

## Chapter VI

# Nonfinancial Public Enterprises and the Nonfinancial Public Sector

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Government finance statistics seek to measure a distinctive function in the economy: the provision of nonmarket goods and services and the transfer of income with funds obtained primarily through the collection of compulsory levies on other sectors of the economy. Governments have also chosen, however, to pursue public policy objectives through other functions, for example, through majority ownership and/or control of enterprises engaged in the production and sale of market goods and services.

To measure the implementation of government policies in these enterprises and the resulting effects on the economy, the focus on measuring government is sometimes expanded to take in the entire public sector of operations under government ownership and control. Measurement of enterprise functions, however, requires fundamental departures from the principles of compilation and classification applicable to government. A separate set of principles must be followed. For this purpose a separate, comprehensive classification of nonfinancial enterprises' operations, with full explanations, is presented in Section VI.A.

A format for measuring the operations of financial institutions that are majority owned and/or controlled by government, that is, public financial institutions, is not presented in this Manual. Operations of public financial institutions are more appropriately incorporated with those of private financial institutions in measuring the entire financial institutions sector's mobilization and distribution of the community's savings by creating financial assets of varying degrees of liquidity for the community to hold and accepting financial claims upon others (see Section I.J). The more restricted nonfinancial public sector concept, excluding public financial institutions, is preferred in this Manual to the broader public sector concept. This avoids consolidation in a sector encompassing public financial institutions which would eliminate statistics for those financing requirements of the government and nonfinancial public enterprises which are met by the central bank and other government-owned banks.

To measure the effects of both government and its nonfinancial public enterprises, data are sometimes assembled for the nonfinancial public sector. The combination of data measuring market and nonmarket activities does not yield meaningful results in a number of categories, however. Only the outcome of current operations, the amount of capital formation, the resulting financing requirement, and the means of financing can be combined to give meaningful magnitudes for the nonfinancial public sector as a whole. These are presented in Section VI.B.

### **VI.A. Nonfinancial Public Enterprises**

Nonfinancial public enterprises stand in an intermediate position between business and government. They are engaged in commercial operations but have been chosen by government as instruments of public policy. The conduct of nonfinancial public enterprises, defined in Section I.I as majority owned and/or controlled by government, raises questions that must be considered in the broad context of the government's overall national economic policy, affecting growth, capital formation, employment, and the maintenance of prices which may effectively tax or subsidize particular groups or activities. Beyond particular noncommercial objectives they may be asked to pursue, however, nonfinancial public enterprises may be of significance to government because of the effects their magnitude or strategic position may have on macroeconomic objectives: bank credit, aggregate demand, inflation, borrowing abroad, and the balance of payments.

Many nonfinancial enterprises may also represent a sizable investment of national resources, at considerable opportunity cost. With resources coming predominantly from government rather than

private investors, they may not benefit from the analysis usually provided by financial markets as regards management efficiency and a rate of return on capital.

It is particularly important, therefore, that government be provided with adequate information for monitoring and evaluating not only the nonfinancial public enterprise sector as a whole but individual nonfinancial public enterprises. For this purpose a regular flow of current data on nonfinancial public enterprise operations is required.

This cannot be a flow of data similar to the statistics compiled for government, however, as enterprises differ from government in important respects. Because enterprises are commercial in nature, their revenues are not freely disposable income, like government tax revenues, and their expenditures may represent not final consumption or capital but the costs of goods and services to be sold. Unlike government, enterprises must measure production costs as a basis for setting sales prices and calculating their profit and net worth. They must be concerned also with managing their liquidity position so that the flow of liquidity from their short-term assets is sufficient to cover their short-term liabilities. To measure the production costs on which they base their prices they must include depreciation allowances to replace fixed capital and intangible assets consumed in the production process (see Section II.A.3).

To measure cost, profit, net worth, and liquidity position, enterprises find it necessary to keep accrual accounts, counting the costs of production when they are incurred rather than paid, and the revenues from production when they are earned rather than received. Production activities are separated from other current activities in a statement of current account flows. Capital transactions are followed primarily through a balance sheet of assets and liabilities organized to reveal liquidity and solvency, with the results of current operations entered as a change in net worth. To accommodate the various aspects of enterprise operations and the heterogeneous character of enterprises engaged in different types of activity, multiple measures of performance and financial position are employed.

To reflect the commercial nature of nonfinancial public enterprise activities and provide a format for the organization of data appropriate for review of an enterprise's operations, a set of tables is presented in this chapter. In Section VI.A.1 a number of indicators are set out in Table I, with accompanying explanations, drawing on the more detailed tables which follow. A balance sheet of enterprise assets and liabilities is presented in Table J (Section VI.A.2) and an accrual-based operating statement of enterprise flows, current, capital, and financial, and outstanding debt, is set out in Table K (Section VI.A.3). An abbreviated operating statement is presented in Table K.1 (Section VI.A.4). Adjustment of the accrual-based data to an approximate cash basis is provided in Table L (Section VI.A.5), facilitating enterprise cash management and subsequent consolidation of selected aggregates with those for government in a presentation for the nonfinancial public sector in Section VI.B.

Relevant SNA concepts are utilized throughout the chapter's accrual-based measurement of nonfinancial public enterprise operations, facilitating incorporation of the data in the national accounts.

### VI.A.1. Principal Indicators

There are numerous points of view from which nonfinancial public enterprises may be examined, and alternative organization of data on their operations can serve different purposes. One set of formats is set out in this chapter, comprising a balance sheet of an enterprise's assets and liabilities in Table J and a statement of an enterprise's operations in Table K. Sufficient detail is provided for calculation of various measures and indicators. To convey the focus of various approaches to the evaluation of nonfinancial public enterprises' performance and financial condition a number of alternative indicators are presented in Table I, where both the principal components of Table K and alternative indicators which can be derived from data called for in Tables J and K are set out. Part I contains components and indicators from Table K, Part II the alternative indicators measuring (A) outcome or return, (B) capital formation, (C) financing, (D) financial ratios, and (E) transactions with government.

A number of other measures of the financial returns from nonfinancial public enterprises during particular time periods, not listed in Table I, relate a flow of returns to the stock of capital, on the assumption that the net book value of capital assets reflects realistic depreciation allowances and

adjustments for inflation. The value of capital stock used is usually that at the beginning of the period, with adjustment to a weighted average for the period as a whole in the case of substantial additions or subtractions. Profit is measured as income before direct taxes and distributions of entrepreneurial income.

The *return on total assets* measures the ratio of profits and interest expense to total assets (net of depreciation) or total liabilities plus equity. Though it seeks to measure management performance in the utilization of all available resources, its use is restricted by the unstable nature of total gross assets, reflecting seasonal variations, accumulation of stocks, or repayment of short-term borrowing.

The *return on net assets*, used as an indicator of financial performance, is measured as the ratio of profits and interest expense (for long-term loans only, if available) to assets net of current liabilities, that is, equity plus long-term borrowing. This measure provides a more stable base than total assets and is independent of whether long-term finance is obtained through equity or borrowing.

The *return on internally used net assets* excludes resources invested outside the enterprise and income from such investments so as to measure operations of the enterprise itself.

The *return on net operating assets* measures performance in the management of net operating assets by excluding any net assets that are under construction or have not yet become operational.

The *return of net internal operating assets* excludes both net assets not yet operational and resources invested outside the enterprise and income from such investments.

The *return on net worth or equity*, the ratio between enterprise profits and equity, measures the overall return on own assets. It does not distinguish between the effects of efficient management and of the cost of borrowed funds.

Not all of these indicators can be derived from the data called for in this chapter. Separate identification of net assets invested outside the enterprise or still under construction may be warranted when they are of significant magnitude, for example, to permit calculation of the relevant indicators. Similarly, interest on long-term borrowing may be separately identified to permit calculation of the *return on net assets* when desired.

Because they are government owned and/or controlled, nonfinancial public enterprises are examined also to determine what their cost or contribution to government may be. This may be viewed in several parts. The balance of transfer payments and property income between government and nonfinancial public enterprises yields the most direct measure of costs or contributions, leaving behind no claims for future repayment. This would include government subsidies and capital transfers on the one side, and the enterprises' payments of taxes, other transfers, interest, and dividends to government on the other. A step beyond such transfers is the balance of borrowing and repayment between government and the enterprises, and of government supply or withdrawal of enterprise equity capital. While the balance of such transactions leaves behind a claim of ownership or repayment, it can be taken as an additional measure of the enterprises' cost or contribution to government. A final measure of relations between government and nonfinancial enterprises comprises enterprise sales to the government, which may offer a useful indication of the supplier-customer interrelationship between government and the public enterprises.

**Table I. Principal Indicators, Operations of Nonfinancial Public Enterprises (accrual basis)****I. Presentation in Table K**

1. Operating surplus or deficit (K.3)
2. Interest costs (K.5.2)
3. Income before direct taxes (K.6)
4. Direct taxes accrued (K.7)
5. Income after taxes (K.8)
6. Distributions of entrepreneurial income (K.9)
7. Retained income (K.10)
8. Net acquisition of capital assets (K.11)
9. Financing requirement (K.12)
10. Domestic financing (K.14)
11. Financing abroad (K.17)

**II. Alternative Presentations****A. Outcome or Return**

12. Operating surplus or deficit after interest costs (K.3 - K.5.2)
13. Income before direct taxes and interest costs (K.6 + K.5.2)
14. Current account surplus (saving) (K.10 - K.4.1.2 - K.4.3 + K.5.1.2 + K.5.4)
15. Current account surplus before receipt of transfers (own saving) (K.10 - K.1.2 - K.4.1 - K.4.3 + K.5.1.2 + K.5.4)
16. Investable surplus (K.10 + K.11.2 + K.11.3 - J.6.2)

**B. Capital Formation**

17. Gross fixed capital formation (K.11.1.1.1 + K.11.1.1.2 - K.11.1.2.1)
18. Net fixed capital formation (K.11.1.1.1 + K.11.1.1.2 - K.11.1.2.1 - K.11.2)
19. Gross capital formation (K.11.1.1.1 + K.11.1.1.2 - K.11.1.2.1 + K.11.1.1.3)
20. Net capital formation (K.11.1.1.1 + K.11.1.1.2 - K.11.1.2.1 - K.11.2 + K.11.1.1.3)

**C. Financing**

21. Long-term financing requirement (K.11 - K.11.1.1.3 - K.10)
22. Long-term financing (K.15.1 + K.15.3.1 - K.16.2.1 + K.18.1 + K.18.3.1 - K.19.2.1)
23. Short-term financing (K.15.2 + K.15.3.2 - K.16.1 - K.16.2.2 + K.18.2 + K.18.3.2 - K.19.1 - K.19.2.2)
- 23.1. Change in trade payables and receivables (K.15.2 - K.16.1 + K.18.2 - K.19.1)
- 23.2. Other short-term financing (K.15.3.2 - K.16.2.2 + K.18.3.2 - K.19.2.2)
24. Change in working capital (I.22 - I.21)
25. Short-term financing requirement (K.11.1.1.3 - I.24 - I.23.1)

**D. Financial Ratios**

26. Debt to equity ratio (J.6 + J.7) ÷ (J.8)
27. Net worth to total net assets ratio (J.8) ÷ (J.1)
28. Short-term assets to short-term liabilities ratio (J.1) ÷ (J.6)
29. Accounts receivable to monthly sales ratio (J.1.2) ÷ (K.1.1 monthly)
30. Inventories to monthly sales ratio (J.1.3) ÷ (K.1.1 monthly)

**E. Transactions with Government**

31. Transfers, taxes, property income, net (K.1.2 - K.2.5 + K.4.1.2.1 - K.5.1.1.1 - K.5.1.2.1 - K.5.2.1 - K.7 - K.9.2)
32. Change in equity and other financing (K.15.1.2 + K.20.2)
33. Sales to government (K.1.1.1)

## Description of Principal Indicators

### *I. Presentation in Table K*

Descriptions for these items are contained in Section VI.A.3.

### *II. Alternative presentations*

#### *A. Outcome or return*

##### *12. Operating surplus or deficit after interest costs*

To calculate operating costs and the operating surplus or deficit without regard to how much of an enterprise's capital is owned or borrowed, the operating surplus in Table K, following the SNA, does not include interest as an operating cost. This indicator calculates the operating surplus or deficit after including interest with operating costs.

##### *13. Income before direct taxes and interest costs*

As a measure of the return on an enterprise's total net assets, regardless of the portion owned or borrowed, its income is calculated before the cost of interest for borrowed funds.

##### *14. Current account surplus (saving)*

The portion of an enterprise's current income which is not used for current expenses, taxes, and distributions constitutes saving available for other purposes, such as capital transfers and the acquisition of capital assets and financial assets. Saving is calculated by subtracting from retained income net gains on sales of capital assets and net capital transfers received.

##### *15. Current account surplus before receipt of transfers (own saving)*

Though receipt of current transfers, including subsidies, forms a part of current income, considerable significance attaches to the amount an enterprise saves out of its earnings, excluding transfers received from others without a quid pro quo. Own saving is calculated by subtracting from the current account surplus current transfers received.

##### *16. Investable surplus*

Income retained by an enterprise during each period, plus the funds set aside to cover its consumption of fixed capital and intangible assets, are available, after provision for the requisite amortization of borrowing, for investment in capital assets and financial assets. A preliminary measure of amortization during the year is provided in the opening balance sheet.

#### *B. Capital formation*

##### *17. Gross fixed capital formation*

An enterprise's formation of fixed capital assets, such as buildings and equipment, during any period consists of its purchases of such assets, plus any construction or production of such assets it may carry out for its own use, minus its sales of such assets. Other capital assets, such as inventories, intangible assets, and land, are not included in fixed capital assets.

##### *18. Net fixed capital formation*

The availability of fixed capital is not augmented by fixed capital formation in its entirety, since some existing fixed capital assets are consumed in the course of production during each period. To measure the net addition to fixed capital assets, net fixed capital formation is calculated by subtracting from gross fixed capital formation the consumption of fixed capital during the period.

##### *19. Gross capital formation*

As an increase in inventories also provides a capital asset produced in one period for use in the future, it is added to gross fixed capital formation to measure gross capital formation. Land and intangible assets are not included.

#### 20. *Net capital formation*

Similarly, an increase in inventories is added to net fixed capital formation to calculate net capital formation.

#### C. *Financing*

As the liquidity position of an enterprise is affected by the short-term assets it can realize to pay its short-term liabilities, analysis of an enterprise's financing focuses on the changes that are brought about in short-term and long-term assets and liabilities. Long-term assets and liabilities are defined as those with maturities exceeding one year.

#### 21. *Long-term financing requirement*

Because fixed assets, intangible assets, and land have, by definition, a useful life of more than one year, they are not expected to generate out of the normal proceeds of one year's business the funds necessary to repay any borrowing incurred to meet their cost. This is not true of inventories, which are considered a current, or short-run, capital asset. The increase in noncurrent assets—that is, fixed assets, intangible assets, and land—which is not covered by retained income minus inventory changes plus provision made to cover consumption of fixed assets and intangible assets, gives rise to a long-term financing requirement.

#### 22. *Long-term financing*

This is measured as the net increase in long-term liabilities and equity minus the net increase in long-term financial assets.

#### 23. *Short-term financing*

This is measured as the net increase in short-term liabilities minus the net increase in short-term financial assets.

##### 23.1. *Change in trade payables and receivables*

These claims and liabilities are shown separately because they arise in the course of production and trade and are expected to be paid in the normal course of business. This item is calculated as the net increase in accounts payable to suppliers and accrued expenses minus the net increase in accounts receivable from customers and prepaid expenses.

##### 23.2. *Other short-term financing*

This includes short-term financing other than the change in trade payables and receivables.

#### 24. *Change in working capital*

The difference between current assets and current liabilities is referred to as working capital. It is a major indicator of an enterprise's liquidity position as it shows how much liquidity the current assets are expected to generate in excess of the amount needed to pay for current liabilities. Long-term financing in excess of the long-term financing requirement adds to an enterprise's working capital. Working capital may also be viewed as the excess of net worth plus long-term liabilities over long-term assets, indicating the amount of the enterprise's long-term funds in excess of its long-term assets. The change in working capital—long-term financing minus the long-term financing requirement—indicates how much additional net worth (through additional retained income) and additional long-term borrowing the enterprise has secured over and above a net increase in its noncurrent assets.

#### 25. *Short-term financing requirement*

The portion of increased short-term assets, that is, increased inventories, not covered by increased working capital and financing through trade payables and receivables gives rise to the short-term financing requirement.

*D. Financial ratios*

A number of aspects of an enterprise's financial position are best gauged by means of ratios, permitting comparison over time and comparison with other enterprises in similar fields, without regard to the overall magnitude of operations.

*26. Debt to equity ratio*

The ratio between total liabilities and equity, sometimes referred to as leverage, provides a major indicator of an enterprise's strength or solvency. It compares all capital obtained by borrowing, including both short-term and long-term liabilities, with own capital provided in the form of equity. The lower the debt to equity ratio, the greater the degree of solvency.

*27. Net worth to total net assets ratio*

Like the debt to equity ratio, the net worth to total net assets ratio measures the enterprise's strength or solvency. It indicates the extent to which total assets could shrink before eliminating net worth and thereby leaving insufficient assets to pay all liabilities.

*28. Short-term assets to short-term liabilities ratio*

Sometimes referred to as the current ratio, the ratio of short-term assets to short-term liabilities measures the enterprise's short-term financial strength or liquidity position. The higher the ratio, the greater the degree of liquidity. This measure parallels in ratio form the difference between short-term assets and short-term liabilities represented by working capital.

*29. Accounts receivable to monthly sales ratio*

The ratio of accounts receivable to monthly sales may serve to indicate an enterprise's effectiveness in collecting arrears from its customers.

*30. Inventories to monthly sales ratio*

The ratio of inventories to monthly sales provides one indicator of the efficiency with which an enterprise manages its stocks.

*E. Transactions with government*

To measure the cost or contribution to government in each period of the nonfinancial public enterprises it owns and/or controls, the transactions between each enterprise and government are gathered together where data will allow. Gathered in one category are transfers from government net of an enterprise's transfers, taxes, and property income to government. A second indicator measures changes in equity capital and net financing, excluding changes in trade payables or receivables, from government, and a third measures the magnitude of enterprise sales to government.

*31. Transfers, taxes, property income, net*

The net flow of transfers, taxes, and property income between an enterprise and government yields the most direct measure of cost or contribution in each period, leaving behind no claim for future repayment. An enterprise's receipt of interest from government would not normally be included, as it would represent in most cases a return on the enterprise's placement of its liquid assets. Nor would employer contributions to social security be included, as they represent a basic cost element for all enterprises.

*32. Change in equity and other financing*

The balance of borrowing and repayment between government and an enterprise, and of government provision or withdrawal of enterprise equity capital, provides a measure of government net financing of an enterprise in each period. Financing through changes in trade payables and receivables may be more difficult to identify and is not included.

*33. Sales to government*

The magnitude of a nonfinancial public enterprise's sales to government may offer a useful indication of the supplier-customer interrelationship between the enterprise and government, for

example in the share of the enterprise's sales made to government or of government purchases of particular types of products coming from the enterprise.

### VI.A.2. Balance Sheet of Assets and Liabilities

While operating statements portray the flow of operations during a period, balance sheets report the resulting financial condition at the end of the period. An enterprise balance sheet is organized around the equilibrium between its total net assets and its liabilities plus net worth, with net worth the residual, balancing, item representing the underlying value of the enterprise and its distance from insolvency. A balance sheet provides an indication of an enterprise's liquidity by distinguishing current from other assets and liabilities. Current assets and liabilities are those which normally circulate and are realized within the production and trade cycle in which an enterprise uses its fixed assets and land to process inventories of raw materials, sell the finished product, collect the amount receivable, and use the cash to pay its suppliers, work force, taxes, creditors, and shareholders, and replenish its fixed assets. By convention, short-term assets and liabilities are usually limited to those maturing in one year or less. Current assets and liabilities thus include raw materials in inventory and the accounts payable for them, work-in-progress and finished products not yet sold and the corresponding accrued expenses for salaries, tax liabilities, interest, etc., the accounts payable for products sold, holdings of currency and deposits, and borrowings due in a year or less. The main lines of a nonfinancial public enterprise balance sheet are provided in Table J and described below.

In both balance sheets and operating statements, accurate measurement and analysis requires separate, gross, reporting of each category of assets and liabilities, avoiding, for example, any netting of enterprise tax liabilities against accounts receivable from government.



**Table J. Balance Sheet of Nonfinancial Public Enterprises' Assets and Liabilities**  
**(at end of period)**

**I. Total net assets (1 + 4 + 5) (=II)**

1. Current assets
  - 1.1. Currency and deposits
  - 1.2. Accounts receivable
    - 1.2.1. From government
    - 1.2.2. Other
  - 1.3. Inventories
2. Gross fixed assets and land
3. Less: Depreciation
4. Net fixed assets and land (2 - 3)
5. Other assets

**II. Total liabilities and net worth (=I)**

6. Current liabilities
  - 6.1. Trade liabilities
    - 6.1.1. Accounts payable
    - 6.1.2. Accrued expenses
  - 6.2. Borrowing due within a year
    - 6.2.1. Short-term borrowing
    - 6.2.2. Long-term borrowing due within a year
7. Borrowing due in more than a year
8. Net worth
  - 8.1. Paid-up capital
    - 8.1.1. Government
    - 8.1.2. Other
  - 8.2. Reserves

*I. Total net assets (1+4+5) (=II)*

Total assets are composed of current assets, net fixed assets and land, and other assets, as defined below.

*1. Current assets*

Current assets comprise an enterprise's holdings of currency and deposits, accounts receivable, and inventories.

*1.1. Currency and deposits*

This category includes holdings of currency, demand deposits, and short-term deposits with financial institutions. It may also include checks and bills in collection within 15 days of maturity but not checks and bills returned unpaid or accounts receivable in arrears, which should be classified in other assets (5).

*1.2. Accounts receivable*

This category covers claims on others for payment of actual sales. Claims that are not collected within the normal terms of the trade, or which are returned unpaid, should be reclassified as other assets (5) as they can no longer be expected to provide funds available for payment of the enterprise's suppliers and accrued expenses within its normal production cycle. Loans and advances to affiliates or suppliers and prepaid expenses should also be classified as other assets (5) which cannot be expected to be repaid or refunded within the production cycle.

*1.2.1. From government*

Accounts receivable from government are included in this heading.

*1.2.2. Other*

All accounts receivable other than those from government are shown here.

*1.3. Inventories*

Included in inventories are an enterprise's stocks of raw materials, work-in-progress, and finished products. Enterprises that sell services may not hold inventories and those that purchase finished products may not hold stocks of raw materials or work-in-progress. Only stocks of goods used in the enterprise's production cycle should be included in inventory. Valuation of inventories is of particular importance to the soundness of enterprise balance sheets. For reasons of prudence, raw materials should usually be valued at purchase cost or replacement value, whichever is lower, and work-in-progress and finished products at the lower of purchase cost or replacement value plus accrued expenses. To maintain consistency and avoid large fluctuations in valuation, inventories should normally be accounted for on a first-in, first-out basis.

*2. Gross fixed assets and land*

This category includes holdings of land, buildings, machinery, and equipment with more than a minimum significant value and a normal life of more than one year in the production and sale of the enterprise's goods and services. Articles and materials purchased for the purpose of transformation and sale are not included here but in inventories (1.3).

This category also covers the value of goods and services incorporated into existing fixed capital assets for the purpose of prolonging their working life, increasing their production, improving their performance, and rebuilding or reconstructing them, but does not cover the cost of normal maintenance. It includes also the value of goods and services incorporated in land and the costs incurred in the transfer of ownership of land, buildings, and other fixed capital assets. Among the items not included in fixed capital assets are small tools, work clothes, spare parts, and equipment of small value, even if they have a normal life of more than one year.

Gross fixed assets are valued at original purchase cost plus the cost of any subsequent improvements before subtraction of accumulated depreciation. In some circumstances, such as conditions of marked inflation, overall revaluation of assets may be carried out and would include gross fixed assets.

When fixed assets and land are leased under arrangements expected to cover at least three fourths of their economic cost together with carrying charges, the fixed capital assets and land are

included in this category and depreciated over the life of the lease, with the amount of scheduled payments included in liabilities.

### 3. *Less: Depreciation*

To reflect the declining value of buildings, machinery, and equipment with a normal working life of more than a year, the cost of such fixed capital assets is usually depreciated over the number of years they are expected to remain in use. Land is usually not depreciated unless it is leased under arrangements expected to cover at least three fourths of its cost together with the carrying charges, in which case its value is amortized over the life of the lease. Depreciation, or the consumption of fixed capital, is defined in the SNA (p. 231) as:

The value, at current replacement cost, of the reproducible fixed assets . . . used up during a period of account as a result of normal wear and tear, foreseen obsolescence and the normal rate of accidental damage. Unforeseen obsolescence, main catastrophes and the depletion of natural resources are not taken into account.

Consumption of fixed capital during each period is included in operating costs, while accumulated consumption of fixed assets up to the date of the balance sheet is shown in this category as an adjustment to the gross value of fixed capital assets. While techniques for the estimation of the useful life of fixed capital assets and valuation of their replacement costs are not taken up in this Manual, it must be noted that insufficient allowance for depreciation results in overstated profits, working capital, and net worth.

### 4. *Net fixed assets and land (2 – 3)*

This category represents the current depreciated value of the fixed assets and land owned or leased by the enterprise. It is equal to category 2 less category 3.

### 5. *Other assets*

Included in this category is the net value of intangible assets, such as patents, copyrights and concessions, goodwill, uncollectible items, overdue accounts receivable, and prepaid expenses for such items as salaries, interest, and taxes. Such assets are generally not readily redeemable for cash in the event of an enterprise's liquidation. Smaller items may be written off as soon as possible, preferably within a year, with larger items, such as intangible assets, amortized over a number of years.

## II. *Total liabilities and net worth (= I)*

This total is the sum of current liabilities (6), borrowing due in more than a year (7), and net worth (8). It is equal to total net assets (I) and is sometimes referred to as the balance sheet total. Should the total of liabilities and net worth differ from total net assets, the value of net worth would be adjusted accordingly.

### 6. *Current liabilities*

This category includes accounts payable to suppliers, accrued expenses owed to others, and all other forms of borrowing due in one year or less.

#### 6.1. *Trade liabilities*

This heading covers liabilities to suppliers and others which are expected to be paid in the normal course of business.

##### 6.1.1. *Accounts payable*

Classified in this category are amounts payable to suppliers under terms of sale permitting payment some time after delivery, for example, in 30 days or 90 days. Amounts overdue to suppliers beyond normal payment terms should not be included in this category but should be reclassified as short-term borrowing (6.2.1).

##### 6.1.2. *Accrued expenses*

This heading comprises accrued expenses, not yet due, other than to suppliers. It thus covers a number of expenses accruing on a continuous basis but payable at regular intervals, such as salaries,

taxes, interest, vacation pay, and insurance premiums. Expenses past due should be reclassified in short-term borrowing.

#### *6.2. Borrowing due within a year*

This category includes all borrowing with a remaining maturity not exceeding one year and arrears of overdue payments due immediately rather than in the normal course of business.

##### *6.2.1. Short-term borrowing*

This heading covers outstanding borrowing, other than trade payables, with an original maturity not exceeding one year and arrears resulting from overdue payments to any creditors. Various forms of short-term credit would thus be included, such as advances, overdraft facilities, the discounting of trade bills, acceptances or promissory notes, the discounting of letters of credit financing international trade, as well as the placement of short-term notes in financial markets.

##### *6.2.2. Long-term borrowing due within a year*

Reclassified in this category is borrowing with an original contractual maturity exceeding one year but with a remaining maturity of one year or less.

#### *7. Borrowing due in more than a year*

This category includes all borrowing with a remaining maturity of more than one year from the date of the balance sheet. It thus covers all forms of bonds or notes, including convertible debt, subordinated debt, and preferred capital (see item 8.1), as well as loans from financial institutions, other enterprises, including parent companies, governments, or international development institutions, whether called term loans, medium- or long-term loans, revolving loans, or by any other name, so long as remaining contractual maturity is more than one year from the date of the balance sheet. Classification is not affected by guarantee or collateral nor by the purpose of the borrowing, such as for construction of buildings or the provision of working capital. Amounts due under leasing arrangements expected to cover at least three fourths of the costs of goods together with carrying charges should be treated as borrowing, with the relevant asset included in fixed assets or land and depreciated over the term of the lease.

#### *8. Net worth*

This item is defined as the difference between total net assets and total liabilities and is composed of paid-up capital and reserves.

##### *8.1. Paid-up capital*

This heading consists of the amount actually contributed by shareholders, either in cash or in kind, at the time of the enterprise's creation and in subsequent capital changes. Where enterprises are endowed also with subscribed or authorized capital, representing shareholders' commitments to provide additional capital if called upon by the enterprise, only capital actually provided should be included in paid-up capital.

Excluded from paid-up capital, and classified as borrowing due in more than a year, are preferred capital, subordinated debt, and convertible debt. Preferred capital is a portion of paid-up capital which is afforded preferential treatment, either through repayment before other shareholders in the event of the enterprise's liquidation or through the payment of dividends fixed in amount and hence resembling interest. Subordinated debt constitutes another version of preferred capital issued by some enterprises to raise funds and is repayable only after all regular indebtedness has been repaid. It too is classified as borrowing rather than net worth. Convertible debt is an instrument representing the debt of an enterprise which may be converted into shares of the enterprise. It is classified under borrowing until conversion into shares, at which time the converted debt is reclassified as paid-up capital. Also excluded from paid-up capital are warrants, which are usually issued together with a debt issue and entitle the holder to purchase shares in the enterprise under specified conditions. Warrants are neither a debt nor paid-up capital but remain a commitment of the enterprise until the holder exercises his right to purchase shares at the specified price. Warrants should not be included in either borrowing or paid-up capital until the purchase of shares occurs, at which time the purchase of shares should be added to paid-up capital.

*8.1.1. Government*

Paid-up capital contributed by government is shown here.

*8.1.2. Other*

Paid-up capital other than that contributed by government is included in this category.

*8.2. Reserves*

This category is equal to the sum of cumulative retained earnings minus cumulative losses. The difference in reserves between balance sheets representing the beginning and the end of a year is equal to the retained earnings or loss for that year as shown in the operating statement.

## VI.A.3 Operating Statement

A comprehensive statement of the operations of nonfinancial public enterprises is presented in Table K in this section and discussed in the descriptions of categories that follow. The statement covers all transactions, or flows, of nonfinancial public enterprises and contains entries also for outstanding debt classified by type of debt holder.

The statement is organized into separate parts, some of which resemble the separate tables covering various aspects of government operations in Chapter IV of this Manual. These parts are: (A) operating account, covering revenues and expenses involved in production, (B) nonoperating account, direct taxes, and distributions of entrepreneurial income, (C) capital assets, (D) financing classified by type of debt instrument, (E) financing by type of debt holder, and (F) outstanding debt by type of debt holder.

Operating revenues and expenses are separated from other enterprise transactions so as to measure the costs and outcome of production, reflected in the operating surplus or deficit. To this is added the result of nonoperating revenues and expenses, which yields income before direct taxes and distributions of entrepreneurial income. Any net acquisition of capital assets not covered by the income retained after taxes and distributions gives rise to the financing requirement—equivalent to an overall deficit/surplus, but opposite in sign—which is met by financing. Unlike government financing, enterprise financing is derived also from changes in equity capital and, because its accounts are on an accrual basis, from changes in trade payables and receivables. These encompass accounts payable to suppliers, accounts receivable from customers for sales, accrued expenses not yet due, and expenses prepaid, before accrual. In the classification of financing, distinctions are drawn between domestic and foreign; financial assets and liabilities; equity, trade payables and receivables, and net borrowing; and, within net borrowing, between short term and long term, and between loans and securities.

Several differences from government statistics are evident: use of accrual-based data, including depreciation, rather than cash data; separation of production from other activities; a different treatment of stocks; and a different classification of lending. Government capital formation includes only changes in strategic or emergency stocks, stocks purchased by market regulatory organizations within government, and stocks of grains and other commodities of special importance to the nation. Enterprise capital formation, however, includes the change in all inventories acquired in one period and available for use or sale in the future. While changes in government stocks can be measured from the flow of distinct materials separated from other government purchases and sales of goods, changes in enterprises' stocks or inventories represent the difference between almost all of their purchases and sales of goods.

While governments may lend for public policy purposes and such activities are grouped with government expenditures, all enterprise acquisitions of financial assets are considered to be for liquidity management purposes and are classified, with borrowing, in financing.

The operating statement in Table K may be compiled for individual enterprises, groups of enterprises, perhaps by type of industry, or the nonfinancial public enterprise sector as a whole. To reflect disparate results among enterprises covered by a comprehensive operating statement for more than one enterprise, deficits and surpluses may be aggregated separately and shown as subcategories under operating surplus or deficit (3), income before taxes (6), income after taxes (8), retained income (10), and financing requirement (12).

**Table K. Operations of Nonfinancial Public Enterprises (accrual basis)****A. Operating Account**

1. Operating revenues
  - 1.1. Sales of goods and services
    - 1.1.1. To government
    - 1.1.2. To others
  - 1.2. Subsidies
  - 1.3. Own account fixed capital formation
  - 1.4. Change in inventories, goods produced but not yet sold, and work-in-progress
2. Operating expenses
  - 2.1. Compensation of employees
    - 2.1.1. Wages and salaries
    - 2.1.2. Employer contributions to social security
    - 2.1.3. Employer contributions to pension and welfare schemes
    - 2.1.4. Other compensation of employees
  - 2.2. Other goods and services
    - 2.2.1. Purchases
    - 2.2.2. Less: Change in inventories, goods purchased but not yet used
  - 2.3. Consumption of fixed capital
  - 2.4. Consumption of intangible assets
  - 2.5. Taxes and compulsory fees incurred in the course of production
  - 2.6. Other operating expenses
3. Operating surplus or deficit (1–2)

**B. Nonoperating Account, Direct Taxes, Distributions**

4. Nonoperating revenues
  - 4.1. Transfers (except subsidies)
    - 4.1.1. Current nongovernmental
    - 4.1.2. Capital transfers
      - 4.1.2.1. Governmental
      - 4.1.2.2. Nongovernmental
  - 4.2. Property income
    - 4.2.1. Interest
      - 4.2.1.1. From government
      - 4.2.1.2. Other
    - 4.2.2. Dividends and other withdrawals of entrepreneurial income
      - 4.2.2.1. From other nonfinancial public enterprises<sup>1</sup>
      - 4.2.2.2. From other enterprises
    - 4.2.3. Land rents and royalties
  - 4.3. Gains on sales of capital assets (sale price minus net book value)
  - 4.4. Other nonoperating revenues
    - 4.4.1. Casualty insurance claims
    - 4.4.2. Sales of used goods, scraps, and wastes
    - 4.4.3. Other nonoperating revenues not elsewhere classified
5. Nonoperating expenses
  - 5.1. Transfers
    - 5.1.1. Current
      - 5.1.1.1. To government
      - 5.1.1.2. Unfunded employee welfare benefits
      - 5.1.1.3. Other current transfers

**Table K (continued). Operations of Nonfinancial Public Enterprises (accrual basis)**

- 5.1.2. Capital
  - 5.1.2.1. To government
  - 5.1.2.2. Other capital transfers
- 5.2. Interest
  - 5.2.1. To government
  - 5.2.2. Other interest costs
- 5.3. Land rents and royalties
- 5.4. Losses on sales of capital assets (net book value minus sales price)
- 5.5. Other nonoperating expenses
  - 5.5.1. Casualty insurance premiums
  - 5.5.2. Other nonoperating expenses not elsewhere classified
- 6. Income before direct taxes (1 – 2 + 4 – 5)
- 7. Direct taxes accrued
- 8. Income after taxes (6 – 7)
- 9. Dividends and other distributions of entrepreneurial income
  - 9.1. To other nonfinancial public enterprises<sup>1</sup>
  - 9.2. To government
  - 9.3. To others
- 10. Retained income (8 – 9)

**C. Capital Assets**

- 11. Net acquisition of capital assets
  - 11.1. Acquisition less sales of capital assets
    - 11.1.1. Acquisition of capital assets
      - 11.1.1.1. Purchase of fixed capital assets
      - 11.1.1.2. Own account fixed capital formation
      - 11.1.1.3. Change in inventories
      - 11.1.1.4. Land
      - 11.1.1.5. Intangible assets
    - 11.1.2. Less: Net book value of capital assets sold
      - 11.1.2.1. Fixed capital assets
      - 11.1.2.2. Land
      - 11.1.2.3. Intangible assets
  - 11.2. Less: Consumption of fixed capital
  - 11.3. Less: Consumption of intangible assets
- 12. Financing requirement (11 – 10)

**D. Financing by Type of Debt Instrument**

- 13. Total financing (14 + 17)
- 14. Domestic financing (15 – 16)
- 15. Change in domestic liabilities
  - 15.1. Change in equity capital
    - 15.1.1. Other nonfinancial public enterprises<sup>1</sup>
    - 15.1.2. Government
    - 15.1.3. Other domestic
  - 15.2. Change in trade payables
    - 15.2.1. Change in accounts payable
    - 15.2.2. Change in accrued expenses

**Table K (continued). Operations of Nonfinancial Public Enterprises (accrual basis)**

- 15.2.2.1. Taxes
  - 15.2.2.1.1. Indirect
  - 15.2.2.1.2. Direct
- 15.2.2.2. Accrued interest
- 15.2.2.3. Other accrued expenses
- 15.3. Domestic net borrowing
  - 15.3.1. Long-term
    - 15.3.1.1. Long-term bonds
    - 15.3.1.2. Long-term loans
  - 15.3.2. Short-term
    - 15.3.2.1. Short-term bonds and bills
    - 15.3.2.2. Short-term loans
- 16. Change in domestic financial assets
  - 16.1. Change in trade receivables
    - 16.1.1. Change in accounts receivable
    - 16.1.2. Change in prepaid expenses
      - 16.1.2.1. Taxes
        - 16.1.2.1.1. Indirect
        - 16.1.2.1.2. Direct
      - 16.1.2.2. Other prepaid expenses
  - 16.2. Change in other domestic financial assets
    - 16.2.1. Long-term
      - 16.2.1.1. Long-term bonds
      - 16.2.1.2. Long-term loans
      - 16.2.1.3. Corporate and quasi-corporate equities
    - 16.2.2. Short-term
      - 16.2.2.1. Cash and deposits
      - 16.2.2.2. Short-term bonds and bills
      - 16.2.2.3. Short-term loans
- 17. Financing abroad (18 – 19)
- 18. Change in liabilities abroad
  - 18.1. Change in equity capital
  - 18.2. Change in trade payables
    - 18.2.1. Change in accounts payable
    - 18.2.2. Change in accrued expenses
      - 18.2.2.1. Accrued interest
      - 18.2.2.2. Other accrued expenses
  - 18.3. Net borrowing abroad
    - 18.3.1. Long-term
      - 18.3.1.1. Long-term bonds
      - 18.3.1.2. Long-term loans
    - 18.3.2. Short-term
      - 18.3.2.1. Short-term bonds and bills
      - 18.3.2.2. Short-term loans
- 19. Change in financial assets abroad
  - 19.1. Change in trade receivables
    - 19.1.1. Change in accounts receivable
    - 19.1.2. Change in prepaid expenses
  - 19.2. Change in other financial assets abroad
    - 19.2.1. Long-term



**Table K (concluded). Operations of Nonfinancial Public Enterprises (accrual basis)**

- 19.2.1.1. Long-term bonds
- 19.2.1.2. Long-term loans
- 19.2.1.3. Corporate and quasi-corporate equities
- 19.2.2. Short-term
  - 19.2.2.1 Cash and deposits
  - 19.2.2.2. Short-term bonds and bills
  - 19.2.2.3. Short-term loans

**E. Financing by Type of Debt Holder**

- 20. Domestic financing (excluding own equity and trade payables and receivables)
  - (same as 15.3 – 16.2)
  - 20.1. Other nonfinancial public enterprises<sup>1</sup>
  - 20.2. Government
  - 20.3. Monetary authorities
  - 20.4. Deposit money banks
  - 20.5. Other domestic financing
- 21. Financing abroad (excluding own equity and trade payables and receivables)
  - (same as 18.3 – 19.2)
  - 21.1. International development institutions
  - 21.2. Foreign governments
  - 21.3. Bank loans and advances
  - 21.4. Supplier credits
  - 21.5. Other financing abroad

**F. Outstanding Debt by Type of Debt Holder  
(at end of period)**

- 22. Total debt (excluding equity and trade payables) (23 + 24)
- 23. Domestic debt (excluding equity and trade payables)
  - 23.1. Other nonfinancial public enterprises<sup>1</sup>
  - 23.2. Government
  - 23.3. Monetary authorities
  - 23.4. Deposit money banks
  - 23.5. Other domestic debt
- 24. Foreign debt (excluding equity and trade payables)
  - 24.1. International development institutions
  - 24.2. Foreign governments
  - 24.3. Bank loans and advances
  - 24.4. Supplier credits
  - 24.5. Other foreign debt

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<sup>1</sup>Eliminated in consolidation of nonfinancial public enterprise sector.

## *A. Operating account*

### *1. Operating revenues*

This category covers amounts accruing to an enterprise during the period covered as a result of its production activities, through sales, production of fixed capital assets for its own account, increased inventories processed and awaiting sale or constituting work-in-progress, and subsidies from government. It does not include returns from investments, from capital sales or transfers, or from nonoperating properties.

#### *1.1. Sales of goods and services*

Included here are sales of goods and services and of by-products, rentals of operating property, customers' forfeitures and penalties, advertising revenue, and the like. Amounts should be shown net of discounts given on sales and net of refunds.

##### *1.1.1. To government*

One aspect of relations between government and some nonfinancial public enterprises is an important customer-supplier relationship. To clarify this aspect of an enterprise's operations, the portion of total sales made directly to government should be provided here when data are available.

##### *1.1.2. To others*

This category covers all sales other than to government.

### *1.2. Subsidies*

Included in this heading are all current transfers to an enterprise from government, whether tied to sales, levels of production, prices, particular inputs, the incurrence of losses, or any other criteria. Current transfers are defined as unrequited payments, neither generating nor extinguishing a financial claim, other than for capital purposes. All current transfers are presumed to permit price levels at which the other proceeds of the enterprise will not cover the costs of production. Included also are subsidies to public enterprises under provisions that extend to private enterprises as well. Excluded from this category and classified under nonoperating revenues (4.1.2) are capital transfers designed to permit the enterprise to acquire capital assets, compensating the enterprise for the damage or destruction of capital assets, or covering enterprise losses accumulated over several years or exceptional losses from causes beyond the control of the enterprise. Unrequited, nonrepayable transfers that are nonrecurrent and distinctly irregular for either party to the transaction are usually considered to be capital transfers.

Government payments constituting an infusion of equity capital into an enterprise or requiring future repayment are not included here but in financing (15.1.2 or 15.3).

Current transfers from nongovernmental sources are classified under nonoperating revenues (4.1.1).

### *1.3. Own account fixed capital formation*

The value of fixed capital assets produced by an enterprise during the period covered for its own use, rather than for sale, is included here as well as under expenditures for the acquisition of capital assets (11.1.1.2). This would cover, for example, buildings constructed and machinery produced by the enterprise for its own use. It would also include any own account improvements in existing buildings and equipment increasing their productivity or useful working life and hence constituting an addition to fixed capital assets.

### *1.4. Change in inventories, goods produced but not yet sold, and work-in-progress*

A portion of the goods produced during each reporting period remains unsold at the period's end, while some goods produced in previous periods are included in current period sales. To reflect the value of current period production activities, therefore, not only sales but also goods produced and added to inventories for future sale must be taken into account. For this purpose, there is added to sales during each period the change between the beginning and the end of the period in inventories of work-in-progress and goods produced but not yet sold. Valuation is at either purchase cost plus

accrued expenses or replacement value, whichever is lower, and calculation is on a first-in, first-out basis, that is, the costs of inputs are attributed to finished products on a chronological basis.

## 2. *Operating expenses*

This category covers the costs incurred by an enterprise during the period covered in production and distribution of goods and services, collection of own revenues, operation and maintenance of facilities, and general administration of the enterprise. Costs incurred for these purposes include compensation of employees, other purchases of goods and services less any increase in materials purchased but not used during the period, consumption of fixed capital and intangible assets, and taxes incurred in the course of production but not taxes on income or profit. Excluded also are costs incurred relating to nonoperating properties, capital outlays, retirement of debt, and any other purpose not directly related to enterprise operations.

### 2.1. *Compensation of employees*

Included in this heading are the costs to an enterprise of compensating its employees, whether through wages and salaries, contributions to social security, pension and welfare schemes, or other expenses in cash or in kind.

#### 2.1.1. *Wages and salaries*

This heading consists of payments accruing to employees during the period in compensation for services performed, before deduction of withholding taxes and employee contributions to social security, pension, and welfare schemes. Included are basic wages and salaries; extra pay for overtime, night work, and weekend work; cost of living allowances, special allowances, housing allowances, and allowances for transportation to and from work; bonuses, "13th month" pay (annual supplementary pay), and holiday pay for official holidays or annual holidays. Reimbursement to employees for expenses incurred as part of their employment should be excluded from this category and classified as other enterprise purchases of goods and services (2.2.1).

#### 2.1.2. *Employer contributions to social security*

This category covers an enterprise's contributions as employer to social security schemes, as described in Section I.F, and organized by any level of government. Employee contributions to social security withheld from wages and salaries by the enterprise as agent of the social security scheme are not included here but form a part of wages and salaries (2.1.1).

#### 2.1.3. *Employer contributions to pension and welfare schemes*

These are contributions by an enterprise in its capacity as employer to various schemes through which pension, welfare, insurance, or other savings benefits are provided to the enterprise's employees. Included here, therefore, are enterprise employer contributions to pension funds, welfare funds, health insurance schemes, provident funds, friendly societies, or other savings or insurance schemes. Employee contributions, whether or not withheld from wages, would not be included here.

#### 2.1.4. *Other compensation of employees*

This category includes other costs incurred by the enterprise for the compensation of its employees such as the provision of subsidized housing or the purchase of other goods and services provided to employees free or at reduced prices as compensation in kind.

## 2.2. *Other goods and services*

Goods and services used in the production process are calculated as purchases (2.2.1) minus the change in inventories of goods purchased not yet used (2.2.2).

### 2.2.1. *Purchases*

This heading covers purchases of all goods other than capital assets and all services other than the services of employees. It encompasses, therefore, purchases of materials, office supplies, rent, fuel and light, repairs and maintenance, printing, travel expenses, telephone and telegraph services,

small tools, work clothes, spare parts, and equipment of small value or with a normal life of under one year. Purchases should be shown net of any rebates, refunds, or discounts.

### *2.2.2. Less: Change in inventories, goods purchased but not yet used*

A portion of the goods purchased by an enterprise for processing during each reporting period remains unused at the period's end while some goods purchased in previous periods enter into production during the current period. To reflect the cost of current period production activities, therefore, not only current period purchases of goods must be taken into account but also purchases of previous years used during the current period less current period purchases added to inventories for future use. For this purpose, there is subtracted from purchases of goods during each period the increase between the beginning and end of the period in inventories of goods purchased not yet used. Valuation is at either purchase cost or replacement value, whichever is lower, and calculation is on the basis of first-in, first-out, that is, the cost of purchases is attributed to goods taken out of inventory on a chronological basis.

### *2.3. Consumption of fixed capital*

Because a fixed capital asset is used for more than one year in the production and sale of an enterprise's goods and services, its full acquisition cost cannot be assigned to the enterprise's costs of production for the year in which it is acquired. Instead, the cost of acquiring a fixed capital asset and of replacing it when it becomes necessary is allocated to an enterprise's production costs over the number of years during which the asset is expected to be consumed. Depreciation, or the consumption of fixed capital during a period of account, is defined as the value, at current replacement cost, used up as a result of normal wear and tear, foreseen obsolescence, and the normal rate of accidental damage.

In addition to its inclusion as an operating cost, the consumption of fixed capital assets during each accounting period is subtracted from an enterprise's acquisition minus sales of fixed capital assets to measure its net fixed capital formation during the period. Correspondingly, accumulated consumption of fixed capital is subtracted from the acquisition costs of fixed capital assets in an enterprise's balance sheet of assets and liabilities to measure net fixed capital assets.

Techniques for the estimation of the useful life of fixed capital assets and valuation of their replacement costs are not discussed in this Manual. It must be noted, however, that insufficient allowance for consumption of fixed capital results in overstated profits, working capital, and net worth.

### *2.4 Consumption of intangible assets*

Intangible assets are assets that are not matched by liabilities and therefore do not represent claims on others. Intangible assets include patents, copyrights, trademarks, goodwill, rights to exploit mineral deposits and fishing grounds, and other concessions and leases in respect to land. Like the costs of fixed capital assets, the acquisition costs of intangible assets cannot be assigned in their entirety to an enterprise's production costs for the year in which they are acquired. Instead the costs of intangible assets are allocated to an enterprise's production costs over the number of years of their expected life.

### *2.5. Taxes and compulsory fees incurred in the course of production*

Taxes and compulsory fees incurred by an enterprise in the course of production irrespective of whether it is operating at a profit or loss are treated as production expenses. They cover all taxes incurred by producers in respect of production, sale, purchase, lease, importation, exportation, or use or ownership of goods and services and property. Included are enterprises' incurrence of taxes on payroll and work force (A.3), recurrent taxes on immovable property (A.4.1), taxes on financial and capital transactions (A.4.4), other recurrent taxes on property (A.4.6), domestic taxes on goods and services (A.5), taxes on international trade and transactions (A.6), stamp taxes (A.7.2), other taxes (A.7.3), and compulsory administrative fees and charges (part of A.9), as defined in Section IV.A. The amount shown should include any interest on tax arrears and penalties for late or inadequate payments but should be reduced by any refunds.

### 2.6. *Other operating expenses*

This heading covers all operating costs other than those included in categories 2.1 through 2.5, above.

### 3. *Operating surplus or deficit (1 – 2)*

The operating surplus or deficit is calculated as the difference between operating revenues (1) and operating expenses (2). This corresponds to the concept of operating surplus utilized in the SNA (page 124).

## *B. Nonoperating account, direct taxes, distributions*

### 4. *Nonoperating revenues*

This category includes amounts accruing to an enterprise during the period covered other than as a result of its production activities. It therefore covers returns from investments, land and intangible assets, capital gains, capital transfers, and any current transfers other than from government.

#### 4.1. *Transfers (except subsidies)*

Included in this heading are an enterprise's unrequited receipts, neither generating nor extinguishing a financial claim, other than current transfers from government, which are included in operating revenues as permitting price levels at which an enterprise's other proceeds will not cover the costs of production. This heading therefore comprises transfers from nongovernmental sources for current purposes and transfers for capital purposes from all sources.

##### 4.1.1. *Current nongovernmental*

Any unrequited receipts from nongovernmental sources for current rather than capital purposes would be shown here.

##### 4.1.2. *Capital transfers*

This heading comprises unrequited receipts designed to permit the enterprise to acquire capital assets or repay debt, compensating the enterprise for the damage or destruction of capital assets, or covering enterprise losses accumulated over several years or exceptional losses from causes beyond the control of the enterprise. Unrequited, nonrepayable receipts that are nonrecurrent and distinctly irregular for either party to the transaction are also usually considered to be capital transfers.

##### 4.1.2.1. *Governmental*

Capital transfers from government are included here. However, receipts from government constituting an infusion of equity capital into an enterprise or requiring future repayment are not classified in this category but in financing (15.1.2 or 15.3).

##### 4.1.2.2. *Nongovernmental*

Capital transfers other than from government are shown here.

### 4.2. *Property income*

This category covers income arising from the ownership of financial assets, land, or intangible assets such as patents, copyrights, and trademarks.

#### 4.2.1. *Interest*

Included here is income from ownership of deposits, bills, bonds, promissory notes, loans, and other financial claims.

##### 4.2.1.1. *From government*

Interest income from government, whether on securities, loans, or other financial claims, would be included here.

#### 4.2.1.2. *Other*

This heading covers all interest income other than from government.

#### 4.2.2. *Dividends and other withdrawals of entrepreneurial income*

This category includes all income from equity securities and from other forms of participation in the ownership of enterprises and corporations.

##### 4.2.2.1. *From other nonfinancial public enterprises*

Dividends and other withdrawals of entrepreneurial income from other nonfinancial public enterprises are included here. This category is eliminated in consolidation of the nonfinancial public enterprise sector.

##### 4.2.2.2. *From other enterprises*

Dividends and other withdrawals of entrepreneurial income other than from nonfinancial public enterprises are shown here.

#### 4.2.3. *Land rents and royalties*

This category includes rents on land used for agricultural or other purposes and royalty income for concessions, the rights to mineral exploitation, or the use of patents or copyrights. Rent received for buildings, machinery, equipment, etc., is considered payment for a commodity-type service and not property income and is classified as sales in operating revenues (1.1). When land rent cannot be distinguished from rent from buildings, the income should be classified with the predominant element.

#### 4.3. *Gains on sales of capital assets (sale price minus net book value)*

Included here are profits on the sale of fixed capital assets, land, and intangible assets, calculated as the difference between the proceeds of the sale and the corresponding net book value. Losses on sales of capital assets are classified in nonoperating expenses (5.4).

#### 4.4. *Other nonoperating revenues*

This heading covers nonoperating revenues not covered in categories 4.1 through 4.3, above.

##### 4.4.1. *Casualty insurance claims*

This category includes income arising from casualty insurance claims, covering such risks as accidents, fire, earthquakes, and floods.

##### 4.4.2. *Sales of used goods, scraps, and wastes*

Included here are the proceeds from sales of used goods, scraps, and wastes. Revenue from the sale of used goods, scraps, and wastes is not considered to arise from production activities in the current period and is therefore classified here as a part of nonoperating revenues.

##### 4.4.3. *Other nonoperating revenues not elsewhere classified*

Any remaining nonoperating revenues not included above are classified here.

#### 5. *Nonoperating expenses*

This category covers expenses not directly tied to production, acquisition of capital and financial assets, taxes, distributions to shareholders, or the repayment of financial claims. It therefore includes expenses for interest, land rents and royalties, transfers, and losses on sale of capital assets.

##### 5.1. *Transfers*

All unrequited expenses neither generating nor extinguishing a financial claim, whether for current or capital purposes, are included here.

*5.1.1. Current*

This category covers all transfers for current, various, or indeterminate purposes, excluding transfers for capital purposes as described in 5.1.2.

*5.1.1.1. To government*

Current transfers to government, included here, are to be distinguished from taxes (2.5 and 7), distributions of entrepreneurial income (9.2), return of government equity (15.1.2), or repayment of borrowing from government (15.3).

*5.1.1.2. Unfunded employee welfare benefits*

This category covers expenses for the provision of welfare benefits to employees and their families, other than in compensation for services performed. It would thus include expenses for such purposes as retirement and disability benefits, health care benefits, and educational benefits.

*5.1.1.3. Other current transfers*

Included in this heading are current transfers other than to government and current or former employees, such as to households and nonprofit institutions.

*5.1.2. Capital*

Transfers for capital purposes are those designed to permit the recipient to acquire capital assets or repay debt, compensate for the damage or destruction of capital assets, or cover losses accumulated over several years or exceptional losses beyond the recipient's control. Transfers that are noncurrent and distinctly irregular for either party to the transaction are also considered to be capital transfers. Transfers for various or indeterminate purposes are classified as current.

*5.1.2.1. To government*

Capital transfers to government are to be distinguished from return of equity capital (15.1.2), repayment of borrowing (15.3), distributions of entrepreneurial income (9.2), or taxes (2.5 and 7).

*5.1.2.2. Other capital transfers*

Capital transfers other than to government are shown here.

*5.2. Interest*

This category comprises interest charges accruing during the period on debts due to others, as distinguished from repayment of debts, which is classified as financing.

*5.2.1. To government*

Interest charges accruing during the period on debts to government are shown here.

*5.2.2. Other interest costs*

This heading covers interest charges accruing during the period other than to government.

*5.3. Land rents and royalties*

Included here are expenses for the rental of land and for the use of patents or copyrights, concessions, and rights to mineral exploitation. When land rent cannot be distinguished from rent for buildings, classified as purchases of goods and services (2.2.1), the expense should be classified with the predominant element.

*5.4. Losses on sales of capital assets (net book value minus sales price)*

This heading covers losses on the sale of fixed capital assets, land, and intangible assets, calculated as the difference between the proceeds of the sale and the corresponding net book value. Gains on sales of capital assets are classified as nonoperating revenues (4.3).

*5.5. Other nonoperating expenses*

This category includes nonoperating expenses not covered in categories 5.1 through 5.4, above.

*5.5.1. Casualty insurance premiums*

Included here are casualty insurance premiums covering such risks as accidents, fire, earthquakes, and floods.

*5.5.2. Other nonoperating expenses not elsewhere classified*

All other nonoperating expenses are classified here.

*6. Income before direct taxes (1 - 2 + 4 - 5)*

This heading is calculated as the sum of the operating surplus or deficit (3) plus nonoperating revenues (4) minus nonoperating expenses (5).

*7. Direct taxes accrued*

This category comprises taxes on income, profits, and capital gains (A.1.2) and recurrent taxes on net wealth (A.4.2) incurred during the period, as defined in Section IV.A.

*8. Income after taxes (6 - 7)*

This category is calculated as the sum of the operating surplus or deficit (3) plus nonoperating revenues (4) minus nonoperating expenses (5) minus direct taxes accrued (7).

*9. Dividends and other distributions of entrepreneurial income*

This heading covers distributions of entrepreneurial income to holders of equity securities or other forms of participation in ownership of an enterprise.

*9.1. To other nonfinancial public enterprises*

Dividends and other distributions of entrepreneurial income to other nonfinancial public enterprises are classified here and are eliminated in consolidation of the nonfinancial public enterprise sector.

*9.2. To government*

Dividends and other distributions of entrepreneurial income to government are classified here and are distinguished from taxes (2.5 and 7), transfers (5.1.1.1 and 5.1.2.1), return of equity (15.1.2), and repayment of borrowing (15.3).

*9.3. To others*

Included here are dividends and distributions of entrepreneurial income other than to government or nonfinancial public enterprises.

*10. Retained income (8 - 9)*

This heading represents income retained by the enterprise after taxes and distributions of entrepreneurial income, and is calculated by subtracting distributions of entrepreneurial income (9) from income after taxes (8).

*C. Capital assets*

*11. Net acquisition of capital assets*

This category comprises acquisitions of fixed capital assets, intangible assets, land, and the change in inventories, less the net book value of such assets, except inventories, sold, less the consumption of fixed capital assets and intangible assets during the period. Capital gains and losses on sales of fixed assets, intangible assets, and land, calculated as the difference between sales price and net book value, are classified in nonoperating revenues and expenses (4.3 and 5.4).

*11.1. Acquisition less sales of capital assets*

This heading consists of acquisitions less sales of fixed capital assets, intangible assets, and land, and the change in inventories.



*11.1.1. Acquisition of capital assets*

Included here are expenses for the acquisition of fixed capital assets, intangible assets, and land, and the change in inventories.

*11.1.1.1. Purchase of fixed capital assets*

This category includes purchase from others of buildings, machinery, and equipment with more than a minimum significant value and a normal life of more than one year in the production and sale of the enterprise's goods and services. Articles and materials purchased for the purpose of transformation and sale are not included here but in purchases of goods and services (2.2.1). Costs incurred in the transfer of ownership of fixed capital assets or land would also be included here. Excluded, however, are purchases of small tools, work clothes, spare parts, and equipment of small value, even if they have a normal life of more than one year. Fixed capital assets and land leased under arrangements covering three fourths or more of their total economic value along with carrying charges are included here and depreciated over the life of the lease, with the amount of scheduled payments included in liabilities.

*11.1.1.2. Own account fixed capital formation (same as 1.3)*

Expenses incurred by the enterprise for production, during the period covered, of fixed capital assets for its own use, rather than for sale, are shown here. They also form a part of operating expenses with the value of the resulting fixed capital shown as well under operating revenues (1.3). This would cover, for example, buildings constructed and machinery produced by the enterprise for its own use. It would also include any expenses for improvements carried out by the enterprise in land and in existing buildings and equipment, increasing their performance or working life and hence constituting an addition to fixed capital assets. Expenses for normal maintenance and repair, however, would not be included here.

*11.1.1.3. Change in inventories*

Increased inventories represent an addition to capital assets, available for use in future periods. They are the outcome of numerous purchase and sale transactions contained in the operating account rather than of the acquisition or sale of capital goods. Because unused materials are subtracted from purchases and unsold finished products added to sales to measure production costs and output in each period, however, the cost of increased inventories is not reflected in the operating surplus or retained income. The cost of increased inventories, therefore, is presented in this category alongside other acquisitions of capital assets. This category is equal to the sum of categories 1.4 and 2.2.2. It represents the net increase during each period of inventories of goods purchased not yet used, goods produced not yet sold, and work-in-progress. Goods purchased not yet used are valued at purchase cost or replacement value, whichever is lower, and work-in-progress and finished products not yet sold are valued at the lower of purchase cost plus accrued expenses or replacement value. Calculation is on a first-in, first-out basis, with the cost of inputs being attributed to sold or remaining inventories on a chronological basis.

Inclusion of the change in enterprise inventories in capital formation contrasts with treatment of stocks in government. Changes in government stocks included in government capital formation are restricted to strategic or emergency stocks, stocks purchased by market regulatory organizations within government, and stocks of grains and other commodities of special importance to the nation.

*11.1.1.4. Land*

This heading includes the purchase of land, forests, inland waters, and subsoil deposits, but not structures or construction works situated thereon, which are classified as fixed assets (11.1.1.1). Where the value of the land cannot be separated from the value of the structure purchased, the entire amount should be shown as a purchase of the predominant element.

*11.1.1.5. Intangible assets*

Purchases of intangible assets, which differ from financial assets in that they do not represent claims on others and from fixed capital assets in that they do not represent physical objects, are

shown here. They include patents, copyrights, trademarks, goodwill, rights to exploit mineral deposits and fishing grounds, and other concessions and leases with respect to land.

*11.1.2. Less: Net book value of capital assets sold*

To calculate an enterprise's net acquisition of fixed capital assets, intangible assets, and land, it is necessary to subtract from its acquisitions the net book value of such assets it sells during the period covered. The net book value of each asset consists of its acquisition cost less its accumulated depreciation at the time of the sale in the case of fixed capital assets and intangible assets. It would also reflect any revaluations of assets for inflation which may have been carried out. The net book value of such assets sold is shown here.

*11.1.2.1. Fixed capital assets*

The net book value of fixed assets sold by an enterprise during the period covered is included here. Fixed capital assets are discussed in categories 11.1.1.1 and 11.1.1.2.

*11.1.2.2. Land*

This category covers the net book value of land, forests, inland waters, and subsoil deposits sold by an enterprise during the period covered. Any structures or construction works included in the sale are classified with fixed assets sold (11.1.2.1). Where the value of the land cannot be separated from the value of the structure sold, the entire amount should be shown as a sale of the predominant element.

*11.1.2.3. Intangible assets*

The net book value of intangible assets sold by an enterprise, including patents, copyrights, trademarks, rights to exploit mineral deposits, goodwill, and other concessions and leases with respect to land, is included here.

*11.2. Less: Consumption of fixed capital*

Because the value of fixed capital assets is diminished in the course of production during the reporting period by normal wear and tear, obsolescence, and accidental damage, consumption of fixed capital assets, like other production costs, is included in operating expenses. Unlike other production costs, however, consumption of fixed capital assets (and intangible assets) does not involve the incurrence of expenses vis-à-vis others. It may be taken to signify rather that the portion of the acquisition of fixed capital assets necessary to replace consumption of such assets during the reporting period is counted as an operating expense. To avoid counting such expenses twice, therefore, the consumption of fixed capital assets included in operating expenses is deducted from expenses for the acquisitions of fixed capital assets. As fixed capital assets consumed in the production process during the reporting period are no longer available to the enterprise at the end of the period, subtraction of such consumption, along with the enterprise's sales of fixed capital assets, from gross acquisitions may be taken to represent the enterprise's net acquisition of fixed capital assets over the reporting period as a whole.

Alternatively, fixed capital assets consumed during the period covered may be regarded as having been sold by the capital account to the operating account, the purchase being included, along with other operating costs, in operating expenses and the sale, along with sales of fixed capital assets to others, in calculation of the net acquisition of fixed capital assets during the period covered.

Discussion of consumption of fixed capital assets is found in category 2.3.

*11.3. Less: Consumption of intangible assets*

Like consumption of fixed capital assets (11.2), consumption of intangible assets during the reporting period is counted as an operating expense and is therefore subtracted from total acquisition of intangible assets. Discussion of consumption of intangible assets is found in category 2.4.

*12. Financing requirement (11 – 10)*

The net acquisition of capital assets not covered by income retained after taxes and distributions of entrepreneurial income to shareholders (calculated as 11 minus 10) gives rise to a financing re-

quirement that must be met through changes in liabilities incurred toward others and in holdings of claims upon others. While equal in amount to an overall deficit/surplus, the financing requirement carries the opposite sign.

#### *D. Financing by type of debt instrument*

##### *13. Total financing (14 + 17)*

Enterprise financing covers all flows of financial assets and liabilities to and from an enterprise during the period covered. Unlike cash-basis government financing, discussed in Section IV.C, accrual-basis enterprise financing covers not only fixed-term contractual obligations and some claims on others but also equity obligations, trade payables and receivables including accrued and prepaid expenses, and all claims on others. Trade payables and receivables are encompassed in enterprise financing because enterprise revenues and expenses cover not only payments and receipts but all incurrance of liabilities and accrual of claims, including those giving rise to trade payables and receivables. All claims on others are included in enterprise financing because, unlike government, enterprises are not engaged in lending for public policy purposes. All financial assets held by an enterprise are considered to be acquired for the purpose of managing the enterprise's liquidity. Total financing is equal in amount to the financing requirement (12) and carries the same sign. Total financing comprises domestic financing (14) and financing abroad (17).

##### *14. Domestic financing (15 – 16)*

This category covers all flows of financial assets and liabilities between an enterprise and other resident enterprises, individuals, governments, or other entities as defined in Section III.J. It may be affected also by transactions in outstanding obligations between residents and nonresidents. Domestic financing is calculated as the net increase in the enterprise's liabilities to residents (15) minus the net increase in its claims on residents (16).

##### *15. Change in domestic liabilities*

This heading covers the net increase in all of an enterprise's liabilities to residents including equity capital, trade payables, and domestic net borrowing.

###### *15.1 Change in equity capital*

Included here are injections and withdrawals of equity capital, either in cash or in kind, by shareholders during the period covered. An injection of equity capital is distinguishable from other receipts in that it gives rise to increased equity participation in ownership of the enterprise rather than to an enterprise obligation to repay specific amounts, as in the case of borrowing, or to no obligation, as in the case of a transfer.

Excluded from this category and classified as long-term borrowing, therefore, are amounts received or withdrawn as preferred capital, subordinated debt, or convertible debt. Preferred capital is afforded preferential treatment, either through repayment before other shareholders in the event of the enterprise's liquidation or through the payment of dividends fixed in amount and hence resembling interest. Subordinated debt represents indebtedness of a specified amount repayable only after all regular indebtedness has been repaid. Convertible debt is indebtedness of a specified amount by an enterprise which may be converted into shares of the enterprise.

###### *15.1.1. Other nonfinancial public enterprises*

This category covers injections and withdrawals of equity capital in the enterprise by other nonfinancial public enterprises. It is eliminated in consolidation of the nonfinancial public enterprise sector if identifiable, with an equal amount eliminated from category 16.2.1.3, representing changes in holdings of equity capital, so as not to overstate the flow of equity capital between the nonfinancial public enterprise sector and the rest of the economy.

###### *15.1.2. Government*

Any injection or withdrawal of an enterprise's equity capital by government is shown here.

*15.1.3. Other domestic*

Injections or withdrawals of an enterprise's equity capital other than by government or other nonfinancial public enterprises are included here.

*15.2. Change in trade payables*

Changes in liabilities to resident suppliers and other residents arising in the course of trade and expected to be paid in the normal course of business are included in this category. It is calculated as the net increase in accounts payable to resident suppliers and in expenses incurred but not yet due to residents for salaries, taxes, or interest, which accrue continuously but are due at regular intervals. Liabilities outstanding past their due date or normal payment term are reclassified as short-term borrowing.

*15.2.1. Change in accounts payable*

This category shows the net increase in amounts payable to resident suppliers under terms of sale permitting payment some time after delivery, for example, in 30 days or 90 days.

*15.2.2. Change in accrued expenses*

This heading comprises the net increase in the amount of accrued expenses not yet due to residents other than to suppliers. It thus covers various expenses accruing on a continuous basis but payable at regular intervals, such as salaries, taxes, interest, and insurance premiums.

*15.2.2.1. Taxes*

The net increase in taxes incurred by the enterprise but not yet due for payment is shown here.

*15.2.2.1.1. Indirect taxes*

This category covers taxes incurred by the enterprise in the course of production, as discussed in category 2.5.

*15.2.2.1.2. Direct taxes*

This heading includes other taxes incurred by the enterprise, as discussed in category 7.

*15.2.2.2. Accrued interest*

The net increase in interest accrued but not yet due to residents is shown here.

*15.2.2.3. Other accrued expenses*

This category covers the net increase in the amount of accrued expenses not yet due to residents other than to suppliers, for taxes or interest. It would therefore include such accrued expenses as salaries, vacation pay, and insurance premiums.

*15.3. Domestic net borrowing*

This category covers an enterprise's borrowing from, minus repayments to, resident units, as defined in Section III.J, excluding equity capital, accounts payable, and accrued expenses covered in categories 15.1, 15.2.1, and 15.2.2. Changes in the enterprise's claims on resident units are shown in category 16.

*15.3.1. Long-term domestic net borrowing*

The net increase in an enterprise's liabilities to residents, other than for equity capital, with original maturities of more than one year is shown here.

*15.3.1.1. Long-term bonds*

This category encompasses an enterprise's borrowing, minus amortization, through securities held by residents with original maturities of more than one year, bearing a fixed rate of interest or interest linked with some index, and redeemable starting from a date fixed at the time of the issue. Loans of more than one year from banks, suppliers, or other lenders, which are secured by debt instruments that are nonmarketable or are not meant to circulate, should not be shown in this cate-

gory but in category 15.3.1.2. Borrowing should reflect issue price before subtraction of commission charges and other costs of placement. Amortization should not include interest charges.

#### *15.3.1.2. Long-term loans*

Included here is an enterprise's borrowing, minus amortization, through loans contracted with residents which carry maturities at the time of borrowing of more than one year and are not secured by debt instruments that are marketable or are meant to circulate. This would cover any such fixed-term borrowing from banks or suppliers. Amortization should not include interest charges.

#### *15.3.2. Short-term domestic net borrowing*

The net increase in an enterprise's liabilities to residents with original maturities of one year or less, other than accounts payable and accrued expenses, is shown here.

##### *15.3.2.1. Short-term bonds and bills*

This category covers an enterprise's borrowing, minus amortization, through securities held by residents which have original maturities not exceeding one year, are intended to circulate, bear interest on a nominal value determined at issue, and are repayable at their nominal value starting at a date fixed at the time of issue. Short-term loans or advances from resident banks, suppliers, and other resident lenders, which are secured by debt issues that are nonmarketable or are not meant to circulate, should not be shown in this category but in category 15.3.2.2. Amortization of discount issues on which interest is subtracted in advance should be counted to include only the issue price, payment of the discount being shown as interest expenses.

##### *15.3.2.2. Short-term loans*

This heading encompasses government borrowing, minus amortization, through loans contracted with residents which carry original maturities not exceeding one year and are not secured by debt instruments that are marketable or are meant to circulate. Included here are short-term loans and advances from banks and suppliers but not accounts payable and accrued expenses owed to residents, which are classified in categories 15.2.1 and 15.2.2, respectively.

### *16. Change in domestic financial assets*

This heading covers the net increase in all of an enterprise's claims on residents, as defined in Section III.J, including the net increases in trade receivables from residents, equity in other resident enterprises, bonds and bills, loans, and deposits. The net increase in claims on residents is subtracted from the net increase in liabilities to residents to calculate domestic financing.

#### *16.1. Change in trade receivables*

Changes in claims on resident customers and others arising in the course of trade and expected to be paid in the normal course of business are included in this category. It is calculated as the net increase in accounts receivable from resident customers and in expenses prepaid but not yet accrued to residents such as for salaries, taxes, or interest. Claims outstanding past their due date or normal payment term are reclassified as short-term loans.

##### *16.1.1. Change in accounts receivable*

This heading consists of the net increase in the amounts receivable from resident customers under terms of sale permitting payment some time after delivery, for example, in 30 days or 90 days.

##### *16.1.2. Change in prepaid expenses*

Included here is the net increase in expenses paid before accrual.

##### *16.1.2.1. Taxes*

The net increase in the amount of taxes paid before they are incurred is shown here.

###### *16.1.2.1.1. Indirect taxes*

This category includes taxes incurred in the course of production as described in category 2.5.

*16.1.2.1.2. Direct taxes*

This heading covers other taxes incurred by the enterprise as described in category 7.

*16.1.2.2. Other prepaid expenses*

Covered here are expenses paid before they accrue to residents other than to suppliers or for taxes.

*16.2. Change in other domestic financial assets*

This heading covers the net increase in all of an enterprise's claims on residents, as defined in Section III.J, other than accounts receivable and prepaid expenses, which are classified in categories 16.1.1 and 16.1.2, respectively.

*16.2.1. Long-term*

Included here is the net increase in all of an enterprise's claims on residents which have an original maturity of more than one year or which represent equity participation in ownership of other resident enterprises.

*16.2.1.1. Long-term bonds*

This category covers the net increase in an enterprise's holdings of securities issued by residents with original maturities of more than one year, bearing fixed rates of interest or interest linked with some index, and redeemable starting from a date fixed at the time of issue.

*16.2.1.2. Long-term loans*

Included in this heading is the net increase in an enterprise's holdings of loans to residents which carry maturities at the time of borrowing of more than one year and are not secured by debt instruments that are marketable or are meant to circulate.

*16.2.1.3. Corporate and quasi-corporate equities*

This heading covers the net increase in an enterprise's holdings of equity participation in the ownership of other resident enterprises, both public and private. It does not include changes in equity capital of the enterprise itself, which are classified in category 15.1.

*16.2.2. Short-term*

Included here is the net increase in an enterprise's claims on residents which have an original maturity of one year or less or are redeemable on demand and do not constitute accounts receivable or prepaid expenses.

*16.2.2.1. Cash and deposits*

This category covers the net increase in an enterprise's holdings of the national currency and of deposits at resident financial institutions redeemable on demand or with an original maturity not exceeding one year.

*16.2.2.2. Short-term bonds and bills*

This heading covers the net increase in the enterprise's holdings of securities issued by residents which have original maturities not exceeding one year, are intended to circulate, bear interest on a nominal value determined at issue, and are repayable at their nominal value starting at a date fixed at the time of issue.

*16.2.2.3. Short-term loans*

Included here is the net increase in an enterprise's holdings of loans to residents which carry original maturities not exceeding one year and are not secured by debt instruments that are marketable or are meant to circulate. Accounts receivable from residents and prepaid expenses to residents are not classified here but in categories 16.1.1 and 16.1.2, respectively.

*17. Financing abroad (18 – 19)*

This category covers all flows of financial assets and liabilities between an enterprise and non-resident enterprises, individuals, governments, and other nonresident units as defined in Section III.J. It may also be affected by transactions in outstanding obligations between residents and non-residents. Financing abroad is calculated as the net increase in the enterprise's liabilities to nonresidents (18) minus the net increase in its claims on nonresidents (19).

*18. Change in liabilities abroad*

This heading consists of the net increase in all of an enterprise's liabilities to nonresidents, as defined in Section III.J, including equity capital, trade payables, and net borrowing abroad.

*18.1. Change in equity capital*

Any injection or withdrawal of an enterprise's equity capital, either in cash or in kind, by shareholders who are nonresidents would be shown here. A discussion of equity capital is contained in category 15.1. Transactions in the enterprise's equity capital between residents and nonresidents would also be reflected here and in category 15.1 if data are available. Covered in this category, for example, would be nonfinancial public enterprises that are joint ventures with nonresidents.

*18.2. Change in trade payables*

Changes in liabilities to nonresident suppliers, customers, and other nonresident units arising in the course of trade and which are expected to be paid in the normal course of business are included in this category. It is calculated as the net increase in accounts payable to nonresident suppliers and in expenses incurred but not yet due to nonresidents for salaries, taxes, or interest, which accrue continuously but are due at regular intervals. Liabilities outstanding past their due date on normal payment term are reclassified as short-term borrowing. Taxes included are those accruing to foreign governments and to supranational authorities.

*18.2.1. Change in accounts payable*

This category covers the type of liabilities described in category 15.2.1 owed to nonresidents rather than to residents.

*18.2.2. Change in accrued expenses*

This category covers the type of liabilities described in category 15.2.2. owed to nonresidents rather than to residents.

*18.2.2.1. Accrued interest*

This category covers the type of liabilities described in category 15.2.2.2 owed to nonresidents rather than to residents.

*18.2.2.2. Other accrued expenses*

This category covers the net increase in accrued expenses not yet due to nonresidents other than to suppliers or for interest. It would therefore include any taxes to foreign governments or supranational authorities and such other accrued expenses as salaries and insurance premiums due to nonresidents.

*18.3. Net borrowing abroad*

This category covers an enterprise's borrowing from, minus repayments to, nonresident individuals, enterprises, governments, international organizations, and other entities, as defined in Section III.J, excluding equity capital and trade payables covered in categories 18.1 and 18.2 above. It comprises the net increase in the enterprise's liabilities to nonresidents, other than for equity capital, accounts payable, and accrued expenses. Both short-term and long-term liabilities are covered.

Changes in an enterprise's claims on nonresident units are shown in category 19.

*18.3.1. Long-term net borrowing abroad*

This category covers the net increase in an enterprise's liabilities to nonresidents, other than for equity capital, with original maturities of more than one year.

*18.3.1.1. Long-term bonds*

This category covers net borrowing through the type of debt instruments described in category 15.3.1.1 held by nonresidents rather than by residents.

*18.3.1.2. Long-term loans*

This category covers net borrowing through the type of debt instruments described in category 15.3.1.2 held by nonresidents rather than by residents.

*18.3.2. Short-term net borrowing abroad*

Included here is the net increase in an enterprise's liabilities to nonresidents, other than for accounts payable or accrued expenses, with original maturities not exceeding one year.

*18.3.2.1. Short-term bonds and bills*

This category covers net borrowing through the type of debt instruments described in category 15.3.2.1 held by nonresidents rather than by residents.

*18.3.2.2. Short-term loans*

This category covers net borrowing through the type of debt instruments described in category 15.3.2.2 held by nonresidents rather than by residents.

*19. Change in financial assets abroad*

This heading covers the net increase in all of an enterprise's claims on nonresident units, as defined in Section III.J, including accounts receivable, prepaid expenses, equity in nonresident enterprises, bonds and bills, loans, deposits, and foreign exchange. The net increase in claims on nonresidents is subtracted from the net increase in liabilities to nonresidents to calculate financing abroad.

*19.1. Change in trade receivables*

Changes in claims on nonresident customers and other nonresidents arising in the course of trade and expected to be paid in the normal course of business are included in this category. It is calculated as the net increase in accounts receivable from nonresident customers and in expenses prepaid but not yet accrued to nonresidents, such as for salaries, taxes, or interest. Claims outstanding past their due date or normal payment term are reclassified as short-term loans.

*19.1.1. Change in accounts receivable*

This category covers the type of assets described in category 16.1.1 consisting of claims on nonresidents rather than on residents.

*19.1.2. Change in prepaid expenses*

This category covers the type of assets described in category 16.1.2 consisting of claims on nonresidents rather than on residents.

*19.2. Change in other financial assets abroad*

This heading covers the net increase in all of an enterprise's claims on nonresidents, as defined in Section III.J, other than accounts receivable and prepaid expenses, which are classified in categories 19.1.1 and 19.1.2, respectively.

*19.2.1. Long-term*

Included here is the net increase in all of an enterprise's claims on nonresidents which have an original maturity of more than one year or which represent equity participation in ownership of nonresident enterprises.



*19.2.1.1. Long-term bonds*

This category covers the type of debt instrument described in category 16.2.1.1 constituting a claim on nonresidents rather than on residents.

*19.2.1.2. Long-term loans*

This category covers the type of debt instrument described in category 16.2.1.2 constituting a claim on nonresidents rather than on residents.

*19.2.1.3. Corporate and quasi-corporate equities*

This category covers the type of asset described in category 16.2.1.3 constituting a claim on nonresidents rather than residents.

*19.2.2. Short-term*

This heading consists of the net increase in an enterprise's claims on nonresidents which have an original maturity of one year or less or are redeemable on demand and do not constitute accounts receivable or prepaid expenses.

*19.2.2.1. Cash and deposits*

Included here is the net increase in an enterprise's holdings of foreign exchange and deposits at nonresident financial institutions redeemable on demand or with an original maturity not exceeding one year.

*19.2.2.2. Short-term bonds and bills*

This category covers the type of debt instrument described in category 16.2.2.2 constituting a claim on nonresidents rather than on residents.

*19.2.2.3. Short-term loans*

This category covers the type of debt instrument described in category 16.2.2.3 constituting a claim on nonresidents rather than on residents.

*E. Financing by type of debt holder**20. Domestic financing (excluding own equity and trade payables and receivables)  
(same as 15.3 – 16.2)*

This category covers the net increase in an enterprise's liabilities to, minus the net increase in its claims on, resident units, as defined in Section III.J, excluding the enterprise's equity capital and trade payables and receivables.

This category is equal to category 15.3 minus category 16.2 but is classified here by type of debt holder rather than by type of debt instrument.

*20.1. Other nonfinancial public enterprises*

Included here is the net increase in an enterprise's liabilities to, minus the net increase in its claims on, other nonfinancial public enterprises, excluding its own equity capital and trade payables and receivables. Since the changes in claims and liabilities between all nonfinancial public enterprises should be equal and offsetting, only changes in holdings of the equity capital of other nonfinancial public enterprises should remain in this category for the nonfinancial public enterprise sector as a whole. Both this category and the equal but opposite category 15.1.1, changes in nonfinancial public enterprise equity capital held by other nonfinancial public enterprises, are eliminated in consolidation of the nonfinancial public enterprise sector, however, so as not to overstate the flow of equity capital between the sector and the rest of the economy.

*20.2. Government*

This heading includes the net increase in an enterprise's liabilities to, minus the net increase in its claims on, government, excluding trade payables and receivables and equity capital. Net borrowing from government is distinguishable from other types of transactions in that it generates or extin-

guishes an enterprise's obligation to repay specific amounts, rather than affecting equity participation in ownership of the enterprise or giving rise to no obligation to repay, as in the case of a transfer.

### *20.3. Monetary authorities*

The net increase in an enterprise's liabilities to, minus the net increase in its claims on, the monetary authorities is included in this category. It excludes changes in the enterprise's equity capital and trade payables and receivables, but includes changes in deposits and holdings of national currency.

### *20.4. Deposit money banks*

This category includes the net increase in an enterprise's liabilities to, minus the net increase in its claims on, resident deposit money banks, excluding the enterprise's equity and trade payables and receivables. Changes in deposits are included here. Deposit money banks are defined as financial institutions whose liabilities are primarily in the form of deposits that are both exchangeable on sight for currency and transferable as a means of payment.

### *20.5. Other domestic financing*

Included here is the net increase in an enterprise's liabilities to, minus the net increase in its claims on, resident units other than those covered in categories 20.1 through 20.4 and excluding the enterprise's equity capital and trade payables and receivables.

## *21. Financing abroad (excluding own equity and trade payables and receivables)* *(same as 18.3 – 19.2)*

This category covers the net increase in an enterprise's liabilities to, minus the net increase in its claims on, nonresident units, as defined in Section III.J, excluding equity capital and trade payables and receivables.

This category is equal to category 18.3 minus category 19.2 but is classified here by type of debt holder rather than by type of debt instrument.

### *21.1. International development institutions*

Included here is the net increase in an enterprise's liabilities to, minus the net increase in any claims it may have on, international development institutions, of which governments are members, such as the World Bank, the Asian Development Bank, the Inter-American Development Bank, and similar institutions. Any transactions with such institutions involving the enterprise's equity capital or trade payables and receivables would not be classified here but in categories 18.1, 18.2, and 19.1, respectively.

### *21.2. Foreign governments*

This heading covers the net increase in an enterprise's liabilities to, minus the net increase in its claims on, foreign governments excluding equity capital and trade payables and receivables. Included are loans from the official lending agencies of foreign governments which derive all of their funds from government and have no authority to incur liabilities to others. This heading also includes loans from the national currency holdings of foreign governments, which originate mainly from sales in the country of commodities received under aid programs or from national currency payments of interest and amortization on previous loans.

### *21.3. Bank loans and advances*

This category is equal to the increase in an enterprise's liabilities to, minus the net increase in its claims on, nonresident banks as defined in Section III.J, excluding the enterprise's equity capital and trade payables and receivables. Loans secured by debt issues that are nonmarketable or are not intended to circulate would be shown here. Sales to nonresident banks of securities that are intended to circulate, and for which the banks may be acting as underwriters, distributors, or temporary holders, would be shown in category 21.5. Loans from official international banks, of which governments are members, would be classified in category 21.1. Loans from official lending agencies of foreign governments which derive all their funds from the government and have no authority to incur

liabilities to others should be shown as loans from foreign governments (21.2). Claims on nonresident banks, including deposits, would also be classified here.

#### *21.4. Supplier credits*

This category includes the net increase in an enterprise's liabilities to, minus the net increase in its claims on, suppliers other than accounts payable under terms of sale permitting payment some time after delivery, for example, in 30 days or 90 days. Included here, therefore, are changes in liabilities to, and claims on, nonresident suppliers under fixed-term contractual agreements specifying repayment at maturities beyond normal sales terms.

#### *21.5. Other financing abroad*

Covered in this category is the net increase in an enterprise's liabilities to, minus the net increase in its claims on, nonresidents other than international development institutions, foreign governments, banks, or suppliers, or through the enterprise's equity capital or trade payables or receivables. The issuance of bonds to nonresidents and their redemption, for example, would be included here.

#### *F. Outstanding debt by type of debt holder (at end of period)*

To supplement data in an enterprise's balance sheet showing equity and liabilities by type of debt instrument, it is useful to classify an enterprise's outstanding debt, excluding equity capital and trade receivables, by type of debt holder. It is measured as of the close of the period covered.

#### *22. Total debt (excluding equity and trade payables) (23 + 24)*

This category covers all of an enterprise's liabilities, other than for equity capital and trade payables, to both residents and nonresidents. It thus includes the entire stock of the enterprise's direct, fixed-term contractual obligations to others at the close of the period. Outstanding debts in this category are not reduced by claims on others.

#### *23. Domestic debt (excluding equity and trade payables)*

All liabilities to residents, as defined in Section III.J, other than for equity capital and trade payables, are included here.

##### *23.1. Other nonfinancial public enterprises*

Included here are all of an enterprise's fixed-term contractual obligations to other nonfinancial public enterprises. This category is eliminated in consolidation of the nonfinancial public enterprise sector.

##### *23.2. Government*

All of an enterprise's debts to government, other than for equity capital and trade payables, are included here.

##### *23.3. Monetary authorities*

This heading covers an enterprise's debts to the monetary authorities, excluding equity capital and trade payables and not diminished by enterprise deposits or other claims against the monetary authorities.

##### *23.4. Deposit money banks*

This heading includes an enterprise's debts to resident deposit money banks, excluding equity capital and trade payables and not reduced by any enterprise deposits or other claims against such banks. Deposit money banks are defined as financial institutions whose liabilities are primarily in the form of deposits which are both exchangeable on sight for currency and transferable as a means of payment.

**23.5. Other domestic debt**

This category encompasses all of an enterprise's debts to residents other than to other nonfinancial public enterprises, government, monetary authorities, and deposit money banks and excluding equity capital and trade payables.

**24. Foreign debt (excluding equity and trade payables)**

All of an enterprise's liabilities, other than for equity and trade payables, to nonresidents, as defined in Section III.J, are included in this category. The enterprise's claims on nonresidents are not covered here.

**24.1. International development institutions**

This heading includes an enterprise's debts, other than for equity or trade payables, to international development institutions, of which governments are members, such as the World Bank, the Asian Development Bank, the Inter-American Development Bank, and similar institutions.

**24.2. Foreign governments**

Included here are an enterprise's debts to foreign governments other than for equity or trade payables. Debts to official lending agencies of foreign governments which derive all of their funds from government and have no authority to incur liabilities to others are covered in this category.

**24.3. Bank loans and advances**

This category encompasses an enterprise's debts to nonresident banks which are secured by debt issues that are nonmarketable or are not intended to circulate. Equity capital and trade payables would not be included here, nor would securities that are intended to circulate and for which the banks may be acting as underwriters, distributors, or temporary holders. These would be classified in category 24.5. Debts to official international banks, of which governments are members, would be classified in category 24.1. Debts to official lending agencies of foreign governments which derive all of their funds from government and have no authority to incur liabilities to others should be shown as debts to foreign governments (24.2). Claims on nonresident banks are not covered here.

**24.4. Supplier credits**

This category includes an enterprise's debts to nonresident suppliers other than accounts payable under terms of sale permitting payment some time after delivery, for example, in 30 days or 90 days. Included here, therefore, are debts to nonresident suppliers under fixed-term contractual agreements specifying payment at maturities beyond normal sales terms.

**24.5. Other foreign debt**

Covered in this category are an enterprise's debts to nonresidents other than to international development institutions or foreign governments or in the form of bank loans and advances, supplier credits, equity capital, accounts payable, or accrued expenses. Bonds issued to nonresidents, for example, would be included here.

**VI.A.4. Abbreviated Operating Statement**

Some salient features of an enterprise's operations may be evaluated also from an abbreviated operating statement, based on selected entries from Table K, for use in conjunction with the balance sheet of assets and liabilities presented in Table J. One abbreviated version of Table K incorporating major headings and transactions with government is presented in Table K.1, utilizing the category numbers and definitions of Table K. While it does not contain some items necessary for adjustment to the approximate cash basis shown in Table L or calculation of some principal indicators presented in Table I, it may be found useful in circumstances of limited data availability.

**Table K.1. Abbreviated Statement, Operations of Nonfinancial Public Enterprises  
(accrual basis)**

1. Operating revenues
  - of which: 1.1. Sales of goods and services
  - 1.2. Subsidies
2. Operating expenses
  - of which: 2.1. Compensation of employees
  - 2.2. Other goods and services
  - 2.3. Consumption of fixed capital
  - 2.5. Taxes and compulsory fees incurred in the course of production
3. Operating surplus or deficit (1–2)
4. Nonoperating revenues
  - of which: 4.1.2.1. Government capital transfers
5. Nonoperating expenses
  - of which: 5.1.1.1. + 5.1.2.1. Current and capital transfers to government
  - 5.2. Interest
    - 5.2.1. Interest to government
6. Income before direct taxes (1–2+4–5)
7. Direct taxes accrued
8. Income after taxes (6–7)
9. Dividends and other distributions of entrepreneurial income
  - of which: 9.2. Distributions to government
10. Retained income (8–9)
11. Net acquisition of capital assets
12. Financing requirement (11–10)
14. Domestic financing
  - of which: 15.1.2. + 20.2. Equity and net borrowing from government
17. Financing abroad
23. Domestic debt
  - (at end of period)
24. Foreign debt
  - (at end of period)

### VI.A.5. Adjustment to Approximate Cash Basis

Accrual accounts are necessary for analysis of enterprises to measure costs, income, and net worth (see Section II.A.3). It is also useful, however, to measure an enterprise's cash flows for the purpose of cash management. It is possible to adjust the data in an accrual-based statement of enterprise operations to arrive at an approximate cash basis for a number of useful aggregates. This is illustrated in Table L.

As may be noted in Table L, adjustment to cash consists primarily of (1) removing from the major accrual-based aggregates items representing noncash revenues or expenses, such as provision for consumption of fixed capital; (2) adjusting revenues and expenses for accruals not yet paid for and for payments preceding accrual, such as trade payables and receivables; (3) reallocating to the categories in which payment takes place activities shown elsewhere in accrual-based data, such as own account fixed capital formation and the change in inventories; and (4) removing from financing categories trade payables and receivables, representing the financing of accruals rather than the financing of payments through fixed-term contractual obligations and changes in deposits.

In addition to the information they provide for cash management purposes, data on nonfinancial public enterprise operations adjusted to an approximate cash basis are a preferable input for combination with cash-based statistics on government to portray the consolidated nonfinancial public sector, discussed in Section VI.B.

**Table L. Adjustment to Approximate Cash Basis, Operations of Nonfinancial Public Enterprises**

1. Revenues
    - 1.1. Operating and nonoperating revenues (K.1 + K.4)
    - 1.2. Less: Own account fixed capital formation (K.1.3)
    - 1.3. Less: Change in inventories, goods produced not yet sold, and work in progress (K.1.4)
    - 1.4. Less: Change in accounts receivable (K.16.1.1 + K.19.1.1)
  2. Expenses
    - 2.1. Operating and nonoperating expenses (K.2 + K.5)
    - 2.2. Less: Consumption of fixed capital (K.2.3)
    - 2.3. Less: Consumption of intangible assets (K.2.4)
    - 2.4. Change in inventories, goods purchased not yet used (K.2.2.2)
    - 2.5. Change in prepaid expenses for indirect taxes (K.16.1.2.1.1)
    - 2.6. Change in prepaid expenses for goods and services (K.16.1.2.2)
    - 2.7. Less: Change in accounts payable (K.15.2.1)
    - 2.8. Less: Change in accrued expenses other than for direct taxes (K.15.2.2.1.1 + K.15.2.2.2 + K.15.2.2.3)
  3. Direct taxes paid
    - 3.1. Direct taxes accrued (K.7)
    - 3.2. Change in prepaid expenses for direct taxes (K.16.1.2.1.2)
    - 3.3. Less: Change in accrued expenses for direct taxes (K.15.2.2.1.2)
  4. Dividends and other distributions of entrepreneurial income (K.9)
  5. Retained income (1-2-3-4) (also equals 5.1 + 5.2 - 5.3)
    - 5.1. Current account surplus with receipt of current transfers (saving) (5 - 5.2 + 5.3)
      - 5.1.1. Current account surplus without receipt of current transfers (own saving) (5.1 - 5.1.2)
      - 5.1.2. Current transfers received (K.1.2 + K.4.1.1)
    - 5.2. Capital transfers and capital gains received, net (K.4.1.2 - K.5.1.2 + K.4.3 - K.5.4)
    - 5.3. Less: Capital formation included in cash expenses
      - 5.3.1. Own account fixed capital formation (K.1.3)
      - 5.3.2. Change in inventories (K.1.4 + K.2.2.2)
  6. Net acquisition of capital assets
    - 6.1. Acquisition less sales of capital assets (K.11.1)
    - 6.2. Less: Own account fixed capital formation (K.11.1.1.2)
    - 6.3. Less: Change in inventories (K.11.1.1.3)
  7. Financing requirement (6 - 5)
- Financing by Type of Debt Instrument
8. Financing (9 + 10)
  9. Domestic financing (9.1 + 9.2 - 9.3)
    - 9.1. Change in equity capital (K.15.1)
      - 9.1.1. Other nonfinancial public enterprises (K.15.1.1)<sup>1</sup>
      - 9.1.2. Government (K.15.1.2)
      - 9.1.3. Other domestic (K.15.1.3)
    - 9.2. Domestic net borrowing (15.3)
    - 9.3. Less: Change in other domestic financial assets (K.16.2)
  10. Financing abroad (10.1 + 10.2 - 10.3)
    - 10.1. Change in equity capital (K.18.1)
    - 10.2. Net borrowing abroad (K.18.3)
    - 10.3. Less: Change in other financial assets abroad (K.19.2)

**Table L (concluded). Adjustment to Approximate Cash Basis, Operations of Nonfinancial Public Enterprises**

Financing by Type of Debt Holder

- 11. Financing (12 + 13) (same as 8)
- 12. Domestic financing (same as 9)
  - 12.1. Change in equity capital (K.15.1)
    - 12.1.1. Other nonfinancial public enterprises (K.15.1.1)<sup>1</sup>
    - 12.1.2. Government (K.15.1.2)
    - 12.1.3. Other domestic (K.15.1.3)
  - 12.2. Other domestic financing (K.20)
    - 12.2.1. Other nonfinancial public enterprises (K.20.1)<sup>1</sup>
    - 12.2.2. Government (K.20.2)
    - 12.2.3. Monetary authorities (K.20.3)
    - 12.2.4. Deposit money banks (K.20.4)
    - 12.2.5. Other domestic financing not elsewhere classified (K.20.5)
- 13. Financing abroad (same as 10)
  - 13.1. Change in equity capital (K.18.1)
  - 13.2. Other financing abroad (K.21)
    - 13.2.1. International development institutions (K.21.1)
    - 13.2.2. Foreign governments (K.21.2)
    - 13.2.3. Bank loans and advances (K.21.3)
    - 13.2.4. Supplier credits (K.21.4)
    - 13.2.5. Other financing abroad not elsewhere classified (K.21.5)

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<sup>1</sup>Eliminated in consolidation of nonfinancial public enterprise sector.



## **VI.B. Nonfinancial Public Sector**

Because the nonfinancial public sector is based on a distinction between private and government ownership and/or control, and not on criteria of purpose or function as institutional sectors are, its measurement raises problems that are not encountered in measuring government alone or the nonfinancial public enterprises. These problems arise mainly in the selection of categories whose meanings are parallel for market and nonmarket activities (see Table M).

The main difficulties in consolidating statistics for activities that are different in nature are avoided by focusing not on the components of current account operations but on saving, capital formation, and financing. Statistics that seek to combine the current revenues and expenditures of government and enterprises face the contrast between government flows of essentially disposable income, final consumption, and transfers on the one hand, and enterprise flows of sales proceeds and production costs on the other. Combining only the net results of nonfinancial public enterprises' current operations with government revenues and expenditures is of limited value, moreover, since flows of subsidies to the enterprises and of taxes and property income from them are already included in government revenues and expenditures. Separate presentation of the current operations of government and enterprises is preferable, therefore, to their consolidated presentation for the nonfinancial public sector as a whole.

Similar difficulties do not arise in the measurement of consolidated nonfinancial public sector totals for saving, capital formation, and financing, which have essentially parallel meanings in government and its enterprises. Saving, or the current account surplus, represents the portion of current receipts which remains after current outlays and is available for investment in the acquisition of capital assets and financial assets for use in the future. Own account saving is restricted to the current account surplus that is generated without the receipts of current grants or subsidies from others. Because the current account surplus is a net concept, offsetting receipts against payments, no elimination of transactions between government and its enterprises is necessary for calculation of the consolidated total. Current grants to government and transfers to enterprises constituting the difference between saving and own saving of the nonfinancial public sector, however, are only those from outside the sector. Government and enterprise data entries to be used in derivation of consolidated statistics for the nonfinancial public sector are set out in Working Table 19.

While capital formation may involve different kinds of productive assets in government and enterprises, it represents in both cases the acquisition of assets usable in the production of goods or services in the future. Since sales and purchases are offset against each other in the calculation of gross capital formation, elimination of transactions between government and the enterprises is not necessary in calculating the consolidated totals. Capital transfers enter into the statistics for the nonfinancial public sector on a net basis, with payments offset against receipts, so that here, too, elimination of transactions between government and the enterprises is not necessary for consolidation.

Two other elements affecting the consolidated financing requirement of the nonfinancial public sector do not combine elements for both government and the enterprises. Capital gains and losses, net, are calculated only for enterprises. They show the difference between sale price and the depreciated, net book value of capital assets sold which enters into calculation of enterprise purchases minus sales of capital assets. Capital gains and losses are not calculated for government, which does not systematically depreciate its capital assets to a net book value from which capital gains or losses could be calculated. Instead, the full sale price of capital assets sold is deducted from purchases in calculating gross capital formation by government.

The lending minus repayments entry for the nonfinancial public sector includes only lending by government. As enterprises are considered to undertake all of their transactions in financial assets and liabilities for the purpose of managing their liquidity and earning a return, rather than for the promotion of public policy objectives, all of their transactions dealing in claims are shown as financing rather than lending minus repayments. The lending minus repayments total for the nonfinancial public sector, therefore, represents lending minus repayments of the government alone. Although lending minus repayments is a net concept, however, its restriction to government requires the elimination of government lending minus repayments transactions with nonfinancial public enterprises

from both government lending minus repayments and enterprise financing to arrive at consolidated nonfinancial public sector totals.

The consolidated financing requirement of the nonfinancial public sector is calculated by subtracting from the sum of the sector's gross capital formation, acquisition of land and intangible assets, and lending minus repayments, its saving, plus net receipts of capital transfers and capital gains. The financing requirement is equal to an overall deficit/surplus, but opposite in sign, and represents the sum which the institutions owned and/or controlled by government, other than financial institutions, must obtain from the rest of the economy and the world by entering into obligations for future repayment or drawing upon financial assets accumulated in the past. Consolidated nonfinancial public sector financing is by definition equal in amount to the financing requirement and carries the same sign. Because financing is a net concept, only the nonfinancial public enterprise side of lending minus repayments transactions with government must be eliminated in consolidation, the government side being eliminated in the lending minus repayments category. Transactions between government and nonfinancial public enterprises representing financing operations for both sides, such as enterprise purchases of government securities, would be offset against each other in the general offsetting of changes in claims against changes in financial assets. Data for government and enterprise financing which exclude such transactions may be used, however, so long as they are utilized for both government and enterprises.

Among the most useful measures of the nonfinancial public sector's impact on the economy are statistics for its foreign and domestic financing. Of particular significance are data for the nonfinancial public sector's financing obtained from the monetary authorities and from deposit money banks. It is primarily because such financing represents so important a measure of the outcome of the sector's operation that the sector is measured separately from public financial institutions. Consolidation with public financial institutions would eliminate statistics for the financing requirements of government and nonfinancial public enterprises met by the central bank and other government-owned and/or controlled banks. With statistics based on the nonfinancial public sector alone, it is possible to identify its financing from the central bank and deposit money banks as a whole and compare it with total change in credit at the central bank and the deposit money banks during each period. Exclusion of public financial institutions from the public sector being measured, it should be noted, entails also exclusion of any saving or capital formation at such institutions. These would appear in statistics for the financial institutions sector.

Domestic financing and financing abroad are classified by the change in equity capital for enterprises and, for all other kinds of financing by both government and the enterprises, by the type of debt holder.

The outstanding debt of the nonfinancial public sector may constitute an important element both domestically and in the balance of payments. It is classified by type of debt holder, excluding equity capital and trade payables and any debt of the government or nonfinancial public enterprises held within the nonfinancial public sector.

Enterprise data adjusted to an approximate cash basis should be used, where available, for consolidation with cash-basis government data to measure the nonfinancial public sector.

**Table M. Operations and Debt of the Nonfinancial Public Sector**

1. Own saving (current account surplus without receipt of grants and subsidies)  
(A.III - C.III + L.5.1 - K.4.1.1)
2. Current grants and nongovernmental transfers received (A.17.1 + A.20.1 + K.4.1.1)
3. Saving (current account surplus with receipt of current grants and nongovernmental transfers)  
(1 + 2)(also A.III + A.17.1 + A.20.1 - C.III + L.5.1 + K.4.1.1)
4. Capital transfers and capital gains received, net (A.16 + A.17.2 + A.20.2 - C.7 + L.5.2)
5. Gross capital formation
  - 5.1. Gross fixed capital formation (C.4 - A.13 + K.11.1.1.1 + K.11.1.1.2 - K.11.1.2.1)
  - 5.2. Change in inventories (C.5 - A.14 + K.11.1.1.3)
6. Land and intangible assets (C.6 - A.15 + K.11.1.1.4 + K.11.1.1.5 - K.11.1.2.2 - K.11.1.2.3)
7. Lending minus repayments (C.V - C.8.2)
8. Financing requirement (5 + 6 + 7 - 3 - 4)
9. Financing (= 8) (also 10 + 11)
10. Domestic financing
  - 10.1. Change in equity capital (L.12.1.3)
  - 10.2. Nonequity financing
    - 10.2.1. Monetary authorities (D.2 + L.12.2.3)
    - 10.2.2. Deposit money banks (D.3 + L.12.2.4)
    - 10.2.3. Other domestic financing (D.4 - D.4.2 + D.5 + L.12.2.5)
11. Financing abroad
  - 11.1. Change in equity capital (L.13.1)
  - 11.2. Nonequity financing
    - 11.2.1. International development institutions (D.6 + L.13.2.1)
    - 11.2.2. Foreign governments (D.7 + L.13.2.2)
    - 11.2.3. Bank loans and advances (D.8.1 + L.13.2.3)
    - 11.2.4. Supplier credits (D.8.2 + L.13.2.4)
    - 11.2.5. Other financing abroad (D.8.3 + D.9 + L.13.2.5)
12. Total debt (excluding equity and trade payables) (13 + 14)  
(at end of period)
13. Domestic debt (excluding equity and trade payables) (F.II - F.4.2 + K.23 - K.23.1 - K.23.2)
  - 13.1. Monetary authorities (F.2 + K.23.3)
  - 13.2. Deposit money banks (F.3 + K.23.4)
  - 13.3. Other domestic debt (F.4 - F.4.2 + F.5 + K.23.5)
14. Foreign debt (excluding equity and trade payables) (F.III + K.24)
  - 14.1. International development institutions (F.6 + K.24.1)
  - 14.2. Foreign governments (F.7 + K.24.2)
  - 14.3. Bank loans and advances (F.8.1 + K.24.3)
  - 14.4. Supplier credits (F.8.2 + K.24.4)
  - 14.5. Other foreign debt (F.8.3 + F.9 + K.24.5)

**Working Table 19. Derivation of Consolidated Operations and Debt of the  
Nonfinancial Public Sector**

1. Own saving (current account surplus without receipt of grants and subsidies)
  - A.III. Current revenue
  - C.III. Less: Government current expenditure
  - L.5.1. Enterprise current account surplus with receipt of current transfers
  - K.4.1.1. Less: Current nongovernmental transfers received by enterprises
  
2. Current grants and nongovernmental transfers received (from outside the nonfinancial public sector)
  - A.17.1. Government current grants from abroad
  - A.20.1 Current grants to supranational authorities from their headquarters
  - K.4.1.1. Current nongovernmental transfers received by enterprises
  
3. Saving (current account surplus with receipt of current grants and nongovernmental transfers) (1 + 2)
  
4. Capital transfers and capital gains received, net
  - A.16. Capital transfers received by government from nongovernmental sources
  - A.17.2. Government capital grants from abroad
  - A.20.2. Capital grants to supranational authorities from their headquarters
  - C.7. Less: Capital transfers by government
  - K.4.1.2. Capital transfers received by enterprises (offsets part of C.7.)
  - K.5.1.2. Less: Capital transfers by enterprises (offsets part of A.16.)
  - K.4.3. Enterprise gains on sales of capital assets
  - K.5.4. Less: Enterprise losses on sales of capital assets
  
5. Gross capital formation
  - 5.1. Gross fixed capital formation
    - C.4. Government acquisition of fixed capital assets
    - A.13. Less: Government sales of fixed capital assets
    - K.11.1.1.1. Enterprise purchases of fixed capital assets
    - K.11.1.1.2. Enterprise own account fixed capital formation
    - K.11.1.2.1. Less: Net book value of fixed capital assets sold by enterprises
  - 5.2. Change in inventories
    - C.5. Government purchases of stocks
    - A.14. Less: Government sales of stocks
    - K.11.1.1.3. Enterprise change in inventories
  
6. Land and intangible assets
  - C.6. Government purchases of land and intangible assets
  - A.15. Less: Government sales of land and intangible assets
  - K.11.1.1.4. Enterprise acquisition of land
  - K.11.1.1.5. Enterprise acquisition of intangible assets
  - K.11.1.2.2. Less: Net book value of land sold by enterprises
  - K.11.1.2.3. Less: Net book value of intangible assets sold by enterprises
  
7. Lending minus repayments
  - C.V. Government lending minus repayments
  - C.8.2. Less: Government lending minus repayments to nonfinancial public enterprises
  
8. Financing requirement (5 + 6 + 7 - 3 - 4)

**Working Table 19 (continued). Derivation of Consolidated Operations and Debt of the Nonfinancial Public Sector**

- 9. Financing (= 8) (also 10 + 11)
- 10. Domestic financing
  - 10.1. Change in equity capital
    - L.12.1.3. Change in equity capital other than by government and other nonfinancial public enterprises
  - 10.2. Nonequity financing
    - 10.2.1. Monetary authorities
      - D.2. Government financing from monetary authorities
      - L.12.2.3. Enterprise nonequity financing from monetary authorities
    - 10.2.2. Deposit money banks
      - D.3. Government financing from deposit money banks
      - L.12.2.4. Enterprise nonequity financing from deposit money banks
    - 10.2.3. Other domestic financing
      - D.4. Other government domestic financing
      - D.4.2. Less: Government financing from nonfinancial public enterprises
      - D.5. Adjustments to government domestic financing
      - L.12.2.5. Enterprise other domestic nonequity financing not elsewhere classified
- 11. Financing abroad
  - 11.1. Change in equity capital
    - L.13.1. Change in equity capital held abroad
  - 11.2. Nonequity financing
    - 11.2.1. International development institutions
      - D.6. Government financing from international development institutions
      - L.13.2.1. Enterprise nonequity financing from international development institutions
    - 11.2.2. Foreign governments
      - D.7. Government financing from foreign governments
      - L.13.2.2. Enterprise nonequity financing from foreign governments
    - 11.2.3. Bank loans and advances
      - D.8.1. Government bank loans and advances abroad
      - L.13.2.3. Enterprise bank loans advances abroad
    - 11.2.4. Supplier credits
      - D.8.2. Government supplier credits from abroad
      - L.13.2.4. Enterprise supplier credits from abroad
    - 11.2.5. Other financing abroad
      - D.8.3. Other government borrowing abroad not elsewhere classified
      - D.9. Change in government cash, deposits, and securities abroad held for liquidity purposes
      - L.13.2.5. Other enterprise financing abroad not elsewhere classified

**Working Table 19 (concluded). Derivation of Consolidated Operations and Debt of the Nonfinancial Public Sector**

- 12. Total debt (excluding equity and trade payables) (13 + 14)  
(at end of period)
- 13. Domestic debt (excluding equity and trade payables)
  - F.II. Government domestic debt
    - F.4.2. Less: Government debt to nonfinancial public enterprises
  - K.23. Enterprise domestic debt (excluding equity and trade payables)
    - K.23.1. Less: Enterprise debt to other nonfinancial public enterprises
    - K.23.2. Less: Enterprise debt to government
- 13.1. Monetary authorities
  - F.2. Government debt to monetary authorities
  - K.23.3. Enterprise debt to monetary authorities
- 13.2. Deposit money banks
  - F.3. Government debt to deposit money banks
  - K.23.4. Enterprise debt to deposit money banks
- 13.3. Other domestic debt
  - F.4. Government other domestic debt
    - F.4.2. Less: Government debt to nonfinancial public enterprises
  - F.5. Government domestic debt, adjustments for valuation differences
  - K.23.5. Enterprise other domestic debt
- 14. Foreign debt (excluding equity and trade payables)
  - F.III. Government foreign debt
  - K.24 Enterprise foreign debt
- 14.1. International development institutions
  - F.6. Government debt to international development institutions
  - K.24.1. Enterprise debt to international development institutions
- 14.2. Foreign governments
  - F.7. Government debt to foreign governments
  - K.24.2. Enterprise debt to foreign governments
- 14.3. Bank loans and advances
  - F.8.1. Government debt for bank loans and advances abroad
  - K.24.3. Enterprise debt for bank loans and advances abroad
- 14.4. Supplier credits
  - F.8.2. Government debt for supplier credits abroad
  - K.24.4. Enterprise debt for supplier credits abroad
- 14.5. Other foreign debt
  - F.8.3. Government other foreign debt not elsewhere classified
  - F.9. Government foreign debt, adjustment for valuation differences
  - K.24.5. Enterprise other foreign debt