discounts relative to the stated fixed sum by amounts that depend on the rate of interest and the time to maturity. If market values of these securities are not available, then they should be valued

[14] The decisions made for the GFS system should be coordinated with the decisions made for the national accounts and for monetary and financial statistics.
[15] Other repurchase agreements are classified as loans.

at the issue price plus accrued interest, where the amount of interest is determined by the interest rate implicit in the original issue price.

7.106 Bonds and debentures are long-term securities that give owners the unconditional right to fixed money incomes or contractually determined variable money incomes, normally referred to as interest. Most bonds and debentures also give owners the unconditional right to a fixed sum or sums as repayment of principal on a specified date or dates. Perpetual bonds, however, have no maturity date.

7.107 Zero-coupon bonds are long-term securities that do not involve periodic payments during the life of the bond. Similar to short-term securities, the bonds are sold at a discount and a single payment that includes accrued interest is made at maturity. Deep-discount bonds are long-term securities that require periodic payments during the life of the instrument, but the amount is substantially below the market rate of interest.

7.108 If market values of long-term securities are not available, they should be valued at the issue price plus accrued but unpaid interest. It is important that deep-discount and zero-coupon bonds should not be valued at their face value.

7.109 Some corporate bonds are convertible into shares of the same corporation at the option of the bondholder. If the conversion option is traded separately, then it is treated as a separate asset, classified as a financial derivative (6217).

d. Loans (6214, 6224, 6314, 6324)

7.110 A loan is a financial instrument that is created when a creditor lends funds directly to a debtor and receives a nonnegotiable document as evidence of the asset.[16] This category includes mortgage loans, installment loans, hire-purchase credit, loans to finance trade credit and advances, repurchase agreements, financial assets and liabilities implicitly created by financial leases, and claims on or liabilities to the IMF in the form of loans. Ordinary trade credit and similar accounts receivable/payable are not loans.

7.111 Normally it will be necessary to value loans at nominal prices because they are not traded regularly on markets. Loans that have become marketable in secondary markets should be reclassified under securities other than shares and should be valued on the basis of market prices or fair values in the same manner as other types of securities other than shares.

7.112 When goods are acquired under a financial lease, a change of ownership from the lessor to the lessee is deemed to take place, even though legally the leased good remains the property of the lessor, because all the risks and rewards of ownership have been, de facto, transferred to the lessee. This change in ownership is deemed to have been financed by a loan, which is an asset of the lessor and a liability of the lessee.

7.113 A securities repurchase agreement (repo) is an arrangement involving the sale for cash of securities at a specified price with a commitment to repurchase the same or similar securities at a fixed price either on a specified future date (often one or a few days hence) or with an open maturity.[17] The economic nature of the transaction is that of a collateralized loan (or a deposit[18]) because the risks and rewards of ownership remain with the original owner. Thus, the funds advanced by the apparent purchaser to the apparent seller are treated as a loan and the underlying securities remain on the balance sheet of the borrower, despite the legal change in ownership.[19]

7.114 Securities lending is an arrangement whereby a security holder transfers securities to a borrower subject to the stipulation that the same or similar securities be returned on a specified date or on demand. As with a securities repurchase agreement, the risks and rewards of ownership remain with the original owner. If the borrower provides cash as collateral, then the arrangement is treated in the same way as a repo. If the borrower provides noncash collateral, then no transaction is recorded. In either case, the securities involved remain on the balance sheet of their original owners.

7.115 A gold swap is a repo in which monetary gold is exchanged for other reserve assets, usually foreign exchange deposits. Gold loans occur in the same form as securities lending and should be treated in the same way.

[16] A loan is distinguished from a deposit (6212) on the basis of the representation in the documents that evidence them.

[17] An open maturity exists when both parties agree daily to renew or terminate the agreement.

[18] Repurchase agreements that are included in the national definition of broad money should be classified as nontransferable deposits. All other securities repurchase agreements should be classified under loans.

[19] See pp. 29–33 of the *Monetary and Financial Statistics Manual* for additional details and an alternative treatment of repos. In all cases, the treatment used in the GFS system should be consistent with the treatment used in the national accounts and in monetary and financial statistics.

7.116 When securities that have been obtained in repos or securities lending are sold to third parties, a short sale results. In this case, a negative asset equal to the current market value of the security that was sold should be included on the balance sheet of the seller.

e. Shares and other equity (6215, 6225, 6315, 6325)

7.117 Shares and other equity comprise all instruments and records acknowledging, after the claims of all creditors have been met, claims on the residual value of a corporation. Most equity securities do not provide the right to a predetermined income or to a fixed sum on dissolution of the corporation.[20] Ownership of equity is usually evidenced by shares, stocks, participations, or similar documents. Shares and other equity cannot be a liability of general government units, but they can be held by these units as assets.

7.118 In addition to common shares of corporations, the following types of securities are classified as shares or other equity:

- The value of a government unit's ownership interest in a quasi-corporation.
- Partnerships and limited partnership interests.
- Preferred stocks or shares that provide for participation in the distribution of the residual value on dissolution of an incorporated enterprise.
- Mutual fund shares.

7.119 If possible, shares and other equities should be valued at their current prices on stock exchanges or other organized financial markets, including the shares of public corporations that are actively traded. The equity held by government units in public corporations with untraded shares and all quasi-corporations is equal to the total value of the corporation's or quasi-corporation's assets less the total value of its other liabilities.[21] The value of shares in private corporations that are not traded regularly are estimated using the prices of quoted shares that are comparable in earnings, dividend history, and prospects. The prices may be adjusted downward to allow for the inferior marketability or liquidity of unquoted shares.

[20]Some preferred shares provide for a predetermined property income in the form of dividends and for participation in the distribution of the residual value of the corporation when it is liquidated.

[21]If the government unit does not own all of the equity of the public corporation, then only its proportional share would be an asset.

f. Insurance technical reserves [GFS] (6216, 6226, 6316, 6326)

7.120 Insurance technical reserves consist of the net equity of households in pension funds and life insurance reserves, prepaid premiums, and reserves against outstanding claims. General government units may incur liabilities for insurance technical reserves as operators of non-life insurance schemes and nonautonomous or unfunded pension schemes, and they may hold assets as non-life insurance policyholders. It is unlikely that a general government unit would incur liabilities or hold assets with respect to life insurance. Public financial corporations, including autonomous pension funds, can engage in all types of insurance schemes, including life insurance.

7.121 The individuals covered by a retirement scheme have claims against the unit operating the scheme that are liquidated by the payment of benefits when the individuals satisfy specified criteria, usually by attaining a certain age and/or number of years of service. The nature of those claims, and the corresponding liabilities of the units operating the pension funds, depends on the type of benefits promised.

7.122 The two main types of pension schemes are defined-benefit schemes and defined-contribution schemes.[22] In a defined-benefit scheme, the level of pension benefits promised by the employer to participating employees is guaranteed and usually is determined by a formula based on participants' length of service and salary. The liability of a defined-benefit pension scheme is the present value of the promised benefits. In a defined-contribution scheme, the level of contributions to the fund by the employer is guaranteed, but the benefits that will be paid depend on the assets of the fund. The liability of a defined-contribution pension fund is the current market value of the fund's assets.

7.123 A pension fund for government employees can be managed on behalf of the government by a public or private insurance corporation or it can be organized and managed by the government as an autonomous or nonautonomous pension fund. By its nature, an unfunded scheme must be organized and managed by the employer, which may be a general government unit or a public corporation.

[22]Defined-contribution schemes are also referred to as money-purchase schemes.

7.124 A pension scheme operated by an insurance corporation or as an autonomous pension fund can have a net worth, positive or negative, if the assets of the fund exceed or fall short of the fund's liability for the retirement benefits. As with other public corporations, this net worth is owned by the employer or employers that established the fund. A nonautonomous pension fund is not a separate unit and the assets of the fund belong to the employer. The employees, however, have a claim against the employer, and the employer has a liability equal to the present value of the promised benefits.

7.125 If a public financial corporation is a life insurance enterprise, then it must retain reserves against its outstanding life insurance and annuity policies. Households have claims against the enterprise equal to the present value of the expected payments of policy benefits. Hence, the life insurance enterprise has a liability equal to the same amount.

7.126 With respect to social security schemes, no liability is recognized in the GFS system for government promises to pay retirement pensions and other benefits in the future, regardless of the level of assets in a social security fund or other segregated accounts. Liabilities for the payment of benefits that were due to be paid but have not yet been paid are classified as other accounts payable.

7.127 Prepayments of non-life insurance premiums result from the fact that most insurance premiums are paid at the start of the period covered by the insurance. Therefore, at any given time part of the insurance premiums already paid have not yet been earned by the insurance enterprise because they cover risks in the future. The value of the prepaid premiums is determined on the basis of the ratio of the risks involved in the time remaining on the contract to the risks involved for the entire contract period.[23]

7.128 Prepaid insurance premiums are assets of the policyholders and liabilities of the insurance enterprises. General government units may purchase insurance, usually non-life insurance, to manage its risks. General government units may also operate insurance schemes, such as flood insurance or deposit insurance. Thus, it is possible for a government unit to have both an asset and a liability for prepaid premiums.

[23] In the *1993 SNA*, insurance premiums are divided into two parts: a payment for services produced by the insurance enterprise and a transfer. In this manual, the entire payment is treated as a transfer.

7.129 Reserves against outstanding claims are reserves that operators of non-life insurance schemes hold in order to cover the amounts they expect to pay for claims that are not yet settled or claims that may be disputed. Claims accepted by insurance operators are accrued when the eventuality or accident that gives rise to the claim occurs. These reserves are assets of the beneficiaries who will eventually receive them as compensation for their claims and liabilities of insurance operators. The value of reserves against outstanding claims is the present value of the amounts expected to be paid out in settlement of claims, including disputed claims.

g. Financial derivatives (6217, 6227, 6317, 6327)

7.130 Financial derivatives are financial instruments that are linked to a specific financial instrument, indicator, or commodity, and through which specific financial risks can be traded in financial markets in their own right. The value of a financial derivative derives from the price of the underlying item: the reference price. The term "underlying item" may refer to indices as well as commodities and other financial variables, and the term "reference price" may relate to a commodity, a financial asset, an interest rate, an exchange rate, another derivative, a spread between two prices, an index, or a basket of prices. An observable market price or an index for the underlying item is essential for calculating the value of any financial derivative. If a financial derivative cannot be valued because a prevailing market price or index for the underlying item is not available, it cannot be regarded as a financial asset. Unlike many other financial claims, no principal amount is advanced that has to be repaid and no investment income accrues.

7.131 There are two broad classes of financial derivatives: forward-type contracts, including swaps, and option contracts. Under a forward contract, the two counterparties agree to exchange a specified quantity of an underlying item, which may be real or financial, at an agreed price on a specified date. At the inception of the contract, risk exposures of equal market value are exchanged and the contract has zero value. Some time must elapse for the market value of each party's risk to differ so that an asset is created for one party and a liability for the other. The debtor-creditor relationship may change both in magnitude and direction during the life of the forward contract.

7.132 Common forward-type contracts include interest rate swaps, forward rate agreements, foreign exchange swaps, forward foreign exchange contracts, and cross-currency interest rate swaps:

- An interest rate swap is an exchange of cash flows related to interest payments or receipts on a notional amount of principal on one currency over a period of time. The principal, however, is never exchanged.

- Forward rate agreements are arrangements in which two parties agree on an interest rate to be paid at a specified settlement date on a notional amount of principal that is never exchanged. The buyer of the forward rate agreement receives payment from the seller if the prevailing rate exceeds the agreed rate and the seller receives payment from the buyer if the prevailing rate is lower than the agreed rate.

- A foreign exchange swap is a spot sale/purchase of currencies and a simultaneous forward purchase/sale of the same currencies.

- Forward foreign exchange contracts involve two counterparties who agree to transact in foreign currencies at an agreed exchange rate in a specified amount at some agreed future date.

- Cross-currency interest rate swaps, sometimes known as currency swaps, involve an exchange of cash flows related to interest payments and an exchange of principal amounts at an agreed exchange rate at the end of the contract. There might also be an exchange of principal at the beginning of the contract.

7.133 Options are contracts that give the purchaser of the option the right, but not the obligation, to buy (a "call" option) or to sell (a "put" option) a particular financial instrument or commodity at a predetermined price within a given time span or on a given date. Options are sold or "written" on many types of underlying bases such as equities, interest rates, foreign currencies, commodities, and specified indexes. The buyer of the option pays a premium to the seller for the latter's commitment to sell or purchase the specified amount of the underlying instrument or commodity on demand of the buyer.

7.134 Warrants are a form of options. They are tradable instruments giving the holder the right to buy, under specified terms for a specified period of time, from the issuer of the warrant (usually a corporation) a certain number of shares or bonds. There are also currency warrants based on the amount of one currency required to buy another and cross-currency warrants tied to third currencies.

7.135 Margins are payments of cash or collateral that cover actual or potential obligations under financial derivative contracts. Repayable margins consist of cash or other collateral deposited to protect a counterparty against default risk, but which remain under the ownership of the unit that made the deposit. Repayable margins paid in cash are deposits rather than financial derivatives. Repayable margins made in securities or other noncash assets retain their character as securities or other assets. Nonrepayable margins reduce a liability created under a financial derivative contract.

7.136 Market prices are available for many financial derivatives because they are traded on active markets. If market values are unavailable, then other fair value methods, such as options models or discounted present values, may be used. If the current market value of an option is not available, then it may be valued at the amount of the premium paid or payable.

h. Other accounts receivable/payable (6218, 6228, 6318, 6328)

7.137 Other accounts receivable/payable consist of trade credits and advances and miscellaneous other items due to be received or paid. All such assets and liabilities should be valued at the amount the debtor is contractually obliged to pay the creditor to extinguish the obligation.

7.138 Trade credits and advances include (1) trade credit extended directly to purchasers of goods and services and (2) advances for work that is in progress or to be undertaken, such as progress payments made during construction, or for prepayments of goods and services. Such credit arises both from normal delays in receiving payment and from deliberate extensions of vendor credit to finance sales. Trade credit does not include loans, securities other than shares, or other liabilities that are issued to finance trade. If a government unit issues a promissory note or other security to consolidate the payment due on several trade credits, then the note or security is classified as a security other than shares. The value of an advance for work in progress refers only to work that is classified as inventories.[24]

7.139 Miscellaneous other accounts receivable/payable includes accrued but unpaid taxes, dividends, purchases and sales of securities, rent, wages and

[24]As described in paragraph 7.34, the value of work carried out on uncompleted structures being acquired through progress payments required under a contract of sale is classified as fixed assets on the purchaser's balance sheet.

salaries, social contributions, social benefits, and similar items. In principle, accrued but unpaid interest should be added to the principal of the underlying asset rather than included in this category. It is recognized, however, that interest accruing on deposits and loans may have to follow national practices and be classified under accounts payable. Taxes receivable and/or wages payable should be separately indicated if the amounts are substantial.

E. Net worth

7.140 Net worth is the difference between the total value of all assets and the total value of all liabilities. As noted in paragraph 7.15, shares and other equities are treated as liabilities of public corporations in the GFS system. If they are traded in the market or can otherwise be valued independently, the net worth of a public corporation is determined by including the value of its shares and other equities in the total value of its liabilities. Thus, even though a corporation is wholly owned by a government unit, it may have a net worth, which could be positive or negative. For other public corporations and for all quasi-corporations, the value of the corporation's or quasi-corporation's liability for shares and other equity is assumed to be equal to the total value of its assets less the total value of its other liabilities. As a result, the net worth of these units is zero. Net financial worth, equal to the total value of all financial assets less the total value of all liabilities, is an important component of total net worth.

F. Memorandum Items

7.141 It may be desirable to record memorandum items to provide supplemental information about items related to, but not included on, the balance sheet.

1. Debt

7.142 Debt consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future. Thus, all liabilities in the GFS system are debt except for shares and other equity and financial derivatives.

7.143 In some cases, the current market value of a debt may differ significantly from its nominal value, which is defined in footnote 8 of Chapter 3. For some analytic purposes, nominal values of debt may be preferable to current market values, and, in general, it is useful to be able to compare nominal values with current market values. It is recommended, therefore, that estimates of total debt and the most important categories of debt be presented in both values.

2. Arrears

7.144 A debt is in arrears when it has not been liquidated by its due-for-payment date. Information on debt in arrears can be useful for various types of policy analysis and solvency assessments. The total amount of debt in arrears should be indicated as a memorandum item and the classification of liabilities should be expanded to show how much of each category is in arrears whenever the amounts are significant. For example, a government unit's liability for securities other than shares owed to domestic units (item 6313 in Table 7.3) should be divided into the amount not in arrears and the amount in arrears.

3. Obligations for social security benefits

7.145 No liability is recognized in the GFS system for government promises to pay social security benefits in the future, such as retirement pensions and health care. All contributions to social security schemes are treated as transfers (revenue) and all payments of benefits are also treated as transfers (expense). The present value of social security benefits that have already been earned according to the existing laws and regulations but are payable in the future should be calculated in a manner similar to the liabilities of an employer retirement scheme and be shown as a memorandum item.

4. Contingent contracts

7.146 Contingent contracts are contracts that create a conditional financial claim on a unit. In this context, conditional means that the claim only becomes effective if a stipulated condition or conditions arise. By conferring rights or obligations that may affect future decisions, contingent arrangements produce an economic impact on the parties involved. Collectively, such contingencies may be important for financial policy and analysis. Accordingly, important contingent contracts should be recorded as a memorandum item.

7.147 Contingent contracts can represent either potential assets or liabilities. A common type of contingent liability of a general government unit is a guarantee of payment by a third party, such as when the general government unit guarantees the repayment of a loan by another borrower. Such arrangements are contingent because the guarantor is required to repay the loan only if the borrower defaults. Other examples of contingent liabilities include letters of credit, lines of credit, indemnities against unforeseen tax liabilities arising in government contracts with other units, and damages and other legal claims against the government in pending court cases. An example of a contingent asset is a pending legal case in which the government has claimed damages against another party.

7.148 Not all contingent assets or liabilities are easily quantifiable in terms of the net value of economic benefits expected to be received or paid. For example, the original nominal value of all loans guaranteed should be known, but the present value of the future payments by the government as guarantor depends on the likelihood and timing of default of each loan. Although precise recommendations cannot be specified for contingencies, a description of the nature of the various contingencies should be provided together with some indication of their possible value.

7.149 In a number of financial arrangements, such as many financial derivatives, the contract is conditional on the part of one or both parties, but the arrangement itself has value because it is tradable. Any such contracts should be recognized as financial assets and liabilities.

5. International reserves and foreign currency liquidity

7.150 A country's international reserves refer to those external assets that are readily available to and controlled by the monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes. Reserve assets consist of currency, deposits, and securities denominated in foreign currencies, monetary gold, SDRs, and the nation's reserve position in the IMF. In many countries, reserve assets will be held by the central bank, but it is possible for a government unit to hold reserve assets, especially when it acts as the monetary authority. If so, the amount and type of reserve assets held by the units covered by the balance sheet should be indicated as a memorandum item.

7.151 The usability of international reserves is affected by both actual and potential demands on them resulting from short-term foreign currency liabilities and off-balance-sheet activities of the monetary authorities. For the purpose of assessing liquidity, foreign currency assets other than international reserves may be taken into consideration. In addition, relevant assets and liabilities of all public-sector entities responsible for, or involved in, responding to currency crises should be taken into account. In practice, this coverage includes the central government except for social security funds.[25]

6. Uncapitalized military weapons and weapon-delivery systems

7.152 As described in paragraph 7.36, destructive weapons and vehicles, other equipment, and structures whose function is to release such weapons are not treated as fixed assets. Nevertheless, these items generally are held and, in some cases, used repeatedly or continuously for several years. For some analytic purposes, therefore, it may be useful to know the current market value of these items as if they had been treated as fixed assets and to report that value as a memorandum item.

G. Supplemental cross-classification of financial claims by sector of the other party to the instrument

7.153 The classifications of financial assets and liabilities in Table 7.3 focus on the type of instrument underlying the claim. For a full understanding of financial assets and liabilities of the general government sector or the public sector, it is often important to identify more detailed financial relationships. For example, it is often important to know not just what types of liabilities the general government sector has used to obtain financing but also which sectors have provided the financing. Within the general government sector, it is often necessary to analyze debtor-creditor relationships between subsectors.

7.154 Two parties are associated with all financial claims. As a result, it is possible to cross-classify the financial instruments of financial claims with the second party. This supplemental classification is presented in Table 7.4, which should be compiled separately for financial assets and liabilities. The definitions of sectors are given in Chapter 2.

[25] Guidelines for assessing a nation's foreign currency liquidity position are described in International Monetary Fund, *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template* (Washington 2001).

Table 7.4: Cross-Classification of Financial Claims and Sectors

	Currency and deposits	Securities other than shares	Loans	Shares and other equity	Insurance technical reserves	Financial derivatives	Other accounts receivable/ payable
Domestic							
Other general government units							
Central bank							
Other depository corporations							
Financial corporations not elsewhere classified							
Nonfinancial corporations							
Households and nonprofit institutions serving households							
Foreign							
International organizations							
General government							
Financial corporations other than international organizations							
Other nonresidents							

8. Transactions in Nonfinancial Assets

This chapter describes transactions in nonfinancial assets and their classification.

A. Introduction

8.1 Chapter 7 describes the balance sheet and the assets and liabilities recorded on it. As an integrated system, the GFS system also includes the flows necessary to explain all changes between the balance sheet at the end of one period and the balance sheet at the end of the next period. As described in paragraph 3.4 of Chapter 3, there are two types of flows—transactions and other economic flows—both of which can affect stocks of assets and liabilities. This chapter describes the transactions that affect holdings of nonfinancial assets. Chapter 9 describes the transactions that affect holdings of financial assets and liabilities, and Chapter 10 describes other economic flows, all of which affect assets and liabilities.

8.2 For each category of nonfinancial assets, there is an accounting identity linking successive balance sheets. It states that

> The value of a category of nonfinancial assets on the balance sheet at the beginning of an accounting period.

plus

> The total value of that category of assets acquired in transactions during the accounting period.

minus

> The total value of that category of assets disposed of in transactions during the accounting period (including consumption of fixed capital).

plus

> The net value of other economic flows that affect that category of assets.

equals

> The value of the category of assets on the balance sheet at the end of the accounting period.

This identity requires that transactions, other economic flows, and stocks be recorded consistently with regard to time of recording and valuation. The accounting rules governing these factors are described in Chapter 3.

8.3 Transactions can change stocks of nonfinancial assets in different ways and all must be accounted for. The more important types of transactions follow:

- Existing assets of all types can be acquired from other units by purchase, barter, payment in kind, or transfer. The same transaction is a disposal of an asset from the viewpoint of the other unit.

- Newly produced fixed assets, inventories, and valuables can be sold or otherwise disposed of by their producers in the same manner as existing assets, or the producers can retain them for their own use.

- Renovations, reconstructions, or enlargements that significantly increase the productive capacity or extend the service life of an existing fixed asset are treated as acquisitions of fixed assets even though physically they function as part of the existing asset. Major improvements to land are treated as acquisitions of land.

- Consumption of fixed capital is an internal transaction that records the decrease in the value of fixed assets and certain other nonfinancial assets because they have been used repeatedly or continuously in production.

- Inventories can be acquired or disposed of through internal transactions as well as transactions with other units. For example, withdrawals from the inventory of materials and supplies for use in the production of general government services and transfers of completed production from the work-in-progress inventory to the finished-goods inventory are internal transactions. Recurrent losses and spoilage of goods held in inventories are also treated as internal transactions.

8.4 All transactions that increase a unit's holdings of assets are labeled ***acquisitions***. With the exception of consumption of fixed capital, all transactions that decrease a unit's holdings of assets are labeled ***disposals***. Thus, the results of transactions in a particular category of assets can be presented either as total acquisitions and total disposals or as net acquisitions.[1]

8.5 The remainder of this chapter describes first the valuation, time of recording, consumption of fixed capital, and netting of transactions that affect nonfinancial assets and then provides details on transactions that affect specific categories of nonfinancial assets.

B. Valuation

8.6 Acquisitions of nonfinancial assets other than inventories are valued at their exchange price plus all transport and installation charges and all costs incurred in the transfer of ownership, such as fees paid to lawyers and taxes payable on the transfer. Interest and other financing charges incurred in connection with a transaction are not a cost of ownership transfer. Assets produced on own account are valued at their cost of production.[2] Sales and other disposals of existing nonfinancial assets are valued at their exchange value less any costs of ownership transfer incurred by the disposing unit.

8.7 Additions to and withdrawals from inventories are valued at the prices applicable at the time of the addition or withdrawal, which in the case of withdrawals may be quite different from their value when acquired. No costs for installation or ownership transfer are added or subtracted for transactions in inventories.

8.8 The value of a transaction expressed in a foreign currency is converted to the domestic currency using the midpoint of the buying and selling exchange rates at the time of the transaction.

8.9 General government units may acquire or dispose of nonfinancial assets on a nonmarket basis as an element of their fiscal policy, either by purchasing an asset for more than its market value or by selling an asset for less than its market value. By their nature, such transactions involve a transfer component. If the asset's market value can be determined, then the transaction should be valued at that amount and a second transaction should be recorded as an expense to account for the transfer.[3] Usually, however, there is not an active market for the assets and it is difficult to estimate a market value. In this case, the value of the acquisition or disposal should be the amount of funds exchanged.

C. Time of recording

8.10 As described in paragraph 3.41 of Chapter 3, under the accrual basis, transactions are recorded at the time economic value is created, transformed, exchanged, transferred, or extinguished. For transactions in nonfinancial assets, this time is when the ownership of the nonfinancial assets is obtained or relinquished.

8.11 The acquisition or disposal of an existing nonfinancial asset by purchase or sale is recorded according to the terms of the contract. For movable assets, this moment is usually the time when the asset is shipped from the seller to the purchaser or when the purchaser receives it. For an immovable asset, the moment is usually the time of the formal settlement of the contract. Acquisitions and disposals by barter, payment in kind, or transfer in kind are recorded when there is a change in control of the asset.

8.12 The time of recording of the acquisition of a new nonfinancial asset depends on how the asset is acquired.

- If the asset is acquired from the producing unit as a finished good, then the timing is determined in the same manner as for the purchase of an existing asset. Typically this time is not the time at which the asset was produced or the time at which it is put to use in production.

- When another unit produces a structure under a contract of sale agreed in advance and the production extends over more than one accounting period, then ownership of the structure is deemed to be transferred as work proceeds. If the contract does not specify the time of the ownership transfer, then the time of the stage or progress payments may be used.

[1] The net acquisition of inventories is referred to as "changes in inventories." Transactions in fixed assets, valuables, and nonproduced assets would be summarized as acquisitions, disposals, and consumption of fixed capital. Net acquisitions of assets can, of course, be negative.

[2] In the *1993 SNA*, assets produced on own account should be valued at their basic price, which is the amount that would be received by the producer from a purchaser minus any tax payable plus any subsidy receivable. If this price is not known, then the assets should be valued by their total costs of production plus a markup for the operating surplus. In the GFS system, it is assumed that market prices of fixed assets constructed by general government units will not be known and that the operating surplus of a general government unit is zero.

[3] The expense often will be a capital transfer to a market enterprise and classified as miscellaneous other expense. It could be a capital grant if the other unit is a general government unit.

- When production is carried out on own account, there is no formal transfer of ownership. The producing unit effectively takes possession progressively as production proceeds so that the asset is acquired as each transaction involved in its production is recorded. For example, if a government unit constructs a building using its own workforce, then each use of goods and services and work performed by employees is treated as an acquisition of a fixed asset.

8.13 Consumption of fixed capital, in principle, should be recorded continuously throughout each accounting period. In practice, it can be computed only after the end of the accounting period because it depends on the average price of the asset over the entire period.

8.14 Fixed assets acquired or disposed of by means of a financial lease are deemed to be acquired or disposed of when the lease is signed or control of the asset otherwise changes hands.

D. Consumption of fixed capital

8.15 Consumption of fixed capital is an internal transaction that reflects the fact that a general government unit used up a portion of each of its fixed assets through its productive activities during the accounting period and the value of those assets declined correspondingly. As a result, consumption of fixed capital, which is recorded as an expense, is also recorded as a transaction in nonfinancial assets. For convenience, paragraphs 6.33 to 6.38 of Chapter 6 describing this calculation are repeated in the following paragraphs.

8.16 Consumption of fixed capital is the decline during the course of an accounting period in the value of fixed assets owned and used by a general government unit as a result of physical deterioration, normal obsolescence, or normal accidental damage.[4] It is valued in the average prices of the period. Consumption of fixed capital may deviate considerably from depreciation as recorded in government financial records, which is normally calculated using the original costs of fixed assets.

[4]The concept of consumption of fixed capital is identical to the concept used in the *1993 SNA*. The coverage of consumption of fixed capital expense may differ from the amount recorded in the production account of the *1993 SNA* because of the GFS treatment of own-account capital formation. When nonfinancial assets are produced on own account, some consumption of fixed capital is recorded in the GFS system as acquisitions of fixed assets rather than expense (see paragraph 8.19). Consumption of fixed capital is described in the *1993 SNA* in paragraphs 6.179 through 6.203.

8.17 Consumption of fixed capital is a forward-looking measure because its value is based on future events rather than past events. The value of a fixed asset is the present discounted value of the stream of rentals that the owner of a fixed asset could expect if it were rented out over the remainder of its service life. The rentals, in turn, depend upon the benefits that units expect to derive from using the asset. Thus, consumption of fixed capital is the decrease in the present value of the remaining sequence of rentals, with the rentals valued at the average prices of the period. The extent of the decrease will be influenced not only by the decrease in the benefits derived from the asset, or its efficiency, during the current period, but also by the shortening of its service life and the rate at which its efficiency is expected to decline over its remaining service life. Furthermore, changes in the price of the asset must be excluded from consumption of fixed capital. Price changes are recorded as holding gains, as described in Chapter 10.

8.18 Consumption of fixed capital is estimated with respect to all tangible and intangible fixed assets, including infrastructure assets, major improvements to land, and the costs of ownership transfer incurred on the acquisition of valuables and nonproduced assets. Although some fixed assets, such as roads or railway tracks, may appear to have infinite service lives if properly maintained, their value may nevertheless decline because of a decrease in the demand for their services as a result of technical progress and the appearance of substitutes. Many fixed assets are scrapped or demolished only because they have become obsolete. Consequently, consumption of fixed capital must include an allowance for anticipated obsolescence.

8.19 If a general government unit engages in own-account capital formation, then this category of expense does not include the consumption of fixed capital related to the fixed assets used in that production process. As described in the previous sections on compensation of employees and use of goods and services, the costs incurred in own-account capital formation, including consumption of fixed capital, are classified as acquisitions of fixed assets.

8.20 Consumption of fixed capital also excludes the loss of value when fixed assets are destroyed by acts of war, natural disasters, and other exceptional events. Similarly, it excludes losses due to unexpected technological developments that may significantly shorten the service life of an existing fixed asset and the depletion or degradation of nonproduced assets such as land and subsoil assets. These events are treated as other economic flows, as described in Chapter 10.

8.21 To compute consumption of fixed capital, the fixed assets purchased in the past and still in use have to be revalued at the average prices of the current period and assumptions have to be made regarding the remaining service lives of each asset and the rate at which their efficiency is expected to diminish. Linear or geometric patterns of decline, or some combination of them, are the patterns most commonly assumed.[5] In limited cases, it may be possible to estimate consumption of fixed capital from observations of used asset prices in markets.

E. Netting of flows

8.22 It is recommended that transactions in nonfinancial assets other than inventories be presented as acquisitions, disposals, and consumption of fixed capital, as indicated in Table 8.1. The net acquisition of a category of assets then could easily be computed as acquisitions less disposals. The total change in the holding of the category of assets is the net acquisitions of that category less consumption of fixed capital.

8.23 In general, changes in inventories should be netted because the separate data for acquisitions and disposals are not economically meaningful. In addition, as a matter of practice, it is often impossible to estimate individual transactions in inventories. Consumption of fixed capital does not apply to inventories.

F. Classification of transactions in nonfinancial assets

8.24 The classification of transactions in nonfinancial assets is shown in Table 8.1. The table summarizes transactions in nonfinancial assets as acquisitions, disposals, and consumption of fixed capital. The three amounts can be combined into the total change in a category of nonfinancial assets resulting from transactions.

8.25 The classification of nonfinancial assets is identical to the classification of the same assets employed in Chapter 7 (Table 7.2). Chapter 7 also provides full definitions of the assets included in each category, and those definitions are not repeated here. The immediately preceding sections of this chapter provide guidance applicable to transactions affecting all or most categories of nonfinancial assets. The remainder of this section provides guidance only on those transactions for which the general guidance may not be sufficient.

8.26 In addition to the classification of transactions in nonfinancial assets described in this chapter, the Classification of Functions of Government (COFOG) can also be applied to the acquisitions less disposals of these assets. COFOG is described in the annex to Chapter 6 and that description is not repeated here.

1. Fixed assets (311)[6]

8.27 As explained in paragraph 7.34 of Chapter 7, the production of some types of fixed assets, especially structures, transport equipment, and cultivated assets, extends over more than one accounting period. When production on own account or production of a structure taking place under a contract of sale agreed in advance is incomplete at the end of an accounting period, then the amount that has been completed is considered an acquisition of a fixed asset. When there is a contract with another producer, stage or progress payments are usually required and the amounts paid may approximate the value of the production accomplished at each stage. If the payments are made in advance or in arrears of completion of the relevant work, then short-term credits have implicitly been extended by the purchaser to the construction enterprise, or vice versa, and the stage payments should be adjusted by the amount of these credits.

8.28 When the production of fixed assets is carried out on own account, the value of all of the production taking place during the accounting period should be recorded as the acquisition of a fixed asset. Each transaction that otherwise would be recorded as compensation of employees, use of goods and services, and consumption of fixed capital should be recorded as acquisitions of the relevant

[5]Organisation for Economic Co-operation and Development, *Measuring Capital—OECD Manual: Measurement of Capital Stocks, Consumption of Fixed Capital and Capital Services* (Paris, 2001) contains an extensive discussion of the methods for estimating consumption of fixed capital.

[6]The numbers in parentheses after each classification category are the GFS classification codes. Appendix 4 provides all classification codes used in the GFS system.

Table 8.1: Classification of Transactions in Nonfinancial Assets

		Acquisitions	Disposals	Consumption of fixed capital[1]
31	**Nonfinancial assets**			
311	**Fixed assets**			
3111	Buildings and structures			
31111	Dwellings			
31112	Nonresidential buildings			
31113	Other structures			
3112	Machinery and equipment			
31121	Transport equipment			
31122	Other machinery and equipment			
3113	Other fixed assets			
31131	Cultivated assets			
31132	Intangible fixed assets			
312	**Inventories**[2]			
3121	Strategic stocks			
3122	Other inventories			
31221	Materials and supplies			
31222	Work in progress			
31223	Finished goods			
31224	Goods for resale [GFS]			
313	**Valuables**			
314	**Nonproduced assets**			
3141	Land			
3142	Subsoil assets			
3143	Other naturally occurring assets			
3144	Intangible nonproduced assets			
	Memorandum items			
3M1	Own-account capital formation			
3M11	Compensation of employees			
3M12	Use of goods and services			
3M13	Consumption of fixed capital			
3M14	Other taxes on production minus other subsidies on production			

[1]Consumption of fixed capital is not recorded for inventories. It is recorded with respect to valuables and nonproduced assets only to the extent of costs of ownership transfer and major improvements to nonproduced assets.
[2]Only the net change in inventories resulting from transactions is recorded, not gross acquisitions and disposals.

category of fixed assets when they relate to own-account capital formation.[7]

8.29 Major improvements to existing assets that increase their productive capacity, extend their service lives, or both are treated as acquisitions of fixed assets, while the use of goods and services for the maintenance and repair of fixed assets constitute an expense. By definition, however, major improvements do not lead to the creation of new assets that can be separately identified and valued. Instead, the value of such an improvement is added to the existing value of the underlying asset.

[7]This treatment also applies to the production of valuables and major improvements to land when carried out on own account.

8.30 The distinction between maintenance and repair and a major improvement is not clear-cut. Major improvements to assets are distinguished by the following features: (a) the decision to renovate, reconstruct, or enlarge an asset is a deliberate investment decision that may be undertaken at any time and is not dictated by the condition of the asset and (b) the renovations or enlargements increase the performance or capacity of existing assets or significantly extend their previously expected service lives. Maintenance and repairs are distinguished by two features: (a) they are activities that owners or users of assets are obliged to undertake periodically in order to be able to utilize such assets over their expected service lives and (b) they do not change the asset or its performance, but simply maintain it in good working order or restore it to its previous condition in the event of a breakdown.

8.31 As explained in Chapters 6 and 7, purchases by the military of weapons and equipment used to deliver those weapons are treated as use of goods and services expense rather than acquisitions of fixed assets. Weapons or armored vehicles acquired by the police and internal security services are treated as acquisitions of fixed assets, even though expenditures on the same kind of equipment by the military would be treated as use of goods and services expense.

a. Buildings and structures (3111)

8.32 In addition to the transactions reflecting the acquisition of newly constructed buildings and structures, acquisitions of buildings and structures include site clearance and preparation expenses and the cost of all fixtures, facilities, and equipment that are integral parts of buildings and structures.

8.33 Certain structures, such as buildings, roads, and bridges, may be produced for communal use by groups of households. After they are finished, the ownership of such structures may then be transferred to a general government unit that will assume responsibility for their maintenance. When the transfer occurs, an acquisition of a structure is recorded together with the receipt of a capital transfer in kind.

b. Machinery and equipment (3112)

8.34 The determination of which goods should be classified as machinery and equipment is normally straightforward. Some goods, however, such as hand tools, may be used repeatedly, or continuously, in production over many years but may nevertheless be small, inexpensive, and used to perform relatively simple operations. If expenditures on such goods take place at a fairly steady rate and if their value is small compared with expenditures on more complex machinery and equipment, it may be appropriate to treat the acquisition of the tools as use of goods and services expense rather than acquisitions of nonfinancial assets.

c. Other fixed assets (3113)

8.35 Acquisitions of cultivated assets (31131) include acquisitions from other units of plants and animals that are cultivated for the products they yield year after year and the value of similar plants and animals produced on own account.[8] Disposals consist of animals and plants sold or otherwise disposed of, including animals sold for slaughter or slaughtered by their owners and plants cut down before the end of their service lives. Disposals do not include exceptional losses of animals and plants due to major outbreaks of disease, contamination, drought, famine, or other natural disasters. Consumption of fixed capital includes incidental losses of animals and plants from natural causes as well as the decline in an animal's or plant's value as it gets older.

8.36 The information obtained from mineral exploration influences the production activities of those who obtain it over a number of years. The expenditures incurred on exploration are therefore treated as expenditures on the acquisition of an intangible fixed asset (31132). Mineral exploration expenditures include the costs of actual test drillings and borings and all other costs incurred to make it possible to carry out the tests, such as aerial or other surveys and transportation costs. The value of the resulting asset is not measured by the value of new deposits discovered by the exploration but by the value of the resources allocated to exploration during the accounting period. Consumption of fixed capital may be calculated for such assets by using average service lives similar to those used by mining or oil corporations in their own accounts.

8.37 Acquisitions of computer software includes programs, program descriptions, and supporting materials for both systems and applications software that are expected to be used for more than one year. It also includes the purchase or development of large databases that the unit expects to use for more than one year. Software developed in-house is valued at its cost of production.

8.38 The production of new entertainment, literary, and artistic originals is often undertaken on own account. In such cases, it may be difficult to establish their value, which depends on the present value of the future benefits the owner expects to derive from their use. In the absence of other information it may be necessary to value the acquisition of the original by its cost of production.

8.39 Expenditures for research and development, staff training, market research, and similar activities are

[8]Plants and animals grown for a single use, such as animals grown for slaughter and trees grown for timber, are treated as inventories rather than fixed assets.

treated as use of goods and services expense rather than acquisitions of intangible fixed assets even though some of them may bring benefits for more than one year.

2. Changes in inventories (312)

8.40 In general, acquisitions and disposals of inventories are recorded according to the same principles used for recording transactions in other nonfinancial assets. Acquisitions of (or additions to) inventories are recorded when products are purchased, produced, or otherwise acquired, and disposals of (or withdrawals from) inventories are recorded when products are sold, used up in production, transferred to a different category of inventories, or otherwise relinquished. Both additions and withdrawals are valued at the current market prices prevailing at the time of the transaction.

8.41 As opposed to nonfinancial assets, however, no costs of ownership transfer are included in the values of acquisitions or disposals of inventories, and no consumption of fixed capital is attributed to inventories, which is indicated by a shaded area in Table 8.1. Also different from other nonfinancial assets, only the net value of additions less withdrawals is estimated rather than separate values for additions and withdrawals.

8.42 Many acquisitions and disposals of inventories are purchases from or distributions to other units, but other acquisitions and disposals reflect internal transactions.

- When materials and supplies (31221) are transferred to a production process, a transaction is recorded for the withdrawal from inventories, which is balanced by an addition either to *work-in-progress inventories* (31222) or to *use of goods and services* (22), depending on the nature of the production process.

- If work-in-progress inventories (31222) exist, then transactions are, in principle, recorded continuously as production takes place to reflect the value of materials and supplies, other goods and services, labor, and other inputs consumed. When production is completed, a transaction is recorded to decrease work-in-progress inventories and either increase *finished-goods inventories* (31223) or *sales of goods and services* (142).

- When goods acquired for resale (31224) are sold or otherwise disposed of, their cost is recorded as use of goods and services expense. Thus, a transaction must be recorded to reduce inventories of goods for resale and increase *use of goods and services* (22).

- Losses of inventories resulting from physical deterioration, normal accidental damage, or pilfering should be treated as disposals in the same way as inventories disposed of on purpose. In practice, determining the time of recording may be difficult because the time at which the inventories were stolen or spoiled may be unknown.

8.43 All acquisitions and disposals of inventories should be valued at current market prices. Because of the continuous or frequent withdrawals from materials and supplies inventories and the additions to and withdrawals from work-in-progress inventories, it is unlikely that information will be available to record these internal transactions accurately, and estimates may be necessary.

8.44 Withdrawals of work-in-progress inventories should be valued at their cost of production, where all inputs are valued at their current market prices at the time of withdrawal rather then the prices paid for them. Goods for resale added to inventories are valued at their purchase prices, including any transportation charges paid to other units. Goods for resale withdrawn from inventories are valued similarly at the purchase prices at which they can be replaced when they are withdrawn, which may differ from the prices that were paid to acquire them and the prices for which they were sold.

3. Valuables (313)

8.45 As with all nonfinancial assets other than inventories, acquisitions of valuables are valued at the prices paid plus any associated costs of ownership transfer incurred by the general government units acquiring the assets. Disposals are valued at the sales price less any associated costs of ownership transfer incurred by the general government units disposing of the assets. Costs of ownership transfer may be significant for the services of appraisers, auctioneers, and dealers. Government units fulfilling some functions of the monetary authority may have transactions in both monetary and nonmonetary gold, and care needs to be taken to classify them correctly and to record the other economic flows needed to transfer gold from one category to the other.

4. Nonproduced assets (314)

8.46 Nonproduced assets either are naturally occurring or come into existence through legal or accounting actions. As a result, they normally enter the GFS system through other economic flows rather than transactions. Once in the system, however, transactions reflecting a change in their ownership should be recorded in the same manner as transactions in existing fixed assets. One exception regarding the appearance of nonproduced assets occurs when a government unit acquires land that is physically located in a foreign country. The transaction converts the land into part of the economic territory of the country of the acquiring government and therefore it enters the system by means of a transaction (acquisition of a nonproduced asset) rather than an other economic flow.

8.47 Productive activities may be undertaken to improve the quantity, quality, or productivity of land or prevent its deterioration. These activities may lead to the creation of substantial new structures, but they are not used directly to produce other goods and services in the way that most structures are used. Instead, the result is more or better land, and it is the land that is used for production. Major improvements to land are treated in the same way as major improvements to fixed assets. That is, a transaction is first recorded to increase the balance sheet value of the land by the cost of the improvement, and then consumption of fixed capital is recorded over the service life of the improvement. Examples of major improvements to land are reclaiming land from the sea by the construction of dikes, sea walls, or dams; clearing forests to enable land to be used in production for the first time; draining marshes; irrigating arid land by constructing irrigation channels; and preventing floods or erosion by the sea or rivers by constructing breakwaters, sea walls, or flood barriers.

8.48 Acquisitions of tunnels and other structures associated with the mining of mineral deposits are classified as acquisitions of structures and not as improvements to land. These assets are used separately from the land through which they are drilled or bored. Site clearance and preparation of land for purposes of construction also are not classified as improvements to land but as acquisitions of buildings or other structures.

8.49 Buildings, other structures, and cultivated assets are often purchased or sold together with the land on which they are situated. If possible, separate valuations of the land and the fixed asset should be obtained. If it is not possible to obtain separate valuations, then the transaction should be classified as a transaction in the type of asset believed to have the greater value, which often will be the fixed asset. In most cases, subsoil assets may be owned separately from the land and separate valuations should be estimated if possible. On the other hand, the law may stipulate that the ownership of the subsoil assets is inseparably linked to that of the land.

8.50 A government unit, as owner of a subsoil asset, may grant a concession or lease to another unit entitling the latter to extract the asset over a specified period of time in return for a series of payments, usually described as royalties. This arrangement is similar to a landowner conceding to a tenant the right to exploit the land in return for the payment of rents, except that subsoil assets are exhaustible. Nevertheless, the payments normally are treated as property income transactions rather than disposals of an asset.

8.51 When a long-term contract is let by the owner of a naturally occurring nonproduced asset that gives a second unit the exclusive right to use or exploit the asset, then the contract itself could be treated as an intangible nonproduced asset. Auctions by government units of the rights to use portions of the electromagnetic spectrum are particularly likely to result in the contracts being treated as economic assets. At the time of publication of this manual, the criteria for treating a contract or lease as an asset had not been decided.

8.52 Depletion is the decline in the value of a subsoil asset, noncultivated biological resource, or a water resource because a portion of the asset has been extracted. It is recorded as an other economic flow, as described in paragraph 10.41 of Chapter 10, and is not a transaction in nonfinancial assets. Similarly, the amortization of a patent, purchased goodwill, or other intangible nonproduced asset over its service or legal life is an other economic flow rather than a transaction.

9. Transactions in Financial Assets and Liabilities

This chapter describes transactions in financial assets and liabilities and their classification.

A. Introduction

9.1 Chapter 7 describes the balance sheet and the assets and liabilities recorded on it. As an integrated system, the GFS system also includes the flows necessary to explain all changes between the balance sheet at the end of one period and the balance sheet at the end of the next period. As described in Chapter 3, there are two types of flows—transactions and other economic flows—both of which can affect stocks of assets and liabilities. This chapter describes the transactions that affect holdings of financial assets and liabilities, and Chapter 10 describes other economic flows, all of which affect holdings of assets and liabilities.

9.2 The accounting identity given in paragraph 8.2 of Chapter 8 for nonfinancial assets also holds for financial assets and liabilities.[1] It states that

> The value of a category of financial assets (liabilities) on the balance sheet at the beginning of an accounting period.

plus

> The total value of that category of assets (liabilities) acquired (incurred) in transactions during the accounting period.

minus

> The total value of that category of assets (liabilities) disposed of (extinguished) in transactions during the accounting period.

plus

> The net value of other economic flows that affect that category of assets (liabilities).

equals

> The value of the category of assets (liabilities) on the balance sheet at the end of the accounting period.

This identity requires that transactions, other economic flows, and stocks be recorded consistently with regard to time of recording and valuation. The accounting rules governing these factors are described in Chapter 3.

9.3 Transactions can change stocks of financial assets or liabilities in different ways and all must be accounted for. The more important types of transactions follow:

- Existing assets of all types can be acquired from other units by purchase, barter, payment in kind, or transfer. The same transaction is a disposal of an asset from the viewpoint of the other unit.
- New financial claims are often created by transactions in which a creditor advances funds to a debtor. The creditor then owns a financial asset and the debtor incurs a liability.
- Financial claims are normally terminated by transactions. In some cases, the debtor pays the creditor the funds stipulated by the financial instrument, thereby canceling the claim. In other cases, the debtor buys its own instrument in the market.
- Accrued interest is deemed to be reinvested in an additional quantity of the underlying financial instrument by means of a transaction.
- The settlement of a financial derivative may involve two transactions: the termination of the financial claim and the sale of an underlying item from which the derivative obtained its value.

9.4 All transactions that increase a unit's holdings of assets are labeled ***acquisitions***. All transactions that decrease a unit's holdings of assets are labeled ***disposals***. Transactions that increase liabilities are referred to as the ***incurrence*** of a liability. Transactions that decrease liabilities are variously titled repayments, reductions, redemptions, liquidations, or extinguishments. Thus, the results of transactions in a particular

[1]For ease of expression, assets will often be used as a reference to both assets and liabilities.

category of financial assets can be presented either as total acquisitions and total disposals or as net acquisitions. Similarly, changes in liabilities can be presented as total incurrences and total reductions or as net incurrences. Transactions that change a category of financial assets are never combined with transactions that change the same category of liabilities. That is, the net acquisition of loans would never refer to the increase in loans held as financial assets less the increase of loans as liabilities.

9.5 The remainder of this chapter describes first the valuation, time of recording, and netting of transactions that affect financial assets and liabilities and then details on transactions that affect specific categories of financial assets and liabilities.

B. Valuation

9.6 The value of an acquisition or disposal of an existing financial asset or liability is its exchange value. The value of a newly created financial claim is generally the amount advanced by a creditor to a debtor.

9.7 All service charges, fees, commissions, and similar payments for services provided in carrying out transactions and any taxes payable on transactions are excluded from transactions in financial assets and liabilities. They are expense transactions. In particular, when new securities are marketed by underwriters or other intermediaries as agents for the unit issuing the securities, the securities should be valued at the price paid by the purchasers. The difference between that price and the amount received by the issuing general government unit is a payment for the services of the underwriters.

9.8 When a security is issued at a discount or premium relative to its contractual redemption value, the transaction should be valued at the amount actually paid for the asset and not the redemption value. Any interest that is prepaid jointly with the acquisition of a security should be treated as accrued interest that had been reinvested in an additional quantity of the security. In this case, the value of the acquisition is the sum of the amount paid for the security directly plus the amount prepaid for accrued interest. It is recognized, however, that interest accruing on deposits and loans may have to follow national practices and be classified under accounts receivable.

9.9 Not all financial assets have prices as the term is normally understood. Financial assets denominated in purely monetary terms, such as cash and deposits, do not have physical units with which prices can be associated. In such cases, the relevant quantity unit is effectively a unit of the currency itself so that the price per unit is always unity. In the case of nontransferable financial assets, such as some loans, the monetary value is the amount of principal outstanding. Thus, the term "price" has to be used in a broad sense to cover the unitary prices of assets such as cash, deposits, and loans as well as conventional market prices.

9.10 In some cases, the value of a financial asset is determined by the value of the counterpart to the transaction. For example, the initial value of a loan resulting from a financial lease is the value of the nonfinancial asset leased. The value of an account payable resulting from the purchase of goods or services is the value of the goods acquired or services received.

9.11 The value of a transaction expressed in a foreign currency is converted to the domestic currency using the midpoint of the buying and selling exchange rates at the time of the transaction. If a transaction expressed in a foreign currency involves the creation of a financial asset or liability, such as accounts payable/receivable, and is followed by a second transaction in the same foreign currency that extinguishes the financial asset or liability, then both transactions are valued at the exchange rates effective when each takes place.

9.12 Government units may acquire or dispose of financial assets on a nonmarket basis as an element of their fiscal policy rather than as a part of their liquidity management. For example, they may lend money at a below-market interest rate or purchase shares of a corporation at an inflated price. Although such transactions involve a transfer component, they are often structured so that the market price is not clear. If the market value can be determined, then the transaction should be valued at that amount and a second transaction should be recorded as an expense to account for the transfer. Otherwise, the value of the transaction should be the amount of funds exchanged.

C. Time of recording

9.13 Transactions in financial assets and liabilities are recorded when ownership of the asset changes, when the asset is created or liquidated, or when the addition or reduction in the amount of the financial instrument is made. This time is usually clear when the transaction involves an exchange of existing financial assets or the simultaneous creation or extinction of a financial asset and a liability. In most cases, it will be when the contract is signed or when money or some other financial asset is paid by the creditor to the debtor or repaid by the debtor to the creditor.

9.14 In some cases, the parties to a transaction may perceive ownership to change on different dates because they acquire the documents evidencing the transaction at different times. This variation usually is caused by the process of check clearing or the length of time checks are in the mail. The amounts involved in such "float" may be substantial in the case of transferable deposits and other accounts receivable or payable. If there is disagreement on a transaction between two general government units or a government unit and a public corporation, the date on which the creditor records the transaction is the date of record because a financial claim exists up to the point that the payment is cleared and the creditor has control of the funds.

9.15 When a transaction in a financial asset or liability involves a nonfinancial component, the time of recording is determined by the nonfinancial component. For example, when a sale of goods or services gives rise to a trade credit, the transaction should be recorded when ownership of the goods is transferred or when the service is provided. When a financial lease is created, the loan implicit in the transaction is recorded when control of the fixed asset changes.

9.16 Some transactions, such as the accrual of interest expense and its borrowing as an additional quantity of the financial instrument, take place continuously. In this case, the transaction in the associated financial asset or liability also takes place continuously.

D. Netting and consolidation of flows

9.17 Transactions in financial assets and liabilities are presented in Table 9.1 as the net acquisition of each category of financial asset and the net incurrence of each category of liability. That is, only the net change in the holding of a type of asset is presented, not gross acquisitions and gross disposals as with most nonfinancial assets. (Separate amounts for gross acquisitions and gross disposals may, of course, be presented if the underlying accounting records permit and the information is meaningful.) When the same type of financial instrument is held both as a financial asset and a liability, transactions in financial assets are presented separately from transactions in liabilities rather than netting transactions in liabilities against transactions in financial assets.

9.18 Transactions in financial assets are eliminated when the two parties to the transaction are units that are being consolidated. For example, if a local government unit purchases a security issued by the central government, both the acquisition of the financial asset and the incurrence of the liability would disappear in a presentation of statistics for the entire general government sector but not in a presentation of either the central or the local government subsector separately.

E. Arrears

9.19 Some types of financial assets and liabilities, most notably securities other than shares, loans, financial derivatives, and other accounts receivable/payable, mature at a scheduled date or series of dates when the debtor is obligated to make specified payments to the creditor. If the payments are not made as scheduled, then the payments are said to be in arrears. Depending on the conditions of the financial instrument may change. In all cases, the debtor has effectively obtained additional financing by not making the scheduled payments. To provide information on this type of implicit financing, when a scheduled payment is not made, it should be treated as if it had been made and then replaced by a new, usually short-term liability and each category of the classification of financial instruments should be subclassified to show the transactions leading to new arrears. As noted in Chapter 7, the total amount in arrears should be recorded as a memorandum item to the balance sheet.

F. Classification of transactions in financial assets and liabilities by type of financial instrument and residence

9.20 Table 9.1 presents a classification of transactions in financial assets and liabilities based on the type of financial instrument involved in the transaction and the residence of the unit that incurred the liability being held by a general government unit as a financial asset or holds as a financial asset the liability incurred by the general government unit. The units classified by residence are not necessarily the units that were a party to the transaction being

Table 9.1: Net Acquisition of Financial Assets and Net Incurrence of Liabilities Classified by Financial Instrument and Residence

32	**Financial assets**	**33**	**Liabilities**
321	**Domestic**	**331**	**Domestic**
3212	Currency and deposits	3312	Currency and deposits
3213	Securities other than shares	3313	Securities other than shares
3214	Loans	3314	Loans
3215	Shares and other equity	3315	Shares and other equity (public corporations only)
3216	Insurance technical reserves	3316	Insurance technical reserves [GFS]
3217	Financial derivatives	3317	Financial derivatives
3218	Other accounts receivable	3318	Other accounts payable
322	**Foreign**	**332**	**Foreign**
3222	Currency and deposits	3322	Currency and deposits
3223	Securities other than shares	3323	Securities other than shares
3224	Loans	3324	Loans
3225	Shares and other equity	3325	Shares and other equity (public corporations only)
3226	Insurance technical reserves	3326	Insurance technical reserves [GFS]
3227	Financial derivatives	3327	Financial derivatives
3228	Other accounts receivable	3328	Other accounts payable
323	**Monetary gold and SDRs**		

recorded. For example, a general government unit might purchase a financial asset in a secondary market from a nonresident, but the asset was originally issued by a resident. Under such circumstances, this instrument would be shown as a domestic instrument even though it was purchased from a nonresident.

9.21 The classifications are consistent with the classifications of the same financial assets and liabilities employed in Chapter 7 (Table 7.3). Chapter 7 also provides full definitions of the financial assets or liabilities included in each category, and those definitions are not repeated here. The immediately preceding sections of this chapter provide guidance applicable to transactions affecting all or most categories. The remainder of this section provides guidance only on those transactions for which the general guidance may not be sufficient.

9.22 Liabilities in several categories are considered debt, as defined in Chapter 7 (see paragraphs 7.142 and 7.143). In addition to normal interest and principal transactions regarding debt liabilities, government units may undertake a range of complex debt-related transactions, such as assuming debt of other units, making payments on behalf of other units, rescheduling debt, debt forgiveness, debt defeasance, and financial leasing. The special features of these types of transactions are described in Appendix 2.

9.23 The classifications described in this chapter do not include functional categories such as direct investment, portfolio investment, or international reserves.[2] In Chapter 7, however, a memorandum item provides for the stocks of reserve assets and reserve-related liabilities of the general government sector.[3]

1. Monetary gold and SDRs (323)[4]

9.24 Transactions in monetary gold are the exclusive responsibility of the monetary authority, which will normally be the central bank, a public corporation. It is possible, however, for a unit of the general government sector to undertake some functions of the monetary authority, in which case it may have transactions in monetary gold or SDRs. Transactions in monetary gold and SDRs cannot be classified by the residence of the issuing unit because they are not the liabilities of any unit. When transactions in financial assets are classified by residency, transactions in monetary gold and SDRs are placed in a separate category.

9.25 Transactions in monetary gold can only take place between two monetary authorities or between a

[2]For information on these categories, see paragraph 176ff of International Monetary Fund, *Balance of Payments Manual,* 5th ed. (Washington, 1993).
[3]If analytically important, other classifications could be introduced. For example, transactions in financial assets and liabilities could be classified by their remaining maturities.
[4]The numbers in parentheses after each classification category are the GFS classification codes. Appendix 4 provides all classification codes used in the GFS system.

monetary authority and an international financial institution. If the monetary authority adds to its holdings of monetary gold by acquiring either newly mined gold or existing gold offered on the private market, then the gold so acquired is said to have been monetized. No transaction in financial assets is recorded. Instead, the acquisition is recorded first as a transaction in nonfinancial assets, and then an other economic flow is recorded to reclassify the gold as monetary gold. Demonetization of gold is recorded symmetrically (see Chapter 10).

9.26 SDRs are held only by the monetary authorities of IMF member countries and a limited number of authorized international financial institutions. Transactions in SDRs take place when an official holder exercises its right to obtain foreign exchange or other reserve assets from other IMF members and when SDRs are sold, loaned, or used to settle financial obligations.

2. Currency and deposits (3212, 3222, 3312, 3322)

9.27 Because the market price of domestic currency and deposits is fixed in nominal terms, the net acquisition of domestic currency and deposits is equal to the stock held at the end of the accounting period less the stock held at the beginning of the period, adjusted for any currency that was lost, stolen, or destroyed. Calculation of the net acquisition of foreign currencies and deposits must take changes in exchange rates into consideration.

9.28 Currency is treated as a liability of the unit that issued the currency. Consequently, when a unit puts new currency into circulation, a transaction is recorded that increases its liability for currency. Usually the counterpart to the increase in liabilities is an increase in the unit's financial assets, most likely deposits.[5] Transactions in gold and commemorative coins that do not circulate as legal tender are treated as transactions in nonfinancial assets rather than currency. The cost of producing new currency is an expense transaction unrelated to transactions in currency.

3. Securities other than shares (3213, 3223, 3313, 3323)

9.29 Most transactions in bonds and other types of securities other than shares are covered by the general guidelines previously established. Discounted bonds may require special attention because the difference between the discounted issue price of such a bond and its price at maturity is treated as interest accruing over the life of the bond. For the holder of the bond, a transaction must be constructed in each accounting period that records the receipt of interest revenue and its reinvestment to purchase an additional quantity of the bond. The issuer of the bond records the accrual of interest expense and an increase in its liability for bonds. For securities other than shares issued at a premium, the difference between the issue price and the price at maturity is treated as negative interest.

9.30 Index-linked securities are instruments for which either the interest or the principal is linked to a price index, the price of a commodity, or an exchange rate index. When the value of the principal is indexed, then, as with discounted bonds, each increase in principal is a transaction reflecting the payment of interest by the issuer of the security and a purchase of an additional quantity of the security by the holder.[6]

4. Loans (3214, 3224, 3314, 3324)

9.31 The terms of a loan contract frequently require periodic payments that will pay all interest expense accrued since the previous periodic payment and repay a portion of the original amount borrowed. Between payments, interest accrues and is added to the principal continuously. In practice, the periodic payments are usually partitioned into two transactions, one equal to the amount of interest incurred since the previous payment and the second a repayment of the original principal.

9.32 When goods are acquired under a financial lease, a change of ownership from the lessor to the lessee is deemed to take place, even though legally the leased good remains the property of the lessor. This de facto change in ownership is financed by the implicit creation of a loan.

9.33 If a loan that is a liability of a public corporation is assumed by the government unit that owns or controls it, there may be no documentary evidence to indicate whether the debt assumption was intended as a purchase of equity or a capital transfer. In the absence of evidence to the contrary, a loan assumption is treated as an acquisition of equity. If it is

[5] In the *1986 GFS Manual*, seigniorage profits from issuing currency were treated as revenue.

[6] It is possible for loans and other financial instruments to be index linked and the same transactions would be recorded.

treated as a capital transfer, then the government unit holding the shares and other equity will record a holding gain of the same amount. Appendix 2 discusses government debt operations in more detail.

9.34 As described in Chapter 7, repurchase agreements and gold swaps are treated as loans with no change of ownership for the underlying assets that legally were sold. Similarly, consummation of the repurchase agreement or swap according to the initial terms of the agreement is treated as a liquidation of a loan.

5. Shares and other equity (3215, 3225, 3315, 3325)

9.35 The treatment of transactions in publicly traded shares is straightforward. Problems may be created, however, by the operations of quasi-corporations and public corporations.

9.36 Additions to the funds and other resources of a quasi-corporation, including in-kind transfers of nonfinancial assets, are treated as purchases of shares and other equities by the owner of the quasi-corporation. Similarly, receipt by the owner of proceeds from sales of any of the quasi-corporation's assets, transfers in kind from the quasi-corporation, and withdrawals by the owner of accumulated retained earnings of the quasi-corporation are treated as sales of shares and other equity by the owner. Regular transfers to quasi-corporations to cover persistent operating deficits are subsidies, and regular withdrawals from the income of quasi-corporations are property income.

9.37 Government units may acquire equity in a public corporation or quasi-corporation as a result of legislation or an administrative change creating the corporation or quasi-corporation. In some cases, this event will amount to a reclassification of existing assets and liabilities, which is recorded as an other economic flow that results in an addition of shares and other equity. An advance of funds to create the new enterprise would be a transaction reflecting the purchase of equity.

9.38 Privatization generally is the disposal to private owners by a government unit of the controlling equity of a public corporation or quasi-corporation. Such a disposal is treated as a transaction in shares and other equity. If a public corporation or quasi-corporation sells some of its assets and transfers part or all of the proceeds to its parent government unit, then the transaction would also be a sale of shares and other equity by the government unit. Brokers' commissions and other privatization costs are expense transactions just as all other costs of ownership transfer related to the acquisition or disposal of a financial asset.

9.39 Government units also can be privatized. If the assets disposed of as a single transaction constitute a complete institutional unit, the transaction should be classified as a sale of equity. The government is assumed to have converted the unit to a quasi-corporation immediately prior to disposal by means of a reclassification of assets, which is an other economic flow. If the assets disposed of do not constitute a complete institutional unit, then the transactions should be classified as a disposal of the individual nonfinancial and/or financial assets.

6. Insurance technical reserves (3216, 3226, 3316, 3326) [GFS][7]

9.40 General government units may incur liabilities for insurance technical reserves as operators of non-life insurance schemes and both nonautonomous pension funds and unfunded retirement schemes, and they may acquire insurance technical reserves as financial assets in their capacity as holders of non-life insurance policies. Public corporations can engage in all types of insurance activities.[8]

9.41 If a general government unit operates a retirement scheme, then it will have transactions in liabilities for insurance technical reserves. Social contributions receivable from employees, employers, or other institutional units on behalf of individuals or households with claims on the general government unit for future retirement benefits will increase the unit's liability for insurance technical reserves. The existing liability, which is equal to the present value of future payments, will increase over time because the future payments are discounted over fewer periods. This increase in the liability is recorded as a transaction in insurance technical reserves. Payments to retired persons or their dependents and survivors in the form of periodic payments or lump sums reduce the liability.

[7][GFS] indicates that this item has the same name but different coverage in the *1993 SNA*.

[8]It is assumed that general government units do not operate life insurance schemes and do not purchase life insurance policies. The treatment of insurance technical reserves created by life insurance activities of public corporations is similar to autonomous pension funds, but they are not addressed separately here. Annex IV of the *1993 SNA* describes the treatment of all types of insurance schemes.

9.42 In general, non-life insurance premiums are paid in advance of the period covered by the policy. All such payments are transactions that increase the insurance unit's liability and the policyholder's asset for insurance technical reserves. As the period covered by the premium progresses, the insurance unit continuously earns the premium, which requires a transaction to decrease its liability and the policyholder's asset for insurance technical reserves.

9.43 When valid claims are accepted by non-life insurance enterprises, they are attributed to the time at which the eventuality or accident that gave rise to the claim occurred. At that time, a transaction is recorded that increases reserves against outstanding claims as a liability of the insurance unit and an asset of the beneficiaries. If payment of the claim will be delayed for a substantial time or will consist of periodic payments over several accounting periods, then the value of the transaction should be the present value of the expected payments.

7. Financial derivatives (3217, 3227, 3317, 3327)

9.44 There are two broad classes of financial derivatives: forward-type contracts and option contracts. At the inception of a forward-type contract, it has zero value and no transaction is recorded. Forward-type contracts are typically settled by the payment of cash or the provision of some other financial instrument rather than by actual delivery of the underlying item. Any such settlement payment is recorded as a transaction in financial derivatives. If the contract is settled by delivery of the underlying item, then a transaction in the underlying item is recorded at its market price at the time of settlement, and any difference between the contract price and the market price is a transaction in financial derivatives. Forward-type contracts can also be traded before settlement, in which case a transaction in financial derivatives is recorded.

9.45 The buyer of an option pays a premium to the seller for the latter's commitment to sell or purchase the specified amount of the underlying item on demand of the buyer. The payment of the premium is a transaction in financial derivatives in which the buyer acquires an asset and the seller incurs a liability.

9.46 Depending on the type of contract, premiums on options may be paid when the contract begins, when the option is exercised, or when the option expires. The value of the transaction at the inception of the option is the full price of the premium. If the premium is paid after the purchase of the option, then the acquisition of the option is deemed to be financed by a loan.

9.47 Many option contracts are settled by a cash payment rather than by delivery of the underlying assets or commodities to which the contract relates. Any such cash payment is recorded as a transaction in financial derivatives. If an option is exercised and the underlying item is delivered, then the acquisition or sale of the underlying asset is recorded at its market price at the time of settlement, and any difference between this amount and the contract price is recorded as a transaction in financial derivatives. If an option expires without being exercised, then no transaction is recorded to mark the expiration. Instead, an other economic flow is recorded to remove the asset and liability from the balance sheets of the parties involved.

9.48 Repayable margins paid in cash are transactions in deposits rather than transactions in financial derivatives. Repayable margins paid in collateral are not transactions. The payment of a nonrepayable margin is normally recorded as a reduction in financial derivative assets and liabilities for the two parties involved in the contract.

9.49 Any commission paid to brokers or other intermediaries for arranging a financial derivatives contract is treated as a payment for a service. In many cases, however, financial derivatives transactions involve implicit service charges, and it is usually not possible to estimate the service element. In such cases, the entire value of the transaction should be treated as a transaction in financial derivatives.

8. Other accounts receivable/payable (3218, 3228, 3318, 3328)

9.50 Transactions in trade credits and advances occur when credit is extended directly to purchasers of goods and services. Other transactions occur when advances are paid for work in progress, such as progress payments made during construction, or for prepayments of goods and services.

9.51 Miscellaneous other accounts receivable/payable occur in respect of accrued but unpaid taxes, dividends, purchases and sales of securities, rent, wages and salaries, social contributions, and similar transactions. Accrued but unpaid interest should be treated as an additional quantity of the underlying asset, but it is recognized that interest accruing on deposits and loans may have to follow national practices and be classified as accounts receivable/payable.

G. Classification of transactions in financial assets and liabilities by sector and residence

9.52 For a full understanding of financial flows and the role they play in government finance, it is often important to know not just what types of liabilities a general government unit uses to finance its activities, but also which sectors are providing the financing. In addition, it is often necessary to analyze financial flows between subsectors of the general government sector. Table 9.2 presents a classification of transactions in financial assets and liabilities based on the sector of the unit that incurred the liability being held by a general government unit as a financial asset or that holds as a financial asset the liability incurred by the general government unit.

9.53 The composition of the sectors listed in Table 9.2 is described in Chapter 2. In the *1993 SNA*, the term "sector" refers to a group of resident units. All nonresident units are referred to collectively as the rest of the world and treated as a pseudo-sector. In the GFS system, it is important to know not only the total amount of financing received from nonresident units, but also the types of nonresident units supplying the financing. In the GFS system, therefore, the classification of "sectors" is applied to nonresident units in the same manner as resident units. In particular, all international organizations are treated as a sector in Table 9.2.

Table 9.2: Net Acquisition of Financial Assets and Net Incurrence of Liabilities Classified by Sector of the Counterparty to the Financial Instrument and Residence

82	**Financial assets**	**83**	**Liabilities**
821	**Domestic**	**831**	**Domestic**
8211	General government	8311	General government
8212	Central bank	8312	Central bank
8213	Other depository corporations	8313	Other depository corporations
8214	Financial corporations not elsewhere classified	8314	Financial corporations not elsewhere classified
8215	Nonfinancial corporations	8315	Nonfinancial corporations
8216	Households and nonprofit institutions serving households	8316	Households and nonprofit institutions serving households
822	**Foreign**	**832**	**Foreign**
8221	General government	8321	General government
8227	International organizations	8327	International organizations
8228	Financial corporations other than international organizations	8328	Financial corporations other than international organizations
8229	Other nonresidents	8329	Other nonresidents
823	**Monetary gold and SDRs**		

10. Other Economic Flows

This chapter describes the flows other than transactions that are recorded in the GFS system. The two major categories of these other economic flows are holding gains and other changes in the volume of assets.

A. Introduction

10.1 This chapter describes the flows other than transactions, known as other economic flows, that change the values of assets, liabilities, and net worth. Most other economic flows change both the value of an asset or a liability and the value of net worth by the same or opposite amount. A few other economic flows do not affect net worth because they change the value of two assets or two liabilities by the same amount but with opposite signs, or they change one asset and one liability by the same amount.

10.2 There are two major categories of other economic flows: holding gains and losses and other changes in the volume of assets.

- A holding gain or loss is a change in the monetary value of an asset or liability resulting from changes in the level and structure of prices, assuming that the asset or liability has not changed qualitatively or quantitatively. Holding gains and losses can apply to all assets and liabilities and, in the case of assets and liabilities expressed in a foreign currency, include gains and losses resulting from changes in exchange rates.[1] For ease of expression, the term "holding gain" will be used as a shorthand reference for holding gain or loss.
- An other change in the volume of assets is any change in the value of an asset or liability that does not result from a transaction or a holding gain. Other changes in the volume of assets result from events that change the quantity or quality of an existing asset, events that add a new asset to the balance sheet or delete an existing asset from the balance sheet, and events that require a reclassification of existing assets.

10.3 Other economic flows are classified by the type of asset or liability affected. The classification of assets and liabilities given in Chapter 7 is used for this purpose. In addition, other economic flows can be classified by the type of event that caused the flow in as much detail as needed for the analysis being undertaken. In Table 10.1, other economic flows are classified only as being either holding gains or other changes in the volume of assets, but types of holding gains or specific types of other changes in the volume of assets could be introduced as an expansion of the table.

B. Holding Gains

1. Holding gains in general

10.4 Holding gains result from price changes and can accrue on all economic assets held for any length of time during an accounting period. It does not matter whether an asset is held the entire period, acquired during the period and held until the end of the period, held at the beginning of the period and disposed of during the period, or acquired and disposed of within the same period. In each case, a holding gain is possible and must be recorded for the entire difference between the opening and closing balance sheet to be explained correctly.

10.5 Holding gains are sometimes described as capital gains. The term holding gain is preferred because it

[1] A holding gain or loss always affects net worth. The words "gain" and "loss" are used in reference to the direction of the change in net worth. A flow that increases the value of an asset or decreases the value of a liability will increase net worth and is referred to as a holding gain. A flow that decreases the value of an asset or increases the value of a liability will decrease net worth and is a holding loss. References to financial assets can be assumed to refer also to liabilities.

emphasizes the facts that gains accrue purely as a result of holding assets and liabilities over time and the term applies equally to all types of assets and liabilities.[2]

10.6 Holding gains may be realized or unrealized. A holding gain is said to be realized when the asset in question is sold, redeemed, used, or otherwise disposed of. It is unrealized if the asset is still owned. In addition, a realized holding gain is usually understood as the gain received over the entire period that the asset is owned, but a holding gain is determined with reference to a specific accounting period.

10.7 Holding gains do not include a change in the value of an asset resulting from a change in the quantity or quality of the asset. In particular:

- The decline in the value of the fixed assets due to physical deterioration, normal rates of obsolescence, and normal accidental damage is recorded as consumption of fixed capital and not as a holding loss.

- Bills and bonds issued at a discount may increase in value progressively prior to redemption because of the accrual of interest. The increase in the market value of a bill or bond due to the accrual of interest is recorded as a transaction in the asset and is not a holding gain.

10.8 The precise calculation of holding gains requires records to be maintained of all individual transactions and other changes in the volume of assets plus the price of each asset at the time of the opening and closing balance sheets, each transaction, and each other change in the volume of an asset. In practice, it is unlikely that all of the requisite data will be available, and alternative estimation techniques using less information must be employed.

10.9 A commonly used alternative method is based on the identity that the ending balance sheet value for a category of assets must equal the beginning balance sheet value plus the net value of transactions, other changes in the volume of assets, and holding gains that affect that category of assets. If the information available on balance sheets, transactions, and other changes in the volume of assets is complete and accurate, then the net value of holding gains can be calculated as the residual value necessary to complete the identity. This formulation should not be

[2]"Revaluation" is also used in the *1993 SNA* with the same meaning as "holding gain." "Holding gain" is used exclusively in this manual.

Table 10.1: Classification of Other Economic Flows

	Holding gains	Other changes in the volume of assets
Nonfinancial assets	**41**	**51**
Fixed assets	411	511
Buildings and structures	4111	5111
Dwellings	41111	51111
Nonresidential buildings	41112	51112
Other structures	41113	51113
Machinery and equipment	4112	5112
Transport equipment	41121	51121
Other machinery and equipment	41122	51122
Other fixed assets	4113	5113
Cultivated assets	41131	51131
Intangible fixed assets	41132	51132
Inventories	412	512
Strategic stocks	4121	5121
Other inventories	4122	5122
Materials and supplies	41221	51221
Work in progress	41222	51222
Finished goods	41223	51223
Goods for resale [GFS]	41224	51224
Valuables	413	513
Nonproduced assets	414	514
Land	4141	5141
Subsoil assets	4142	5142
Other naturally occurring assets	4143	5143
Intangible nonproduced assets	4144	5144
Financial assets	**42**	**52**
Domestic	421	521
Currency and deposits	4212	5212
Securities other than shares	4213	5213
Loans	4214	5214
Shares and other equity	4215	5215
Insurance technical reserves	4216	5216
Financial derivatives	4217	5217
Other accounts receivable	4218	5218
Foreign	422	522
Currency and deposits	4222	5222
Securities other than shares	4223	5223
Loans	4224	5224
Shares and other equity	4225	5225
Insurance technical reserves	4226	5226
Financial derivatives	4227	5227
Other accounts receivable	4228	5228
Monetary gold and SDRs	423	523
Liabilities	**43**	**53**
Domestic	431	531
Currency and deposits	4312	5312
Securities other than shares	4313	5313
Loans	4314	5314
Shares and other equity (public corporations only)	4315	5315
Insurance technical reserves [GFS]	4316	5316
Financial derivatives	4317	5317
Other accounts payable	4318	5318
Foreign	432	532
Currency and deposits	4322	5322
Securities other than shares	4323	5323
Loans	4324	5324
Shares and other equity (public corporations only)	4325	5325
Insurance technical reserves [GFS]	4326	5326
Financial derivatives	4327	5327
Other accounts payable	4328	5328
Change in net worth resulting from other economic flows	***4***	***5***

interpreted, however, as implying that the value of holding gains is a residual item.

10.10 For some analytic purposes, it may be desirable to divide the total value of holding gains accruing on a category of assets into neutral and real holding gains. A neutral holding gain is the value of a holding gain that would accrue if the price of the asset changed in the same proportion as the general price level. It is the value needed to preserve the real value of the asset. A real holding gain is defined as the value accruing to an asset as a result of a change in its price relative to the prices of goods and services in general. An increase in the relative price of an asset leads to a positive real holding gain and a decrease in the relative price of an asset leads to a negative real gain.[3]

10.11 In concept, holding gains and losses occur continuously because prices change continuously. As a practical matter, holding gains for the entire accounting period are normally estimated at the end of the period.

2. Holding gains for particular types of assets

a. Financial assets with fixed monetary values

10.12 Not all assets have market prices in the ordinary sense of the term "price." The monetary values of some assets denominated in the domestic currency (including currency, deposits, most loans, advances, and trade credits) remain constant over time because the price of such assets is always unity. As a result, holding gains on these assets are always zero. Assets denominated in a foreign currency can change in value because of a change in the exchange rate.

b. Bonds and bills

10.13 When bonds and bills, especially deep-discount and zero-coupon bonds, are issued at a discount, then, in the absence of other changes, the price will gradually rise over the life of the bond until it reaches the maturity value. This increase in price is not a holding gain. Instead, the debtor is treated as having paid interest that the creditor has reinvested in an additional quantity of the bond or bill. The same treatment applies to bonds issued at a premium.

10.14 The values of bonds and bills also change, however, when the market rates of interest change. With the exception of index-linked securities, changes in the values of bonds and bills that are attributable to changes in market rates of interest are holding gains. An increase in interest rates causes a decrease in the value of the bond or bill, which is a holding gain for the debtor and a holding loss for the creditor, and conversely for a decrease in interest rates.

10.15 An index-linked security is one in which the interest and/or principal payments are indexed to changes in prices.[4] All changes in the volume of the security arising from indexation are treated as interest that is reinvested in an additional quantity of the security, much like securities issued at a discount.

c. Shares and other equity (4215, 4225)[5]

10.16 General government units may own all or part of the equity of a public corporation or the equity of a quasi-corporation. As with any other asset, a change in the monetary value of these financial assets resulting from price changes is a holding gain.

10.17 As mentioned in paragraphs 5.85 to 5.89 of Chapter 5, dividends and withdrawals of income from quasi-corporations are distributions of profits by corporations and quasi-corporations. Such distributions also decrease the net worth of the corporations and quasi-corporations and, therefore, the value of shares and other equity held by the owners. These changes in the value of shares and other equity are treated as holding gains.

10.18 As noted in footnote 9 of Chapter 5, reinvested earnings on direct foreign investment is treated as a type of property income in the *1993 SNA* but not in the GFS system. As a result, the increase in the value of the equity of a direct foreign investment enterprise resulting from an increase in retained earnings is accounted for in the GFS system as a holding gain in the same way as it is for other equity holdings. In the *1993 SNA*, it is accounted for as a transaction reflecting the acquisition of additional shares and other equity.

10.19 If the shares of a public corporation are publicly traded, then the holding gain of the government unit that owns the shares is determined by reference to the market price per share. Quasi-corporations,

[3]Information on the calculation and interpretation of neutral and real holding gains is in Chapter XII of the *1993 SNA*.

[4]This treatment of index-linked securities also applies to deposits and loans.

[5]The numbers in parentheses after each classification category are the GFS classification codes. Appendix 4 provides all classification codes used in the GFS system.

however, do not issue shares, so there cannot be a market price. In addition, the shares of public corporations may not be traded, most likely because the controlling general government unit owns all of the shares. In these cases, the total value of the shares or implicit equity of the corporation or quasi-corporation is equal to the total value of its assets less the total value of its liabilities other than shares and other equity. As a result, the holding gain is equal to the change in the total value of this measure of the equity, taking into account additions to and withdrawals from equity that may have occurred.

d. Insurance technical reserves [GFS][6] (4216, 4226)

10.20 Liabilities for insurance technical reserves include liabilities for the future payment of pensions and other retirement benefits of defined-benefit retirement schemes. The value of these liabilities can change for several reasons, one of which is the passage of time. The liability is computed as the present value of the future benefits and it will increase each period because there is one fewer period over which it is discounted. In the GFS system, this increase is treated as a property expense. In the *1993 SNA*, the increase is treated as a property expense only to the extent of any property income received from the investment of the assets of an autonomous or nonautonomous pension fund. The remaining increase is treated as a holding gain.

10.21 In the GFS system, a holding gain is recorded with respect to the liability for a defined-benefit retirement scheme when there is a change in the value of the liability because of a change in the interest rate used to discount the future benefits. The liability should be reviewed periodically and revalued as necessary for changes in market interest rates. A holding gain is recorded with respect to the liability for a defined-contribution retirement scheme whenever a holding gain is recorded with respect to the assets of the fund.

e. Financial assets denominated in foreign currencies

10.22 The value of a financial asset denominated in a foreign currency is its current value in the foreign currency converted into the domestic currency at the current exchange rate. Holding gains may occur, therefore, not only because the price of the asset in the foreign currency changes but also because the exchange rate changes.

[6][GFS] indicates that this item has the same name but different coverage in the *1993 SNA*.

f. Fixed assets (411)

10.23 Estimating the holding gains on fixed assets is complicated by the fact that the value of a fixed asset changes as a result of consumption of fixed capital as well as price changes. Consumption of fixed capital, however, is valued in terms of the average prices prevailing during an accounting period. Thus, estimating the change in the price of a given fixed asset of a given age and condition is critical for estimating both consumption of fixed capital and holding gains.

10.24 When new assets of the same type are no longer being produced, the valuation of existing assets may pose difficult conceptual and practical problems. If broadly similar kinds of assets are still being produced, it may be reasonable to assume that the prices of the existing assets would have moved in the same way as those of new assets if they were still being produced. Such an assumption becomes questionable, however, when the characteristics of new assets are much improved by technical progress.

g. Inventories (412)

10.25 The estimation of holding gains on inventories may be difficult because of a lack of data on transactions or other changes in the volume of assets:

- Many transactions in inventories are internal transactions, and the prices prevailing at the time they occur may not be adequately recorded.
- Withdrawals from inventories include an allowance for recurrent losses that are part of the normal operations of a production process.
- Other changes in the volume of assets are likely to consist of goods destroyed by natural disasters, major fires, and other exceptional events. Estimating the prices and quantities involved in these events may be difficult.

10.26 If the records needed for a direct estimation of changes in inventories are not available, it will be necessary to estimate holding gains using assumptions about the timing of additions to and withdrawals from inventories and the prices prevailing at those times. High rates of inflation complicate the difficulty of estimating the value of changes in inventories, but also increase the importance of making accurate estimates.

h. Nonfinancial assets disposed of during the accounting period

10.27 When a nonfinancial asset is disposed of in a transaction, the amount of the transaction is the exchange value of the asset less any costs of ownership transfer incurred by the disposing unit. For example, when a general government unit sells a building, it may incur a commission if it engages a sales agent to help find a buyer. The value of the disposal would then be the exchange value of the building less the commission paid. The balance sheet value of the asset immediately before the disposal, however, was the exchange value of the asset plus any costs of ownership transfer that would have had to be incurred to acquire the asset at that time and in its existing condition. The difference between the balance sheet value and the disposal value is the sum of the two types of costs of ownership transfer. To bridge this difference, a holding loss of the same value must be recorded.

C. Other changes in the volume of assets

10.28 Other changes in the volume of assets cover a wide variety of events. For the purpose of description, these events are divided into three groups. The first group consists of events that involve the recognition or derecognition of existing entities as economic assets. The second group consists of all other changes in the quantity or quality of existing assets. The final group consists of changes in the classification of assets.

10.29 Many other volume changes occur at specific times and should be recorded when the event occurs. Some other volume changes occur continuously or at frequent intervals, such as the depletion of subsoil assets, environmental damage to assets, or the expiration of a patent. These changes should be recorded in the same manner as holding gains.

1. Recognition and derecognition of economic assets

10.30 For an entity to be an economic asset, ownership rights over it must be enforced and it must be capable of providing economic benefits. If an entity, which is known to exist but is not classified as an economic asset, becomes an economic asset because of a change in relative prices, technology, or some other event, then an other volume change is recorded to recognize the asset's value and add it to the balance sheet. Conversely, an economic asset may need to be removed from the balance sheet because it is no longer capable of supplying economic benefits or because the owner is no longer willing or capable of exercising ownership rights over the asset.

10.31 Several events may require a naturally occurring nonproduced asset to be recognized. For example:

- A deposit of subsoil minerals may become economically exploitable as a result of technological progress or relative price changes.
- General economic development in nearby areas may transform land from a wild or waste state to a state in which ownership rights can be enforced and the land can be put to economic use.
- Improved access or changes in relative prices may make large-scale harvesting of timber, commercial fishing, or a significant diversion of groundwater feasible, which would move the forest, fishstock, or aquifer inside the asset boundary.

10.32 It may be difficult to determine the exact time that a natural asset should be added to the balance sheet, the value that should be attributed to it at that time, or both. Often the first substantial commercial exploitation or the signing of a contract to permit commercial exploitation is used to establish the time of recording.

10.33 Produced entities also may exist that are not recorded on the balance sheet. For example:

- The acquisition of a durable good may have been recorded as an expense because of its small cost, but its value has since increased to the point that it should be classified as a fixed asset or valuable. This type of other volume change most likely occurs with antiques, art objects, jewelry, and similar items.
- A structure or site may acquire economic value because special archaeological, historic, or cultural significance is attributed to it and it is designated as a historic monument. It may not already be on the balance sheet because its acquisition predated the accounts or its original value had been written off through consumption of fixed capital.

10.34 Conversely, a nonfinancial asset that no longer has economic value because of a change in technology, relative prices, or other event must be removed from the balance sheet. For example, the commercial exploitation of mineral reserves, land, forests, fishstocks, aquifers, and other naturally occurring assets may become infeasible, or production facilities with long construction periods may cease to have an economic rationale before being completed or put into service. If so, then a negative other volume change would be recorded to remove the asset from the balance sheet.

10.35 Most intangible nonproduced assets are created by legal or accounting actions. These actions often recognize an existing entity as an economic asset.

- When a government grants patent protection to an invention, the value of the invention is captured as an economic asset.

- When a production unit is sold at a price that exceeds its net worth, where net worth includes the value of shares and other equity in the case of a public corporation, then the excess of the purchase price over the net worth is the economic asset known as purchased goodwill. It can represent many types of assets that are not separately recognized as economic assets, such as trademarks, superior management skills, or unpatented inventions. The purchased goodwill would be recognized through an other volume change so that the revised net worth exactly equals the purchase price. The goodwill would then be sold immediately along with the production unit's other assets and liabilities.

- A contract that is a binding agreement to provide some economic benefit may change in value because of changes in prices or other events.

10.36 With regard to financial assets, a creditor may determine that a financial claim can no longer be collected because of the debtor's bankruptcy or other factors. If so, the creditor should remove the claim from its balance sheet by means of an other volume change.[7]

2. Other changes in the quantity or quality of assets

10.37 Changes in the quantities or qualities of assets other than from transactions or from the recognition or derecognition of assets may result from several types of events. Some of these events change the quantity of existing economic assets. Other events add or delete assets that have been discovered, created, cancelled, destroyed, or seized by one unit from another unit. Finally, some events change the quality of existing economic assets.

a. Changes in the quantity of existing economic assets

10.38 A catastrophic loss is the partial or complete destruction of an asset resulting from a large-scale, discrete, and recognizable event, such as a major earthquake, a volcanic eruption, a hurricane, or a major toxic spill. An other volume change is recorded to reduce or eliminate the value of any asset damaged or destroyed.

10.39 Although produced assets are the most likely candidates to be damaged or destroyed by a catastrophic loss, nonproduced assets and financial assets are also subject to damage or destruction. For example, major decreases in the value of land and other natural assets caused by abnormal flooding or wind damage and the accidental destruction of currency or bearer securities as a result of natural catastrophes or abnormal political events would be included.

10.40 Many tangible nonproduced assets, such as forests and fishstocks, will increase in volume on their own accord. Although these resources are economic assets, growth of this kind is not under the direct control, responsibility, and management of a unit. Accordingly, the increase in the value of the asset is treated as an other volume change rather than a result of productive activity.

10.41 Depletion is an other volume change that recognizes the reduction in the volume of subsoil assets, natural forests, fishstocks in the open seas, water resources, and other noncultivated biological resources as a result of the physical removal, harvesting, forest clearance, or other use of the assets.

10.42 Intangible nonproduced assets normally have a finite service life. For example, patent protection of an invention usually ceases after a fixed number of years, or the value of the invention may decline because of newer inventions. Similarly, a contract usually expires after a fixed period. The amortization of intangible nonproduced assets measures these decreases in value and is recorded as an other volume change.

10.43 In defined-benefit retirement schemes, the level of benefits promised to participating employees is determined by a formula that is usually based on participants' length of service and salary. A change in

[7] As described in Appendix 2, a reduction in a financial claim by mutual agreement between the creditor and debtor is a transaction in financial assets rather than an other economic flow.

the liability of a retirement scheme resulting from a change in the benefit structure is treated as an other volume change because it is assumed to be a unilateral change by the employer rather than a capital transfer negotiated by mutual agreement.

10.44 Consumption of fixed capital includes an allowance for a normal, expected amount of damage, and changes in inventories includes an allowance for a normal rate of shrinkage. Damage to these assets that differs from the amount covered by these allowances and that is not a catastrophic loss is considered unforeseen damage and treated as an other volume change. For example, substantial inventory losses from fire, robbery, and insect and vermin infestation of grain stores are included here. The adjustment for unforeseen damage could be an increase in assets if the actual damage falls short of the amount covered by the allowances.

b. Creation, discovery, cancellation, or seizure of economic assets

10.45 A government unit can create an economic asset by exerting ownership rights over a naturally occurring asset, such as the electromagnetic spectrum or fishstocks in exclusive economic zones. When it does so, the asset enters the balance sheet as an other volume change.

10.46 Normally the amount of land is fixed. In some cases, however, land can be created by reclaiming it from the sea with the use of dikes or other sea barriers. Such a creation would be recognized as an other volume change.

10.47 New allocations of SDRs and cancellations of existing SDRs are treated as changes in financial assets resulting from other volume changes. In most cases, SDRs are allocated to central banks, but they could be recorded on the balance sheet of a government unit when it undertakes some of the functions of the monetary authority.

10.48 Although the total volume of subsoil resources does not increase, only discovered resources can be recorded as assets. Thus, the discovery of a new deposit, whether as a result of systematic scientific explorations or by chance, that is commercially exploitable is recorded as an other volume change.

10.49 Government units may take possession of the assets of other institutional units without full compensation for reasons other than the failure to pay taxes, fines, or similar levies. Such seizures of assets, legal or illegal, are not capital transfers because they do not take place by mutual agreement of the units involved. The excess of the value of the assets seized over the value of any compensation paid is recorded as an other volume change. Foreclosures and repossessions of assets by creditors are transactions because the contractual agreement between debtor and creditor provides this avenue of recourse.

c. Changes in the quality of existing economic assets

10.50 In general, differences in quality are treated as differences in volume because different qualities reflect different use values. Such changes may occur because of a change in the permitted use of the asset, environmental damage, unforeseen obsolescence, or a fixed asset lasting longer than expected. The difference between a quality change and a price change is a matter of degree, and it may not always be clear whether an other volume change or a holding gain is most appropriate.

10.51 A change in the permitted or designated use of an asset may represent a different quality of asset. For example, a change of land use, such as from cultivated land to land underlying buildings, may increase or decrease its value, especially if such a change results from a change in a zoning classification or other administrative procedure. An other volume change of this nature would be recorded together with a reclassification, as described in the following section. An increase in the value of an existing structure or site that has been designated as a historic monument because of its special archaeological, historic, or cultural significance would also be treated as a quality change.

10.52 The quality of nonproduced assets such as land, water resources, and wildlife can be degraded by economic activity. Typical damages caused are erosion to land from deforestation or improper agricultural practices and the harmful effects on fishstocks and water resources from acid rain or excess nutrients from agricultural runoff. Another type of quality damage is the unforeseen environmental degradation of fixed assets from the effects of acidity in air and rain on building surfaces or vehicle bodies.

10.53 Improved technology embodied in new models of fixed assets or new production processes may cause obsolescence at a rate exceeding the amount allowed for in consumption of fixed capital. Decreases in the value of fixed assets from this source are recorded as other volume changes. Conversely, a fixed asset may last longer than expected. When the increased service life is determined, an other volume change is used to record the higher quality of the asset.

3. Changes in classification

10.54 The composition of the general government sector's assets may change because there has been a reclassification of an entire institutional unit or of a group of assets and liabilities. A reclassification rearranges assets and liabilities without changing the net worth of the unit or sector involved.

a. Changes in sector classification and structure

10.55 An entire unit may be reclassified from the general government sector to another sector or to the general government sector from another sector without a change of ownership or control, normally because the unit either begins or ceases to sell its output for economically significant prices. When a unit is reclassified out of the general government sector, all of the unit's assets and liabilities are removed from the general government sector and the net value of those assets and liabilities is replaced by a financial asset, shares and other equity, to reflect the continued ownership or control of the unit by a general government unit. The reverse will be true when a unit is reclassified into the general government sector.

10.56 A change in the structure of units is also recorded as a classification change. For example, two general government units may be merged into a single unit, or a single unit may be split into two units. When two units are merged, all financial claims and liabilities that existed between them are eliminated. Symmetrically, when a unit is split into two or more units, new financial claims and liabilities may appear between the new units.

b. Changes in classification of assets

10.57 Depending on the degree of detail of the classifications of assets, there may be reclassifications of existing assets and liabilities from one category to another, usually when there is a change in the purpose for which an asset is used. The change in classification is recorded as an other volume change with the same value for both entries. If the change in the use also means a change in its value, then a second other volume change is recorded as a change in quality rather than a holding gain.

10.58 Nonmonetary gold is treated as a commodity, and holdings of it are classified as an inventory or a valuable. Monetization of nonmonetary gold occurs when a unit of the monetary authority reclassifies nonmonetary gold to be monetary gold. Conversely, it might demonetize gold by reclassifying monetary gold to be nonmonetary gold. Such a change in the status of gold is treated as a reclassification.

10.59 The use of a structure may be changed from a dwelling to a government office building or vice versa. If these types of structures are classified separately, then an other volume change is recorded. The positive change in one asset category is balanced by a negative change in the other asset category.

10.60 The use of land may change, such as from cultivation to building lots or recreational use. If these types of land uses are classified separately, then an other volume change is recorded.

Appendix 1: Changes from the 1986 *A Manual on Government Finance Statistics*

This appendix summarizes the principal methodological changes from the 1986 GFS Manual.

A. Introduction

1. The revised GFS system described in this manual represents a substantial modernization and expansion of the system described in the *1986 GFS Manual*. Major changes have been made in the coverage of units and economic events to be recorded in the system, the timing at which economic events are to be recorded, definitions, classifications, and balancing items. The revised GFS system is also more harmonized with other macroeconomic statistical systems than was the 1986 GFS system. There are numerous detailed changes within each major topic, but an exhaustive listing of all such changes is beyond the scope of this appendix.

B. Coverage of units

2. The focus of the coverage of units in the revised GFS system is the general government sector as defined in the *1993 SNA*. Its definition is based on the concept of an institutional unit, which is described in Chapter 2. The general government sector consists of all resident government units and all resident nonprofit institutions that are controlled and mainly financed by government. The coverage of the 1986 GFS system is defined on a functional basis rather than a unit basis. It includes all units carrying out a function of government, but in principle, only those transactions that are directly related to the functions of government are included. By implication, the transactions that do not represent the fulfillment of a fiscal policy are excluded. In particular, all transactions related to the functions of the monetary authority and other depository financial institutions are excluded.

3. Supranational authorities are international organizations that have been endowed with the authority to raise taxes or other compulsory transfers within the territories of the countries that are members of the authority. Despite the fact that supranational authorities fulfill some of the functions of government within each member country, they are always considered nonresident institutional units. As a result they are not included in the revised GFS system for any country. In the *1986 GFS Manual*, transactions resulting from governmental functions carried out within a country by supranational organizations are included in the statistics for that country. It is possible, however, to compile statistics for supranational authorities using the revised GFS framework as if they constituted a separate country and to classify relevant categories of transactions by country.

C. Time of recording economic events

4. The time at which transactions and other economic flows are recorded is determined by the principles of accrual accounting in the revised *GFS Manual*. That is, flows are recorded when economic value is created, transformed, exchanged, transferred, or extinguished. In the *1986 GFS Manual*, transactions are recorded when cash is received or paid. In general, flows are recorded at an earlier time under the accrual basis than under the cash basis.

5. Recording flows on the accrual basis will automatically capture past-due obligations, such as arrears of debt principal, interest payments, or payments for goods and services. In the *1986 GFS Manual*, use of the cash basis means that arrears and changes in the level of arrears are not recorded.

6. The accrual basis of recording permits the difference between the redemption value of a bond or similar security and its issue price to be recorded as interest as it is earned or incurred rather than when the security matures. In the *1986 GFS Manual*, the entire difference between the issue and redemption prices is recorded as interest when the security is redeemed.

D. Coverage of events

7. The coverage of events in the revised GFS system is broader than in the *1986 GFS Manual* because the revised system includes all economic events that affect assets, liabilities, revenue, or expense rather than just those represented by a cash transaction. For example, barter and grants of goods and services are included. The *1986 GFS Manual* incorporates in-kind transactions only selectively and as memorandum items.

8. The revised *GFS Manual* includes other economic flows, which are all flows other than transactions that affect a unit's stocks of assets, liabilities, and net worth. Other economic flows must be included to reconcile fully the balance sheet at the beginning of an accounting period with the balance sheet at the end of the period. Examples of other economic flows are price changes and the destruction of assets. By definition, other economic flows are noncash events, which means that they are not part of the 1986 *GFS Manual*.

E. Valuation

9. Assets and liabilities are valued at current market prices in the revised *GFS Manual*, including debt securities that may have a different nominal value. Loans generally are not traded and therefore do not have market values. They are recorded at their nominal values. In the *1986 GFS Manual*, debt securities are always valued at the amount the government is obligated to pay when the debt matures, which may differ from both the nominal value and the current market value. The revised *GFS Manual* includes a provision for recording the nominal value of debt securities as a memorandum item.

F. Gross and net recording of flows

10. The presentation of flows on a gross or net basis is, for the most part, the same in the revised *GFS Manual* and the *1986 GFS Manual*. The major exception pertains to the sales and expenses of market establishments. Generally speaking, a market establishment is a part of a general government unit that is situated in a single location and whose primary activity is to produce and sell goods and services at economically significant prices. In concept, it is possible to compile complete accounting records with respect to an establishment's productive activity, including sales and the costs of production. In the revised *GFS Manual*, the sales and costs of production of market establishments are presented on a gross basis as revenue and expense, respectively. In the *1986 GFS Manual*, the net value of sales less the costs of production is recorded as revenue if positive and as expenditure if negative.

G. Integration of flows and stocks

11. The revised GFS system is a fully integrated system in which the stock data at the end of an accounting period can be derived from the stock data at the beginning of the accounting period and the flows occurring during the period. As a result of this integration, all events that affect the financial performance, financial position, or liquidity situation of the general government sector are included. In the *1986 GFS Manual*, the stock data included are limited to debt liabilities. The changes in the stocks of debt liabilities normally cannot be reconciled with the flows recorded. Supplementary tables are included that indicate the additional data that would be needed to complete the reconciliation.

H. Definitions and classifications

12. Revenue in the revised GFS system is an increase in net worth resulting from a transaction. Thus, revenue includes grants but excludes proceeds from disposals of nonfinancial assets. In the *1986 GFS Manual*, revenue is defined as the set of all nonrepayable receipts other than grants. Thus, revenue includes proceeds from disposals of nonfinancial assets.

13. Similarly, expense in the revised GFS system is a decrease in net worth resulting from a transaction. Purchases of nonfinancial assets do not affect net worth and are not considered expense transactions. The term "expense" replaces "expenditure" from the *1986 GFS Manual* because it is more closely associated with the accrual basis of recording and indicates that transactions in nonfinancial assets are excluded. Expenditure is defined in the *1986 GFS Manual* as the set of all nonrepayable payments and includes purchases of nonfinancial assets.

14. The classifications of revenue are substantially different in the two manuals. Revenue in the *1986 GFS Manual* is classified as tax, nontax, or capital revenue. Grants form a separate, nonrevenue category of receipts. In the revised *GFS Manual*, revenue is subdivided into taxes, social insurance contributions, grants, and other revenue. In more detail:

- Taxes exclude social security contributions in the revised *GFS Manual*, but include them in the *1986 GFS Manual*.

- Social insurance contributions in the revised *GFS Manual* include social security contributions, which are classified as taxes in the *1986 GFS Manual*, and contributions to social insurance schemes operated for the benefit of government employees, which are classified as nontax revenue in the *1986 GFS Manual*.

- Other revenue in the revised *GFS Manual* includes most of the category of nontax revenue in the *1986 GFS Manual* plus capital transfers, which are classified as capital revenue in the *1986 GFS Manual*.

- Capital revenue in the *1986 GFS Manual* consists of sales of nonfinancial assets and receipts of capital transfers. Sales of assets are not revenue in the revised *GFS Manual* and capital transfers are classified as other revenue.

15. Expense/expenditure is classified in two ways—by function and by economic type of transaction—in both the revised *GFS Manual* and the *1986 GFS Manual*. The classification by function in both manuals is the Classification of Functions of Government (COFOG) published by the United Nations, but that classification has itself been revised.[1] The revised *GFS Manual* incorporates the revised COFOG.

16. The classification of expense by economic type in the revised *GFS Manual* is broadly similar to the corresponding classification in the *1986 GFS Manual*. The primary exception is that acquisitions of nonfinancial assets are not considered an expense in the revised *GFS Manual*. Other changes include the following:

- Consumption of fixed capital is an expense in the revised *GFS Manual*. As a noncash expense, it was excluded from the *1986 GFS Manual*.

- Transfer payments are classified by type of payment in the revised *GFS Manual*. In the *1986 GFS Manual*, they are classified by the sector receiving the payment. The major types of transfer payments are subsidies, grants, and social benefits.

17. A new classification is dedicated to changes in nonfinancial assets resulting from transactions because they are not classified as revenue or expense in the revised *GFS Manual*. The classification follows the parallel classification in the *1993 SNA*, which is based on the type of asset involved in the transaction. This classification includes consumption of fixed capital because it represents a decline in the value of fixed assets.

18. Lending minus repayments is a category of transactions in the *1986 GFS Manual* representing the net acquisition of financial assets for policy purposes and is classified together with expenditures for the calculation of the overall deficit/surplus. In the revised *GFS Manual*, these transactions are classified together with other transactions in financial assets.

I. Balancing items

19. Several new balancing items are introduced in the revised *GFS Manual*, a consequence of the view that fiscal analysis must include a variety of considerations and that no single measure is sufficient for all purposes. In the *1986 GFS Manual*, the analytic framework is focused on a single balancing item, the overall deficit/surplus, although provision was made for other balancing items.

20. The analytic framework of the revised *GFS Manual* features several balancing items. The Statement of Government Operations includes the following:

- The net operating balance, which is defined as revenue less expense and represents the change in net worth resulting from transactions.

[1]The revised COFOG was developed by the Organisation for Economic Co-operation and Development and published by the United Nations.

- Net lending/borrowing, which is defined as the net acquisition of financial assets less the net incurrence of liabilities, or alternatively as the net operating balance less the net acquisition of nonfinancial assets.

21. The Statement of Sources and Uses of Cash includes the cash surplus/deficit to indicate the balance of cash flows from government operations and the net acquisition of nonfinancial assets. It is similar to the overall deficit/surplus of the *1986 GFS Manual* except that net cash outflows from lending and repayment transactions are not subtracted.

22. Another balancing item in the revised *GFS* Manual is the overall balance, defined as net lending/borrowing adjusted through the rearrangement of transactions in assets and liabilities that are deemed to be for public policy purposes. Notably, all proceeds under privatization (including fixed asset sales) would be included as financial items; and subsidies given in the form of loans would be recognized as an expense. It is the equivalent of the overall deficit/surplus in the *1986 GFS Manual*, but determined using the accrual basis or recording.

23. Other balancing items in the revised *GFS Manual* include net worth, net financial worth, the change in net worth, and the change in net financial worth—all related to the balance sheet—the change in net worth from other economic flows, the primary balance, and saving. There are no similar balancing items in the *1986 GFS Manual*.

J. Harmonization with other statistical systems

24. The revised GFS system is harmonized with other international macroeconomic statistical systems. That is, the basic concepts, definitions, and conventions are the same to the extent possible given the goal of the GFS system of supporting fiscal analysis. The other statistical manuals with which the GFS system has been harmonized are the *1993 SNA*, the fifth edition of the IMF's *Balance of Payments Manual*, and the IMF's *Monetary and Financial Statistics Manual*. The *1986 GFS Manual* follows the 1968 version of the SNA[2] where possible, but the degree of harmonization is much less, primarily because of the use of the cash basis of recording in the *1986 GFS Manual*.

25. The major differences between the revised GFS system and the macroeconomic statistical systems with which it is harmonized are the classifications used and the resulting balancing items. For example, the classifications of taxes in the revised GFS system and in the *1993 SNA* are quite different, but the definition of a tax is the same in both systems. The treatments of retirement schemes and reinvested earnings on direct foreign investment in the GFS system differ from the treatment in the *1993 SNA*, and, as a result, net lending/borrowing differs in the two systems. In addition, differences in coverage mean that some items, such as compensation of employees, are defined identically but are less inclusive in the GFS system than in the *1993 SNA*. Appendix 3 provides additional information on harmonization of the GFS system with the *1993 SNA*.

[2]United Nations, *A System of National Accounts*, Studies in Methods, Series F, No. 2, Rev. 3 (New York, 1968).

Appendix 2: Government Debt Operations

This appendix describes various debt and debt-related transactions and other economic flows in which a general government unit may be involved.

A. Introduction

1. In addition to normal interest expense and principal repayment transactions regarding their own debt, general government units may undertake a range of often complex debt and debt-related transactions, including assuming debt guaranteed for other units, rescheduling debt, and canceling debt. This appendix summarizes the transactions and other economic flows that arise from government debt and debt-related operations.

B. Interest, principal, and arrears

2. The most common debt transactions of general government units are interest expense and the repayment of principal. Interest is an expense incurred by a debtor for the use of another unit's funds. An interest-bearing financial instrument can be classified as deposits, securities other than shares, loans, or accounts receivable/payable. Interest accrues continuously and is treated as if the debtor pays it continuously to the creditor and the debtor continuously borrows an additional quantity of the same financial instrument, thereby increasing the debtor's total liability. When the debtor makes a payment, the liability is reduced.[1] Traditionally, the share of a periodic payment equal to the amount of interest that has accrued and is due for payment is referred to as an interest payment. The remainder is referred to as a principal payment.

[1]Interest accruing on deposits and loans may have to follow national practices and be classified under accounts payable/receivable rather than additional amounts of deposits and loans.

3. If the debtor does not make a payment on or before its scheduled date, including any grace period, a payment arrear is created. Depending on the contractual conditions, the existence of arrears may change the terms of the entire liability or only the portion in arrears. For example, failure to make a scheduled payment may convert the entire principal of a long-term loan into a loan callable on demand. If the terms and conditions have changed with respect to any part of the liability, that part should be treated as a separate instrument, possibly in a different category of liabilities. Thus, it is recorded as if a payment were made on the scheduled date equal to the amount being reclassified, and then the creditor lent the same amount to the debtor under the new terms. In this way, the amount of financing obtained by not making scheduled payments becomes clear. When arrears exist, either each relevant category of liabilities should be subclassified to indicate the amounts in arrears, or the amounts in arrears should all be classified as accounts payable.

C. Debt assumption

4. General government units often guarantee debts incurred by other units. Frequently the creditor is willing to lend funds to the debtor only if a general government unit guarantees the debt. Debt assumption takes place when the creditor invokes the contract conditions permitting the guarantee to be called, and the general government unit assumes responsibility for the debt as the primary obligor, or debtor. Thus, debt assumption involves three units—the general government unit, the creditor, and the original debtor. The government incurs a new liability to the creditor and the liability of the original debtor is extinguished. The new debt may carry the same terms as the original debt, or new terms may come into force because the guarantee was invoked.

5. When a general government unit assumes a debt, it may or may not acquire a claim against the original debtor. If it does acquire a claim, the claim may or may not be effective in the sense that there is a realistic probability that it will be paid. When the general government unit acquires an effective claim, it records an increase in liabilities to the creditor and the acquisition of a financial asset with the original debtor as the counterparty. There is no change in net worth, assuming the new claim is equal in value to the liability incurred.

6. If the general government unit does not acquire an effective claim on the original debtor, then the classification of the transaction depends on the relationship between the general government unit and the original debtor. If the original debtor is a public corporation owned or controlled by the assuming general government unit and the corporation continues to be a going concern, then the assumption amounts to an increase in the equity owned by the general government unit. In this case, the general government unit records an increase in liabilities to the creditor and an increase in shares and other equity. There is no change in the net worth of either unit. If the original debtor is bankrupt, no longer a going concern, or is not a unit owned or controlled by the assuming general government unit, then the general government unit has made a transfer payment. It records an increase in liabilities and an expense, which is classified as a capital grant if the original debtor is a foreign government or another general government unit and as other miscellaneous expense/capital transfers if the original debtor is any other unit. Net worth has decreased by the amount of the transaction.

D. Debt payments on behalf of other units

7. General government units may make one or more debt-service payments on behalf of other units, usually under guarantees or similar arrangements, without actually assuming the debt. These payments may involve interest or principal that is due to be paid by the other unit. Such payments cannot be classified as interest expense or repayment of principal because the general government unit does not have an actual liability. The treatment of these payments depends on whether the general government unit acquires an effective financial claim on the debtor and, if not, the nature of the unit.

8. If the general government unit obtains an effective financial claim against the original debtor, then it records an increase in financial assets and a decrease in cash. If the general government unit does not obtain an effective financial claim, then it records an expense. When a single payment of a small part of the debtor's liability or a series of such payments is involved, the expense is classified as a current grant when the debtor is another general government unit or a foreign government, as a subsidy when the debtor is a corporation, and as miscellaneous other expense when the debtor is any other type of unit. If the general government unit pays the entire liability of the debtor in a single payment, then the transaction is treated as debt assumption.

E. Debt forgiveness

9. Debt forgiveness is the cancellation of a debt by mutual agreement between a creditor and debtor. It is always recorded as the creditor providing a capital grant or transfer to the debtor. General government units may be involved in debt forgiveness as a creditor or a debtor.

10. Debt forgiveness results in a decrease in financial assets and usually a decrease in net worth for the creditor equal to the value of the debt forgiven and a decrease in liabilities and an increase in net worth for the debtor. If the second party to the transaction is a foreign government or a unit at another general government unit, then the transaction is a capital grant for both the creditor and the debtor. If the second party to the transaction is any other type of unit, then the transaction is classified as miscellaneous other expense/capital transfers when the general government unit is the creditor and as other revenue/capital voluntary transfers other than grants when it is the debtor.

F. Debt restructuring and rescheduling

11. General government units may agree in a bilateral arrangement to alter the terms for servicing an existing debt, either as a creditor or a debtor, usually on more favorable terms for the debtor and possibly with partial debt forgiveness. These terms may include extending repayment schedules, adding or extending grace periods for interest and principal payments, or rescheduling debt-service payments that are due and/or in arrears. All such changes in the contractual relationship between debtors and creditors are accounted for by transactions that reduce liabilities by the amount of debt that has been reorganized and increase liabilities by the market value of the new debt.[2] Any debt forgiven is accounted for as a capital transfer as described in paragraphs 9 and 10. Other adjustments, such as to take into account changes in foreign exchange rates, are accounted for as a holding gain or loss.

G. Debt write-offs and write-downs

12. General government units that are creditors may write off financial assets without an agreement with the debtor in cases such as bankruptcy of the debtor. For example, a public corporation that has borrowed from the general government unit may be insolvent and its assets liquidated. As a result, the general government unit's claim has no value and is eliminated from the balance sheet by recording an other economic flow. A unilateral write-down of a partial value of a debt is treated similarly, but the reduced amount of the debt remains on the balance sheet. A unilateral write-off by a debtor, or debt repudiation, is not recognized.

13. In general, loans are valued in the balance sheet of both creditors and debtors at nominal value. Loans that have become marketable in secondary markets should be reclassified as securities other than shares and valued at market prices. In addition, general government units may find that other loans are worth less than their nominal value on the evidence of similar debt that has been traded in the market (for example, under loan-for-equity swaps). In such circumstances, a memorandum item should be recorded noting the apparently lower value of the loans.

H. Debt-for-equity swaps

14. A general government unit acting as a creditor might exchange a debt instrument for shares and other equity issued by the same unit that issued the debt instrument. The recording of this event depends on the value of the shares and other equity received by the general government unit and whether there has been an agreement to forgive debt.

15. In all cases, the general government unit will record transactions reflecting an exchange of financial assets as debt has been exchanged for equity. The value of the shares and other equity received may be the same or differ from the value of the debt given up. If there was a bilateral agreement to forgive part of the debt, then a capital transfer would be recorded for the amount forgiven. The remaining difference between the value of the shares and other equity and the value of the debt should be recorded as a holding gain or loss. If there is no bilateral agreement to forgive debt then any difference is a holding gain or loss.

16. Determining the value of the shares may be difficult if the shares are not actively traded on a market, as is likely to be the case if the unit that issued the shares is a controlled public corporation. If the shares are not traded, then most likely they will have to be valued based on the total value of the corporation's assets less the total value of its liabilities, where the shares and other equity are not included as liabilities.

I. Financial and operating leases

17. A general government unit may be involved in leasing fixed assets, most likely as the lessee, but possibly as the lessor. If so, the lease must be classified as an operating or financial lease. If it is an operating lease, the lease payments are treated as use of goods and services expense if the general government unit is the lessee and as sales of goods and services if it is the lessor. If it is a financial lease, then the lessor is treated as having sold the asset to the lessee and financed the sale with a loan. This treatment of leases of fixed assets is the same as the treatment in the *1993 SNA*.

18. Operating leasing is a productive activity that involves renting fixed assets for terms less than the expected service lives of the assets. It is a form of production in which the lessor provides a service to the lessee in exchange for the lease payments. Operating leasing can be identified by the following characteristics: (a) the lessor normally maintains a stock of equipment in good working order which can be hired on demand or at short notice, (b) the equipment may be rented out for varying periods of time, and (c) the lessor is frequently responsible for the maintenance and repair of the equipment as part of the service provided to the lessee.

19. In contrast, financial leasing is an arrangement for financing acquisitions of fixed assets. It is a contract between a lessor and a lessee whereby the lessor owns a fixed asset and puts it at the disposal of the

[2]Nominal value if a loan is involved.

lessee, and the lessee contracts to pay rentals that permit the lessor to recover all or almost all of its costs, including interest. As a result, the risks and rewards of ownership pass from the lessor to the lessee. In order to capture the economic reality of such arrangements, a change of ownership from the lessor to the lessee is deemed to take place, even though legally the leased good remains the property of the lessor, at least until the termination of the lease when the legal ownership is usually transferred to the lessee.

20. The rental payments made each period by the lessee include an interest payment and a principal payment. If the market value of the asset is known at the inception of the lease, then it is the value of the transaction, and the rate of interest on the loan is determined implicitly by the total amount paid as rentals over the life of the lease in relation to the price of the asset. If the market value of the asset cannot be determined reliably, then its value is estimated as the present value of the lease payments discounted at an appropriate market rate of interest.

J. Defeasance

21. Another debt-related operation is defeasance, in which a debtor unit removes liabilities from its balance sheet by pairing them with financial assets, the income and value of which are sufficient to ensure that all debt-service payments are met. Defeasance may be carried out by placing the assets and liabilities in a separate account within the institutional unit concerned or by transferring them to another unit. In either case, the GFS system does not recognize defeasance as affecting the outstanding debt of the debtor. Thus, no transactions with respect to defeasance are recorded in the GFS system as long as there has been no change in the legal obligations of the debtor. When the assets and liabilities are transferred to a separate account within the unit, both assets and liabilities should be reported on a gross basis. If a separate unit is created to hold the assets and liabilities, that new unit should be treated as an ancillary unit and consolidated with the defeasing unit.

Appendix 3: Government Finance Statistics and the System of National Accounts

This appendix describes the relationship between the GFS system and the System of National Accounts.

A. Introduction

1. With few exceptions, the stocks and flows of the GFS system are defined and valued in the same way and are recorded with the same timing as they are in the SNA.[1] The presentation of the GFS system in Chapter 4, however, differs from the presentation of the general government sector in the *1993 SNA*. In addition, the GFS treatment of some activities differs from the SNA treatment of the same activities, both systems have balancing items that are not in the other system, and the classifications differ.

2. This appendix summarizes the important similarities of and differences between the two statistical systems. It also indicates how the data compiled for the GFS system can be used as an input to the compilation of the accounts for the general government sector in the SNA. It does not list, however, all differences between the two systems and should not be considered a comprehensive guide.

B. Coverage and accounting rules

3. As described in Chapter 2, the general government sector in the GFS system is identical to the general government sector in the SNA.[2] Compilers of both systems should ensure that the actual coverage used in their statistics is identical.

4. Most of the accounting rules employed in the two systems are identical. In particular, the rules for time of recording and the valuation of stocks and flows and the rules governing the gross or net recording of stocks and flows are identical.

5. The principal difference between the two systems regarding accounting rules concerns consolidation, which is the elimination of all within-sector asset-liability positions and all transactions between two units of the same sector.[3] In general, consolidation is not used in the SNA. Thus, government bonds held by one government unit that are issued by another government unit are shown as both financial assets and liabilities in the balance sheet of the general government sector. In contrast, full consolidation is used in the GFS system.[4] The purpose is to show the activities of the general government sector, or any other grouping of units, as if only a single unit existed. Consolidation is an adjustment process that takes place after the statistics have been compiled for each unit. Because SNA statistics are not consolidated, the GFS compiler should preserve the unconsolidated statistics for use by the national accounts compiler.

C. Comparison of the structures of the GFS and SNA systems

6. Both the GFS and SNA systems can be described as the systematic recording and presentation of stocks and flows, with the flows comprising transactions and other economic flows. The actual flows recorded, however, differ in a number of instances, primarily

[1] In this appendix, most references to the *1993 SNA* concern the general content of the volume rather than the citation of a specific portion of the text. The expression "in the SNA" is used to refer to the *1993 SNA* as a body of thought.

[2] The public sector is not one of the five primary sectors in the SNA, but it is defined in Chapter XIX, and that definition is identical to the definition in Chapter 2 of this manual.

[3] Consolidation can be applied to the statistics of any group of units, including subsectors of the general government sector, the entire public sector, or any other grouping suggested in Chapter 2 as having analytic interest.

[4] It is acknowledged in paragraph 3.121 of the *1993 SNA* that consolidation is relevant for the general government sector.

because the treatments of government productive activities are quite different in the two systems.

7. The GFS analytic framework consists of four statements. The Statement of Government Operations is a presentation of all transactions recorded in the GFS system. Other economic flows are presented in the Statement of Other Economic Flows, and the stocks are presented in the Balance Sheet. Finally, the Statement of Sources and Uses of Cash provides information on cash flows.

8. In the SNA, transactions are presented in a sequence of seven accounts (see Table A3.1), other economic flows are presented in two accounts, and stocks are presented in the Balance Sheet. There is no SNA equivalent to the GFS Statement of Sources and Uses of Cash.

9. In the SNA, the sequence of transaction accounts is divided into current and accumulation accounts. The current accounts record the production of goods and services and the generation, distribution, redistribution, and use of income. The accumulation accounts record the acquisition and disposal of assets and liabilities. Despite the large number of accounts in the SNA, there is a close correspondence between the structures of the two systems.[5]

10. The GFS Statement of Government Operations is divided into three sections. The transactions presented in the first section are similar to the transactions in the current accounts of the SNA with one exception: capital transfers are shown in the Capital Account of the SNA, one of the accumulation accounts. All of the GFS transactions presented in the second and third sections of the Statement of Government Operations are shown in the Capital and Financial Accounts, respectively, of the SNA.

11. There are more balancing items in the SNA than in the GFS system because there are more transaction accounts than sections of the Statement of Government Operations. In addition, the different treatment of selected activities and the placement of capital transfers means that the GFS balancing item for the first section of the Statement of Government Operations, the net operating balance, differs from saving, the final balancing item in the sequence of current accounts in the SNA.[6]

[5]Explicit provision is made in the SNA for flexibility in the presentation of stocks and flows. The accounts described here comprise the basic presentation described in Chapters VI through XIII of the *1993 SNA.*

Table A3.1 Sequence of SNA Transaction Accounts

Current accounts	I.	Production Account
	II.1.1.	Generation of Income Account
	II.1.2.	Allocation of Primary Income Account
	II.2.	Secondary Distribution of Income Account
	II.4.1.	Use of Disposable Income Account[1]
Accumulation accounts	III.1.	Capital Account
	III.2.	Financial Account

[1]There is an alternative sequence of accounts in which the Secondary Distribution of Income Account (II.2) is augmented with the Redistribution of Income In-kind Account (II.3) and the Use of Disposable Income account (II.4.1) is replaced by the Use of Adjusted Disposable Income Account (II.4.2). See Chapters VIII and IX of the *1993 SNA* for additional details on these accounts.

Net lending/borrowing is the balancing item for the second and third sections of the Statement of Government Operations and for the Capital and Financial Accounts of the SNA.[7]

12. The GFS Statement of Other Economic Flows covers all other economic flows, classified by type of asset or liability affected and whether the flow is a holding gain[8] or an other change in the volume of assets. In the SNA, the same distinction between holding gains and other changes in the volume of assets is made, but these two types of flows are recorded in separate accounts rather than in a single statement: the Other Changes in Volume of Assets Account and the Revaluation Account.[9] The coverage of the GFS Balance Sheet is identical to the coverage of the Balance Sheet in the SNA.

D. Use of GFS data to compile the SNA

13. Despite the structural similarities, the different treatments of certain activities in the two systems and the particular needs of fiscal analysis mean that the actual transactions and other flows recorded in the various statements and accounts may differ. This section reviews these differences, which are also noted in the main text.

[6]The net operating balance is comparable to "changes in net worth due to saving and net capital transfers," an aggregate determined in the Capital Account of the SNA.
[7]Because of the different treatments of some activities, net lending/borrowing and saving in the GFS system differ from net lending/borrowing and saving in the SNA.
[8]As stated in Chapter 10, holding gain is used as a short reference to holding gain or loss.
[9]"Revaluations" and "holding gains" are used interchangeably in the *1993 SNA*.

14. In addition, it is likely that in many countries the statistics compiled for the GFS system will be used by the compilers of the national accounts as the starting point for compiling statistics for the general government sector of the SNA. Table A3.2 identifies the SNA account in which a transaction from the GFS system would be recorded, the SNA classification code, and whether the transaction is considered a resource, use, change in an asset, change in a liability, or change in net worth.[10] When a transaction is recorded in a current account of the SNA, it is classified as a "use" (a reduction in the economic value of the unit) or a "resource" (an addition to the economic value of a unit). When a transaction is recorded in an accumulation account of the SNA, it is classified as a change in an asset, a change in a liability, or a change in net worth depending on its effect on the balance sheet. This section also provides guidance on estimating selected elements of the SNA.

1. Accounting for production

15. The productive activities of government are recorded quite differently in the two statistical systems. As a result, deriving the production-related entries of the SNA from statistics of the GFS system is complex. In order to facilitate an understanding of the links between the two systems, the SNA accounts are referred to by their names and the SNA and GFS classification codes are indicated the first time a particular category of flows is referenced.[11]

16. Output is the value of goods and services produced during an accounting period. It is not recorded as such in the GFS system because most of the output of general government units is distributed on a nonmarket basis. In the SNA, transactions related to the production of goods and services are recorded in the Production and the Generation of Income Accounts.

a. The Production Account

17. The Production Account includes (1) the output (SNA classification code P.1) of all goods and services produced by a general government unit as a resource, with the total divided into market output (P.11), output for own final use (P.12) (referred to as own-account capital formation in this manual), and other nonmarket output (P.13); (2) intermediate consumption of goods and services (P.2) as a use; and (3) consumption of fixed capital (K.1) as a use. The balancing item is value added (B.1), which can be presented gross or net of consumption of fixed capital.

18. The total output of the general government sector is determined as the sum of the output of nonmarket establishments and the output of market establishments. The output of the two types of establishments is derived quite differently, as described in the following paragraphs.

19. The output of nonmarket establishments cannot be determined from sales statistics because most of it is distributed without charge or sold for prices that are not economically significant. Instead, the output of nonmarket establishments is defined to be equal to the sum of the production costs: compensation of employees, intermediate consumption, consumption of fixed capital, other taxes on production paid, and other subsidies on production received (as a negative value). In order to make this calculation, the total values of each of these expense categories need to be divided into expenses incurred by market and nonmarket establishments.

20. The output of market establishments is equal to the sales of those establishments (GFS revenue category 1421) plus changes in inventories of work in progress and finished goods of those establishments. Thus, GFS data on the total change of those types of inventories need to be divided into separate data for market and nonmarket establishments for SNA purposes.

21. Once the total output of the general government sector has been estimated, it must be allocated among the three components: market output, output for own final use, and other nonmarket output. Output for own final use is the value of nonfinancial assets constructed for own use by general government units and is available directly from the GFS system as memorandum item 3M1 in Table 8.1.[12] Market output and other nonmarket output, however, are not available directly and do not necessarily

[10] Table A3.2 is designed to be read from left to right. The left column is a list of transaction categories in the GFS system. The right column identifies the SNA category in which a given GFS transaction would be recorded. The SNA category may, however, include transactions that are not recorded in the GFS system or transactions from more than one GFS category.

[11] SNA classification codes for transactions and other flows have the form of a letter (D, F, K, or P) followed by a number. SNA codes for balancing items use the letter B. The GFS coding system is presented in Appendix 4.

[12] In the SNA, provision is made to value this output at market prices if the assets constructed on own account are also offered for sale on the market. In the GFS system, it is assumed that assets constructed on own account by the general government sector are not offered for sale on the market so that valuation based on the cost of production is acceptable.

correspond to the output of market and nonmarket establishments because nonmarket establishments can produce market output.

22. Market output is the sum of the entire output of market establishments, actual sales of nonmarket establishments, and other output that is imputed to have been sold. Imputed sales are in-kind transactions that are valued at market prices. They comprise goods and services produced by general government units and provided (a) to employees as part of their compensation, (b) as social benefits in accordance with employer social insurance schemes, (c) to other governments and international organizations, and (d) to nonprofit institutions serving households and to individuals or households in compensation for damage or in settlement of an insurance claim. These transactions are described in more detail in paragraph 33. Once market output and output for own final use are determined, the value of other nonmarket output can be calculated residually as the total output of the general government sector less output for own final use and market output.

23. Intermediate consumption is needed for the SNA production account but is not a GFS expense category. It is the total value of all goods and services consumed by general government units in their productive activities. Intermediate consumption is equal to:

Use of goods and services (GFS expense category 22).

plus

Goods and services used in own-account capital formation (memorandum item 3M12).

plus

The consumption of financial intermediation services indirectly measured (FISIM) and insurance services.

minus

Goods purchased for resale.

plus

The change of inventories of work in progress, finished goods, and goods purchased for resale.

24. For SNA purposes, the values for FISIM and insurance services are derived by partitioning actual interest and non-life insurance premium transactions. A financial intermediary sets its interest rates for depositors and borrowers at levels that will provide a margin large enough to defray the costs of providing its services to its depositors and borrowers without explicit fees. Interest payable to or receivable from a financial intermediary is, therefore, partitioned in the SNA into a payment for FISIM services and an adjusted amount of interest. Similarly, the payment of non-life insurance premiums is partitioned into purchases of services from the insurance enterprise and the payment of net non-life premiums (D.71). In the GFS system, these partitions are not made because they can be estimated only with the aid of data for the entire economy. Instead, the entire values of the actual transactions are recorded as interest and non-life insurance premiums.[13]

25. Establishments engaged in own-account capital formation by definition do not purchase goods for resale and do not have changes in inventories of work in progress or finished goods. All other establishments could have these items.

26. Consumption of fixed capital in the SNA equals the expense category of the same name in the GFS system (23) plus the amount recorded as a component of own-account capital formation (memorandum item 3M13).

b. The Generation of Income Account

27. The Generation of Income Account starts with value added and then includes (1) compensation of employees (D.1) as a use, (2) other taxes on production (D.29) paid as a use, and (3) other subsidies on production (D.39) received as a negative use. Its balancing item is the operating surplus (B.2), which also can be presented gross or net of consumption of fixed capital.

28. Compensation of employees in the SNA equals the expense category of the same name in the GFS system (21) plus the amount recorded as a component of own-account capital formation (memorandum item 3M11).

29. The taxes and subsidies that are included in the valuation of the output of nonmarket establishments consists of other taxes on production paid by general government units to other government units and other subsidies on production received by general government units from other government units. These amounts are likely to be rare and/or small in magnitude. Taxes paid are classified in the GFS system as miscellaneous other expense (282) and subsidies are classified as grants received from other

[13]See Annexes III and IV of the *1993 SNA* for additional details on the estimation of these services.

levels of national government (133). Both would be eliminated in consolidation when statistics for the general government sector are compiled.

2. Final consumption

30. Final consumption is a key component of gross domestic product. It is implemented in the SNA in two ways: final consumption expenditure (P.3) and actual final consumption (P.4). The difference between them is social transfers in kind (D.63), which represents the final consumption of goods and services purchased by general government units but actually consumed by households.

31. Final consumption expenditure of the general government sector is not an element of the GFS system. It can be calculated as

Total output, as described in paragraphs 18 to 20.

plus

Purchases of goods and services that are transferred to households without further transformation.

minus

Actual and imputed sales of goods and services, including sales of used goods and scrap.

minus

Changes in inventories of work in progress and finished goods.

minus

Output of own-account capital formation.

32. Purchases of goods and services that are transferred to final consumers without further transformation are classified as social security benefits in kind (2712), social assistance benefits in kind (2722), or other current expense (2821) depending on the nature of the program governing their distribution. See paragraph 36 for additional details.

33. Actual sales of goods and services is the sum of sales by market establishments (1421), administrative fees (1422), and incidental sales by nonmarket establishments (1423). Imputed sales include the following:

- Goods and services produced by the general government sector and provided as social benefits in kind in accordance with employer social insurance schemes are treated as if there had been a transfer to the beneficiaries in cash followed by a sale of the output to the beneficiaries. Thus, the output is shown in the SNA as final consumption expenditure of the households while the transfer is shown as a social benefit (recorded in the Secondary Distribution of Income Account/social benefits other than social transfers in kind/private funded social insurance benefits (D.622) or unfunded employee social insurance benefits (D.623)).

- Goods and services produced by the general government sector and provided as grants in kind to other governments and international organizations are treated as if there had been a transfer in cash followed by a sale of the output to the recipients of the goods and services. The output is shown as exports (P.6) in the case of grants to foreign governments and international organizations and either government final consumption expenditure or gross fixed capital formation (P.51) in the case of grants to other domestic general government units. The transfer is shown in the Secondary Distribution of Income Account/other current transfers/current transfers within general government (D.73) or current international cooperation (D.74) or in the Capital Account/capital transfers/investment grants (D.92) or other capital transfers (D.99).

- Goods and services produced by the general government sector and provided to employees as wages in kind are treated as compensation of employees paid in cash followed by a sale to the employees (1424). The compensation is recorded in the Generation of Income Account/compensation of employees/wages and salaries (D.11), and the output is recorded as household final consumption expenditure.

- Goods and services produced by the general government sector and provided as transfers in kind to nonprofit institutions serving households or to individuals or households as compensation for damage to property or personal injury or as the settlement of an insurance claim are treated as a transfer in cash and a sale of market output. The transfer is recorded in the Secondary Distribution of Income Account/other current transfers/non-life insurance claims (D.72) or miscellaneous current transfers (D.75), and the output is recorded as final consumption expenditure of the households sector or the nonprofit institutions serving households sector.

34. When an existing good is sold, the amount received from its sale is recorded as negative final consumption expenditure if the acquisition of the good had been classified as final consumption expenditure. For example, acquisitions of weapons and weapon-delivery systems by the military are classified as final consumption expenditure. Therefore, sales of used military weapons and weapon-delivery systems are negative final consumption expenditure. Sales of used goods and scrap are part of miscellaneous and unidentified revenue (145).

35. Changes in inventories of work in progress and finished goods are categories 31222 and 31223 in Table 8.1. Own-account capital formation is part of output but not part of final consumption expenditure. In the GFS system, the value can be obtained from memorandum item 3M1.

36. As mentioned in paragraph 32, the difference between final consumption expenditure and actual final consumption is social transfers in kind. The GFS expense categories of social security benefits in kind (2712) and social assistance benefits in kind (2722) consist entirely of reimbursements of households for purchases of social security benefits in kind or direct purchases by general government units of social security or social assistance benefits from market producers. In addition, category 2821 may include purchases of individual nonmarket goods and services (D.632), such as purchases of education, recreation, and cultural services from market producers. Also included in social transfers in kind is the value of goods and services produced by general government units and transferred to households as social security benefits, social assistance benefits, or individual nonmarket goods and services. Information on these goods and services may be obtainable from the cross-classification of the Classification of Functions of Government (COFOG) and economic type of expense in Table 6.3. The annex to Chapter 6 lists the services that are considered individual.

3. Social insurance

37. Social contributions paid by employers as part of compensation of employees in the GFS system (212) is identical to the same category in the SNA (D.12). The amount recorded for social contributions received by units operating social insurance schemes, however, can be quite different in the two systems. In the SNA, all social contributions received by employees as compensation are deemed to be paid to the operator of the scheme as social contributions (D.61). In the GFS system, social contributions paid to employer social insurance schemes providing pensions and other retirement benefits are classified as incurrences of liabilities by the operator of the scheme (3316) rather than as revenue from social contributions (12).

38. In addition to social contributions paid as compensation of employees, operators of funded employer social insurance schemes are deemed in the SNA to pay property income attributed to insurance policyholders (D.44) to the beneficiaries of the schemes equal to the property income and net operating surplus earned from the investment of the reserves of the scheme. This property income is then deemed to be paid by the beneficiaries to the operator of the scheme as a supplemental social contribution. These imputed social contributions are not recorded in the GFS system. The value of this item must be derived from the records of the applicable social insurance schemes.

39. In the SNA, all social benefits paid, including pensions and other retirement benefits, are recorded either in the Secondary Distribution of Income Account/social benefits other than social transfers in kind (D.62) or in the Redistribution of Income Account/social transfers in kind. In the GFS system, the expense category of social benefits (27) is narrower. It includes (a) all social security and social assistance benefits except benefits in the form of goods and services produced by general government units and (b) employer social benefits except retirement benefits and all benefits in the form of goods and services produced by general government units. Retirement benefits are classified as reductions in liabilities of insurance technical reserves. The costs of social benefits produced by general government units are recorded as costs of production in the various GFS expense categories, such as compensation of employees and use of goods and services. The estimation of social security and social assistance benefits produced by general government units has already been mentioned in paragraph 36. Employer social benefits would have to be estimated similarly.

40. In the SNA, an entry in the Use of Disposable Income and Use of Adjustment Disposable Income Accounts is labeled the adjustment for the change in the net equity of households in pension funds" (D.8). It is equal to the total value of the actual social contributions payable to funded employer retirement schemes plus the total value of social contribution supplements minus the value of the associated service charges minus the total value of the pensions paid out as social insurance benefits by funded employer retirement schemes. The different treatment of retirement schemes eliminates the need for this item in the GFS system.

4. Other transactions and other economic flows

41. The GFS system includes a detailed classification of taxes based on common practices in tax administration. In the SNA, taxes are classified according to their role in economic activities as (1) taxes on production and imports (D.2), (2) current taxes on income, wealth, etc. (D.5), or (3) capital taxes (D.91). The result is that some tax categories in the GFS system, such as motor vehicle taxes, need to be allocated between two of the SNA tax categories according to whether they are payable by producers or final consumers. These taxes are indicated in Table A3.2. The information necessary to allocate these taxes, however, may not be available to the GFS compilers.

42. There are several types of property income:

- Dividends (D.421 in the SNA and 1412 or 2811 in the GFS system), withdrawals from income of quasi-corporations (D.422, 1413, and 2812), and rent (D.45, 1415, and 2814) are identical in both systems.

- The amounts recorded as interest revenue (1411) and expense (24) in the GFS system must be adjusted for recording in the SNA (D.41) when they include sums paid to or received from financial intermediaries. This adjustment, which was described in paragraph 24, can be made only by compilers of the national accounts.

- Property income attributed to insurance policy holders with respect to funded employer social insurance schemes was described in paragraph 38 as a transaction in the SNA equal in value to the property income and/or net operating surplus earned by the fund from the investment of its reserves. In the GFS system this item (2813) is equal to the increase in the liability of a defined-benefit retirement scheme resulting from the passage of time. The SNA values can be derived from the detailed records of the retirement schemes.

- Reinvested earnings on direct foreign investment (D.43) is not recorded in the GFS system; it must be estimated from other sources. It is described in footnote 9 of Chapter 5.

43. Other current transfers (D.7) in the SNA is a disparate collection of entries that are found in various places in the GFS system. Net non-life insurance premiums must be adjusted for the imputation of the sale or purchase of insurance services, as described in paragraph 24. In the GFS system, gross non-life insurance premiums are recorded as miscellaneous and unidentified revenue (145) or miscellaneous other expense (282). Non-life insurance claims are identical in both systems. As with premiums, they are recorded in the GFS system as miscellaneous and unidentified revenue (145) or miscellaneous other expense (282). Current transfers within general government and current international cooperation are recorded in the GFS system as current grants received (1311, 1321, or 1331) or paid (2611, 2621, or 2631) except for goods and services produced by general government units (paragraph 33). Miscellaneous current transfers might be recorded as fines, penalties, and forfeits (143), current voluntary transfers other than grants (1441), miscellaneous and unidentified revenue (145), miscellaneous other expense (282), or goods and services produced by general government units (paragraph 33).

44. Most of the entries in the Capital Account of the SNA can be derived directly from the corresponding entries in the GFS system. In particular, acquisitions less disposals of tangible fixed assets (P.511) is the sum of acquisitions less disposals of buildings and structures (3111), machinery and equipment (3112), and cultivated assets (31131). Acquisitions less disposals of intangible fixed assets (P.512) is the same as category 31132 in the GFS system. Additions to the value of nonproduced nonfinancial assets (P.513) is part of the GFS entry for the acquisition of nonproduced assets (314) and consists of the value of major improvements to nonproduced nonfinancial assets (P.5131) and costs of ownership transfer on nonproduced nonfinancial assets (P.5132).

45. Consumption of fixed capital in the SNA is identical to the total value of consumption of fixed capital recorded in Table 8.1. Changes in inventories in the SNA (P.52) is the same as changes in inventories in the GFS system, but the amounts for types of inventories differ because the GFS system includes a category for strategic stocks that does not appear in the SNA. Strategic stocks are classified as goods for resale in the SNA.

46. Acquisitions less disposals of valuables (P.53), land and other tangible nonproduced assets (K.21), and intangible nonproduced assets (K.22) are the same as the corresponding items in the GFS system with the exception of the amounts recorded as additions to the value of nonproduced nonfinancial assets in the SNA described in paragraph 44.

47. Capital transfers in the SNA are recorded in various places in the GFS system. Capital transfers receivable can be recorded as estate, inheritance, and gift taxes (1133), other nonrecurrent taxes on property (1135), capital grants (1312, 1322, and 1332), or capital voluntary transfers other than grants (1442). Capital transfers payable can be recorded as capital grants (2612, 2622, and 2632) or other expense/miscellaneous other expense/other capital transfers (2822).

48. With the exception of transactions in insurance technical reserves and shares and other equity, the transactions recorded in the Financial Account of the SNA should be identical to the transactions recorded in Table 9.1. The transactions recorded under insurance technical reserves differ in the two systems because of the different treatment of employer social insurance schemes that provide pensions and other retirement benefits. The receipt of social contributions and payment of social benefits by unfunded retirement schemes are treated as transactions in insurance technical reserves in the GFS system but as transfer payments in the SNA. The amounts recorded as increases in insurance technical reserves for property expense attributed to insurance policyholders also differ in the two systems, as explained in paragraph 42. Transactions in shares and other equity differ because the SNA includes reinvested earnings on direct foreign investment as an imputed purchase of shares and other equity but this imputation is not made in the GFS system. Instead, the increase in the value of shares and other equity is treated as a holding gain.

49. For the most part, other flows are the same in both systems. A few differences arise from differing treatments of certain activities. As described in the previous paragraph, reinvested earnings on direct foreign investment is an imputed transaction in the SNA but a holding gain in the GFS system. In the SNA, the difference between the change in the liability of a funded employer retirement scheme from the passage of time (paragraph 42) and the amount that can be attributed to property income attributed to insurance policyholders is treated as a holding gain. This holding gain does not appear in the GFS system.

Table A3.2: Correspondence of GFS and SNA Transaction Categories

GFS Transaction Category	SNA Account and Transaction Category in Which the GFS Transaction Is Recorded
Revenue Transactions	
Taxes	
1. Taxes on income, profits, and capital gains	The Secondary Distribution of Income Account/current taxes on income, wealth, etc./taxes on income (D.51) (resource)
2. Taxes on payroll and workforce	The Allocation of Primary Income Account/taxes on production and imports/other taxes on production (D.29) (resource)
3. Taxes on property	
Recurrent taxes on immovable property	Taxes paid by enterprises are recorded in the Allocation of Primary Income Account/taxes on production and imports/other taxes on production (D.29) (resource)
	Taxes paid by final consumers, including owner-occupiers of dwellings, are recorded in the Secondary Distribution of Income Account/current taxes on income, wealth, etc./other current taxes (D.59) (resource)
Recurrent taxes on net wealth	Taxes paid by enterprises are recorded in the Allocation of Primary Income Account/taxes on production and imports/other taxes on production (D.29) (resource)
	Taxes paid by final consumers are recorded in the Secondary Distribution of Income Account/current taxes on income, wealth, etc./other current taxes (D.59) (resource)
Estate, inheritance, and gift taxes	The Capital Account/capital transfers/capital taxes (D.91) (increase in net worth)
Taxes on financial and capital transactions	The Allocation of Primary Income Account/taxes on production and imports/taxes on products/taxes on products, excluding VAT, import, and export taxes (D.214) (resource)
Other nonrecurrent taxes on property	The Capital Account/capital transfers/capital taxes (D.91) (increase in net worth)
Other recurrent taxes on property	Taxes paid by enterprises are recorded in the Allocation of Primary Income Account/taxes on production and imports/other taxes on production (D.29) (resource)
	Taxes paid by final consumers are recorded in the Secondary Distribution of Income Account/current taxes on income, wealth, etc./other current taxes (D.59) (resource)
4. Taxes on goods and services	
Value-added taxes	The Allocation of Primary Income Account/taxes on production and imports/taxes on products/value-added-type taxes (D.211) (resource)
Sales taxes	Taxes on domestically produced goods and services are recorded in the Allocation of Primary Income Account/taxes on production and imports/taxes on products/taxes on products, excluding VAT, import, and export taxes (D.214) (resource)
	Taxes on imported goods and services are recorded in the Allocation of Primary Income Account/taxes on products/taxes and duties on imports, excluding VAT/taxes on imports, excluding VAT and duties (D.2122) (resource)
Turnover and other general taxes on goods and services	The Allocation of Primary Income Account/taxes on production and imports/taxes on products/taxes on products, excluding VAT, import, and export taxes (D.214) (resource)
Excises	Taxes on domestically produced goods and services are recorded in the Allocation of Primary Income Account/taxes on production and imports/taxes on products/taxes on products, excluding VAT, import, and export taxes (D.214) (resource)
	Taxes on imported goods and services are recorded in the Allocation of Primary Income Account/taxes on products/taxes and duties on imports, excluding VAT/taxes on imports, excluding VAT and duties (D.2122) (resource)
Profits of fiscal monopolies	The Allocation of Primary Income Account: taxes on production and imports/taxes on products/taxes on products, excluding VAT, import, and export taxes (D.214) (resource)
Taxes on specific services	Taxes on domestically produced goods and services are recorded in the Allocation of Primary Income Account/taxes on production and imports/taxes on products/taxes on products, excluding VAT, import, and export taxes (D.214) (resource)
	Taxes on imported goods and services are recorded in the Allocation of Primary Income Account/taxes on products/taxes and duties on imports, excluding VAT/taxes on imports, excluding VAT and duties (D.2122) (resource)
Motor vehicle taxes	Taxes paid by enterprises are recorded in the Allocation of Primary Income Account/taxes on production and imports/other taxes on production (D.29) (resource)
	Taxes paid by final consumers are recorded in the Secondary Distribution of Income Account/current taxes on income, wealth, etc./other current taxes (D.59) (resource)

Table A3.2: Correspondence of GFS and SNA Transaction Categories *(continued)*

GFS Transaction Category	SNA Account and Transaction Category in Which the GFS Transaction Is Recorded
Revenue Transactions (continued)	
Taxes (continued)	
Other taxes on use of goods and on permission to use goods or perform services	Taxes paid by enterprises are recorded in the Allocation of Primary Income Account/taxes on production and imports/other taxes on production (D.29) (resource)
	Taxes paid by final consumers are recorded in the Secondary Distribution of Income Account/current taxes on income, wealth, etc./other current taxes (D.59) (resource)
Other taxes on goods and services	Taxes paid by enterprises are recorded in the Allocation of Primary Income Account/taxes on production and imports/other taxes on production (D.29) (resource)
	Taxes paid by final consumers are recorded in the Secondary Distribution of Income Account/current taxes on income, wealth, etc. /other current taxes (D.59) (resource)
5. Taxes on international trade and transactions	
Customs and other import duties	The Allocation of Primary Income Account/taxes on production and imports/taxes on products/taxes and duties on imports, excluding VAT/import duties (D.2121) (resource)
Taxes on exports	The Allocation of Primary Income Account/taxes on production and imports/taxes on products/export taxes (D.213) (resource)
Profits of export or import monopolies	Profits of import monopolies are recorded in the Allocation of Primary Income Account/taxes on production and imports/taxes on products/taxes and duties on imports, excluding VAT/taxes on imports, excluding VAT and duties (D.2122) (resource)
	Profits of export monopolies are recorded in the Allocation of Primary Income Account/taxes on production and imports/taxes on products/export taxes (D.213) (resource)
Exchange profits	The Allocation of Primary Income Account/taxes on production and imports/taxes on products/taxes on products, excluding VAT, import, and export taxes (D.214) (resource)
Exchange taxes	The Allocation of Primary Income Account/taxes on production and imports/taxes on products/taxes on products, excluding VAT, import, and export taxes (D.214) (resource)
Other taxes on international trade and transactions	Taxes paid by enterprises are recorded in the Allocation of Primary Income Account/taxes on production and imports/other taxes on production (D.29) (resource)
	Taxes paid by final consumers are recorded in the Secondary Distribution of Income Account/current taxes on income, wealth, etc./other current taxes (D.59) (resource)
6. Other taxes	
Other taxes paid solely by business	The Allocation of Primary Income Account/taxes on production and imports/other taxes on production (D.29) (resource)
Other taxes paid by other than business or unidentified	The Secondary Distribution of Income Account/current taxes on income, wealth, etc./other current taxes (D.59) (resource)
Social contributions	The Secondary Distribution of Income Account/social contributions (D.61)(resource)
Grants	Current grants are recorded in the Secondary Distribution of Income Account/other current transfers/current transfers within general government (D.73) or current international cooperation (D.74) (resource)
	Capital grants are recorded in the Capital Account/capital transfers/investment grants (D.92) or other capital transfers (D.99) (increase in net worth)
Property income	The Allocation of Primary Income Account/property income (D.4) (resource) See the paragrah 24 of the text for a possible adjustment related to financial intermediation services indirectly measured.
Sales of goods and services	Sales at prices that are economically significant are recorded in the Production Account/output/market output (P.11) (resource)
	Sales at prices that are not economically significant are recorded in the Production Account/output/other nonmarket output (P.13) (resource)
	Imputed sales of goods and services are recorded in the Production Account/output/market output (P.11) (resource)
Fines, penalties, and forfeits	The Secondary Distribution of Income Account/other current transfers/miscellaneous current transfers (D.75) (resource)
Voluntary transfers other than grants	Current transfers are recorded in the Secondary Distribution of Income Account/other current transfers/miscellaneous current transfers (D.75) (resource)
	Capital transfers are recorded in the Capital Account/capital transfers/investment grants (D.92) or other capital transfers (D.99) (increase in net worth)
Miscellaneous and unidentified revenue	Sales of scrap and used goods not classified as assets are recorded in the Production Account/intermediate consumption (P.2) (negative use)
	All other transactions are recorded in the Secondary Distribution of Income Account/other current transfers/miscellaneous current transfers (D.75) (resource)

Table A3.2: Correspondence of GFS and SNA Transaction Categories *(continued)*

GFS Transaction Category	SNA Account and Transaction Category in Which the GFS Transaction Is Recorded
Expense Transactions	
Compensation of employees	The Generation of Income Account/compensation of employees (D.1) (use). The SNA category also includes compensation of employees related to the construction of nonfinancial assets on own account, which is recorded in the GFS system as the net acquisition of fixed assets or valuables.
Use of goods and services	Most transactions are recorded in the Production Account/intermediate consumption (P.2) (use). The SNA category also includes transactions related to own-account capital formation, which are recorded in the GFS system as the net acquisition of fixed assets or valuables. See paragraph 23 of the text for a more complete derivation of intermediate consumption.
Consumption of fixed capital	The Production Account/consumption of fixed capital (K.1) (use). The SNA category also includes consumption of fixed capital related to the construction of nonfinancial assets on own account, which is recorded in the GFS system as the net acquisition of fixed assets or valuables.
Interest	The Allocation of Primary Income Account/property income/interest (D.41) (use). See paragraph 24 of the text for a possible adjustment related to financial intermediation services indirectly measured.
Subsidies	The Allocation of Primary Income Account/subsidies (D.3) (negative resource)
Grants	Current transfers are recorded in the Secondary Distribution of Income Account/other current transfers/current transfers within general government (D.73) or current international cooperation (D.74) (use)
	Capital transfers are recorded in the Capital Account/capital transfers/investment grants (D.92) or other capital transfers (D.99) (decrease in net worth)
Social benefits	Social benefits in cash and all funded employer and unfunded employee social insurance benefits are recorded in the Secondary Distribution of Income Account/social benefits other than social transfers in kind (D.62) (use).
	All other social benefits in kind are recorded in the Use of Disposable Income Account/final consumption expenditure/individual consumption expenditure (P.31) (use)
Other expense	Property expense other than interest is recorded in The Allocation of Primary Income Account/property income (D.4) (use)
	Current taxes paid to other government units are recorded in Generation of Income Account/taxes on production and imports /other taxes on production (D.29) (use)
	Other current transactions are recorded in the Secondary Distribution of Income Account/other current transfers/miscellaneous current transfers (D.75) (use)
	Capital transfers are recorded in the Capital Account/capital transfers/capital taxes (D.91), investment grants (D.92), or other capital transfers (D.99) (decrease in net worth)

Table A3.2: Correspondence of GFS and SNA Transaction Categories *(concluded)*

GFS Transaction Category	SNA Account and Transaction Category in Which the GFS Transaction Is Recorded
Transactions in Nonfinancial Assets	
Net acquisition of fixed assets	Transactions other than consumption of fixed capital are recorded in the Capital Account/gross fixed capital formation (P.51) (change in assets). In the SNA, transactions related to the construction of fixed assets on own account will also be recorded under compensation of employees, intermediate consumption, consumption of fixed capital, and taxes less subsidies on production.
Consumption of fixed capital	The Capital Account/consumption of fixed capital (K.1) (decrease in assets)
Changes in inventories	The Capital Account/changes in inventories (P.52) (change in assets)
Net acquisition of valuables	The Capital Account/acquisitions less disposals of valuables (P.53) (change in assets)
Net acquisition of nonproduced assets	The Capital Account/acquisitions less disposals of nonproduced nonfinancial assets (K.2) (change in assets)
Transactions in Financial Assets and Liabilities	
Monetary gold and SDRs	The Financial Account/monetary gold and SDRs (F.1) (change in assets)
Currency and deposits	The Financial Account/currency and deposits (F.2) (change in assets and/or change in liabilities)
Securities other than shares	The Financial Account/securities other than shares (F.3) (change in assets and/or change in liabilities)
Loans	The Financial Account/loans (F.4) (change in assets and/or change in liabilities)
Shares and other equity	The Financial Account/shares and other equity (F.5) (change in assets and/or change in liabilities)
Insurance technical reserves	The Financial Account/insurance technical reserves (F.7) (change in assets and/or change in liabilities)
Financial derivatives	The Financial Account/financial derivatives (F.6) (change in assets and/or change in liabilities)
Other accounts receivable/payable	The Financial Account/other accounts receivable/payable (F.8) (change in assets and/or change in liabilities)

Appendix 4: Classifications

This appendix provides all of the classification codes used in the GFS system.

1. Classification codes are used in the GFS system to identify types of transactions, other economic flows, and stocks of assets and liabilities. This appendix presents in one place all of the codes that were presented in Chapters 5 through 10. The overall organization of the codes is displayed in Figure A4.1.

2. Codes beginning with 1 refer to revenue; codes beginning with 2 refer to expense; and codes beginning with 3 refer to transactions in nonfinancial assets, financial assets, and liabilities. For financial assets and liabilities, the code 3 signifies that they have been classified by financial instrument.

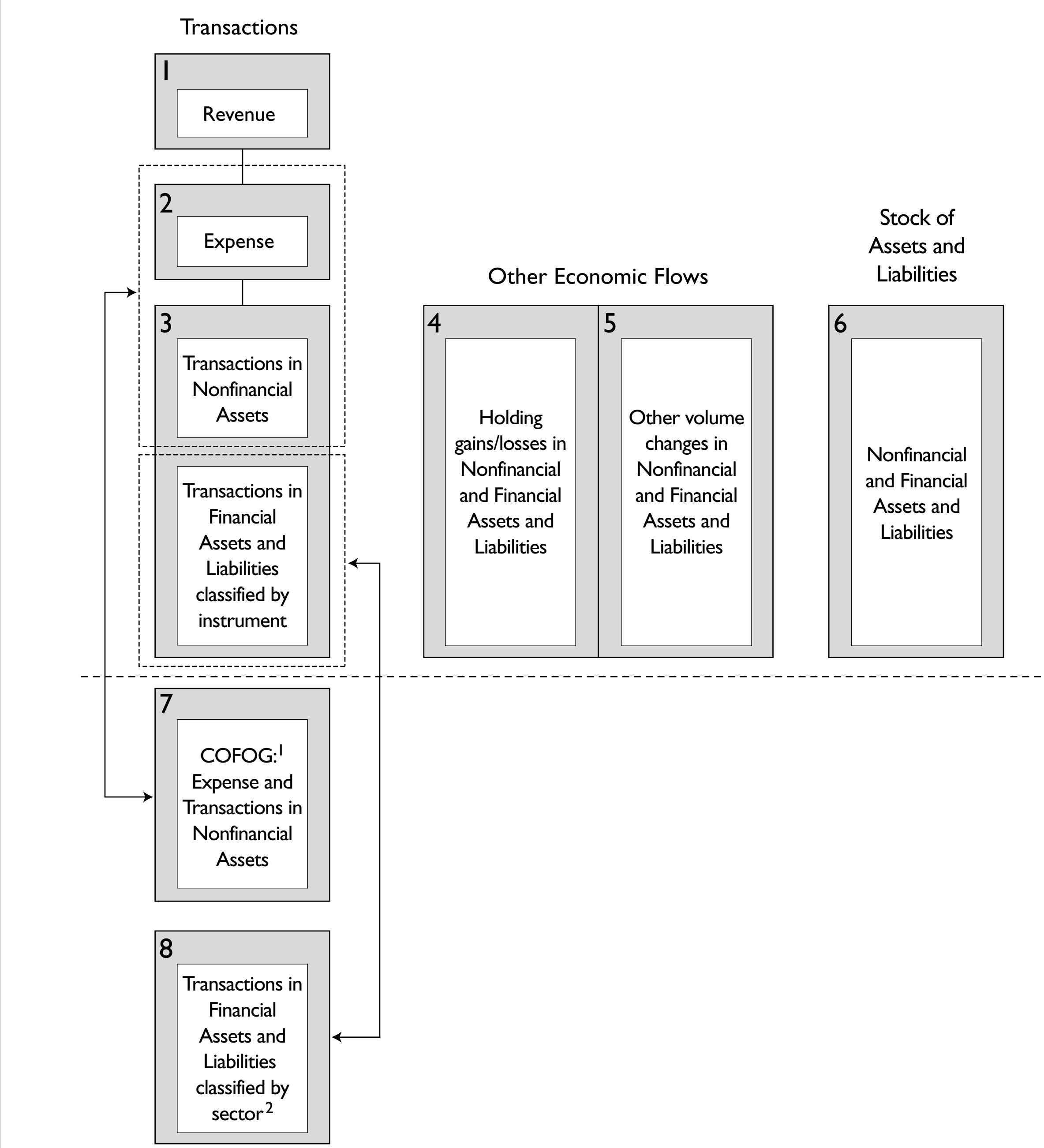
3. The first digit of the classification code for an other economic flow is always 4 or 5. Codes beginning with 4 refer to holding gains and codes beginning with 5 refer to other changes in the volume of assets and liabilities. The first digit of the classification code for a stock of a type of asset or liability is always 6.

4. Transactions in assets and liabilities, other economic flows, and stocks of assets and liabilities all refer to types of assets and liabilities. Hence, the second and subsequent digits of each code are identical for each type of asset or liability. That is, 311 refers to transactions in fixed assets, 411 to holding gains in fixed assets, 511 to other changes in the volume of fixed assets, and 611 to the stock of fixed assets.

5. Expense transactions and transactions in nonfinancial assets can also be classified using the Classification of Functions of Government (COFOG) as described in Chapter 6. All COFOG classification codes begin with 7. Transactions in financial assets and liabilities can be classified according to the sector of the other party to the financial instrument as well as according to the type of financial instrument. When classified by sector, the classification codes for these transactions begin with 8.

6. In practical applications, it may be possible and desirable to use more detailed classifications. Such an expansion can be accomplished by adding another digit to any given classification code. For example, the classification code for the stock of transport equipment is 61121. If types of transport equipment were to be classified separately, the codes 611211, 611212, and so forth would be used.

Figure A4.1: The Classification coding system for GFS



[1]Classification of the Functions of Government.
[2]By sector of the counterparty to the financial instrument.

A. Classification of Revenue

1	**Revenue**
11	**Taxes**
111	Taxes on income, profits, and capital gains
1111	Payable by individuals
1112	Payable by corporations and other enterprises
1113	Unallocable
112	Taxes on payroll and workforce
113	Taxes on property
1131	Recurrent taxes on immovable property
1132	Recurrent taxes on net wealth
1133	Estate, inheritance, and gift taxes
1134	Taxes on financial and capital transactions
1135	Other nonrecurrent taxes on property
1136	Other recurrent taxes on property
114	Taxes on goods and services
1141	General taxes on goods and services
11411	Value-added taxes
11412	Sales taxes
11413	Turnover and other general taxes on goods and services
1142	Excises
1143	Profits of fiscal monopolies
1144	Taxes on specific services
1145	Taxes on use of goods and on permission to use goods or perform activities
11451	Motor vehicles taxes
11452	Other taxes on use of goods and on permission to use goods or perform activities
1146	Other taxes on goods and services
115	Taxes on international trade and transactions
1151	Customs and other import duties
1152	Taxes on exports
1153	Profits of export or import monopolies
1154	Exchange profits
1155	Exchange taxes
1156	Other taxes on international trade and transactions
116	Other taxes
1161	Payable solely by business
1162	Payable by other than business or unidentifiable
12	**Social contributions [GFS]**
121	Social security contributions
1211	Employee contributions
1212	Employer contributions
1213	Self-employed or nonemployed contributions
1214	Unallocable contributions
122	Other social contributions
1221	Employee contributions
1222	Employer contributions
1223	Imputed contributions
13	**Grants**
131	From foreign governments
1311	Current
1312	Capital
132	From international organizations
1321	Current
1322	Capital
133	From other general government units
1331	Current
1332	Capital
14	**Other revenue**
141	Property income [GFS]
1411	Interest [GFS]
1412	Dividends
1413	Withdrawals from income of quasi-corporations
1414	Property income attributed to insurance policyholders
1415	Rent
142	Sales of goods and services
1421	Sales by market establishments
1422	Administrative fees
1423	Incidental sales by nonmarket establishments
1424	Imputed sales of goods and services
143	Fines, penalties, and forfeits
144	Voluntary transfers other than grants
1441	Current
1442	Capital
145	Miscellaneous and unidentified revenue

[GFS] indicates that this item has the same name but different coverage in the *1993 SNA*.

B. Economic Classification of Expense

2	**Expense**
21	**Compensation of employees [GFS]**
211	Wages and salaries [GFS]
2111	Wages and salaries in cash [GFS]
2112	Wages and salaries in kind [GFS]
212	Social contributions [GFS]
2121	Actual social contributions [GFS]
2122	Imputed social contributions [GFS]
22	**Use of goods and services**
23	**Consumption of fixed capital [GFS]**
24	**Interest [GFS]**
241	To nonresidents
242	To residents other than general government
243	To other general government units
25	**Subsidies**
251	To public corporations
2511	To nonfinancial public corporations
2512	To financial public corporations
252	To private enterprises
2521	To nonfinancial private enterprises
2522	To financial private enterprises
26	**Grants**
261	To foreign governments
2611	Current
2612	Capital
262	To international organizations
2621	Current
2622	Capital
263	To other general government units
2631	Current
2632	Capital
27	**Social benefits [GFS]**
271	Social security benefits
2711	Social security benefits in cash
2712	Social security benefits in kind
272	Social assistance benefits
2721	Social assistance benefits in cash
2722	Social assistance benefits in kind [GFS]
273	Employer social benefits
2731	Employer social benefits in cash
2732	Employer social benefits in kind
28	**Other expense**
281	Property expense other than interest
2811	Dividends (public corporations only)
2812	Withdrawals from income of quasi-corporations (public corporations only)
2813	Property expense attributed to insurance policyholders [GFS]
2814	Rent
282	Miscellaneous other expense
2821	Current
2822	Capital

[GFS] indicates that this item has the same name but different coverage in the *1993 SNA*.

C. Classifications of Flows and Stocks in Assets and Liabilities

	Classification of transactions in assets and liabilities	Classification of holding gains in assets and liabilities	Classification of other changes in the volume of assets and liabilities	Classification of the stocks of assets and liabilities
Net worth and its changes	**3**	**4**	**5**	**6**
Nonfinancial assets	**31**	**41**	**51**	**61**
Fixed assets	**311**	**411**	**511**	**611**
Buildings and structures	3111	4111	5111	6111
Dwellings	31111	41111	51111	61111
Nonresidential buildings	31112	41112	51112	61112
Other structures	31113	41113	51113	61113
Machinery and equipment	3112	4112	5112	6112
Transport equipment	31121	41121	51121	61121
Other machinery and equipment	31122	41122	51122	61122
Other fixed assets	3113	4113	5113	6113
Cultivated assets	31131	41131	51131	61131
Intangible fixed assets	31132	41132	51132	61132
Inventories	**312**	**412**	**512**	**612**
Strategic stocks	3121	4121	5121	6121
Other inventories	3122	4122	5122	6122
Materials and supplies	31221	41221	51221	61221
Work in progress	31222	41222	51222	61222
Finished goods	31223	41223	51223	61223
Goods for resale [GFS]	31224	41224	51224	61224
Valuables	**313**	**413**	**513**	**613**
Nonproduced assets	**314**	**414**	**514**	**614**
Land	3141	4141	5141	6141
Subsoil assets	3142	4142	5142	6142
Other naturally occurring assets	3143	4143	5143	6143
Intangible nonproduced assets	3144	4144	5144	6144
Financial assets	**32**	**42**	**52**	**62**
Domestic	**321**	**421**	**521**	**621**
Currency and deposits	3212	4212	5212	6212
Securities other than shares	3213	4213	5213	6213
Loans	3214	4214	5214	6214
Shares and other equity	3215	4215	5215	6215
Insurance technical reserves	3216	4216	5216	6216
Financial derivatives	3217	4217	5217	6217
Other accounts receivable	3218	4218	5218	6218
Foreign	**322**	**422**	**522**	**622**
Currency and deposits	3222	4222	5222	6222
Securities other than shares	3223	4223	5223	6223
Loans	3224	4224	5224	6224
Shares and other equity	3225	4225	5225	6225
Insurance technical reserves	3226	4226	5226	6226
Financial derivatives	3227	4227	5227	6227
Other accounts receivable	3228	4228	5228	6228
Monetary gold and SDRs	**323**	**423**	**523**	**623**

C. Classifications of Flows and Stocks in Assets and Liabilities *(concluded)*

	Classification of transactions in assets and liabilities	Classification of holding gains in assets and liabilities	Classification of other changes in the volume of assets and liabilities	Classification of the stocks of assets and liabilities
Liabilities	**33**	**43**	**53**	**63**
Domestic	**331**	**431**	**531**	**631**
Currency and deposits	3312	4312	5312	6312
Securities other than shares	3313	4313	5313	6313
Loans	3314	4314	5314	6314
Shares and other equity (public corporations only)	3315	4315	5315	6315
Insurance technical reserves [GFS]	3316	4316	5316	6316
Financial derivatives	3317	4317	5317	6317
Other accounts payable	3318	4318	5318	6318
Foreign	**332**	**432**	**532**	**632**
Currency and deposits	3322	4322	5322	6322
Securities other than shares	3323	4323	5323	6323
Loans	3324	4324	5324	6324
Shares and other equity (public corporations only)	3325	4325	5325	6325
Insurance technical reserves [GFS]	3326	4326	5326	6326
Financial derivatives	3327	4327	5327	6327
Other accounts payable	3328	4328	5328	6328
Memorandum items				
Own-account capital formation	3M1			
Compensation of employees	3M11			
Use of goods and services	3M12			
Consumption of fixed capital	3M13			
Other taxes on production minus other subsidies on production	3M14			
Net financial worth				6M1
Debt (at market value)				6M2
Debt (at nominal value)				6M3
Arrears				6M4
Obligations for social security benefits				6M5
Contingent liabilities				6M6
International reserves and foreign currency liquidity				6M7
Uncapitalized military weapons and weapon-delivery systems				6M8

[GFS] indicates that this item has the same name but different coverage in the *1993 SNA*.

D. Classification of Outlays by Functions of Government

7	**Total outlays**
701	**General public services**
7011	Executive and legislative organs, financial and fiscal affairs, external affairs
70111	Executive and legislative organs
70112	Financial and fiscal affairs
70113	External affairs
7012	Foreign economic aid
70121	Economic aid to developing countries and countries in transition
70122	Economic aid routed through international agencies
7013	General services
70131	General personnel services
70132	Overall planning and statistical services
70133	Other general services
7014	Basic research
7015	R&D[1] General public services
7016	General public services n.e.c.[2]
7017	Public debt transactions
7018	Transfers of a general character between different levels of government
702	**Defense**
7021	Military defense
7022	Civil defense
7023	Foreign military aid
7024	R&D Defense
7025	Defense n.e.c.
703	**Public order and safety**
7031	Police services
7032	Fire protection services
7033	Law courts
7034	Prisons
7035	R&D Public order and safety
7036	Public order and safety n.e.c.
704	**Economic affairs**
7041	General economic, commercial, and labor affairs
70411	General economic and commercial affairs
70412	General labor affairs
7042	Agriculture, forestry, fishing, and hunting
70421	Agriculture
70422	Forestry
70423	Fishing and hunting
7043	Fuel and energy
70431	Coal and other solid mineral fuels
70432	Petroleum and natural gas
70433	Nuclear fuels
70434	Other fuels
70435	Electricity
70436	Nonelectric energy
7044	Mining, manufacturing, and construction
70441	Mining of mineral resources other than mineral fuels
70442	Manufacturing
70443	Construction
7045	Transport
70451	Road transport
70452	Water transport
70453	Railway transport
70454	Air transport
70455	Pipeline and other transport
7046	Communication
7047	Other industries
70471	Distributive trades, storage, and warehousing
70472	Hotels and restaurants
70473	Tourism
70474	Multipurpose development projects
7048	R&D Economic affairs
70481	R&D General economic, commercial, and labor affairs
70482	R&D Agriculture, forestry, fishing, and hunting
70483	R&D Fuel and energy
70484	R&D Mining, manufacturing, and construction
70485	R&D Transport
70486	R&D Communication
70487	R&D Other industries
7049	Economic affairs n.e.c.
705	**Environmental protection**
7051	Waste management
7052	Waste water management
7053	Pollution abatement
7054	Protection of biodiversity and landscape
7055	R&D Environmental protection
7056	Environmental protection n.e.c.
706	**Housing and community amenities**
7061	Housing development
7062	Community development
7063	Water supply
7064	Street lighting
7065	R&D Housing and community amenities
7066	Housing and community amenities n.e.c.

D. Classification of Outlays by Functions of Government *(concluded)*

707	**Health**	**709**	**Education**
7071	Medical products, appliances, and equipment	7091	Pre-primary and primary education
70711	Pharmaceutical products	70911	Pre-primary education
70712	Other medical products	70912	Primary education
70713	Therapeutic appliances and equipment	7092	Secondary education
7072	Outpatient services	70921	Lower-secondary education
70721	General medical services	70922	Upper-secondary education
70722	Specialized medical services	7093	Postsecondary nontertiary education
70723	Dental services	7094	Tertiary education
70724	Paramedical services	70941	First stage of tertiary education
7073	Hospital services	70942	Second stage of tertiary education
70731	General hospital services	7095	Education not definable by level
70732	Specialized hospital services	7096	Subsidiary services to education
70733	Medical and maternity center services	7097	R&D Education
70734	Nursing and convalescent home services	7098	Education n.e.c.
7074	Public health services	**710**	**Social protection**
7075	R&D Health	7101	Sickness and disability
7076	Health n.e.c.	71011	Sickness
708	**Recreation, culture, and religion**	71012	Disability
7081	Recreational and sporting services	7102	Old age
7082	Cultural services	7103	Survivors
7083	Broadcasting and publishing services	7104	Family and children
7084	Religious and other community services	7105	Unemployment
7085	R&D Recreation, cultural, and religion	7106	Housing
7086	Recreation, culture, and religion n.e.c.	7107	Social exclusion n.e.c.
		7108	R&D Social protection
		7109	Social protection n.e.c.

[1]R&D = research and development
[2]n.e.c. = not elsewhere classified

E. Classification of Transactions in Financial Assets and Liabilities by Sector

8	**Net financial worth change due to transactions (=82–83)**
82	**Financial assets (=32)**
821	**Domestic (=321)**
8211	General government
8212	Central bank
8213	Other depository corporations
8214	Financial corporations not elsewhere classified
8215	Nonfinancial corporations
8216	Households and nonprofit institutions serving households
822	**Foreign (=322)**
8221	General government
8227	International organizations
8228	Financial corporations other than international organizations
8229	Other nonresidents
823	**Monetary gold and SDRs (=323)**
83	**Liabilities (=33)**
831	**Domestic (=331)**
8311	General government
8312	Central bank
8313	Other depository corporations
8314	Financial corporations not elsewhere classified
8315	Nonfinancial corporations
8316	Households and nonprofit institutions serving households
832	**Foreign (=332)**
8321	General government
8327	International organizations
8328	Financial corporations other than international organizations
8329	Other nonresidents

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