IMF Committee on Balance of Payments Statistics

BPM6 Update
Direct Investment Task Team (DITT)

FINAL/APPROVED VERSION

D.5 Eliminating the Imputations for an Entity Owned or Controlled by General Government that is Used for Fiscal Purposes

D.5 Eliminating the Imputations for an Entity Owned or Controlled by General Government that is Used for Fiscal Purposes[1]

If a government uses an entity resident in a different economic territory to conduct fiscal operations, special imputations of transactions and positions between the government and that entity should be made under current guidelines. This is to ensure that fiscal operations undertaken through nonresident entities are appropriately reflected in the general government accounts, in order to remove any possible distortions resulting, notably, in a misguided representation of government debt and expenditure. In doing so, the residency criterion is maintained. However, the complex construction of these required imputations, the inappropriate breakdown of government expenditure, and the degree/lack of autonomy of decision-making of the entity have raised concerns. Although there have been suggestions to eliminate imputations altogether (thus consolidating these government-owned nonresident entities with their controlling governments) this guidance note proposes retaining the current treatment in the System of National Accounts 2008 *and the* Balance of Payments and International Investment Position Manual, sixth edition *but recording imputations with a more analytically meaningful instrument breakdown. This enhanced compilation approach is deemed necessary to adequately reflect the proper nature, value and counterpart of relevant flows and positions in the government accounts, to better support fiscal analysis.*

SECTION I: THE ISSUE

BACKGROUND

1. **A government can create and use a direct investment enterprise (DIE), typically a special purpose entity (SPE), resident in another economic territory, to carry out fiscal activities on its behalf.** Based on the current methodological standards,[2] any entity created by a parent under the laws of another jurisdiction is treated as a separate institutional unit, by convention, resident in the host jurisdiction. This convention is also applicable when the parent is a government unit, which implies that the transactions or positions of that entity are not consolidated as part of the controlling general government sector (and, obviously, are neither part of the government in the host economy). In sum, these entities are currently not treated in the same way as embassies and other territorial enclaves (*BPM6*, paragraph 4.93).

2. **The *Government Finance Statistics Manual 2014 (GFSM 2014)* further underscores in paragraph A3.56 that government may conduct fiscal activities through a nonresident SPE.** This SPE is not part of the general government sector in either home or host economy. Such entities are not treated in the same way as embassies and other territorial enclaves because they operate under the laws of the host economy. Governments may be direct investors in these units/entities. However, special imputations of transactions and stock positions between the government and the SPE abroad must be

[1] Prepared by Mmes. Padma Hurree-Gobin, Fadhila Alfaraj, Mr. Bruno Rocha (all, IMF), and Mr. Philippe de Rougemont (Eurostat).

[2] *System of National Accounts 2008* (*2008 SNA)* paragraphs 4.67, 22.23, and 26.43*, Government Finance Statistics Manual 2014 (GFSM 2014),* paragraphs 2.137–2.139, and *Balance of Payments and International Investment Position Manual*, *sixth edition* (*BPM6*), paragraphs 4.93 and 8.24–8.26.

used to ensure that any fiscal operations undertaken through nonresident entities are reflected in the transactions and stock positions of the home government concerned.

3. **Under the current standards of the IMF's *Balance of Payments and International Investment Position Manual*, *sixth edition* (*BPM6*), special accounting rules also apply for nonresident entities owned or controlled by general government as opposed to similar nonresident entities owned or controlled[3] by the private sector.** These *BPM6* special rules are consistent with both the *2008 SNA* and the *GFSM 2014.* Special imputations of transactions and positions between the government and the nonresident entity are adopted in order to ensure that all fiscal operations undertaken are reflected in the transactions and positions of the government concerned.

4. **The *BPM6*, paragraphs 8.24–8.26, state that multiple imputation entries are required between the government and its DIE/SPE, notably to avoid distortions in the government balance sheet, including debt statistics.** These imputations are made symmetrically for both the government and the nonresident DIE/SPE borrowing or spending on behalf of the government. They, however, do not affect the transactions or positions between the borrowing entity and its creditors or other third parties, which are recorded as they occur.

5. **The transactions carried out by a nonresident SPE are recorded in the host territory, but imputed "mirror" transactions are added between the SPE and the "parent" government**. For instance, any borrowing by the SPE gives rise to an imputation of a claim of the SPE on government (an increase in government debt), matched by a corresponding increase in the equity stake of the government in the SPE (*BPM6,* paragraph 8.25(a)). When the SPE passes cash to government, the flow of funds is recorded as a withdrawal in the government equity stake in the SPE (*BPM6,* paragraph 8.25(b)). Any expenditure carried out directly by the SPE benefiting a third party (i.e., that is not passing to the government), a current or capital transfer between the government and the SPE is imputed, with a matching decrease in government equity (*BPM6,* paragraph 8.25(c)). Therefore, even when there are no cash flows occurring between the SPE and government, transactions should be nonetheless imputed in the accounts of both the general government and the rest of the world to reflect the fiscal activities of the government (*BPM6*, paragraph 3.18; and *GFSM 2014*, paragraphs 2.139 and 3.28). These entries are made symmetrically for both the government and the borrowing entity. These entries do not affect the transactions or positions between the borrowing entity and its creditors or other third parties, which are recorded as they occur with no imputations.

6. **The reason for having a special approach for government entities is that, unlike the private sector, government-owned or controlled entities function on the behest of the controlling government for fiscal purposes,[4] not for commercial reasons.** The special imputations enable a

[3] Control is defined as in paragraphs 6.12–6.14 of the *BPM6* (i.e., by combining direct and indirect ownership), and paragraphs 4.68–4.74 and 4.81–4.82 of the *2008 SNA.*

[4] Fiscal purposes emanate from the conduct of fiscal policy, which is when government uses public spending and taxation to influence the economy. The *GFSM 2014* (paragraph 1.2) defines fiscal policy as the use of the level and composition of the general government and public sectors' spending and revenue—and the related accumulation of government assets and liabilities—to achieve such goals as the stabilization of the economy, the reallocation of resources, and the redistribution of income. Governments typically use fiscal policy to promote economic growth. In that respect, DIEs incorporated by governments would consist of those entities, controlled by government units, that solely form part of general government sector.

transparent presentation of government finance statistics. Fiscal purposes should be distinguished from commercial purposes because they are always oriented to serving the objectives for the government's home territory. Without the imputations, a misleading picture of government expenditure or/and debt would arise. Unlike other DIEs, these government-owned entities, when they are used solely for fiscal purposes, do not give rise to reinvested earnings (*BPM6*, paragraph 11.40).

7. **The current imputations prescribed by the *BPM6* paragraph 8.25 have, however, some shortcomings.** Many of these Government SPEs qualify as financial conduits[5] established to raise funds (issuing debt), often from unrelated enterprises, and remit those funds to their parents. Firstly, while the *BPM6* does not specify the exact instrument to be imputed as debt of government, one can presume it is a loan. However, the valuation for loans is at nominal value, while the valuation for any debt securities issued by the SPE is at market value; thus, the SPE liability position will not be fully reflected in government's accounts, without further adjustments. Secondly, the *BPM6* prescribes recording current or capital transfers to the SPE rather than according to the nature and counterpart of the expenditure. This would also concern (it would seem) interest expenditure incurred on the SPE debt (meaning, *inter alia*, that no interest expenditure on the imputed government debt is recorded, which is anomalous).[6] Thirdly, the current guidance neglects that SPEs may collect revenue (this can occur notably in certain cases of securitization); should these be recorded as current transfer revenue of government from the SPE?[7] Lastly, the *BPM6* also neglects that government owned SPEs may engage in lending or equity acquisition that should preferably be reported as such in government accounts. Other manuals are much less detailed than the *BPM6* and are notably silent on the nature of the reinvested amounts to impute (equity according to the *BPM6*) that is the counterpart of the imputed debt.

ISSUES FOR DISCUSSION

8. **These special rules and associated imputations have been viewed as being complex and somewhat artificial and as not appropriately reflecting government revenue/expenditure or liability/asset positions arising from government owned SPEs abroad.** Due to the difficulties encountered, this guidance note discusses, amongst others, the proposal to consider eliminating altogether the imputations currently being made by regarding the nonresident fiscal entity to be part of the government of the economic territory that owns or controls it. This will be in much the same way that overseas embassies, military bases, etc. are regarded as part of the territory of the general government that occupies them (*BPM6*, paragraph 4.138). Alternatively, this guidance note also explores a more comprehensive approach to the rerouting.

[5] Guidance Note (GN) D.14 "Financial Conduits" discusses proposals for capturing the activities of the latter that would better serve analysts. These include the possible separate identification of the DI transactions and positions of Financial Conduits as well as a supplemental presentation by the economy of the ultimate investors.

[6] Thus, the nominal and market value of debts of governments with SPE abroad is understated, given that interest accrued but not paid is added to any debt securities issued or loans incurred by the SPE, while the imputed loan does not carry interest under current guidelines.

[7] This would not seem appropriate and could lead to biases in measures of fiscal/tax burden.

9. **The options, for discussion, for the treatment of nonresident government entities created for fiscal operations in macroeconomic statistics are thus three-fold:**

a. **Option 1:** Eliminate all imputations and consider these entities as part of the controlling government.

b. **Option 2:** No changes in the current *BPM6* treatment.

c. **Option 3:** Retain the *2008 SNA*/*BPM6* treatment but recording defined imputations with a more analytically meaningful instrument breakdown necessary to adequately reflect the proper nature, value, and counterpart of relevant flows and positions in the government accounts.

10. **Option 1—eliminating all imputations—implies treating those entities similarly to other enclaves of government, whose accounts are consolidated into those of the general government.**[8] The rationale for this proposal is that government tends to incorporate these entities abroad primarily for strategic fiscal considerations, with no economic autonomy. This type of SPE does not exhibit behavior of a market producer; rather they serve the needs of a nonmarket producer. Treating these entities as part of the territorial enclaves of the controlling government would be equivalent to expanding the concept of economic territory to include these nonresident entities. The embassy treatment can be supported by the fact that, in contrast to other nonresident DIE of government, these SPE are *de facto* brass-plate businesses, with no physical footprint, such that locating these together with the embassy territory appears plausible and a good reflection of their nature. The impact of such a proposal would be that the notion of general government would comprise both resident and some legally nonresident units and would automatically eliminate the remaining current distortions of government revenue/expenditure or liability/asset positions (discussed in paragraph 6).

11. **However, it must be acknowledged that contrary to embassies and enclaves, government SPEs are established in particular jurisdictions so as to derive the specific advantages provided by the host economies.** The non-resident SPE cannot be considered in a similar manner than other territorial enclaves given that it is operating under the legal jurisdiction of the host economy and not under the jurisdiction of the parent country. For example, confidentiality is one of the motivations for the use of SPEs; it results in a lack of transparency that includes fiscal transparency when governments sponsor the SPE.

12. **Option 1, if considered, conveys an exception to the residency principle.** Paragraph 4.61 of the *2008 SNA* states that "*An entity … that cannot act independently of its parent and is simply a passive holder of assets and liabilities (sometimes described as being on auto-pilot) … is not treated as a separate institutional unit* ***unless it is resident in an economy different from that of its parent.*** *If it is resident in the same economy as its parent, it is treated as an "artificial subsidiary"* (bold added). As is, the residency criterion is already an exception to the concept of institutional unit for those entities that are on autopilot and, thus, do not have autonomy of decision, for example SPEs. Consequently, consolidating government owned SPEs with their controlling governments because they are not genuine institutional units, but rather artificial subsidiaries of the parent will be tantamount to merely establishing an "exception within an exception,"—that is, limiting the extent of the initial exception.

[8] Implying an elimination of the second sentence of the *BPM6* paragraph 4.93.

13. **The IMF's Balance of Payments Committee (Committee), while endorsing the SPE definition at its meeting in October 2018, approved retaining the exception from the general principles by considering SPEs incorporated in an economic territory other than any of its owners as separate institutional units.** The nonresident entity is resident in its economy of incorporation. The same treatment for SPEs is currently being applied by the Globalization Task Team (GZTT),[9] with a view to maintaining consistency across statistical domains. The introduction of the nationality approach for SPEs owned by government would, therefore, imply an exception for government controlled SPEs to the current guidance put forward by the GZTT,[10] thereby privileging instead the general approach of consolidating entities not meeting the criteria of being institutional units already applied for resident units.

14. **Option 2 implies keeping the current *BPM6* standards unchanged.** The uniqueness of government-owned or controlled nonresident entities is that these are used for fiscal purposes. The current imputation practices broadly ensure a better recording for the government accounts (main indicators: deficit, debt) than with no imputations. These imputations encompass cross-border transactions and positions of the general government activities with an entity residing in a different territory operating for government's fiscal activities. While, in the past, concerns about the possibility of concealing the government debt or expenditure have been raised when SPEs are used for government fiscal operations, the current standards as prescribed in the *BPM6* have been useful in addressing those concerns. They prevented any serious misrepresentation of the fiscal operations of general government. However, as mentioned in paragraph 6, Option 2 does not fully prevent all distortions of the government accounts regarding government revenue/expenditure breakdowns and/or asset/liability positions (including positions at nominal and market value). It notably distorts the relation between interest expenditure and the underlying liability.

15. **Option 3 keeps the current *2008 SNA/BPM6* standards that government SPEs abroad remain institutional units (like all other SPEs abroad) but recording enhanced imputations of the SPEs' transactions and positions in the government accounts with a more analytically meaningful instrument breakdown.** Option 3 would entail modifying the current guidance with respect to the imputation of withdrawal/increase in equity between the SPE and the parent government and considering some new imputations in order to correctly represent government transactions and positions by nature and counterpart:

(i) to record interest expenditure on the imputed debt of government (instead of the current recording of current transfer), against withdrawal of equity in the SPE (i.e., implying recording interest revenue of the SPE, as a mirror to the SPE interest expenditure on the debt levied).

(ii) to directly record the SPE expenditure as government expenditure according to their nature and counterpart (e.g., capitals transfer to public corporations), against withdrawal of equity in the SPE.

[9] See GZTT GN G.4 "Treatment of Special Purpose Entities and Residency."

[10] However, for countries that have enough information, the GZTT is proposing to produce complementary statistics on nationality basis. The consolidation of government-owned nonresident entities with the controlling government can be considered as an extension to the residency-based statistics, which remains the underlying core framework for macroeconomic statistics.

(iii) to record acquisition of assets (like loans or equity) in government accounts, against withdrawal of equity in the SPE.

(iv) to record any/main SPE revenue (e.g., some cases of securitization) directly as government revenue, against an increase in equity in the SPE (and ultimately reduction in debt).

16. **Proposal (i) within Option 3 is necessary to ensure that interest expenditure is recorded where there is a debt.** Proposals (ii), (iii), and (iv) relates to a case of rerouting as recognized by the *2008 SNA/BPM6,* which avoids recording debatable cross-border nonfinancial transactions, notably whenever the beneficiary of the expenditure has the same residency as the sponsoring government. *De facto*, Option 3 implies that the SPE to cash abroad, with government seen as drawing down on it (with a balance of payments impact in the financial accounts F.2 Currency and deposits/ F.5 Equity and investment fund shares) each time an SPE outflow takes place.

17. **A separate problem concerns the government debt towards the SPE.** Recognizing a loan rather than debt security (when the SPE issues such instruments) distorts the debt composition of government and its valuation. At the same time, the debt link between the government and the SPE does not meet the debt securities/PI definitions. One possibility would be to nonetheless decide that the government debt to the SPE would be classified, by convention, identically to the SPE debts (including recognizing debt securities links, and their valuation and property income). This separate issue is not part of Option 3 but could be considered as a variant/extension of Option 3.

18. **The residency exception to the institutional unit test applied to all SPEs (public or private) in the *2008 SNA* is based on the fact that these entities are usually established in particular jurisdictions to draw on specific advantages provided by the host economies as well as on the serious difficulties that statisticians would face in consolidating them.** The motivations of government owned SPEs (see *GFSM 2014,* paragraphs A3.54 to A3.56) are similar to private-owned/controlled SPEs contrary to embassies and enclaves. The latter are set up in different jurisdictions from a diplomacy perspective, are generally exempt from at least some laws in the host economy and are considered extensions of the home government's territory under international law (*BPM6*, paragraph 4.138). Thus, they are included in the same economic territory of the home government. From a compilation angle, compilers would face difficulties to effectively consolidate within each parent (sometimes themselves SPE, etc.), without errors, the very large number of nonresident SPEs existing across the world, with their large balance sheets and cross-border debtor/creditor relationships. The residency exception is, hence, largely a pragmatic solution to avoid significant errors when compiling cross-border positions and flows in the external sector accounts and associated Rest of the World accounts of the *2008 SNA*. However, it may be recognized that, to the extent that SPEs abroad created by governments are not numerous and often well identified, it may be easier to develop nationality-based statistics for this sector. In that respect, a specific treatment foreseen for them, different from private SPEs, may appear well-justified (exception within an exception).[11]

[11] This "exception within the exception" also probably acted as an effective disincentive to create such SPEs abroad for purely statistical reasons, which would otherwise have probably multiplied.

19. **The main issue is therefore whether it is more effective either to prescribe a simplified solution of directly consolidated government SPEs abroad (Option 1),** which has the merit to align SPEs abroad on domestic SPEs and to avoid a series of imputations as well as to avoid distorting government accounts (embassy treatment), **or to stick to the current *BPM6* treatment (Option 2)**, which has the advantage of treating all SPEs abroad as institutional units, but involves a series of imputations and results in significant remaining distortions of government accounts, **or to stick to the current *BPM6* treatment however with adaptations (Option 3)**, which has the advantage of treating all SPEs abroad as institutional units but without significant distortions of government accounts, although this involves a longer series of imputations.

SECTION II: OUTCOMES

20. **This GN proposes keeping the main *2008 SNA*/*BPM6* guidance unchanged but enhancing the special imputations by adopting Option 3, namely by recording these imputations with a more analytically meaningful instrument breakdown.**[12] This option remains aligned to the *BPM6/2008 SNA* standards by maintaining the treatment of SPE incorporated in a different jurisdiction than the parents as an institutional unit. This reinforces the discussion on SPEs currently undertaken by the GZTT, and also entails an enhanced imputation that shall adequately represent government flows and stocks by nature and counterpart, thereby supporting better fiscal analysis.

21. **The recommendations[13] include:**

- Maintain the treatment of nonresident government controlled SPEs used for fiscal purposes as nonresident institutional units.
- Introduce the enhanced imputations, which are considered as appropriate and sufficient, to better reflect the fiscal operations of government controlled SPEs (Option 3).
- Extend the enhanced imputations to reflect the imputed debt in the government accounts under the same financial instrument as the debt incurred by the SPE.

REJECTED ALTERNATIVES

22. **Option 1—eliminating all imputations—implies treating those entities similarly to other enclaves of government**, **whose accounts are consolidated into those of the general government.** The DITT did not see strong reasons for Option 1, especially given that the Committee has clearly endorsed the SPE with a foreign ownership/control as an institutional unit in its economy of incorporation or registration, which is aligned to the GZTT recommendation in its GN G.4 “Treatment of SPEs and Residency”.

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[12] A summary of the discussion on this GN at the Balance of Payments Committee meeting of June 2021 is available here.

[13] The GN was shared for consultation with the Government Finance Statistics community, including the Government Finance Statistics Advisory Committee, subsequent to the proposal of the DITT and at the request of the Committee and AEG members at the June 2021 and July 2021 meetings, respectively. The consultation was in large agreement with the DITT’s recommendations put forward.

23. **Option 2 implies keeping the current *BPM6* standards unchanged.** While the current imputation practices broadly ensure a better recording for the government accounts (main indicators: deficit, debt), it was recognized that Option 3 is a better alternative. Option 2, as is, does not fully prevent all distortions of the government accounts regarding government revenue/expenditure breakdowns and/or asset/liability positions (including positions at nominal and market value). It notably distorts the relation between interest expenditure and the underlying liability.

Annex I. Examples to Illustrate the Differences Between Option 2 and Option 3 [14]

The example uses a single scenario and shows how this would be reflected in the accounts under the three options as explained in the Guidance Note.

Scenario:

SPE in Country A borrows $1000 on behalf of Government of Country B by issuing debt securities. During Year 1 after borrowing, $600 of the funds are transferred to the Government and $400 directly to a public corporation as a capital transfer. In addition, $50 is paid by the SPE in interest, which is reimbursed by the government. For the purposes of the example, the Government does not use the funds it receives during Year 1.

I. Option 2: No Changes in the Current *BPM6* Treatment.

This option recognizes Government debt of Country B towards the SPE of Country A of $1000 as a *loan*, and the $50 paid interest by the SPE under *current transfer*. The capital transfer of $400 to the public corporation is recognized in both the SPE and Government accounts.

II. Option 3: Retain the *2008 SNA/BPM6* Treatment with Better Imputations

This option recognizes Government debt of Country B towards the SPE of Country A of $1000 as a *loan*, and the $50 paid interest by the SPE under *interest*. The capital transfer of $400 to the public corporation is recognized only in the Government accounts.

III. Extension to Option 3 (with type of debt instrument mirrored in government accounts), as agreed with GFS community—Paragraph 17 of the GN which states "…*The debt link between the government and the SPE does not meet the debt securities/PI definitions. One possibility would be to nonetheless decide that the government debt to the SPE would be classified, by convention, identically to the SPE debts (including recognizing debt securities links, and their valuation and property income*) …"

This option recognizes Government debt of Country B towards the SPE of Country A of $1000 as *debt securities*, and the $50 paid interest by the SPE under *interest*. The capital transfer of $400 to the public corporation is recognized only in the Government accounts.

Color code:
Black - transaction, or stock position, is the same in all 3 options
Blue - transaction, or stock position, under Option 2
Green - transaction, or stock position, under Option 3
Tan - transaction, or stock position, under Extension to Option 3—these imputations may be illustrated in the *BPM7CG*

[14] Draft jointly prepared by Bruno Rocha, David Bailey, Fadhila Alfaraj, and Padma Hurree-Gobin (IMF).

	Country A (SPE)		**Country B (Government)**	
Opening Balance Sheet – at the time of issuance of debt securities/borrowing	Assets	Liabilities	Assets	Liabilities
Currency & Deposits (Other Investment)	**+1000**			
Debt Securities (Portfolio Investment)	**+1000**	**+1000**		**+1000**
Loans (Direct Investment, debt) [imputed]	**+1000** **+1000**			**+1000** **+1000**
Equity (Direct Investment, DIE)		**+1000**	**+1000**	
Net financial worth	*0*		*0*	
Nonfinancial transactions (Balance of Payments - Current accounts) [Year 1]	Revenue (Credits)	Expenditure (Debits)	Revenue (Credits)	Expenditure (Debits)
Interest (Primary Income, Investment Income, DI, Interest)	**+50** **+50**	**+50**		**+50** **+50**
Current transfer (Secondary Income, Current transfers) [imputed]	**+50**			**+50**
Capital transfer to public corporation (Secondary Income, Capital transfers – I)[a] (Domestic transaction – II, III)[b]	**+400**	**+400**		**+400**[a] **+400**[b] **+400**[b]
Net borrowing / net lending	*0*		*-450*	

	Country A (SPE)		**Country B (Government)**	
Financial transactions (Balance of Payments - Financial account) [Year 1]	Assets (Net acquisition of financial assets	Liabilities (Net incurrence of liabilities)	Assets (Net acquisition of financial assets	Liabilities (Net incurrence of liabilities)
Currency & Deposits (Other Investment/Reserve assets)	**-1000**		**+550**[15,16]	
Debt Securities				
Loans				
Equity (Direct Investment, DIE)		**-1000**	**-1000**	
Closing Balance Sheet – at end of year 1	Assets (Net acquisition of financial assets	Liabilities (Net incurrence of liabilities)	Assets (Net acquisition of financial assets	Liabilities (Net incurrence of liabilities)
Currency & Deposits (Other investment/Reserve assets)	**0**		**+550**	
Debt Securities (Portfolio Investment)	**+1000**	**+1000**		**+1000**
Loans (Direct Investment, debt) [imputed]	**+1000** **+1000**			**+1000** **+1000**
Equity (Direct Investment, DIE)		**0**	**0**	
Net financial worth	*0*		*-450*	

[15] The additional $400 will be reflected as a net acquisition of financial assets by the public corporations of Country B.

[16] If the interest expense $50 paid by the SPE is not reimbursed by the government, then this will be reflected as follows in the *financial transactions:* currency of deposits -1050 (assets) for the SPE, +600 (assets) for the government; equity for SPEs will be -1050 (liabilities) and +1050 (assets) for government; and in the *closing balance sheet*—currency and deposits for SPEs -50 (assets) and +600 (assets) for the government; and equity direct investment -50 (liabilities) for SPEs and -50 (assets) for the government.