



STATISTICS

Proposed Research Topics: Sector or Transaction Classification

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GFSAC Feedback on Preliminary Research Agenda (1)

- **11 written responses received**
- **Broad support for research topics** - good starting point
- **Group 1 → Group 2:**
 - AI.1 Valuation Principles and Methodologies?
 - F.15 Debt concessionality?
- **Group 2 → Group 1:**
 - 2.12 Operating and financial leases?
 - 2.15 Environmental classifications within GFS?
 - 2.17 Identifying, valuing and reporting data assets?
 - 2.22 Government subscriptions to internal organizations?
 - All topics considered as “clarifying”?
- **Other suggestions:**
 - Make clearer which SNA/BPM GN Recommendations to be considered in Group 2
 - Re-write description of each proposed research topic as a series of bullet points
 - Extend summary table to identify relevance to all domains (not just MFS and SEEA)
 - Merge 2.1 & 2.2; Clarify title/aims of 2.20 (Capital transfers); May need to split 2.14

GFSAC Feedback on Preliminary Research Agenda (2)

- **8 additional research topics proposed**
 - **Extrabudgetary central government sector** – improved definition and separation (Galina)
 - **Crises and emergencies** – new annex on related flows and stocks (Galina)
 - **Infrastructure assets** – expanded asset classification and compilation guidance (Jorrit)
 - **Privatization** – improved guidance on when to record equity vs nonfinancial assets (Dane)
 - **Public nonlife insurance schemes** – sectorization and transaction classification (Phil)
 - **Contingent liabilities** – when to recognize them? (Phil)
 - **Equity for public corporations** – valuation, revaluations and negative equity (Phil)
 - **Defined employee benefit schemes** – terminology and measurement (João)

Contents

- Boundary between government-controlled nonmarket and market producers engaged in nonfinancial activities
- Boundary between government-controlled nonmarket and market producers engaged in financial activities
- Indigenous governments and one-party states
- Transactions of government with sovereign wealth funds (and similar)
- Treatment of zakat

Title:

Boundary between government-controlled nonmarket and market producers engaged in nonfinancial activities

Type:

Conceptual

Rank:

15th (joint)

MFS: No

SEEA: No

Background/Issues:

Application of the *GFSM 2014* guidance on "economically significant prices" is challenging for many countries. Most countries assess the sector classification of government-controlled nonfinancial entities using the 50% "market test", but this is not prescribed within the *GFSM 2014*. Eurostat have developed much more extensive guidance on sector classification within their Manual on Government Deficit and Debt and some of this guidance might be of relevance to the updated GFSM.

Expected Outcomes:

- Recommendation on whether to make the "market test" more prescriptive
- Additional guidance on what to include in "sales" and "production costs", including how to estimate depreciation and return to capital
- Clarification of what qualitative factors to consider when sector classifying public units with monopolies (e.g. some utility companies, market regulatory agencies) and units where the public sector is the dominant customer (e.g. some health bodies).

Title:

Boundary between government-controlled nonmarket producers engaged in financial activities and public financial corporations

Type:

Conceptual

Rank:

7th (joint)

MFS: Yes

SEEA: No

Background/Issues:

The concept of "economically significant prices" is hard to interpret for units engaged in financial activities and the 50% "market test" generally cannot be applied to such units. Chapter 2 of the *GFSM 2014* includes some sector classification guidance on specific types of public financial entities but in many cases the guidance provided is to apply the overarching sectorization principles. Can further principle-based guidance be provided to assess when a government-controlled entity engaged in financial activities should be classified within the government sector, both as generic guidance and in relation to specific types of unit?

Expected Outcomes:

- More detailed, and where possible more prescriptive, guidance on how to determine the distinction between government units and public financial corporations.
- Review current guidance on the sector classification of specific types of unit, including sovereign wealth funds, provident funds, public pension funds, development/investment funds and statistical financial protection schemes with a view to improving the guidance in a coherent manner.

Title:

Indigenous governments and one-party states

Type:

Clarifying

Rank:

30th

MFS: No

SEEA: No

Background/Issues:

The general government sector can be split into the central government, state governments, local governments, and social security funds subsectors. However, in some countries delineation between units and assets controlled by government, the ruler/monarch (or similar) as a household, and the religious authorities as non-profit institutions serving households can be challenging. Further, it is not always clear when state governments should be recognized or how to treat autonomous self-governing arrangements, such as those of indigenous communities.

Expected Outcomes:

- Review of some of the more common types of governing structures/arrangements with respect to how these are, or could be, captured in GFS.
- Based on the review, recommendations as to whether additional guidance should be provided on government sector delimitation with respect to indigenous governments, one-party states, or other common government structures.

<p>Title: Transactions of government with sovereign wealth funds (and similar)</p>	<p>Type: Conceptual Rank: 26th MFS: Yes SEEA: No</p>
<p>Background/Issues: Transactions between the budgetary government and their sovereign wealth funds (SWFs) can often be large and fiscally material. However, there is currently no guidance on how to treat these transactions. Whether they are treated below-the-line as financing or equity transactions, or above-the-line as grants, transfers or dividends can lead to very different impacts on the government deficit (net lending/net borrowing). Given that under current guidance SWFs could be within the general government sector or public corporations, therefore it also needs clarifying whether the transactions might be treated differently depending on the sector classification of the SWF (e.g. extrabudgetary unit, public financial corporation). Notably, if SWFs are considered to be consolidated within the budgetary central government then no guidance on transactions would be required.</p>	
<p>Expected Outcomes:</p> <ul style="list-style-type: none"> • New guidance on the economic nature and so classification of transactions between SWFs and their parent units in the budgetary government. 	

<p>Title: Treatment of zakat</p>	<p>Type: Clarifying Rank: 31st MFS: No SEEA: No</p>
<p>Background/Issues: Zakat is a charitable donation or payment required of Muslims, which is considered to be one of the five Pillars of Islam. It can be compulsory or voluntary and may be collected by government or non-governmental bodies, depending on the country and the exact basis of collection of the zakat. In some countries it can be a significant revenue source. The <i>GFSM 2014</i> para. 5.39 briefly discusses the treatment of zakat taxes, but the guidance is limited and as a result the GFS treatment of zakat may vary between countries.</p>	
<p>Expected Outcomes:</p> <ul style="list-style-type: none"> • New more detailed principle-based guidance on how to record zakat in the GFS, based on the basis under which the zakat is collected/received. 	

Title:

Further defining and subclassifying extrabudgetary units

Proposed by:

Galina Braverman

Background/Issues:

Extrabudgetary units may be established to carry out specific government functions, such as road construction, or the nonmarket production of health or education services. Paragraph 2.82 of GFSM 2014 defines these units as "...government entities with individual budgets not fully covered by the main (or general) budget ...". On the other hand, the government may establish special extrabudgetary funds for certain purposes (such as welfare, compensation for damages) which are fully financed by dedicated transfers from the budget. If these funds do not satisfy the criteria to be a separate institutional unit, they are classified as a budgetary government. As a result, the GFSM 2014 data presentation does not track the transactions between the budget and the fund and subsequent distribution of the funds. If they are separate institutional units, they are presented together with other extrabudgetary units which are very different from these funds as they have a production activity while the funds mostly have specific financing activities. This lack of distinction may impact fiscal analysis.

Expected Outcomes:

- Clarification of the definition of the extrabudgetary sector
- Possible subsectoring of the extrabudgetary sector by separating the units with the production activities (such as schools) from funds with redistribution of income activity.

Title:

Government / public nonlife insurance schemes

Proposed by:

Phil Samborski

Background/Issues:

Premiums, fees, and claims related to the nonlife insurance and standardized guarantee schemes (GFS 145 / 283). Several insurance schemes managed by the government/public sector can be associated with it; crop insurance schemes, automobile insurance (property, casualty, civil liability), drug plans, etc. In some of these schemes, we can find components/resemblances with social security or even social assistance (for certain beneficiaries) and sometimes it is very difficult to classify/partition it and the statistical treatment can lead to problems of consistency and comparability of the data. The sectoral classification of the units which manage these schemes can also sometimes raise questions, in particular since participation in these schemes is often compulsory, and the complementary components/additional insurance coverage of these schemes can cause the unit to be in direct competition with the private sector. Even if these units can generate profits, sometimes significant, the question arises whether the unit should be classified with general government or public financial corporations.

Expected Outcomes:

Compilers could greatly benefit from better guidance in the manual regarding these different schemes in the same way as the annexes of the Manual concerning social protection or debt-related operations.

Questions and Discussion

Options for Each Research Topic

1. Endorse research topic for inclusion in global consultation, as is
2. Endorse research topic for inclusion in global consultation, subject to specified edits/changes
3. Endorse for inclusion in global consultation, but move research topic to “Group 1” issues list
4. Move research topic to list of topics requiring supplementary guidance outside the GFS Manual
5. Drop research topic completely from the proposed research agenda

Proposed Outcomes for Research Topics

Based on written consultation responses we would tentatively propose:

Option 1 : Endorse research topic for inclusion in global consultation, as is

- Boundary between government-controlled nonmarket and market producers engaged in nonfinancial activities
- Boundary between government-controlled nonmarket and market producers engaged in financial activities
- Transactions of government with sovereign wealth funds (and similar)

Option 4 or 5 : Move research topic to topics requiring supplementary guidance outside the GFS Manual or Drop research topic completely from the proposed research agenda

- Indigenous governments and one-party states
- Treatment of zakat

For discussion - as new topics not included in list shared for consultation

- Further defining and subclassifying extrabudgetary units
- Government / public nonlife insurance schemes