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# Appendix 7. Government Finance Statistics and Other Macroeconomic Statistics

*This appendix describes the relationship between government finance statistics and national accounts, balance of payments and international investment position, and monetary and financial statistics.*

## A. Introduction

**A7.1** It is important for compilers and users of GFS data to understand how GFS relate to the other macroeconomic datasets. More specifically, an understanding of the linkages fosters consistency in the respective datasets.

**A7.2** The institutional arrangements for compiling and producing macroeconomic statistics differ from country to country. These could range from a single entity being responsible for the compilation of source data and the final GFS, to several national agencies being involved in the compilation of various components of the data. Agencies such as ministries of finance (MOFs), national statistics offices (NSOs), central banks (CBs), and other government agencies may be involved. The MOFs are often involved in compiling budget data from accounting and other administrative records to monitor implementation of the government budget. NSOs are often responsible for compiling, producing, and disseminating, official macroeconomic statistics in line with SNA<sup>1</sup> principles. They may use source data from MOFs that are based on national classifications and make necessary adjustments according to the requirement of the statistical guidelines. CBs are primarily involved in compiling monetary and financial data to

allow them to monitor financial conditions and the implementation of monetary policies. All these data are based on consistent methodological guidance and where multiple institutional units are involved in compiling macroeconomic data compilation, it is essential that these national agencies coordinate efforts to best ensure consistency in data outputs.<sup>2</sup>

**A7.3** A clear understanding of the linkages between datasets will assist countries in producing comparable and consistent statistics needed for economic analysis and policy decisions. The primary purpose of the GFS is to provide a comprehensive conceptual and statistical reporting framework for analyzing and evaluating fiscal policy. However, detailed GFS also provide a measurement of the impact of government on other sectors of the economy. Therefore, these fiscal data serve as input to other datasets, while other datasets could be used to derive and/or verify GFS data. Harmonization in practice allows compilers to share source data, where appropriate, and also foster coherent developments in the source data systems.

**A7.4** This appendix summarizes the important similarities and differences between the GFS and other major datasets. It also indicates how the GFS compiled for the general government and/or public sectors can be used as an input to the compilation of the other macroeconomic statistics. Where differences remain, the appendix provides an indication of how to reconcile the data.

**A7.5** The remainder of this appendix provides an overview of similarities and differences in various macroeconomic statistics in Section B, before

<sup>1</sup> In this appendix, most references to the 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 2008 SNA as a body of thought.

<sup>2</sup> See Dziobek and Tanase, Institutional cooperation between central banks and the statistical offices for producing macroeconomic statistics, IFC Bulletin No 28, August 2008.

describing issues related to coverage and accounting rules in Section C. The other sections provide a comparison of the analytical framework of GFS with that of respectively the national accounts, balance of payments and international investment position, and the monetary and financial statistics.

## B. Overview of similarities and differences

**A7.6** The *GFSM* is largely harmonized with the *2008 SNA* which provides the conceptual basis for national accounts. The sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* serves as the standard framework for statistics on the transactions and positions between an economy and the rest of the world. The *Monetary and Financial Statistics Manual (MFSM)* provides guidelines on compiling statistics for the financial corporations sector. These manuals are also harmonized with the *2008 SNA*.

**A7.7** Broadly, the principles and concepts are defined in a consistent manner. The delineation of resident and nonresident entities, sectorization of the domestic economy, definitions and classifications of the various categories of nonfinancial and financial assets and liabilities, are the same. The accounting rules used are the same with respect to bases of recording and valuation. The accrual bases of recording flows and stock positions are used consistently in all datasets, while the GFS in addition requires the compilation of a *Statement of Sources and Uses of Cash*. With a few exceptions, as described in the detailed comparisons, the flows and stock positions of GFS are defined and valued in the same way.

**A7.8** For analytical reasons the structure and presentation of the GFS framework in Chapter 4, and the GFS treatment of a few activities differ from the framework and presentation of the data of general government sector in the *2008 SNA* and other data sets. While all the datasets have balancing items, the aggregation and consolidation of these are not exactly the same.

**A7.9** The GFS focus on measuring the financial impact of government activities on the economy through taxing, spending, borrowing, and lending. The *SNA* focuses on the linkages between sectors of the economy, and the economic processes of production, income generation and distribution,

consumption of goods and services, and accumulation. The balance of payments summarize economic transactions between residents and nonresidents during a specific time period, while the international investment position shows the value of the financial assets and liabilities stock positions between the residents of an economy and nonresidents at a reporting date. Monetary statistics focus on assessing monetary conditions and the impact of monetary policy decision on the money and capital markets. These differences in focus require that the recording of government activities in the GFS occasionally differ from the recording of those activities in the other macroeconomic datasets. However, such differences are the exception to the general principle, as consistent application of conceptual standards applies across related datasets, and where differences exist, reconciliation of the differences should routinely be made.

## C. Coverage and accounting rules

**A7.10** The identification of institutional units and their sectorization are conceptually the same in all macroeconomic datasets. Where analytically useful, various datasets may require that the primary sectors are further divided into subsectors according to need. For example, GFS require that data for the subsectors of the general government be available as separate data sets, while monetary statistics require that data for subsectors of the financial corporations be available. As described in Chapter 2, the general government sector in GFS is defined identically to the general government sector in the national accounts, balance of payments, and monetary statistics. Although the public sector is not one of the five primary sectors in the *SNA*, it is acknowledged as a subsector.<sup>3</sup> The residence concept used to delineation resident and nonresident entities and the sectors used in identifying counterpart transactions are the same across all datasets. Compilers of macroeconomic data should ensure that the actual coverage used in their statistics is identical.

**A7.11** Most of the accounting rules employed in the two frameworks are identical. In particular, the rules for time of recording, the valuation of flows and stock

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<sup>3</sup> The public sector is defined in Chapter XIX of the *2008 SNA*, and that definition is identical to the definition in Chapter 2 of *GFSM*.

positions, and the rules governing the gross or net recording of flows and stock positions are identical.

**A7.12** The principal difference between the GFS and SNA regarding accounting rules concerns consolidation (see paragraph 4.xx). In principle, the GFS requires the elimination of all intra-, and intersector asset-liability positions and all transactions between units of the same sector and subsectors. 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 (see Chapter 2) as having analytic interest.

**A7.13** As a matter of principle, consolidation is not used in the SNA, although it is acknowledged that consolidation may be useful for the general government sector (see *2008 SNA*, paragraphs 2.69, 3.197, and 22.79). Even then, in the national accounts, transactions appearing in different accounts are never consolidated so that balancing items are not affected. For example, in national accounts, interest receivable by one government unit that is payable by another government unit is shown as both revenue and expense in the accounts of the general government sector. In contrast, full consolidation is used in GFS. Such interest is recorded neither as an expense or revenue in the data for the consolidated general government sector as a whole, although such interest could appear in the subsector accounts of general government if the two parties involved are in different subsectors of the general government. Because SNA statistics are not consolidated, the GFS compiler should preserve the unconsolidated statistics for use by the national accounts compiler.

#### D. Comparison of the analytical framework of GFS and the SNA

**A7.14** Both the GFS and SNA can be described as the systematic recording and presentation of flows and stock positions, with the flows comprising transactions and other economic flows. While the recording of stock positions and other economic flows are generally the same in the two datasets, the accounts in which these are recorded differ because of the unique objectives of the two datasets. In general, both datasets have the same interest in the activities of general government and public sectors, although the arrangement of the data differs and the actual flows recorded differ in some instances. These differences could be summarized as follows:

- The GFS framework primarily records the operations of the government or public sector according to revenue, expense and transactions in nonfinancial and financial assets, and liabilities. The SNA records general government's transactions according to their involvement in production, generation, distribution and use of income, capital and financial account transactions, and balance sheets. Moreover, the national accounts fully reconcile the current account, accumulation accounts, and balance sheet positions across all institutional sectors, whereas GFS undertakes such reconciliations only for the general government and public sectors.
- The two datasets differ in recording practices. The GFS is based on the principle of double entry recording, similar to business accounting, but the SNA is based on the principle of quadruple entry accounting, because most transactions involve two institutional units. Each institutional unit involved in a transaction must record the transactions in a consistent way for the accounts to be in balance.
- The focus of the SNA is on various economic processes. Therefore, in some cases, a single transaction recorded in the GFS may require multiple entries in the SNA to correctly record the influence on all the relevant economic processes of the SNA.

#### 1. Comparison of the accounts in GFS and SNA

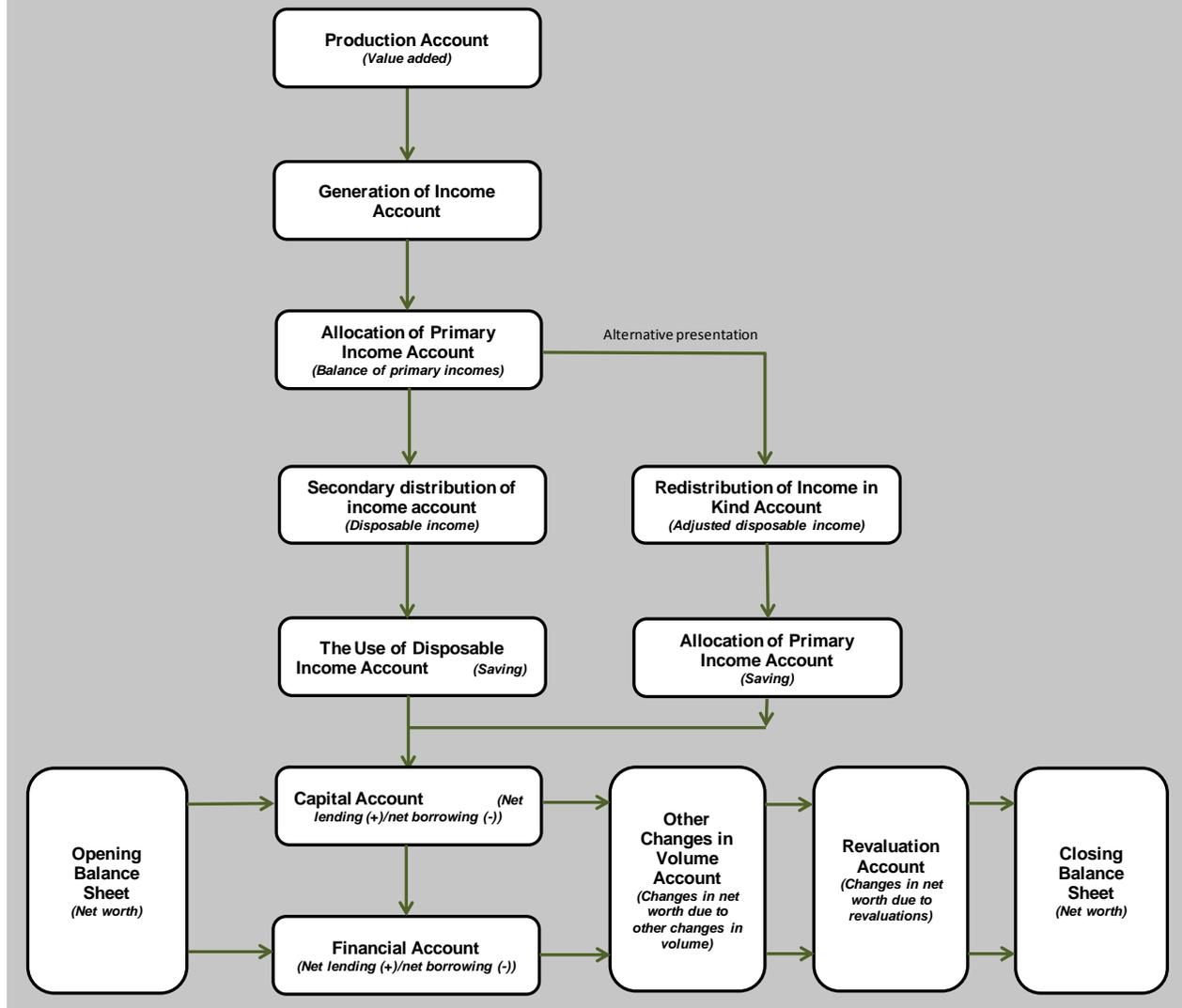
**A7.15** The GFS analytic framework consists of four statements (see Chapter 4). The *Statement of Operations* is a presentation of all transactions recorded in the GFS framework. Other economic flows are presented in the *Statement of Other Economic Flows*,<sup>4</sup> and the stock positions are presented in the *Balance Sheet*. Finally, the *Statement of Sources and Uses of Cash* provides information on liquidity.

**A7.16** In the SNA, transactions are presented in a sequence of seven accounts (see Figure A7.1), other economic flows are presented in two accounts, and stock positions are presented in the Balance Sheet.

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<sup>4</sup> For analytical reasons, these could also be presented as separate statements to record Holding Gains and Losses, and Other Changes in Volume of Assets and Liabilities.

Figure A7.1 Diagram of the Sequence of SNA Accounts



There is no SNA equivalent to the GFS *Statement of Sources and Uses of Cash*.

**A7.17** Each flow in the SNA relates to a particular kind of economic process or activity such as production, or the generation, distribution, redistribution or use of income, and accumulation. Each of the current accounts shows the resources available to the institutional units and the uses of these resources. These accounts are balanced by introducing a balancing item defined residually as the difference between the total resources recorded on one side of the account and the total uses recorded on the other side. The balancing item from one account is carried forward as the first item in the following account, on

the opposite side, thereby making the set of accounts an articulated whole.

**A7.18** 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 capital transfers, the acquisition and disposal of assets and liabilities, and other economic flows related to assets and liabilities. Despite the large number of accounts in the SNA, there is broad

correspondence between the structures of the GFS and SNA datasets.<sup>5</sup>

**A7.19** As illustrated in Table A7.1, the GFS Statement of Operations could be divided into three sections, namely:

- transactions affecting net worth;
- transactions in nonfinancial assets; and
- transactions in financial assets and liabilities.

The GFS transactions affecting net worth (revenue and expense) are shown as 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 in nonfinancial assets presented in the second section of the Statement of Operations are shown in the capital account, while the GFS transactions in financial assets and liabilities correspond to the transactions shown in the financial account of the SNA.

**A7.20** Because each of the SNA accounts has its own balancing items, there are more balancing items in the SNA than in GFS. However, some of the SNA balancing items can be derived from GFS. The different placement of capital transfers means that the GFS balancing item for the first section of the Statement of Operations, the net operating balance, differs from saving, the final balancing item in the sequence of current accounts in the SNA. The net operating balance of GFS is comparable to saving and net capital transfers, an aggregate determined in the capital account of the SNA. Conceptually, net lending/borrowing is the balancing item for the second and third sections of the Statement of Operations is equivalent to the net lending/net borrowing calculated in the capital and financial accounts of the SNA. However, the difference in the treatment of certain activities such as some employment-related pension arrangements (see paragraph **A7.48–A7.49**) means that the value of net lending/net borrowing in the GFS may differ from the SNA. These differences are reconcilable.

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<sup>5</sup> Explicit provision is made in the SNA for flexibility in the presentation of stock positions and flows. The accounts described here comprise the basic presentation described in Chapters 6 through 13 of the 2008 SNA.

**A7.21** 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<sup>6</sup> 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. In the SNA these accounts are the revaluation account, in which effects of price changes in values of assets and liabilities are recorded, and the other changes in volume of assets account, in which changes in the amounts of the assets and liabilities as a result of factors other than transactions and revaluations are recorded.<sup>7</sup>

**A7.22** The coverage of the GFS Balance Sheet is identical to the coverage of the Balance Sheet in the SNA, with a possible exception regarding some employment-related pension entitlements. Due to different institutional arrangements in countries, some flexibility is given in the SNA, but not in the GFS, regarding the recording of pension entitlements for unfunded pension schemes sponsored by government some of these pension entitlements may be recorded within the main sequence of the SNA accounts (also referred to as the core accounts) and others are reported in supplementary tables.

## 2. Linkages between GFS and the System of National Accounts (SNA)

**A7.23** Despite the structural consistencies, the different objectives of the GFS and SNA require that a few transactions and other economic flows recorded in the various statements and accounts are recorded and presented differently. This section reviews and summarizes the linkages. In order to facilitate references to the respective datasets, the items are referred to by their names and the relevant SNA and GFS classification codes.<sup>8</sup> Table A7.2 and A7.3 indicate how the GFS revenue and expenditure

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<sup>6</sup> As stated in Chapter 10, holding gain is used as a short reference to holding gain or loss.

<sup>7</sup> “Revaluations” and “holding gains” are used interchangeably in the 2008 SNA.

<sup>8</sup> The SNA classification codes for transactions and other flows have the form of a letter: D for distributive transactions, F for financial assets and liabilities, K for other changes in assets accounts, or P for transactions in products, each followed by a number. The SNA codes for the balance sheet are AN for nonfinancial assets and AF for financial assets and liabilities. The SNA coding system uses the letter B for balancing items. The GFS coding system is presented in Appendix 4.

**Table A7.1 Linkages of the Statement of Operations in GFS with Sequence of SNA Transaction Accounts**

GFS Statement of Government Operations		SNA Sequence of Accounts	
Main aggregates	Balances	SNA current accounts	Balances and main aggregates
Revenue, Expense	Net operating balance (or change in net worth due to transactions)	Production account Generation of income account Allocation of primary income account Secondary distribution of income account Use of disposable income account <sup>1</sup>	Value added / GDP Operating surplus and mixed income Balance of primary income / GNI Disposable income / NDI Saving / National saving
<i>Conceptually net operating balance differs from savings with the value of capital transfers and taxes on capital transactions, and capitalized expense. Additional differences in calculated values may arise due to differences in treatment of reinvested earnings, and some employment related pension schemes.</i>			
		SNA accumulation accounts	Balances and main aggregates
Operating balance <sup>2</sup> minus net acquisition of nonfinancial assets	Net lending (+)/net borrowing (-)	Capital account <sup>2</sup>	Net lending (+)/net borrowing (-)
<i>Conceptually net lending (+)/net borrowing (-) in the GFS is the same than in the SNA. In practice calculated values may differ due to difference in treatment of reinvested earnings, and some employment related pension schemes</i>			
Net acquisition of FA minus net incurrence of liabilities	Change in financial worth due to transactions—equal to net lending (+)/net borrowing (-)	Financial account	Net lending (+) / net borrowing (-)
<i>Conceptually transactions in financial assets and liabilities in the GFS is the same than in the SNA. In practice calculated values may differ due to differences in treatment of reinvested earnings, and some employment related pension schemes.</i>			

Notes:

<sup>1</sup> The use of disposable income account is replaced by the use of adjusted disposable income account by an alternative sequence of accounts in which the secondary distribution of income account is augmented with the redistribution of income in kind account (see Chapters 8 and 9 of the 2008 SNA for additional details on these accounts).

<sup>2</sup> Capital transfers as recorded in the SNA capital account are included in GFS as revenue and expense.

categories link with the SNA classifications and Table A7.4 identifies the SNA accounts in which a transaction from the GFS would be recorded, with corresponding classification codes.

#### a. Current Accounts

**A7.24** The current accounts of the SNA record the production of goods and services, the generation of incomes by production, the subsequent distribution and redistribution of incomes among institutional units, and the use of incomes for purposes of consumption or saving. This section describes the GFS linkages with each of these current accounts.

#### i. The Production Account

**A7.25** The production account records the transactions relating to the activity of producing goods and services as defined in the SNA. The balancing item, *gross value added or gross domestic product (GDP) (B1) is defined as the value of output minus the value of intermediate consumption*. Output is the value of goods and services produced during an accounting period. It is a measure of the contribution to gross domestic product made by an individual producer, industry, or sector. Intermediate consumption comprises the cost of goods and services used in the production. For

general government, the production account represents the general government's contribution to the domestic production.

**A7.26** Value added can be presented gross or net of consumption of fixed capital. *Net value added is the value of output minus the values of both intermediate consumption and consumption of fixed capital.* Intermediate consumption of goods and services (P2) and consumption of fixed capital (P51c) are included as uses, while the output (P1) of all goods and services produced by a general government unit is a resource. Total output is divided into market output (P11), output for own final use (P12),<sup>9</sup> and other nonmarket output (P13).

**A7.27** Output is not recorded as such in GFS. 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:

- The output of market establishments is equal to the sales of those establishments (GFS revenue item *sales by market establishments* (1421)) plus changes in inventories of *work in progress* (31222) and *finished goods* (31223) of those establishments. Thus, to allow a direct link with the SNA, GFS data on the changes in inventories need to be divided into separate data for market and nonmarket establishments.
- 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 their 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 directly calculate the output of nonmarket establishments from GFS data, the total values of each of the relevant expense categories need to be

divided into expenses incurred by market and nonmarket establishments.<sup>10</sup>

**A7.28** In the national accounts, the total output of the general government sector is allocated among 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. This data is available directly from the details of GFS expenditure as memorandum item 3M1 in Table 8.1. 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 framework, 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.
- Market output and other nonmarket output, however, are not directly available from GFS, and do not necessarily correspond to the output of market and nonmarket establishments because nonmarket establishments can produce market output, and vice versa.
  - The value of market output is calculated as the sum of the entire output of market establishments, actual sales of nonmarket establishments at market prices,<sup>11</sup> (part of GFS revenue item *incidental sales by nonmarket establishments* (1423)) and other output that is imputed to have been sold (part of GFS revenue item *imputed sales by nonmarket establishments* (1424)). Imputed sales are in-kind transactions that are valued at market prices (see Box 1 later in this appendix).
  - The value of other nonmarket output can be calculated residually as the total output of the general government sector minus output for own final use and market output.

<sup>9</sup> Output for own final use in the SNA consists of products retained by the producer for his own use as final consumption or capital formation. Therefore, *own-account capital formation*, as referred to in the GFS is a narrower definition than the SNA concept output for own final use..

<sup>10</sup> Market establishments included in the general government sector, are usually a small fraction of the general government total output.

<sup>11</sup> Sale of nonmarket goods or services at prices that are not economically significant remains a part of the value of nonmarket output (see *2008 SNA*, paragraph 6.132)

**A7.29** *Intermediate consumption consists of the goods and services consumed as inputs by a process of production, excluding fixed assets whose consumption is recorded as consumption of fixed capital.* For general government or public sector units it will include the following GFS items:

- *use of goods and services* (GFS expense item 22) minus the portion of goods purchased for resale that was actually sold during the reporting period (reduction in GFS item 31224 due to sales);
- goods and services used in own-account capital formation (GFS memorandum item 3M12).
- consumption of financial intermediation services indirectly measured (FISIM) that is a portion of the *interest* revenue and expense of GFS (GFS items 1411 and 24 respectively); and
- consumption of insurance services and service charge/fee related to standardized guarantees that is a component of *premiums, fees, and current claims related to nonlife insurance and standardized guarantee schemes* (GFS categories 2831).

**A7.30** For SNA purposes, the values for FISIM, insurance services, and standardized guarantees are derived by partitioning actual interest, nonlife insurance premium, and fees for standardized guarantees (see paragraphs 6.81 and 6.131). In concept, the value of these services should be treated as a use of goods and services expense. However, in GFS, these partitions are not made because they can be estimated only with the aid of data for the entire economy. Instead, in GFS the entire values of the actual transactions are recorded as interest, nonlife insurance premiums, or fees for standardized guarantees respectively.<sup>12</sup>

**A7.31** Consumption of fixed capital in the SNA (P51) is identical to the concept in the expense item of the same name in GFS. However, the amount of consumption of fixed capital recorded in GFS may differ from the amount recorded in the production account of the SNA because of the GFS treatment of own-account capital formation. Consumption of fixed capital as recorded in the national accounts should be equal to the *consumption of fixed capital* [GFS] (23)

<sup>12</sup> See 2008 SNA, paragraphs A3.24–A3.27 for additional details on the estimation of these services.

plus the amount of CFC recorded as a component of own-account capital formation (GFS memorandum item 3M13).

#### ii. *The Distribution of Income Accounts*

**A7.32** The distribution of income accounts are decomposed into three main accounts. These separated accounts allow the introduction of various balancing items that are meaningful concepts of income and comprise:

- primary distribution of income account;
- secondary distribution of income account; and
- redistribution of income in kind account.

##### *The Primary Distribution of Income Account*

**A7.33** The primary distribution of income account shows how GDP is distributed to labor, capital, government, and, where necessary, flows to and from the rest of the world. The primary distribution of income is always presented in two subaccounts, namely the generation of income account and the allocation of primary income account.

##### **The Generation of Income Account**

**A7.34** The generation of income account shows from the point of view of resident institutional units or sectors, in their capacity as producers, how the value added as a resource generates income for labor, capital and government. The account starts with value added as a resource and then includes as uses:

- compensation of employees (D.1);
- other taxes on production (D.29) payable; and
- other subsidies on production (D.39) receivable as a negative use.

**A7.35** The balancing item of the generation of income account is the operating surplus (B.2), which can be presented gross or net of consumption of fixed capital. It measures the surplus accruing from processes of production before deducting any explicit or implicit interest charges, rent, or other property incomes payable on financial assets, land, or other natural resources held to carry on the production process.

**A7.36** Compensation of employees in the SNA comprises the expense item *compensation of employees* [GFS] (21) plus the amount of compensation of employees recorded as a component of own-account capital formation (GFS memorandum item 3M11).

**A7.37** The taxes and subsidies that are included in the valuation of the output of nonmarket establishments consists of other taxes on production payable by general government units to other government units and other subsidies on production receivable by general government units from other government units, both national and foreign. These amounts are likely to be rare and/or small in magnitude. Taxes payable by one level of government to another level of government are classified in GFS as *transfers not elsewhere classified* (282) in the subcategory *current* (2821). Subsidies on production (D39) receivable are a portion of the subsidies (14411) classified as in *transfers not elsewhere classified* (144).<sup>13</sup> In GFS, these items would be eliminated in consolidation when statistics for the general government or public sector are compiled.

### The Allocation of Primary Income Account

**A7.38** The allocation of primary income account focuses on resident institutional units or sectors in their capacity as recipients of primary incomes. It shows where the items payable in the generation of income account are receivable, and also includes the amounts of property incomes receivable and payable by institutional unit or sectors. It contains the operating surplus or mixed income as a resource and records for each sector, property income receivable and payable, and compensation of employees and taxes, *minus* subsidies on production and imports receivable by households and government, respectively. The balancing item is the primary income (B5) which represents the sector's contribution to the national income. Primary income can be presented gross or net of consumption of fixed capital.

**A7.39** For the general government sector, the account will record the following resources:

- taxes on production and imports (D2), which is divided into taxes on products (D21) and other taxes on production (D29);
- subsidies as a negative resource (D3); and
- property income as both a resource and a use.

**A7.40** In the SNA, taxes are classified according to their role in economic activities as:

- taxes on production and imports (D2) in the production account and generation of income account;
- current taxes on income, wealth, etc. (D5) in the secondary distribution of income account; and
- capital taxes (D91) in the capital account.

**A7.41** GFS include a detailed classification of taxes based on common practices in tax administration. The result is that some tax categories in the GFS, 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. This allocation is required in the SNA, and in the absence of a split in GFS or source data, national accountants employ various methods to identify the payer (i.e., a producer or final consumer).

**A7.42** A breakdown of these taxes is illustrated in **Table A7.2**, which indicates, among other things, the linkages between the GFS and the SNA tax categories. The table shows which GFS tax categories directly correspond to the SNA tax category, which SNA tax category consists of two or more GFS subcategories, and which GFS tax item requires further breakdowns to allow linkage to the SNA categories.

<sup>13</sup> While a general government unit and/or public and private corporations may be recipients of subsidies, it is payable only by government units.

Table A7.2 Correspondence of GFS and SNA Revenue Transaction Categories

GFS Codes	SNA Codes	GFS Revenue categories	GFS codes	SNA Codes	GFS Revenue categories
<b>1</b>		<b>REVENUE</b>			
<b>11</b>		<b>Taxes</b>	<b>12</b>		<b>Social contributions</b>
<b>111</b>	= D51	<b>Taxes on income, profits, and capital gains</b>	<b>121</b>		<b>Social security contributions</b>
1111	> D51	Payable by individuals	1211		Households' contributions
1112	> D51	Payable by corporations and other enterprises	1211.1	> D613	Of which: Insurance scheme service charge (-)
1113	> D51	Other taxes on income, profits, and capital gains	1211.2	~ D6131	Actual pension contributions
<b>112</b>	> D29	<b>Taxes on payroll and workforce</b>	1211.3	~ D6132	Actual non-pension contributions
<b>113</b>		<b>Taxes on property</b>	1212		Employers' contributions
1131		Recurrent taxes on immovable property	1212.1	~ D611	Actual social contributions
1131.1	> D29	Payable by producers	1212.11	~ D6111	Actual pension contributions
1131.2	> D59	Payable by consumers	1212.12	~ D6112	Actual non-pension contributions
1132		Recurrent taxes on net wealth	1212.2	~ D612	Imputed social contributions
1132.1	> D29	Payable by producers	1212.21	~ D6121	Imputed pension contributions
1132.2	> D59	Payable by consumers	1212.22	~ D6122	Imputed non-pension contributions
1133	> D91	Estate, inheritance, and gift taxes	1213	> D613	Self-employed or nonemployed contributions
1135	> D91	Capital levies	1214	> D613	Unallocable contributions
1136		Other recurrent taxes on property	<b>122</b>		<b>Other social contributions</b>
1136.1	> D29	Payable by producers	1221	~ D6132	Household' contributions
1136.2	> D59	Payable by consumers	1222	~ D6112	Employers' contributions
<b>114</b>		<b>Taxes on goods and services</b>	1223	~ D6122	Employers' imputed contributions
1141		General taxes on goods and services	<b>13</b>		<b>Grants</b>
11411		Value added taxes	<b>131</b>		<b>From foreign governments</b>
11411.1	= D211	General VAT taxes	1311	> D74	Current
11411.2	> D29	Under compensation of VAT	1312		Capital
11412		Sales taxes	1312.1	> D92	Investment grants
11412.1	> D2122	On imported goods and services	1312.2	> D99	Other capital grants
11412.2	> D214	On domestically produced goods and	<b>132</b>		<b>From international organizations</b>
11413		Turnover and other general taxes on G&S	1321	> D74	Current
11413.1	> D214	Turnover taxes	1322		Capital
11413.2	> D59	Expenditure taxes	1322.1	> D92	Investment grants
11414	> D214	Taxes on financial and capital transactions	1322.2	> D99	Other capital grants
1142		Excises	<b>133</b>		<b>From general government units</b>
1142.1	> D2122	On imported goods	1331	> D73	Current
1142.2	> D214	On domestically produced goods	1332		Capital
1143	> D214	Profits of fiscal monopolies	1332.1	> D92	Investment grants
1144		Taxes on specific services	1332.2	> D99	Other capital grants
1144.1	> D2122	On imported services	<b>14</b>		<b>Other revenue</b>
1144.2	> D214	On domestically produced services	<b>141</b>		<b>Property income</b>
1145		Taxes on use of goods and on permission to	1411	~ D41	Interest
11451		Motor vehicles taxes	1412	~ D421	Dividends
11451.1	> D29	Payable by producers	1413	~ D422	Withdrawals from income of quasi-corporations
11451.2	> D59	Payable by consumers	1414		Property income from investment income disbursements
11452		Other taxes on use of goods and on	1414.1	~ D441	Insurance policy holders
11452.1	> D29	Payable by producers	1414.2	~ D443	Collective investment funds
11452.2	> D59	Payable by consumers	1415	= D45	Rent
1146		Other taxes on goods and services	1416	= D43	Reinvested earnings on foreign direct investment
1146.1	> D214	On products n.e.c.	<b>142</b>		<b>Sales of goods and services</b>
1146.2	> D29	On production n.e.c.	142.1	> P11	Of which: sold at market prices
1146.3	> D59	Payable by consumers	1422		Sales by market establishments
<b>115</b>		<b>Taxes on international trade and transactions</b>	1423		Administrative fees
1151		Customs and other import duties	1424		Incidental sales by nonmarket establishments
1151.1	= D2121	Import duties	<b>143</b>	> D759	Imputed sales of goods and services
1151.2	> D2122	Taxes on imports, excl. VAT and import duties	<b>144</b>		<b>Fines, penalties, and forfeits</b>
1152	> D213	Taxes on exports	1441		<b>Transfers not elsewhere classified</b>
1153		Profits of export or import monopolies	14411		Current transfers not elsewhere classified
1153.1	> D2122	Profits of import monopolies	14411.1	> D31	Subsidies
1153.2	> D213	Profits of export monopolies	14411.2	> D39	Subsidies on products
1154		Exchange profits	144111		Subsidies on production
1154.1	> D2122	Exchange profits as taxes on import, excl. VAT and import duties	144112		From other general government units
1154.2	> D213	Exchange profits as export taxes	144113		From international organizations
1154.3	> D214	Exchange profits as taxes on products excl. VAT, import & export taxes	14412	> D759	From foreign governments
1155		Exchange taxes	1442	> D99	Other current transfers not elsewhere classified
1155.1	> D2122	Exchange taxes as taxes on import, excl. VAT	<b>145</b>		Capital
1155.2	> D213	Exchange taxes as export taxes	1451		<b>Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes</b>
1155.3	> D214	Exchange taxes as taxes on products excl.	14511	> D71	Premiums, fees, and current claims
1156		Other taxes on international trade and	14512	> D71	Premiums
1156.1	> D29	Payable by producers	14513	> D72	Fees for standardized guarantees
1156.2	> D59	Payable by consumers	1452	> D99	Current claims
<b>116</b>		<b>Other taxes</b>	1452	> D99	Capital claims
1161		Payable solely by business	<b>Legend:</b>	=	GFS item is the same as the SNA item
1161.1	> D214	Stamp taxes	>		GFS item is a component of the relevant SNA item
1161.2	> D29	Other taxes on production	~		GFS item is conceptually the same but differs in practice due to treatment of specific transactions
1162	> D59	Payable by other than business or unidentifiable			

Note: Nonstandard GFS items required for SNA, indicated in shaded rows.

Table A7.3 Correspondence of GFS and SNA Expenditure Transaction Categories

GFS Codes	SNA Codes	Expenditure categories	GFS codes	SNA Codes	Expenditure categories
<b>2</b>		<b>EXPENSE</b>	<b>28</b>		<b>Other expense</b>
<b>21</b>		<b>Compensation of employees ( GFS )</b>	281		Property expense other than interest
21.1	> me	By market establishments	2811		Dividends
21.2	> nme; P1	By nonmarket establishments	2811.1	~ D421	Dividends other than reinvested (public
211	~ D11	Wages and salaries	2811.2	~ D43	Reinvested earnings (public corporation
2111	~ D111	Wages and salaries in cash	2812	~ D422	Withdrawals from income of quasi-
2112	~ D112	Wages and salaries in kind			corporations
212	~ D12	Employers' social contributions	2812.1	~ D422	Dividends other than reinvested
2121	~ D121	Actual employer's social contributions	2812.2	~ D43	Reinvested earnings
2121.1	~ D1211	Actual pension contributions	2813		Property expense for investment income
2121.2	~ D1212	Actual non-pension contributions			disbursements
2122	~ D122	Imputed employers' social contributions	2813.1	~ D441	Insurance policy holders
2122.1	~ D1221	Imputed pension contributions	2813.2	~ D442	Pension entitlements
2122.2	~ D1222	Imputed non-pension contributions	2813.3	~ D443	Collective investment funds
<b>22</b>	~ P2	<b>Use of goods and services ( GFS )</b>	2814	= D45	Rent
22.1	~ me	By market establishments	2815	> D43	Reinvested earnings on foreign direct
22.2	~ nme; P1	By nonmarket establishments			investment
<b>23</b>	~ P51c	<b>Consumption of fixed capital ( GFS )</b>	282		Transfers not elsewhere classified
23.1	~ me	By market establishments	2821		Current transfers not elsewhere classified
23.2	~ nme; P1	By nonmarket establishments	2821.1	> D29	Other taxes on production
<b>24</b>	~ D41	<b>Interest ( GFS )</b>	2821.2	> D75	Miscellaneous current transfers
241	~ D412	To nonresidents	2821.3	> D751	Current transfers to NPISHs
242	~ D412	To residents other than general	2821.31	> D751nik	Transfers other than in kind transfers
243	~ D411	To general government units	2821.32	> D751ik	Transfers in kind
<b>25</b>	"	<b>Subsidies</b>	2821.4	> D759	Other miscellaneous current transfers
25.1	D31	Subsidies on products	2821.41	> D759nik	Transfers other than in kind transfers
25.11	D311	Import subsidies	2821.42	> D759ik	Transfers in kind
25.12	D312	Export subsidies	2822		Capital
25.13	D319	Other subsidies on products	2822.1	> D91	Capital taxes
25.2	D39	Subsidies on production	2822.3	> D99	Other capital transfers not elsewhere
251		To public corporations			classified
2511		To nonfinancial corporations	<b>283</b>		<b>Premiums, fees, and claims related to</b>
2512		To financial corporations	2831		<b>and standardized guarantee schemes</b>
252		To private enterprises	28311	> D71	Premiums, fees, and current claims
2521		To nonfinancial enterprises	28312	> D71	Premiums
2522		To financial enterprises	28313	> D72	Fees for standardized guarantees
253		To other sectors	2832	> D99	Current claims
2531		To nonprofit institutions			Capital claims
2532		To general government units			
2533		To households as producers			
<b>26</b>		<b>Grants</b>			
261		To foreign governments			
2611	> D74	Current			
2612		Capital			
2612.1	> D92	Investment grants			
2612.2	> D99	Other capital grants			
262		To international organizations			
2621	> D74	Current			
2622		Capital			
2622.1	> D92	Investment grants			
2622.2	> D99	Other capital grants			
263		To general government units			
2631	> D73	Current			
2632		Capital			
2632.1	> D92	Investment grants			
2632.2	> D99	Other capital grants			
<b>27</b>		<b>Social benefits ( GFS )</b>			
271		Social security benefits			
2711	~ D621	Social security benefits in cash			
2711.1	~ D6211	Social security pension benefits			
2711.2	~ D6212	Social security nonpension benefits			
2712	~ D632	Social security benefits in kind			
272		Social assistance benefits			
2721	~ D623	Social assistance benefits in cash			
2722	~ D632	Social assistance benefits in kind			
273		Employer social benefits			
2731	~ D6222	Employer social benefits in cash			
2732	~ D632	Employer social benefits in kind			
			<b>Legend:</b>		
			=		GFS item is the same as the SNA item
			>		GFS item is a component of the relevant SNA item
			<		Portion of GFS item is a component of the relevant SNA
			~		GFS item is conceptually the same but differs in practice
					due to treatment of specific transactions

NOTE TO READER: IN FINAL FORMAT OF THIS TABLE WE WILL REORGANIZED TO REDUCE SIZE AND GET RID OF ALL THE WHITE SPACE. DOING SO WHILE WE ARE STILL MAKING CHANGES TO THE TABLE CREATES FORMATTING ISSUES.

**A7.43** Subsidies (D3) in the SNA, are the equivalent of GFS expense item 25, and are identical in both datasets, but the classification of the type of subsidies is quite different in the two datasets. In the SNA, the subsidies are divided into subsidies on products (D31) and other subsidies on production (D39). The subsidies on products are divided further into subsidies on imports (D311), exports (D312), and other subsidies on products (D319). In the GFS, to allow consolidation of the public sector, subsidies are classified by recipients.<sup>14</sup> To allow correspondence between the SNA and GFS, a building block approach can be used to identify all subsidies according to whether they are on production or products as well as identification of the recipients—see [Table A7.2](#)

**A7.44** There are several types of property income included as resources in the allocation of primary income account:

- Dividends (D421) in the SNA are the equivalent of dividends recorded in the GFS (sum of GFS revenue item 1412 and GFS expense item 2811, respectively);
- Withdrawals from income of quasi-corporations (D422) in the SNA are the equivalent of sum of these withdrawals recorded in GFS (net result of GFS revenue item 1413 and GFS expense item 2812);
- Rent (D45) in the SNA is the equivalent of rent recorded in the GFS (net result of GFS revenue item 1415 and GFS expense item 2814);
- Interest (D41) in the SNA is calculated as interest as recorded in the GFS (net result of GFS revenue item 1411 and GFS expense item 24), adjusted for FISIM (see paragraph A7.30);
- Reinvested earnings on direct foreign investment (D43) in SNA are the equivalent of reinvested earnings recorded in the GFS (net result of GFS revenue item 1416 and GFS expense item 2815);
- Imputed property income on investment income disbursements (D44), such as income attributable to insurance policy holders, etc., in the SNA is

conceptually the equivalent of property income/expense related to investment income disbursements (net result of GFS item 1414 and 2813). However, for government sector units as the holder of insurance policies, the revenue related to this item is likely to be unknown, and would probably only be calculated in the context of the whole of the economy. It therefore remains an adjustment item between GFS and national accounts. This imputed property income is also recorded as payable by the beneficiaries to the operator of the scheme as a household contribution supplement (D6141) in the secondary distribution of income account. For general government, this imputed transaction will primarily be for employment-related pension schemes. In the GFS, an imputed property expense on existing pension entitlements, recorded under GFS expense item 2813, is equal to the increase in the liability of a defined benefit retirement scheme resulting from the passage of time. Thus, the imputed household pension contribution supplements, recorded in the secondary distribution of income account in the SNA, are recorded in the GFS as incurrence of pension liabilities and not as revenue from social contributions (GFS revenue item 12). The SNA values can be derived from the detailed records of the retirement schemes.

**A7.45** The secondary distribution of income account covers redistribution of income through current transfers other than social transfers in kind made by government and NPISHs to households (B6).<sup>15</sup> In addition to carrying forward the balance of primary income, this account records:

- the current taxes on income, wealth, etc. (D5 in SNA) as a resource for government, which is divided further into taxes on income (D51 in SNA) and other current taxes (D59 in SNA);
- net social contributions (D61 in SNA) as a resource;
- social benefits other than transfers in kind (D62 in SNA) as a use; and
- other current transfers (D7 in SNA) as both a resource and a use.

<sup>14</sup> To meet with the SNA requirements, every recipient category of the GFS subsidy classification under GFS category 25 might need to have the SNA subclassification of subsidies.

<sup>15</sup> Social transfers in kind are recorded in the redistribution of income in kind account.

**Box 1 In kind transactions:**

Although the GFS and SNA recognize in kind transactions, recording these may differ in the two datasets, specifically in the case of goods and services produced by general government. Due to the SNA's focus on economic processes, such transactions may be recorded at various stages in the SNA, while in general they are recorded only once in the GFS. Imputed sales, as recorded in the GFS, are called nonmonetary transactions in the SNA.

The GFS and SNA record such an imputed sale in the case of:

- Goods and services *produced* by the general government sector and provided to *employees as wages in kind*: Treated as compensation of employees paid in cash followed by a sale to the employees (GFS item 1424). The compensation is recorded in the generation of income account as compensation of employees, as wages and salaries (D11), and the output is recorded as household final consumption expenditure. In the GFS, goods and services *produced* by the general government sector and provided to employees as wages in kind are treated similar to the SNA treatment. The government is deemed to be 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 payable 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.

The SNA records transactions in imputed sales that are not recorded in GFS in the following cases:

- Goods and services *produced* by the general government sector and provided as social benefits in kind in accordance with *employment-related social benefits*: Treated in the SNA as if there had been a transfer to the beneficiaries in cash followed by a sale of the output to the beneficiaries. Thus, the goods and services are recorded in the SNA as final consumption expenditure of the households while the transfer is recorded as a social benefit (recorded in the secondary distribution of income account as social benefits other than social transfers in kind (D62 in SNA), social insurance benefits (D622 in SNA). This item is divided further into pension benefits (D6221 in SNA) and nonpension benefits (D6222 in SNA). In the GFS, goods and services produced by general government units and provided as social benefits are recorded in the GFS as costs of production in the various GFS expense categories, such as compensation of employees and use of goods and services, and consumption of fixed capital, and not as social benefits.
- Goods and services *produced* by the general government sector and provided as grants in kind to *other governments and international organizations*: Treated in the SNA 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 (P6 in SNA) in the case of grants to foreign governments and international organizations and either government final consumption expenditure or gross fixed capital formation (P51 in SNA) in the case of grants to other domestic general government units. The transfer is shown in the secondary distribution of income account as other current transfers, as current transfers within general government (D73 in SNA) or current international cooperation (D74 in SNA) or in the capital account as capital transfers, as investment grants (D92 in SNA) or other capital transfers (D99 in SNA). In the GFS, such grants in kind are recorded as grants to foreign governments (GFS expense item 261) or grants to international organizations (GFS expense item 262).
- 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*: Treated as a transfer in cash and a sale of market output. The transfer is recorded in the secondary distribution of income account of the SNA as other current transfers, as nonlife insurance claims (D72) or miscellaneous current transfers (D75), and the output is recorded as final consumption expenditure of the households sector or the nonprofit institutions serving households sector. In the GFS, these goods and services provided in kind are recorded as other transfers (GFS expense item 282).

**A7.46** The net social contributions (D61) are divided into four subcategories in the SNA, with each of the net social contribution subcategories divided further into pension and nonpension contributions. The subcategories for net social contributions are.

- employers' actual social contributions (D611);
- employers' imputed social contributions (D612);

- households' actual social contributions (D613); and
- households' social contributions supplements (D614).

**A7.47** The amount recorded for net social contributions receivable by units operating social insurance schemes can be different in the GFS and SNA datasets due to differences in the treatment of contributions to employment-related pension schemes.

In the SNA, these amounts payable to the operator of the scheme as social contributions (D6111, D6121, and D6131 in SNA) are included in the secondary distribution of income, with a subsequent adjustment for the change in pension entitlements to record the incurrance of pension liabilities (F63 in SNA). The GFS records social contributions payable to employment-related schemes providing pensions and other retirement benefits directly as transactions increasing liabilities for pension entitlements (GFS item 33033) by the operator of the scheme.<sup>16</sup>

**A7.48** All social benefits payable, including pensions and other retirement benefits, are recorded in the SNA either in the secondary distribution of income account as social benefits other than social transfers in kind (D62 in SNA), or in the redistribution of income account as social transfers in kind (D63 in SNA). In addition, all pensions and other retirement social benefits payable are recorded as a reduction in pension entitlements (F63).

**A7.49** Unlike the SNA, expense in GFS excludes government employee pension and retirement benefits payable. These benefits are reported directly as a transaction reducing liabilities for *pension entitlements* (GFS liability item 33033). Also, unlike SNA benefits in the form of goods and services produced by general government units are not recorded as social benefits in GFS, but the costs of producing these goods and services are recorded in the various GFS expense categories, such as compensation of employees, and use of goods and services, etc.

**A7.50** As explained in **Box 1**, goods and services produced by the general government sector and provided as social benefits in kind, grants in kind, or transfers in kind are recorded in the SNA as output and a transfer to the beneficiaries. These transfers are recorded in the secondary distribution of income account, as if received in cash, followed by a sale of the output to the beneficiaries.

**A7.51** Other current transfers (D7) in SNA are a disparate collection of entries that are found in various categories in GFS:

- Net nonlife insurance premiums (D71) must be adjusted for the imputation of the sale or purchase of insurance services, as described in paragraph 24. In GFS, the net nonlife insurance premiums can be calculated from the respective revenue and expense items. The revenue is included in *premiums, fees and current claims* (GFS revenue item 1451) in the sub-item *premiums* (GFS revenue item 14511). The expense is included in *premiums, fees, and current claims* (GFS expense item 2831) in the subitem premiums (GFS expense item 28311).
- Nonlife insurance claims (D72) are identical in both datasets. In GFS, the nonlife insurance claims can be calculated from the respective revenue and expense items. The revenue is included in *premiums, fees and current claims* (GFS revenue item 1451) in the subcategories *current claims* and *capital claims* (GFS revenue item 14513 and 1452). The expense is included in *premiums, fees, and current claims* (GFS expense item 2831) in the subcategories *current claims* and *capital claims* (GFS expense item 28313 and 2832).
- Current transfers within general government (D73) and current international cooperation (D74) in the SNA are recorded in the GFS as *current grants receivable* (GFS revenue categories 1311, 1321, or 1331) or payable (GFS expense categories 2611, 2621, or 2631) except for goods and services produced by general government units (see **Box 1**).
- Miscellaneous current transfers (D75) in the SNA are recorded in the GFS as *finances, penalties, and forfeits* (GFS revenue item 143), *other current transfers not elsewhere classified* (GFS revenue item 14412), *current transfers not elsewhere classified* (GFS expense item 2821), adjusted with transfers of goods and services produced by general government units (see **Box 1**).<sup>17</sup>

**A7.52** The balancing item of the secondary distribution of income account is disposable income. For households, this income can be used for final consumption expenditure and saving. For nonfinancial and financial corporations, disposable income is income not distributed to owners of equity after taxes on income are paid. The disposable

<sup>16</sup> Actual and imputed contributions to pension and other retirement benefit schemes are therefore not included in revenue from social contributions (GFS revenue category 12— also see Appendix 2 paragraph **X.XX**).

<sup>17</sup> In the GFS, the value of social benefits excludes goods and services produced by government units themselves and it treats some in-kind transactions as if they were made in cash, followed by (imputed) sale.

income can be presented gross or net of consumption of fixed capital.

#### *The Redistribution of Income in Kind Account*

**A7.53** The redistribution of income in kind account reallocates social benefits in kind and transfers of individual nonmarket goods and services from the government sector to the sector using the goods or services. Because of the nature of the transactions concerned, this account is significant only for government, households, and NPISHs. The account records two elements of the redistribution process. The first is nonmarket production by government and NPISHs of individual services and the second is the purchase by government and NPISHs of goods and services for transfer to households free or at prices that are not economically significant. The redistribution of income in kind account records social transfers in kind as resources for households and uses of government and NPISHs. The balancing item of the redistribution of income in kind account is adjusted disposable income.

**A7.54** The Classification of Functions of Government (COFOG) can be used to assist in deriving the government individual consumption expenditure (P31 in SNA). Government's social benefits in kind is equal to the nonmarket produced social transfers in kind (D631 in SNA). By subtracting the market goods and services purchased or reimbursed by the government and transferred as social transfers in kind (D632 in SNA)<sup>18</sup> from the social transfers in kind (D63), the nonmarket produced social transfers in kind is the residual (D631 in SNA). See [Table A7.X](#) (redistribution of income in kind account) for an illustration. Government collective consumption (P32 in SNA) is equal to its actual final consumption (P4 in SNA).

#### *iii. The Use of Disposable Income Account*

**A7.55** The use of income accounts exists in two variants, the use of disposable income account and the use of adjusted disposable income account. Both accounts show how, for those sectors that undertake final consumption, disposable income or adjusted disposable income is allocated between final consumption and saving. It measures that part of

income which originated in production, domestically or abroad, that is not used for final consumption. Savings can be shown on a gross or a net basis (depending on whether consumption of fixed capital is included or not).

**A7.56** In the SNA, gross saving is the balance before capital operations and it can be derived by excluding from the net lending/borrowing the capital transfers receivable/payable, gross capital formation and acquisitions minus disposals of nonfinancial nonproduced assets. Since net lending/net borrowing in the SNA and GFS is conceptually the same, for the general government or public sector, gross savings can be derived from the GFS, as follows:

Net lending/borrowing

*Minus:* Capital grants/transfers receivable

*Plus:* Capital grants/transfers payable

*Plus:* Net acquisition of nonfinancial assets.

To get from net to gross saving the consumption of fixed capital needs to be added.

**A7.57** The use of disposable income account and the use of adjusted disposable income account calculate saving as a balancing item. The two measures of saving are the same, but calculated differently.

- The use of disposable income account calculates saving using:
  - Disposable income as a resource;
  - Final consumption expenditure as a use; and
  - An adjustment item showing the adjustment for the change in pension entitlements.
- The use of adjusted disposable income account calculates saving as a balancing item using:
  - Adjusted disposable income as a resource;
  - Actual final consumption as a use; and
  - An adjustment item showing the adjustment for the change in pension entitlements.

**A7.58** Final consumption is a key component of the use of disposable income account and gross domestic product. The concept is implemented in the SNA in

<sup>18</sup> See footnote 34 which shows the corresponding GFS expense items.

two ways: final consumption expenditure (P3) and actual final consumption (P4). The difference between them is social transfers in kind (D63), which represents the final consumption of goods and services purchased by general government units but actually consumed by households.

**A7.59** Final consumption expenditure is not an element of the GFS. Final consumption expenditure can be calculated using linkages with GFS data established earlier. It can be calculated as:

Total output minus output related to own-account capital formation;<sup>19</sup>

*Plus:* Purchases of goods and services that are transferred to households without further transformation;<sup>20</sup>

*Minus:* Actual and imputed sales of goods and services (GFS item 142);<sup>21</sup>

*Minus:* Changes in inventories of work-in-progress and finished goods (GFS categories 31222 and 31223).

**A7.60** In GFS, 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), *employment-related social benefits in kind* (2732) or *current transfers not elsewhere classified* (2821) depending on the nature of the program governing their distribution.

**A7.61** The GFS expense categories for social benefits in kind include reimbursements to households for purchases of goods and services receivable as social benefits in kind, and direct purchases by general government units of goods and services from market producers and provided as social benefits in kind. In addition, the GFS item for *transfers not elsewhere*

<sup>19</sup> As illustrated in [Table A3.X](#) (production account), this corresponds to the sum of following GFS categories: (+1421+21.nme+22.nme+23.nme+FISIM).

<sup>20</sup> This corresponds to the sum of the GFS categories 2712+2722+2732+2821.D751ik+2821.D759ik (See use of income account in [Table A3.X](#)). Also see paragraph [AA7.60](#)

<sup>21</sup> When an existing good is sold, the amount receivable from its sale is recorded as negative final consumption expenditure if the initial outlay on the good had been classified as final consumption expenditure.

*classified* (2821) may include purchases of goods and services from market producers that are distributed directly to households for final consumption other than social benefits. Goods and services produced by government themselves and subsequently used as transfers in kind are not reported as in kind transactions in GFS, but they are included in the SNA concept for social transfers in kind (D63).

**A7.62** Because the SNA separately measures production and distribution of goods and services, transactions in kind are normally recorded in the accounts as if they are monetary transfers followed by the expenditure by the recipient on the products concerned. Therefore, also included in social transfers in kind (D63) 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.

**A7.63** In the SNA, an entry in the use of disposable income account, as well as in the use of adjustment disposable income accounts is labeled the adjustment for the change in pension entitlements” (D.8). It is equal to:

- the total value of the actual social contributions payable to funded retirement schemes; plus
- the total value of the imputed social contributions payable to employment-related 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 pension benefits by the retirement schemes.

The different treatment of retirement schemes eliminates the need for this item in the GFS framework (see paragraph [x.x](#)).

#### **b. The Accumulation Accounts**

**A7.64** Saving is the balancing item of the last of the current account in SNA and the starting point for the

accumulation accounts. The first group of accumulation accounts covers transactions which would correspond to all changes in assets or liabilities and net worth if saving and capital transfers were the only sources of changes in net worth. The accounts are the capital account and the financial account. A second group of accumulation accounts relates to changes in asset, liabilities, and net worth due to other factors, and comprise the other changes in volume of assets account, and revaluation account.

#### *i. The Capital Account*

**A7.65** The capital account records transactions linked to the acquisition of nonfinancial assets and capital transfers—indicating the redistribution of wealth. The account records net saving and net capital transfers, i.e., changes in net worth due to saving and capital transfers, and also shows transactions in nonfinancial assets. The balancing item is either *net lending* (+), which measures the net amount a unit or a sector has available to finance other units or sectors, or *net borrowing* (-) which corresponds to the amount a unit or a sector is obliged to borrow from other units or sectors.

**A7.66** Most of the entries in the capital account of the SNA can be derived from the corresponding entries in the GFS. For example, the gross fixed capital formation (P51g in the SNA) minus the consumption of fixed capital (P51c) is the net investment in fixed assets in the GFS (GFS item 311). The 2008 SNA classification of categories of nonfinancial assets has been fully incorporated in GFS. However, in the SNA, fixed assets are – in addition to classification by asset type – also classified into:

- acquisition of new fixed assets (item 311.P5111 in Table A7.3);
- acquisition of existing fixed assets (item 311.P5112); and
- disposal of existing fixed assets (item 311.P5113).

This distinction between new and existing assets is not available from GFS, and would require supplementary information from source data systems.

**A7.67** Consumption of fixed capital in the SNA (P51c) equals the sum of the expense item of the same name in the GFS (GFS expense item 23) and

the consumption of fixed capital that was capitalized as part of own-account capital formation (GFS item 3M13).

**A7.68** Change in inventories (P52), acquisitions minus disposals of valuables (P.53), and acquisitions minus disposals of nonproduced assets (NP) are the same as the net investment in the corresponding items in GFS (GFS items 312, 313, and 314 respectively).

**A7.69** In the SNA, capital transfers receivable and payable (D9r) are recorded as capital taxes (D91r), investment grants (D92r), and other capital transfers (D99r). These transfers are included in various items in the GFS:

- Capital taxes (D91r) receivable by the general government sector can directly be related to GFS revenue recorded in *estate, inheritance, and gift taxes* (GFS revenue item 1133) and *other nonrecurrent taxes on property* (GFS revenue item 1135). Where these taxes are payable by one level of government to another, they will be a component of the expense item *capital transfers not elsewhere classified* (2822) of the payee;
- Investment grants (D92r) consist of all capital transfers made by governments to other resident or nonresident institutional units to finance all or part of the costs of their acquiring fixed assets. Therefore these investment grants receivable/payable will be a component of *capital grants receivable* (GFS revenue items 1312, 1322, or 1332), and a component of *capital grants payable* (GFS expense items 2612, 2622, and 2632);
- Other capital transfers (D99r) consist of all capital transfers except capital taxes and investment grants. One notable category included here is capital transfers related to debt cancellation by mutual agreement. In GFS, these may be included as a component of *capital grants* (GFS revenue items 1312, 1322, or 1332 or GFS expense items 2612, 2622, and 2632), *capital transfers not elsewhere classified* (GFS revenue item 1442 and GFS expense item 2822), and *capital claims* related to nonlife insurance (GFS revenue item 1452 and GFS expense item 2832).

#### *ii. The Financial Account*

**A7.70** The financial account in the SNA records transactions in financial assets and liabilities,

classified by instruments. It therefore records the net acquisition of financial assets, and the net incurrence of liabilities. The balancing item, net lending (+)/ net borrowing (-), is in principle equal to the net lending (+)/ net borrowing (-) calculated in the capital account, although calculated differently.

**A7.71** Conceptually, the transactions recorded in the financial account of the SNA should be identical to the transactions in financial assets and liabilities recorded in GFS. Some investment income disbursements (see paragraph **A7.44**) would likely be unknown to government, and would only be calculated in the context of the whole of the economy and therefore remains an adjustment item between GFS and national accounts. Amount recorded as transactions in insurance, pension, and standardized guarantee schemes may also differ due to the option in the SNA to treat some employment-related liabilities in supplementary and not the main tables (see paragraph **x.xx**).

### *iii. The Other Changes in the Volume of Assets Accounts*

**A7.72** The other changes in the volume of assets account in the SNA (K1) record the same economic events as those recorded in GFS (GFS item 5)—the total value of changes should therefore be consistent in the two datasets. In both datasets, the other changes in volume of assets are recorded for each type of asset and liability. In addition, the SNA also records these changes according to various classes of events that gave rise to the change in the volume of the asset or liability. Data are separately recorded for economic appearance of assets (K1), economic disappearance of nonproduced nonfinancial assets (K2), Catastrophic losses (K3), Uncompensated seizures (K4), Other changes in volume not elsewhere classified (K5), and changes in classification (K6). Source data for recording these events should therefore provide for identification of the relevant asset and liability, but also identify the underlying event that caused the change in the volume.

### *iv. The Revaluation Account*

**A7.73** The revaluation account in the SNA (B103) records the same holding gains or losses as those recorded in the GFS (GFS item 4). The total value of nominal holding gains for the general government or public sector should therefore be the same in the two datasets. In addition, the SNA recommends that

nominal holding gains and losses are further subdivided between neutral and real holding gains and losses. The GFS do not make this distinction:

- Neutral holding gains (B1031) record the revaluation in proportion to the general price levels. The value is obtained by applying, during the same periods of time, an index of the change in general price level to the initial value of all assets or liabilities. The result of this operation is called neutral holding gains and losses because all assets and liabilities are revalued so as to preserve exactly their purchasing power.
- Real holding gains and losses (B1032) record the difference between nominal holding gains and losses and neutral holding gains and losses.

### **3. The Balance Sheet**

**A7.74** The opening and closing balance sheets for the general government or public sector are conceptually the same in the SNA and the GFS. Both datasets display assets on the left-hand side, and liabilities and net worth on the right-hand side. The changes in the balance sheet in the SNA are the sum of the entries in the four accumulation accounts corresponding to the respective asset or liability. Similarly, the changes in the Balance Sheet of the GFS are the sum of transactions recorded in the Statements of Operations, Holding Gains and Losses, and Other Changes in Volume. The classification of assets and liabilities in the two frameworks are fully consistent. However, in practice amounts recorded as stock positions may differ in two cases:

- liabilities in respect of employment-related pension schemes may differ, due to the option in the SNA to treat some employment-related liabilities in supplementary tables (see paragraph **XX**); and
- assets and liabilities subject to investment income disbursements) may differ in cases where these amounts are unknown to government, and would only be calculated in the context of the whole of the economy (see paragraph **A7.44**).

## E. Comparison of the analytical framework of GFS and Balance of Payments and the International Investment Position

**A7.75** The sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* serves as the standard framework for statistics on the transactions and positions between an economy and the rest of the world. This manual is harmonized with the 2008 SNA. Since the *BPM6* is harmonized with the SNA, it is also harmonized with the other macroeconomic datasets, including GFS. Conceptual linkages mean that compilers of the international accounts and GFS should consult to ensure the consistent application of definitions of coverage and concepts, and accounting rules.

### 1. Comparison of the accounts in GFS and Balance of Payments and the International Investment Position

**A7.76** The structure of the international statistical framework is similar to the structure used in the GFS framework, and comprises (1) *the balance of payments*, which summarizes economic transactions between residents and nonresidents during a specific time period; (2) *the other changes in financial assets and liabilities*, which shows flows due to economic events other than transactions between residents and nonresidents, and include valuation changes; and (3) *the international investment position (IIP)*, which shows the value of the financial asset and liability stock positions between the residents of an economy and nonresidents at a reporting date. The opening and closing stock position of the IIP are explained by the sum of transactions and other changes in financial assets and liabilities.

### 2. Linkages between GFS and international statistics

**A7.77** The *BPM6* framework provides a sequence of accounts, each encompassing a separate economic process or phenomenon and a balancing item. The remainder of this section describes how the various international accounts correspond to GFS.

#### a. The Balance of Payments

**A7.78** *The balance of payments summarizes economic transactions between residents and*

*nonresidents during a specific time period.* The different accounts within the balance of payments are distinguished according to the nature of the economic resources provided and received, and comprise:

- The current account—shows flows of goods and services, primary income, and secondary income between residents and nonresidents.
- The capital account—shows credit and debit entries for transactions in nonproduced nonfinancial assets, and capital transfers between residents and nonresidents; and
- The financial account—shows net acquisition and disposal of financial assets and liabilities.

The sum of the balances on the current and capital accounts represents the net lending (surplus) or net borrowing (deficit) by the economy with the rest of the world. This is conceptually equal to the net balance of the financial account.

#### i. The Current Account

**A7.79** *The current account shows flows of goods and services, primary income, and secondary income between residents and nonresidents.* The balance on this account, known as the current account balance, shows the difference between the sum of exports and income receivable and the sum of imports and income payable. The current account balance represents the saving-investment gap for the economy.

#### *The Goods and Services account*

**A7.80** *The goods and services account shows transactions in items that are outcomes of production activities.* The focus of the account is the point at which goods and services<sup>22</sup> are exchanged between a resident and a nonresident. Production is an activity in which an enterprise uses inputs (intermediate inputs, labor, produced and nonproduced assets) in order to transform them to an output that can be supplied to other units.

**A7.81** The GFS Statement of Operations has a linkage to the goods and services account to the extent that general government/public sector units enter into transactions with nonresidents, involving goods and

<sup>22</sup> Goods as used in this context include both consumer goods and produced nonfinancial assets.

services, either as a producer/seller or user of these goods or services. GFS will usually not separately identify these transactions, which limit opportunities for reconciliation between the goods and service account and the GFS. However, in some cases, supplementary information in the general government sector accounting environment may identify such transactions—either because of the nature, large volume, or large value of the transactions. Specifically, where produced assets are exchanged, contractual arrangements may be publicly available and should be consistently treated in the goods and services account of the balance of payments and the GFS.

**A7.82** The goods and services account requires that goods and services be classified according to the nature of the good or service. One of these specifically requires the separate disclosure of *Government goods and services not included elsewhere*, which cover:

- Goods and services supplied by and to enclaves, such as embassies, military bases, and international organizations;
- Goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad and their dependents; and
- Services supplied by and to governments and not included in other categories of services.

**A7.83** Government and international organization enclaves are not residents of the territory in which they are physically located. Therefore, their transactions with residents of the territory of location are international transactions. However, all expenditure on goods and services by locally engaged staff of the enclave is excluded from international transactions. Additionally, government supply of licenses and permits to nonresidents are also included in this category, while some activities related to technical assistance provided by one country to another are included.<sup>23</sup>

**A7.84** The GFS classifications do not specifically require the identification of transactions in goods and services with nonresidents. However, where these transactions can be identified and classifications are built into the underlying general government sector accounting system, the information could be supplied

to balance of payments compilers for estimating credits.

#### *The Primary Income Account*

**A7.85** *The primary income account shows primary income flows between resident and nonresident institutional units.* Primary income represents the return that accrues to institutional unit for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units.

**A7.86** The international accounts distinguish the following types of primary income:

- Compensation of employees;
- Investment income
  - Dividends;
  - Reinvested earnings;
  - Interest;
  - Investment income attributable to policyholders in insurance, standardized guarantees, and pension funds;
- Other primary income
  - Rent;
  - Taxes on production and imports; and
  - Subsidies.

**A7.87** The consistency in data between the GFS and primary income account could only be established to the extent that sufficient supplementary details are separately identified in the GFS, or underlying source data. The following linkages exist between the primary income account and the GFS:

- Compensation of Employees: To the extent that the resident government employs a nonresident individual, compensation of employees of government would include amounts payable to nonresidents that should be recorded in the primary income account. Because government employment usually has some residency criteria as precondition, these amounts are often not very large. However, in the case of territorial enclaves, all compensation of employees payable by government to residents of the host country should

<sup>23</sup> See *BPM6*, paragraphs 10.173 – 10.181.

be included in the primary income account. The GFS classifications do not specifically require the identification of compensation of employees to nonresidents. However, when such payments are identified in the underlying source system, the information should be reported consistently in the GFS and primary income account.

- **Investment Income:** The contribution of the general government sector to investment income is mainly derived from the nonresident portion of the GFS items *interest* (GFS revenue item 1411, and GFS expense item 24), and *dividends* (GFS revenue item 1412 and GFS expense item 2811). It can be linked with the GFS accounts, if source data allows that these receivables and payables are split between amounts from/to residents and nonresidents. Where general government sector units control insurance, standardized guarantees or pension schemes, they will attribute investment income to policyholders in these schemes. These policyholders may include nonresidents, in which case the relevant portion of the *disbursement of investment income* (GFS expense item 2813) should be consistent with the corresponding item included in the primary income account. Where a general government unit or public corporation have foreign direct investments in nonresident special purpose entities (SPEs), or foreign branches of public corporations, reinvested earnings, as reported in the primary income account, are recorded separately in GFS (GFS revenue item 1416). Similarly, where public corporations have foreign direct investors, these amounts are included in the primary income accounts, and should be consistent with amounts reported in GFS (GFS expense item 2815).
- **Other primary income:** In calculating other primary income, linkages with the GFS data arise from the transactions with nonresidents related to *subsidies* (revenue item 144111 and expense item 25) and *rent* (GFS revenue item 1415, and GFS expense item 2814). Where the identification of such payments/receipts to and from nonresidents is provided for in the underlying general government or public sector source data, the information should be consistent with the primary income account. The taxes on production and on imports reported in the balance of payments primary income account comprise the same tax categories than the corresponding item in the SNA (D2 in SNA), but represent only the portion of these taxes

collected from nonresidents. Taxes on production and on imports is the sum of amounts payable by nonresidents of several detailed tax categories as reported in the GFS, and comprise:

- Recurrent taxes on immovable property (GFS item 1131);
- Recurrent taxes on net wealth (GFS item 1132);
- Taxes on financial and capital transactions (GFS item 1134);
- Other recurrent taxes on property (GFS item 1136);
- General taxes on goods and services (GFS item 1141);
- Excises (GFS item 1142),
- Profits of fiscal monopolies (GFS item 1143);
- Taxes on specific services (GFS item 1144)
- Taxes on use of goods and on permission to use goods or perform activities—payable by producers (GFS item 1145).
- Other taxes—payable by business (GFS item 1161),

**A7.88** To allow consistency checks with the primary income account in the balance of payments, these GFS tax categories need to be divided between amounts receivable from residents and nonresidents. These subcategories are normally not available from GFS, and would only be useful for deriving credits in the primary income account. While certain taxes on production and imports are easier to divide between residents and nonresidents, others are more difficult. Also the portion attributable to nonresidents may vary from one tax category to the next and from one year to the next.

#### *The Secondary Income Account*

**A7.89** The secondary income account in the balance of payments shows current transfers between residents and nonresidents. This account shows redistribution of income, that is, when resources for current purposes are provided by one party without anything of economic value being supplied as a direct return to that party. Various types of current transfers are recorded in this account to show their role in the

process of income distribution between economies. The extent to which governments are involved in these transfers, will determine the linkages between the GFS Statement of Operations and this account.

**A7.90** The standard components of the secondary income account make a distinction at the first level between those current transfers receivable/payable by general government, and those by other sectors, comprising the financial corporations, nonfinancial corporations, households, and NPISHs. For the general government, these transfers will include the transfers in respect of:

- Current taxes on income, wealth, etc.,
- Social contributions,
- Social benefits
- Current international cooperation, and
- Miscellaneous current transfers.

**A7.91** To the extent that the current transfers of general government are identifiable and reported in the GFS as being from or to nonresidents, these data should be consistently reported in the secondary income account.

- Current taxes on income, wealth, etc. reported in the secondary income account comprise the nonresident portion of the same tax categories as in the 2008 SNA (D5 in SNA), Current taxes on income, wealth, etc., are the sum of several detailed tax categories as reported in the GFS, and comprise *taxes on income, profits and capital gains* (GFS item 111) and several other tax categories mainly payable by final consumers (see paragraphs [A7.39](#) and [A7.45](#)).
- Social contributions (D61 in SNA) receivable from nonresidents by general government sector units, or social benefits payable to nonresidents (D62 and D63 in SNA), can be different from the corresponding GFS items. (see paragraphs [A7.46–A7.48](#))
- Current international cooperation is separately reported in the GFS Statement of Operation and should be reported consistently in the secondary income account. Grants payable to foreign government and international organizations (GFS item 2611 and 2621 respectively) and grants receivable from foreign governments and

international organizations (GFS item 1311 and 1321 respectively) are usually the most important linkage between the GFS and secondary income account.

- Other miscellaneous current transfers (D75 in SNA)<sup>24</sup> comprise various items of current transfers receivable and payable (see paragraph [A7.51](#)).
- Current transfers of government sector units related to nonlife insurance premiums/claims, and miscellaneous current transfers would require a split between those receivable/payable to resident and nonresidents, to allow for consistency checks.

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<sup>24</sup> The detailed corresponding GFS categories are shown in [Table A7.2](#) and [A7.3](#) under secondary distribution of income account.

**Table A7.4 Correspondence of GFS and SNA Transactions in Nonfinancial Asset Categories**

GFS Codes	SNA Codes	Expenditure categories
<b>31</b>		<b>Nonfinancial assets</b>
<b>311</b>	= <b>P511</b>	<b>Fixed assets</b>
3M1	> P1	<i>Of which: Own-account capital formation</i>
3M11	> D1	Own-account capital formation, Compensation of employees
3M111	> D11	Wages and salaries
3M112	> D12	Employers' social contributions
3M1121	> D121	Employers' actual social contributions
3M11211	> D1211	Employers' actual pension contributions
3M11211	> D1212	Employers' actual nonpension contributions
3M1122	> D122	Employers' imputed social contributions
3M11221	> D1221	Employers' imputed pension contributions
3M11222	> D1222	Employers' imputed non-pension contributions
3M12	> P2	Own-account capital formation, intermediate consumption
3M13	> P51c	Own-account capital formation, consumption of fixed capital
<b>311.1</b>	< <b>P5111</b>	<b>Acquisition on new fixed assets</b>
<b>311.2</b>	< <b>P5112</b>	<b>Acquisition on existing fixed assets</b>
<b>311.3</b>	< <b>P5113</b>	<b>Disposals of existing fixed assets</b>
3111		Buildings and structures
31111		Dwellings
31112		Buildings other than dwellings
31113		Other structures
31114		Land improvements
3112		Machinery and equipment
31121		Transport equipment
31122		Other machinery and equipment transport eq.
311221		ICT equipment
311222		Machinery and equipment not elsewhere classified
3113		Other fixed assets
31131		Cultivated biological resources
31132		Intellectual property products
31133	= P512	Costs of ownership transfer of nonproduced assets (other than land)
31134		Weapons systems
<b>312</b>	= <b>P52</b>	<b>Inventories</b>
31221		Materials and supplies
31222		Work-in-process
31222.1	me	<i>Of which: Market establishments</i>
312221		Work-in-process on cultivated biological assets
312222		Other work-in-process
31223		Finished goods
31223.1	me	<i>Of which: Market establishments</i>
31224		Goods for resale
31225		Military inventories
<b>313</b>	= <b>P53</b>	<b>Valuables</b>
<b>314</b>	<b>NP</b>	<b>Nonproduced assets</b>
3140		Natural resources
3141	> NP1	Land
3142	> NP1	Mineral and energy resources
3143	> NP1	Other naturally occurring assets
3144		Intangible nonproduced assets
31441	= NP2	Contracts, leases, and licenses
31442	= NP3	Goodwill and marketing assets
<b>Legend:</b>	=	<b>GFS item is the same as the SNA item</b>
	>	<b>GFS item is a component of the relevant SNA item</b>
	<	<b>Portion of GFS item is a component of the relevant SNA item</b>
	~	<b>GFS item is conceptually the same but differs in practice due to treatment of specific</b>

Note: Nonstandard GFS items required for SNA, indicated in shaded rows.

ii. *The Capital Account*

**A7.92** *The capital account in the international accounts shows capital transfers receivable and payable between residents and nonresidents and the acquisition and disposal of nonproduced nonfinancial assets between residents and nonresidents.* It records acquisitions and disposal of nonproduced nonfinancial assets, such as land sold to embassies and sales of leases and licenses, as well as capital transfers, that is, the provision of resources for capital purposes by one party without anything of economic value being supplied as a direct return to that party.

**A7.93** Nonproduced nonfinancial assets consist of three items: natural resources, contracts, leases, and licenses, and marketing assets and goodwill. (GFS items 3140, 31441 and 31442 respectively.) There is full consistency in the macroeconomic statistical framework with regards to the items of nonproduced nonfinancial assets that exist. Where general government sector units acquire or dispose of these assets in transactions with nonresidents, supplementary information would be required from the GFS transactions to allow compilation or consistency checks with the international accounts.

**A7.94** It should be noted that this account does not show the full range of produced and nonproduced nonfinancial assets, as is the case in the SNA and GFS. The capital account in the international accounts shows only transactions in nonproduced nonfinancial assets. Transactions in produced nonfinancial assets are included in the goods and services account which does not distinguish whether those goods or services are destined for capital or current purposes.

**A7.95** *The capital transfers recorded in the international accounts are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or which obliges one or both parties to acquire or dispose of an asset (other than cash or inventories); or where a liability is forgiven by the creditor.* Conceptually these transfers are the same as the capital transfers recorded in the SNA. Governments are often involved in these transfers, which should be reported in a consistent way in the GFS and the capital account of the balance of payments. Governments undertake transfers to convey a benefit to another party, or benefit from transfers receivable. These capital transfers consist of compulsory

transfers to governments, transfers under court orders, and voluntary transfers. There may also be imputed capital transfers as a result of governments' use of entities resident in other economies, for fiscal purposes (see paragraph 2.127 and paragraphs 8.24—8.26 of BPM6).

**A7.96** The capital account of the balance of payments distinguishes the following main types of capital transfers:

- Debt forgiveness: Debt forgiveness is the voluntary cancellation of all or part of a debt obligation within a contractual agreement between a creditor and a debtor. When government/public sector entities are involved in debt forgiveness, either as a recipient or grantor, the events are usually well-known and it is recorded in the GFS accounts. Debt forgiveness received from nonresidents will be reflected as revenue in *capital grants* received from either foreign governments, international organizations, or included in *capital transfers not elsewhere classified*, when received from other nonresident entities (GFS items 1312, 1322, or 1442 respectively). A corresponding reduction in the appropriate foreign debt instrument will be recorded. When the government sector unit is the provider of debt relief to a nonresident, an expense will be reflected as *capital grants* to foreign governments, international organizations, or will be included in *capital transfers not elsewhere classified*, when provided to other nonresident entities (GFS items 2612, 2622, or 2822 respectively). A corresponding reduction in the appropriate foreign financial asset will be recorded.
- Exceptionally large nonlife insurance claims—where these claims are receivable/payable by government sector units will be recorded as capital claims (GFS revenue item 1452 or GFS expense item 2832) respectively. Due to the extraordinary nature of this item, it will usually be well known and visible in the GFS data, and will allow consistent recording in the international accounts.
- Investment grants—consist of capital transfers in cash or in kind made by governments or international organizations to other institutional units to finance all or part of the cost of their acquiring fixed assets. Government/public sector units can be the grantor or recipient of these investment grants. These transfers will be recorded

in the same items of revenue and expense as for debt forgiveness as described above.

- One-off guarantees and other debt assumption—this capital transfer occur when a one-off guarantee is activated, or in other cases of debt assumption, and the guarantor acquires no claim on the debtor, or a claim worth less than the value of the guarantee. When government/public sector units and nonresident are involved in these transactions, it should be consistently treated in the capital account and GFS. The treatment of one-off guarantees and other cases of debt assumption is described in more detail in paragraphs A.X.XX.
- Capital taxes included in the capital account consist of taxes levied at irregular and infrequent intervals on the values of the assets or net worth owned by institutional units or on the value of assets transferred between institutional units as a result of legacies, fits *inter vivos*, or other transfers. These include:
  - Capital levies: Taxes on the value or the assets or net worth owned by institutional units levied at irregular, and very infrequent, intervals of time; and
  - Taxes on capital transfers: Taxes on the values of assets transferred between institutional units. They consist mainly of inheritance taxes (death duties) and gift taxes, including those on gifts made between living members of the same family to avoid, or minimize the payment of inheritance taxes.

These capital taxes recorded in the capital account of the balance of payment comprise the same tax categories as the corresponding item in the SNA (D91 in SNA), but represent only the portion of these taxes collected from nonresidents (see paragraph A7.69). Consistency for this item in the capital account and GFS will require a breakdown of these taxes in supplementary GFS data between amounts receivable from residents and nonresidents.

- Other capital transfers—consist of major nonrecurrent payments in compensation for extensive damage or serious injuries not covered by insurance policies. Where government/public sector units are the recipient of this type of transfer from nonresidents, it will be recorded as part of *capital grants* receivable from either foreign

governments, international organizations, or included as *capital transfers not elsewhere classified*, when received from other nonresident entities (GFS items 1312, 1322, or 1442 respectively). When the government/public sector unit is the grantor of this type of transfer to a nonresident, an expense will be reflected as *capital grants* to foreign governments, international organizations, or as *capital transfers not elsewhere classified*, when provided to other entities (GFS items 2612, 2622, or 2822 respectively). Consistency for this item in the capital account and GFS will also require a further breakdown of the transfers not elsewhere classified between amounts receivable from residents and nonresidents.

### iii. The Financial Account

**A7.97** *The financial account of the balance of payments records transactions that involve financial assets and liabilities that take place between residents and nonresidents.* Financial account transactions appear in the balance of payments and, because of their effect on the stock of assets and liabilities, also in the integrated IIP statement. The net balance on the financial account is conceptually equal to the sum of the balances on the current and capital accounts (*net lending (+)/net borrowing (-)*). The financial account therefore measures how the net lending to or net borrowing from nonresidents is financed.

**A7.98** The international accounts use functional categories as the primary classification for each of financial transactions, other changes in assets and liabilities, and stock positions.<sup>25</sup> Five functional categories of investment are distinguished in the international accounts:

- Direct investment,
- Portfolio investment,
- Financial derivatives (other than reserves) and employee stock options,
- Other investment, and
- Reserve assets.

<sup>25</sup> The term functional classification is used in different context in the classification of the functions of government.

Table A7.5 Correspondence of GFS and SNA financial assets and liabilities

GFSM harmonized with other data sets	GFSM classification		2008 SNA Codes	
	Transaction	Stock Position	Transaction	Stock Position
<b>Financial assets *</b>	<b>32</b>	<b>62</b>		
<i>Total by instrument:</i>				
<b>Monetary gold and SDRs</b>	<b>3201</b>	<b>6201</b>	<b>F1</b>	<b>AF1</b>
Monetary gold	32011	62011	F11	AF11
SDRs	32012	62012	F12	AF12
<b>Currency and deposits</b>	<b>3202</b>	<b>6202</b>	<b>F2</b>	<b>AF2</b>
Currency	32021	62021	F21	AF21
Transferable deposits	32022	62022	F22	AF22
Other deposits	32023	62023	F29	AF29
<b>Debt securities</b>	<b>3203</b>	<b>6203</b>	<b>F3</b>	<b>AF3</b>
<b>Loans</b>	<b>3204</b>	<b>6204</b>	<b>F4</b>	<b>AF4</b>
<b>Equity and investment fund shares</b>	<b>3205</b>	<b>6205</b>	<b>F5</b>	<b>AF5</b>
Equity	32051	62051	F51	AF51
Investment fund shares	32052	62052	F52	AF52
<b>Insurance, pension, and standardized guarantee schemes</b>	<b>3206</b>	<b>6206</b>	<b>F6</b>	<b>AF6</b>
Nonlife insurance technical reserves	32061	62061	F61	AF61
Life insurance and annuities entitlements	32062	62062	F62	AF62
Pension entitlements **	32063	62063	F63 & F65	AF63 & AF65
Claims of pension fund on pension manager	32064	62064	F64	AF64
Provisions for calls under standardized guarantees	32065	62065	F66	AF66
<b>Financial derivatives and employee stock options</b>	<b>3207</b>	<b>6207</b>	<b>F7</b>	<b>AF7</b>
Financial derivatives	32071	62071	F71	AF71
Employee stock options	32072	62072	F72	AF72
<b>Other accounts receivable</b>	<b>3208</b>	<b>6208</b>	<b>F8</b>	<b>AF8</b>
Trade credits and advances	32081	62081	F81	AF81
Other accounts receivable	32082	62082	F82	AF82
<b>Liabilities *</b>	<b>33</b>	<b>62</b>		
<i>Total by instrument:**</i>				
Special Drawing Rights (SDRs)	3301	6301	F12	AF12
Currency and deposits	3302	6302	F2	AF2
Debt securities	3303	6303	F3	AF3
Loans	3304	6304	F4	AF4
Equity and investment fund shares	3305	6305	F5	AF5
Insurance, pension, and standardized guarantee schemes	3306	6306	F6	AF6
Financial derivatives and employee stock options	3307	6307	F7	AF7
Other accounts payable	3308	6308	F8	AF8

\* Both financial assets and liabilities are classified further into domestic and external in same subcategories.

\*\* To the extent that nonpension entitlement reserves exist, such liabilities are included with those for pension entitlements for pragmatic reasons (see paragraph 7.194).

For consistency with the updated MFSM an additional column will be added to indicate further breakdowns where required by the MFSM.

This functional classification takes into consideration some aspects of the relationship between the parties and the motivation for investment (see *BPM6*, chapter 6). In addition, data in the financial account are also presented according to the financial asset or liability instrument employed, and the sector or the resident counterpart to the transaction.

**A7.99** Although the classification of financial assets and liabilities as presented in the GFS does not follow

the same functional classification, it is fully consistent with the instrument breakdown and sector classification as used in the international accounts. The guidelines of the GFS framework suggest that transactions in financial assets and liabilities with residents and nonresidents are separately disclosed. The GFS follows the same criteria for determining residence as the international accounts. Conceptually it therefore allows the data in GFS to be consistent

with the data for general government as presented in the financial account.<sup>26</sup>

#### **b. The Other Changes in Financial Assets and Liabilities Account**

**A7.100** In the international accounts, the other changes in financial assets and liabilities account shows changes in financial positions that arise for reasons other than transactions between residents and nonresidents. These changes are also called “other flows” and similar to the GFS, it will include holding gains and losses, and other volume change in financial assets and liabilities (including reclassifications). Because of the importance of different currencies in the IIP, revaluations (holding gains and losses) are broken down between changes due to exchange rates and other price changes. As described in earlier paragraphs, the classification of financial instruments for assets and liabilities are conceptually fully consistent in the GFS and international accounts. It should result in consistency in the data reported for these other flows in the two data sets, except in the case of liabilities for pension entitlements that may differ.

#### **c. The International Investment Position**

**A7.101** *The international investment position (IIP) is a statistical statement that shows at a point in time the value of: financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserve assets; and the liabilities of residents of an economy to nonresidents.* The difference between the assets and liabilities is the net position in the IIP and represents either a net claim on or a net liability to the rest of the world. The IIP represents a subset of the assets and liabilities included in the national balance sheet. In addition to the IIP, the national balance sheet incorporates nonfinancial assets as well as financial assets and liability positions between residents.

**A7.102** As is the case for the financial account, the highest level of classification used in the IIP is the functional classification (see paragraph **A7.98**). Because there has been a growing recognition of the role of balance sheet analysis in understanding,

sustainability and vulnerability, currency composition, and remaining maturity analysis of the IIP are encouraged as additional information.

**A7.103** General government’s financial asset/liability position with nonresidents, as reported in the GFS balance sheet, follows the same classification of instruments and accounting rules as the IIP. Additional reporting requirements on remaining maturity breakdowns and currency breakdowns, as suggested in the *Public Sector Debt Statistics Guide* and GFS, are also fully consistent.

### **F. Comparison of the analytical framework of GFS and Monetary and Financial Statistics**

**A7.104** The *Monetary and Financial Statistics Manual (MFSM)* is part of the family of statistical guidelines and can therefore be seen to be extending and elaborating on the *2008 SNA*.<sup>27</sup> The *MFSM* conceptual framework is consistent with the *2008 SNA* with respect to principles and concepts, like the delineation of resident and nonresident entities, sectorization of the economy, classification of the various categories of financial assets and liabilities, time of recording, valuation, and data aggregation and consolidation. The main principles and concepts of the *MFSM* also accord with those in the *BPM6* and the *GFSM 2012*.

#### **1. Comparing the accounts in GFS and Monetary and Financial Statistics**

**A7.105** The purpose of the *MFSM* is to provide guidelines for the compilation and the presentation of monetary and financial statistics. *Monetary statistics* consist of a comprehensive set of stock and flow data on the financial and nonfinancial assets and liabilities of an economy’s financial corporations sector. The organization and presentation of monetary statistics follow a hierarchical approach based on two general data frameworks—sectoral balance sheets and surveys. Stock data reported by individual institutional units are aggregated into sectoral balance sheets, which contain the comprehensive data for the financial corporations subsectors. At a second level,

<sup>26</sup> The international accounts identify general government, but it does not present data for the subsectors of the general government, as is the case in the GFS.

<sup>27</sup> The *Monetary and Financial Statistics Manual (MFSM)* is from 2000 and the *Monetary and Financial Statistics, Compilation Guide* is from 2008; both issued by IMF- THIS SECTION IS SUBJECT TO REVISION PENDING THE OUTCOME OF THE REVISED MFSM.

the data in the sectoral balance sheets are consolidated into surveys.

**A7.106** *Financial statistics*, on the other hand, consist of a comprehensive set of stock and flow data on financial assets and liabilities of all sectors of an economy. These data are organized and presented in formats designed to show financial flows among the sectors of an economy and corresponding financial asset and liability positions. Also included in monetary and financial statistics are the Flow of Funds data, presented in a matrix format. A detailed flow of funds accounting cross-classifies financial assets acquired by each sector, by instrument with the counterpart debtor sector. It also cross-classifies liabilities incurred by each sector by instrument and counterpart creditor sector. Therefore, this matrix shows the financial transactions among all subsectors of an economy, and the net position with the rest of the world. Such a presentation is particularly useful to analyze the allocation of financial resources and users in an economy.

## 2. Linkages between GFS and Monetary and Financial statistics

**A7.107** **Table A7.5** in this appendix shows a detailed classification of the main categories of flows and stock positions in financial assets and liabilities in the government accounts and how they are related to the 2008 SNA and, consequently, also to the monetary and financial accounts.<sup>28</sup>

**A7.108** Linkages between GFS and MFS originate from the fact that governments, as clients of financial institutions, often invest surplus funds in accounts held at financial corporations. As investors, governments may invest in financial corporations and become one of the owners. In addition, these financial corporations often invest their surplus resources in debt instruments issued by government, such as debt securities, or governments may borrow from the financial sector to fund the net borrowing requirement of government. These transactions will result in either a net claim of government on the financial corporations, or a net claim of these corporations on

government. The net asset/liability position between the general/central government sector and the financial corporations sector should be consistent, or reconcilable. The extent to which these data are similar is often a good indicator of the consistency in macroeconomic statistics in a country.

**A7.109** Differences in the amounts reported as net claims between the government sector and the financial corporations sector could be used to check the accuracy/consistency of the respective data sets. Where the two sets of data are materially different, the reasons for the differences must be ascertained, and documentation on the size and reasons for the discrepancy should be provided to users of the data. Reasons for differences can often be found in:

- **Coverage:** In many cases, governments have numerous accounts held in several financial institutions. Both datasets should include the same institutional units in their general/central government data and financial data. Differences may arise if government has accounts with a financial institution, but this financial institution is not covered in the monetary and financial statistics. Another more common case exists where certain government institutions have accounts with financial institutions and the monetary and financial statistics covers these accounts, but the accounts of these institutions are not covered in the GFS, because these GFS data are confined to budgetary accounts, thereby not covering the data of the extrabudgetary units.
- **Sectorization:** Some of the statistical institutional units may not be appropriately identified and sectorized as general/central government in the financial accounts and may lead to inconsistencies in the two datasets. For example, an account held for externally financed projects and foreign grants may not be appropriately designated as a government account in financial corporations' records.
- **Classification and coverage of financial instruments:** The classification of financial instruments included in financial assets and liabilities may differ, or an instrument may not be consistently classified in the two systems. Differences may arise when an instrument such as accounts receivable/payable is not treated the same way in the data, or when a loan is incorrectly

<sup>28</sup> Subcategories of financial instruments in the revised MFSM (as shown in the table) are subject to revision and may differ in the final draft. .

reported as equity investment in one of the data sets.

- Time of recording: Complementary periods used in government accounting may result in transactions being recorded at a time other than when economic ownership changed hands.
- Accrual versus cash recording: Although conceptually both data sets should be recorded on an accrual basis, GFS compilers often use cash-based data as a proxy for data compiled on an accrual basis, while the financial corporations sector is often more advanced in implementing accrual recording of transactions. Often, certain items are not correctly accrued to the time when the economic event occurred.
- Valuation: While conceptually both data sets should follow the same valuation principles, national practices may differ. Where valuation differences in source data exist, differences may occur between the GFS and monetary and financial statistics, unless valuation adjustments are made when the respective data sets are prepared.
- Dematerializing of debt instruments: Where governments issue tradable securities, the issuer often has no knowledge or record of transactions in the secondary market, so the sector holding such securities can usually only be determined by surveying the ultimate purchaser of such securities or by using data from a centralized securities depository. However, quite often these instruments are held by nominees of the financial corporations sector, which may complicate the identification of the owners of claims of the government. The complexity of determining ownership of tradable instruments may further introduce inconsistency in the data.

**A7.110** Due to the financial asset/liability positions held between general/central government and the financial corporations sector, some additional revenue and expense flows occur between these sectors. Further consistency checks can be performed on these revenue and expense transactions where the level of detail in the source data permits them. These relate specifically to receivables/payables in respect of interest, dividends, other property income, subsidies, and capital transfers between the general/central government sector and the financial corporations sector.