February 2005

Proposed Annex
The Public Sector
(Draft Annotated Outline/Concept Note)

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I. Introduction

1. Dividing the total economy into sectors enhances the usefulness of the accounts by grouping together institutional units with similar objectives, functions, and types of behavior. The sectors defined in chapter IV are based on the objectives, functions, and behaviors believed to be the most generally important for each type of unit. One advantage of accounts constructed by defining institutional units and grouping them into sectors is that analyses using a different group of institutional units can be undertaken while maintaining consistency with the basic System. That is, the relationship between the supplementary accounts and the basic System is well defined and the two sets of statistics can be easily reconciled.

2. Analysis of government macroeconomic policies and their effects on the total economy[1] is often most effective if based on the public sector, which consists of all institutional units of the general government sector as defined in chapter IV plus all resident public corporations, which are resident corporations controlled by units of the general government sector. Figure A.1 illustrates the relationship between the public sector and the sectors defined in chapter IV, with the public sector consisting of the units shaded and enclosed by the heavy line. The need to use the public sector rather than the general government sector depends on the importance of public corporations and the extent to which they are engaged in fulfilling government fiscal policies.

Figure A.1
The Public Sector and Its Relation to Other Institutional Sectors

General Government Sector	Financial Corporations Sector	Non-financial Corporations Sector	Non-profit Institutions Serving Households Sector	Households Sector
PUBLIC	PUBLIC	PUBLIC	PRIVATE	PRIVATE
	PRIVATE	PRIVATE		

3. Statistics on the public sector typically are useful for studies of total public debt, the effects of privatization, measures of the total resources controlled by public authorities, and analyzing the sustainability of government policies. Additional useful analyses could be conducted with statistics

[1] Fiscal analysis and public policy analysis are other general terms for this subject area.

for just public corporations, focusing on principal indicators and ratios in terms of the corporate sector and the whole economy.

4. An example of measuring the size of government is shown in Table A.1, which uses the data from Table 6.1 of chapter VI. For this example, it is assumed that public non-financial corporations are 10 percent of all non-financial corporations and public financial corporations are 15 percent of all financial corporations. The entries for the three components of the public sector are then combined into a single sector, and the numbers for the total public sector are converted to percentages of the total economy (both shown in the shaded columns on Table A.1). In this example, value added in the public sector equals 15 percent of gross domestic product.

5. A similar construction of the public sector balance sheet would provide information on public debt. In this and other cases, it will be important to have statistics net of intra-sector debt or other intra-sector transactions. Eliminating transactions between units of the same sector and asset/liability positions held by units of the same sector is known as consolidation. The result is a set of accounts as if the units within the sector were a single unit. The general practice of the SNA is to aggregate rather than consolidate transactions, partly because unconsolidated data usually can be consolidated easily but consolidated data cannot be deconsolidated. For supplementary analyses, this consideration is not a factor. In particular, analysis of the effects of government policies and the relationship of the public sector to the total economy are often more meaningful if the statistics are consolidated.

6. An additional consideration for using the public sector for the analysis of government macroeconomic policies results from the fact that all corporations are owned by other units, and the net effect of a corporation's activities is reflected in the accounts of its owners. When the government is the only owner of a public corporation, and transactions between a corporation and its government owner have characteristics of internal reallocations of funds that do not affect the economic status of the two units considered together. For example, a subsidy paid to a public corporation is a use (decrease in economic value) for the government, but an offsetting resource (increase in economic value) for the public corporation and an increase in the government's value of equity ownership in the corporation, which leaves the joint economic status of the two units unchanged. The invariability of results when a government and a public corporation are considered together is not true when the two units are considered separately, and some balancing items take on a degree of arbitrariness unless both units are grouped in the same sector, as is done with the public sector.

7. Control is a key but difficult criterion for defining the public sector because a corporation can be expected to assist in fulfilling a government's objectives only if it is controlled by that government, where control is defined as the ability to determine the general corporate policy by appointing appropriate directors, if necessary. The Task Force on the Harmonization of Public Sector Accounting is studying the definition of control and any revisions to the existing definition will be incorporated in this annex as well as in chapter IV. For example, a public corporation might carry out a government's fiscal policy by selling its output at less than its cost of production, by employing more employees than necessary, or by paying a dividend that is not prudent. In return, the controlling government might provide subsidies and increased equity funds to the public corporation.

Table A.1. Public sector production account

Uses: Public sector as Percent of total economy	S.1 Total economy	S.14 and S.15 Other private economy	Total public sector	S.13 General govern-ment	Public finan-cial corpo-rations	S.12 Finan-cial corpo-rations	S.11001 Public non-finan-cial corpo-rations	S.11 Non-finan-cial corpo-rations	Transactions and balancing items		Resources: S.11 Non-finan-cial corpo-rations	S.11001 Public non-finan-cial corpo-rations	S.12 Finan-cial corpo-rations	Public finan-cial corpo-rations	S.13 General govern-ment	Total public sector	S.14 and S.15 Other private economy	S.1 Total economy
									P.1	Output 1/	1,753	175	102	15	440	631	1,309	3,604
									P.11	Market output	1,722	172	102	15	80	268	1,153	3,057
									P.12	Output for own final use	31	3	0	0	0	3	140	171
									P.13	Other non-market output					360	360	16	376
18%	1,883	703	346	252	4	29	90	899	P.2	Intermediate consumption								
									D.21-D.31	Taxes less subsidies on products 1							133	133
15%	1,854	606	284	188	11	73	85	854	B.1g/B.1*g	Value added, gross/ gross domestic product 2/								
20%	222	45	45	30	2	10	14	137	K.1	Consumption of fixed capital								
15%	1,632	561	239	158	9	63	72	717	B.1n/B.1*n	*Value added, net/ net domestic proc*								

1/ For the valuation of output and the resulting contents of the items "Taxes on products" and "Subsidies on products", refer to chapter VI, paragraphs 6.210 to 6.227.
2/ For the total economy this item corresponds to gross domestic product, net domestic product respectively. It is equal to the value added of the institutional sectors plus taxes less subsidies on products.

8. Because governments are responsible for the resources employed by public corporations and the results obtained from their use, statistics for the public sector are also a means of demonstrating accountability to the public. Indeed, the formulation and implementation of a government's fiscal policy and its results as reflected in statistics for the public sector is the primary measure of accountability. For this purpose, however, a slightly different presentation of economic events is preferred to the presentation in the sequence of accounts for institutional sectors as presented in chapters VI through XIII of the SNA. This modified set of accounts is presented at the end of this annex.

9. The remainder of this annex first defines the public sector and its sub-sectors and describes several aspects of institutional units important for the public sector. It then describes the accounting rules particularly important for the public sector in general and for some of the specialized activities unique or most common in the public sector. The annex then describes a set of accounts designed for fiscal analysis and the coverage of each entry in those accounts. The annex concludes with a description of the relationship between these public sector accounts and the closely related accounts of the *Government Finance Statistics Manual 2001*. In this draft of the annotated outline, an additional section is added with the title, Additional Topics. The topics mentioned there are expected to be adequately described in the chapters of the SNA. Hence, they will be retained and included in the annex only to the extent that they are not included in the relevant chapters.

10. As with all applications of the System,[2] flexibility is necessary for public policy analysis. In this instance, flexibility is expressed in the units selected, the accounting rules followed, and the structure of the accounts: For example, the units included in any specific instance will depend on the institutional structure of the governments in a country; the number, size, and types of public corporations; and the quasi-fiscal activities they are deemed to be engaging in.

II. THE COMPOSITION OF THE PUBLIC SECTOR

11. The public sector includes all units of the general government sector plus all resident public financial and non-financial corporations. The general government sector consists of all resident government units, including social security funds, and non-profit institutions controlled and mainly financed by government units. The objectives, functions, and behavior of public corporations differ from general government units primarily because corporations are market producers financing their productive activities by charging economically significant prices and general government units are non-market producers financing their productive activities by taxation or transfers from other general government units. All units of the public sector, however, can be considered to be carrying out the fiscal policies of government.

A. Sub-Sectors of the Public Sector

12. As described in the introduction, statistics for the entire public sector and the general government sector are relevant for analysis of government policies and their impact on the total economy. It is also likely that various sub-sectors of the public sector will be relevant. This section will describe the various possible sub-sectors and the ones thought to be most relevant.

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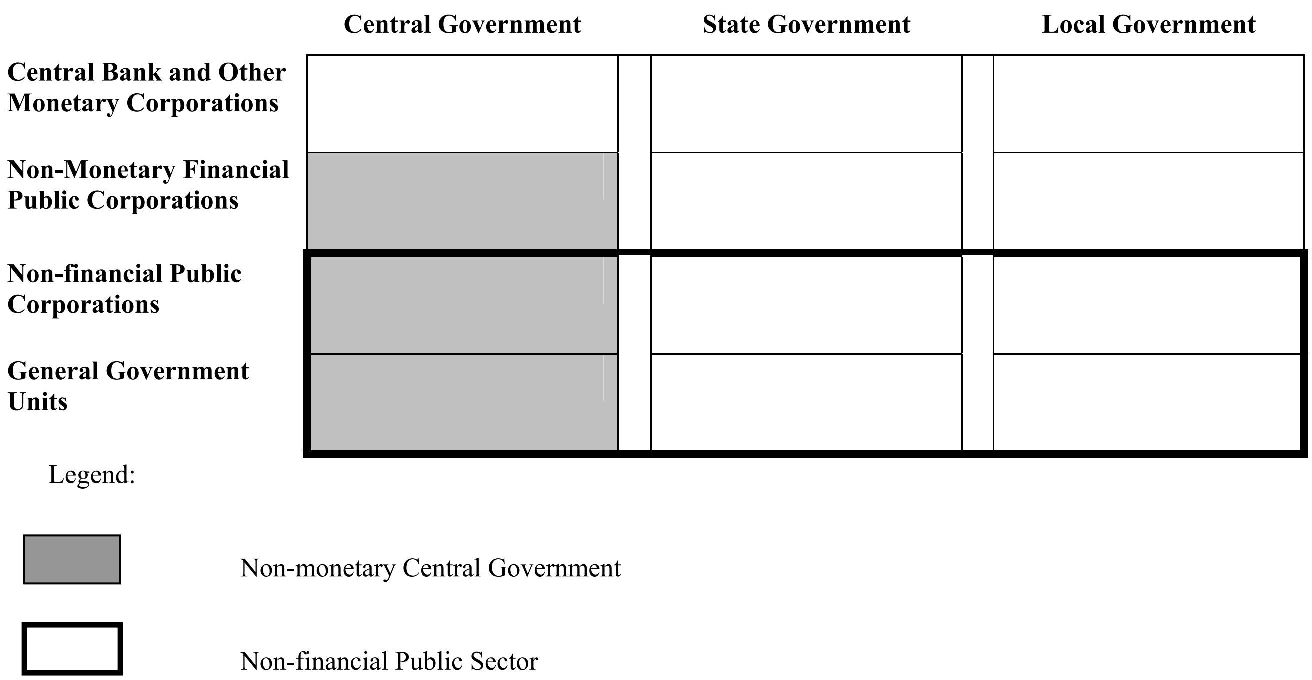
[2] The term, "the System," is used as it is in the SNA to represent the core accounts of the current SNA.

13. The units in the public sector can be combined in numerous ways depending on the specific analytical need. There are essentially two dimensions involved. First, governments are classified as being at the central, state, or local level.[3] Second, the types of units in the public sector are classified as general government units (including non-profit institutions controlled and mainly financed by government), non-financial corporations, and financial corporations. The two dimensions can be combined to create numerous sub-sectors. Figure A.2 illustrates two of these combinations. The units in the shaded area represent the non-monetary central government and the units enclosed in the thick line represent the non-financial public sector.

Figure A.2

Sub-sectors of the Public Sector



14. Some of the sub-sectors that will be described in this section will be the non-financial public sub-sector; the public financial corporations sub-sector, divided into monetary and non-monetary corporations; and the central, state, and local public sectors.

15. Although statistics in the System are aggregated rather than consolidated, analysis of the public sector is often facilitated if the statistics are consolidated. Consolidation is discussed later in the annex, but this section will mention that the amount of consolidation is affected by the sub-sectors used when compiling the statistics.

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[3] There is an option in the SNA to treat the aggregate of all social security funds as a separate level of government. It is omitted here to simplify the presentation, but will be acknowledged in the annex as necessary.

B. Identification and Classification of Institutional Units

16. Even when it is clear that a unit is in the public sector, the sub-sector of the public sector to which it belongs may not be clear, and the choice may have a material effect on the analytical use of the statistics. This section will identify and provide guidance on borderline cases to the extent that they are not described in sufficient detail in the relevant chapters.

17. A quasi-corporation is an exception to the formal definition of an institutional unit because it is not a legal entity that can take decisions for which it is held responsible at law. If a public quasi-corporation is recognized, it becomes a public corporation. If it is not recognized, it remains part of a government unit. Thus, the composition of the public sector is directly affected by decisions to recognize or not recognize public quasi-corporations.

18. An exception to the definition of an institutional unit is made for quasi-corporations in government to improve the analytical power of the accounts by minimizing the amount of market production in the general government sector. In addition to the general requirements to be a quasi-corporation, the management of a public quasi-corporation must have considerable discretion not only with respect to the management of the production process but also the use of funds. Public quasi-corporations also must be able to maintain their own working balances and business credit and be able to finance some or all of their capital formation out of their own savings, depreciation reserves, or borrowing.

19. The central bank is identified in chapter IV as a public financial corporation. Because of its centrality to monetary policy and the need to analyze monetary and fiscal policy separately, it may be necessary to exclude the central bank from the public sector or to form a sub-sector consisting only of the central bank and any other institutional units performing monetary authority-type functions.

C. Control

20. Control of a corporation is determined by the ability of an institutional unit to determine the overall direction and operations of the corporation. Frequently, government control of corporations is undisputed because it owns all or a majority of the shares issued by the corporation or special legislation entitles the government to appoint a majority of the directors. In other cases, the degree of government control is not clear, and the guidance in the SNA is too general to interpret easily. A major goal of the Task Force is to clarify the concept of control.

21. Governments may enter into cooperative arrangements with private corporations to accomplish specific tasks. A special purpose vehicle (SPV) is one type of cooperative arrangement. Another type is a joint venture in which a separate institutional unit is created with the government and the private unit each owning 50 percent of the equity. In both cases, it may not be clear who controls the unit.

22. Non-market NPIs are included in the general government sector if they are controlled and mainly financed by government units, but it is not clear what is meant by the expression controlled and mainly financed. As a part of the clarification of the meaning of control, the Task Force will either clarify the meaning of controlled and mainly financed or will propose a change to the SNA criterion for inclusion in the general government sector.

23. A unit that is controlled by another unit appears to be the opposite of a unit that has autonomy, but the definition of an institutional unit is often interpreted as meaning that a unit has autonomy of decision. Autonomy of decision refers to the legal responsibility for decisions. An institutional unit is responsible for its decisions in the sense that it is legally able to sign a contract or be sued in court to enforce a contract. Legal responsibility for a decision is quite different from being able to make a

decision independent of the influence of any other unit, which is the more general sense of autonomy. Thus, if a government unit controls a public corporation, the government unit can impose its will on the decisions of the corporation, but a third party seeking to enforce a contract would have to bring legal action against the corporation, not the government unit. Thus, a controlled corporation cannot make decisions autonomously, but it is legally responsible for the decisions that are made.

24. There is similar confusion over the meaning of accountability. An institutional unit is accountable at law for its decisions, but if the unit is controlled by another unit, then the controlling unit is said to be accountable for the controlled unit. In other words, if a government unit controls a corporation, the government can determine the overall direction and operations of the corporation. As a result, the government unit is responsible for ensuring that the corporation's assets are used effectively and efficiently. Thus, the government unit is said to be accountable for the corporation, and the corporation is accountable at law for the consequences of its decisions. Assuming the government unit controls the corporation through equity ownership, the consequences of the corporation's decisions are reflected in the value of the equity owned by the government.

D. Economically Significant Prices

25. Government units are non-market producers and public corporations are market producers. Market producers are units that sell or otherwise distribute most of their output for economically significant prices. Prices are economically significant when they have a significant influence on the amounts the producers are willing to supply and on the amounts purchasers wish to buy.

26. In many cases, the difference between a government unit and a public corporation is clear because the unit does not charge anything for its output or charges prices that produce a market rate of return. In other cases, the difference is difficult to discern because the unit charges a price for all or most of its output but the prices are not sufficient to cover the costs of production. Thus, the interpretation of economically significant prices is crucial to the composition of the general government sector and the structure of the public sector. In particular, the identification of public quasi-corporations depends on the interpretation of economically significant prices.

27. The Task Force is attempting to develop more explicit guidance on how to interpret the definition of economically significant prices, and that guidance will be included in this section.

E. Residence

28. An institutional unit is a resident in a country when it has a centre of economic interest in the economic territory of that country. The economic territory of a country consists of the geographic territory administered by a government within which persons, goods, and capital circulate freely. Among other stipulations, it is stated in the SNA that the economic territory of a country includes "territorial enclaves in the rest of the world (clearly demarcated areas of land which are located in other countries and which are used by the government which owns or rents them for diplomatic, military, scientific or other purposes—embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, etc.—with the formal political agreement of the government of the country in which they are physically located). Goods or persons may move freely between a country and its territorial enclaves abroad, but become subject to control by the government of the country in which they are located if they move out of the enclave." This rule apparently is a reflection of the fact that a central government is sovereign throughout its area of authority, which includes its embassies, military bases, and similar facilities.

29. The general government agencies that are residents of an economy include all departments, establishments, and bodies of its central, state, and local governments located in its geographic territory and the embassies, consulates, military establishments, and other entities of its general government located elsewhere. Embassies, consulates, military establishments, and other entities of a foreign general government are to be considered as extraterritorial by the economy in which they are physically located. It appears that the intent of this provision is to treat all operating components of government units that happen to be located in a foreign country as if they were located in their own country. Embassies and military establishments clearly occupy and control access to well-defined parcels of land, and these parcels can be considered part of the economic territory of their own country. If the land is leased rather than owned, then a special institutional unit has to be created that is owned by a non-resident landowner. It is less obvious how to treat an office of the customs agency of the central government, a trade promotion office of a state government, or a tourist agency of a local government that only occupies a rented office in a multi-story office building in a foreign country.

30. In contrast to government units, the foreign affiliates or offices of resident corporations are all non-resident units. If necessary, quasi-corporations should be created to accomplish this treatment. Thus, the foreign sales office of a public financial corporation is a non-resident institutional unit. The criteria used to classify government entities as either government units or corporations affect the economic territory of a country and its measures of production.

31. An unusual situation arises when a government securitizes future tax receipts by establishing a SPV in a foreign country. The economic substance of the arrangement is that the government has borrowed using the future tax receipts as collateral. If the SPV were legally constituted in the economic territory of the borrowing government, it might be considered a general government agency or an ancillary corporation and included in the general government sector. If the SPV is in a foreign country, then it might be a non-resident financial corporation or a resident government unit.

III. General Accounting Rules

A. Valuation

32. In general, current market prices are used to value economic flows and stocks in the System. In a number of government transactions, however, market prices are not used by design or because they are not available. This section will discuss the treatment of these transactions.

33. Quasi-fiscal operations by public corporations are especially troublesome. Public corporations may carry out government operations at the behest of their controlling government units in a variety of forms. Most directly, a public corporation can engage in specific transactions to carry out a government operation, such as lending to particular parties at lower-than-market interest rates or selling electric power to selected customers at reduced rates. To the extent that a transfer element can be determined, the relevant transactions should be partitioned.

34. Governments also carry out their fiscal policies by lending funds or acquiring other financial assets issued by specific units as a means of extending aid to those units. Their purpose is not to earn a market rate of return or manage their liquidity. Such transactions should be examined for evidence of a hidden transfer payment. There may be no realistic possibility that a loan will be repaid, or equity may be acquired in a public corporation that has never earned a profit. Eurostat's *ESA95 manual on government deficit and debt* discuses these types of policy-related financial operations, and the guidance from there and elsewhere will be summarized here.

B. Consolidation

35. The general practice of the SNA is to aggregate rather than consolidate transactions. Government units can be expected to be large, complex units with many establishments, many of which deliver their output to other government establishments. According to the general guidance in the SNA, the output of each establishment in an institutional unit and its intermediate consumption by the other establishments in the same unit should be included in the accounts. According to chapter V, however, the treatment in government depends on whether goods or services are produced. When a government agency supplies goods to other government agencies it must be treated as a separate establishment. Examples are the production of munitions or weapons, printed documents or stationery, and roads or other structures. The situation of government agencies supplying supporting services, such as transport pools and computing departments, to other government agencies is less clear. Normally it will be appropriate to treat them as ancillary activities whose costs are to be distributed proportionally over the various establishments they serve. Exceptions to this general principle may be permitted in the case of very large specialized agencies serving central government as a whole--for example, a very large computer or communications agency--which may be so large that it is appropriate to treat it as a separate establishment.

36. In practice, it is likely that all intra-government transactions are consolidated. Certainly for the purpose of analyzing the public sector, consolidation is preferred. For example, the ratio of public debt to GDP probably should be computed after intra-sector debt has been consolidated. A recent IMF paper on consolidation can be used to supply information for this topic.[4]

C. "Debt operations of the general government and public entities"

37. The term debt is not currently defined in the SNA but it is used extensively. Because ratios of public debt to GDP are important, debt should be defined. Related to this topic, the Balance of Payments Committee is considering a recommendation to classify financial instruments as debt, equity, and other. Some questions concern the classification of currency, financial derivatives, other accounts payable, financial leases, and insurance technical reserves.

38. The recently published *External Debt Statistics* discusses debt in some detail, including the statistical treatment of various types of debt operations. Many of these types of operations are engaged in exclusively or predominantly by the public sector. Some of these operations are discussed in the SNA, but others are not. To the extent that the relevant chapters of the SNA do not provide adequate explanations, guidance should be included here. Some of the topics should be:

> Debt assumption. A new debtor replaces the previous debtor with or without compensation by the previous debtor. If there is no compensation and the previous debtor is a public corporation, is there a capital transfer or an acquisition of equity? If the previous debtor is a quasi-corporation, must the transaction be an acquisition of equity rather than a capital transfer because there is a unity of wealth between the two units? If the previous debtor is to be privatized, must the transaction be an

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[4] *Consolidation of the General Government Sector*, available at http://www.imf.org/external/pubs/ft/gfs/manual/pdf/consol.pdf.

acquisition of equity because the immediate impact on government will be an increase in the value of the equities owned which will then be sold?

Debt cancellation. A debt is eliminated by agreement between creditor and debtor. Generally, this transaction will be a capital transfer, but could it be an acquisition of equity, especially if the debtor is a quasi-corporation?

Debt write off. It has been suggested that a government can write off a debt of a public corporation only if the corporation has been liquidated. Otherwise it must be a debt cancellation.

Debt guarantees. In the current SNA, all government debt guarantees are contingencies. The activation of a guarantee will generally be a capital transfer by the government to the defaulting unit, but it is possible that the government will acquire a viable claim against the defaulting unit. Another possibility is to vary the treatment of guarantees depending on the probability that they will be called. If the government issues many guarantees and it is clear that some estimable percentage will be called, a capital transfer could be recorded when the guarantees are issued. The balance of payments committee is developing guidance on this topic.

Debt rescheduling. The guidance for debt rescheduling probably needs to be quite general because there are many possibilities. Usually there is a change in the terms of the debt and a cancellation of part of it. This issue interacts with loans at concessional rates in order to determine the value of the debt before and after a change in its terms, which could include a grace period for any payments, an extension of its maturity date, or a change in its interest rate. If the interest rate used is the contractual rate, then a change in the interest rate will lead to a change in the amount of the loan, which may require a capital transfer.

Debt for equity swaps. The primary issue is whether the equity received has the same value as the debt cancelled. There may be an intention to cancel part of the debt or, if the debt is a loan, there may be an artificial holding loss because the nominal value of the loan was greater than its market value.

Defeasance. These operations usually involve the pairing of government assets and liabilities and the creation of a trust or other type of SPV to own and manage the assets and use them to pay the liabilities as they come due. This topic will interact with the SPV topic, as the principal question is whether the trust or SPV is a separate institutional unit.

Debt in arrears. The application of accrual principles to debt in arrears is being investigated by the Balance of Payments Committee.

IV. Specialized Activities of Government and Other Public Sector

A. Reinvested Earnings of Public Corporations

39. There are two methods of treating the impact of a corporation's earnings on its owners. In the first method, earnings are only distributed when the corporation pays a dividend to its owners. Before

the dividend payment, the accrued, undistributed earnings of the corporation increase the corporation's net assets and that increased value is reflected in a positive revaluation of the price of its shares.[5] When a dividend is paid, it is treated as property income receivable by the shareholder and property income payable by the corporation. The price of the shares will decrease by an amount corresponding to the dividend, and that decrease is treated as a revaluation. In the second method, the treatment of the dividend payments in the first method is followed and, in addition, the undistributed earnings are treated as if they were distributed as a dividend and then immediately reinvested in additional shares. Because there is no change in the value of the shares resulting from this imputation, the post-dividend revaluation is not necessary. The net worth of the owners of the corporation is the same with both methods, but certain balances in the System differ because a dividend is a transaction and a revaluation is a non-transaction economic flow.

40. In the System, the first method is used except for shares held by non-resident direct foreign investors. In that case, it is assumed that the payment of dividends is at the discretion of the owners rather than the corporation and that the implicit reinvestment is a deliberate decision of the owners.

41. The Task Force is studying whether the reinvested earnings method should be extended to public corporations. It is potentially applicable to public corporations because they are controlled by their owners as much or more than direct foreign investment enterprises and there is ample evidence of arbitrary decisions about the amounts and regularity of dividends.[6] The subject could be analytically important because balancing items are affected when the public corporations and owning government units are in different sectors.

42. If the Task Force recommends extending the reinvested earning approach to public corporations, the principal explanation should be in chapter VII, but some repetition or elaboration may be appropriate here. It is also more likely that a public corporation will incur losses than a foreign direct investment enterprise. Presumably the treatment of losses will be the opposite of profits, but is should be made explicit, especially in the case of negative net worth.

B. Other Transactions between Government Units and Public Corporations

43. Government units and their public corporations engage in a variety of transactions whose economic substance may not be clear or may not be the same as the legal form of the transaction because the two parties are not dealing at arms length. The chapters of the SNA deal with most transactions as if they take place under market conditions between unrelated parties. Hence, this annex will be the primary place to provide guidance on transactions between government units and public corporations. The *ESA95 manual on government deficit and debt* discuses extensively many of these transactions and will be used as a base of guidance.

1. Taxes versus withdrawal of equity

44. In most cases, it is clear what a tax is, and that a public corporation engaging in transactions similar to private corporations is obligated to pay the same types of taxes. In some cases, transactions

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[5] If the shares are traded on a market, the price may change for other reasons as well.

[6] Governments often own all of the equity of a public corporation, but one hundred percent ownership is not necessary for control. For foreign direct investment, the criterion is only 20 percent.

are initiated by the controlling government but executed by the public corporation, and these transactions result in one-time payments to the government in the legal form of a tax. Such payments may be better classified as a withdrawal of equity.

2. Dividends versus withdrawals of equity

45. Dividends are intended to be regular payments by corporations to their owners based on the amount of the corporation's current earnings, although smoothing of dividend payments over a corporation's earning cycle is permitted. Large, one-time payments related to privatization, other sales of assets, revaluations of assets and/or liabilities, or undistributed earnings accumulated over several years are withdrawals of equity rather than dividends, even if they are designated as dividends.

46. The dividing line between dividends and withdrawals of equity is not clear. Public corporations can be compelled by their government owners to pay dividends on an irregular basis in highly variable amounts that do not reflect the current earnings of the corporation. Such payments may be based more on the current liquidity needs of the government. On the other hand, a corporation may have legitimate reasons for not paying regular dividends for an extended period despite substantial current earnings and then paying a lump-sum dividend based on the earnings over that entire period. Such a payment would be treated as a withdrawal of equity under the current SNA guidance. In addition, depending on the normal activities of a public financial corporation, it might pay regular dividends that are partly based on realized holding gains resulting from its normal business.

47. If the government is the sole owner of a corporation, as is often the case, it may compel the public corporation to make in kind transfers of non-financial assets to the government. Treating such transactions as withdrawals of equity is a natural choice, but treatment as a non-transaction reclassification of assets has also been suggested.

48. The treatment as a dividend or a withdrawal of equity matters because dividends affect saving, the gross and net operating balances, and net borrowing/lending but withdrawals of equity do not affect those balancing items when statistics are compiled for the general government sector. Thus, governments can manipulate these balancing items if they have profitable pubic corporations. When consolidated statistics are compiled for the public sector, then those balancing items are not affected with either treatment.

3. Acquisitions of equity, capital transfers, and subsidies

49. A government payment to a public corporation could be a subsidy, an acquisition of equity (also referred to as an equity or capital injection), or a capital transfer. Subsidies generally are regular payments to a producer with the intention of lowering the market price of the producer's output or increasing its operating surplus. Ideally, a subsidy is payable to private corporations on the same basis as to public corporations, but it can be paid only to public corporations. Acquisitions of equity generally are irregular payments that increase the government's ownership of the corporation and provide funds for any use at the discretion of the corporation. A capital transfer is a payment that may be restricted to the acquisition of assets or may be for any use at the discretion of the corporation. If differs from an acquisition of equity in that it does not imply an increase in the ownership share of the donor and does not have to be given by a shareholder. When paid by a government unit to a wholly owned public corporation, all three types of transactions are similar in that they increase the value of the government's equity by exactly the same amount and the government's ownership share (100 percent) is unchanged, but the effects on various balancing items differ. Again, if accounts for the

public sector are compiled there is no effect on the balancing items because both units are in the same sector.

50. Investment grants are one type of capital transfer. Ideally, they should be available to private corporations on equal standing with the public corporation, but they may be paid only to public corporations. Generally, they should be conditional on the corporation's acquisition of non-financial assets rather than intended to reduce the market price of current output or the corporation's current earnings, but that difference may be difficult to detect.

51. In-kind transfers of non-financial assets might be investment grants or acquisitions of equity. Transfers as part of the formation of a new corporation or quasi-corporation generally will be acquisitions of equity.

52. The differences between subsidies, investment grants, and acquisitions of equity are easier to define if the government unit does not own all of the equity of the corporation. If a government owns only part of the equity, then an acquisition of equity should increase the percentage of the corporation's equity owned by the government, but a subsidy or an investment grant should not change that percentage.

53. Other capital transfers are possible for compensation for damages, payments to cover accumulated losses, and cancellation of debts. Compensation for damages should be identifiable. Payments to cover accumulated losses and cancellation of debt could be acquisitions of equity or capital transfers

54. Additional guidance should be provided about lending for public policy purposes. Such loans should be recorded as loans unless it is to a loss-making corporation that is unlikely to be able to repay the loan, in which case it is a capital transfer. If treated as loans, a separate classification as a type of loan may be appropriate. The characteristics by which policy-related loans can be identified would need to be included.

55. If bonds issued by a public corporation are purchased exclusively by the controlling government and are issued by a loss-making corporation, then there may be no reasonable expectation of repayment. If so, they should be treated as a capital transfer. A similar treatment is recommended for guarantees of corporate bonds that are almost certain to be called.

4. Privatization operations and the treatment of holding corporations

56. Privatization generally concerns transactions between government units and private units involving assets of public corporations rather than transactions between governments and public corporations, but public corporations may be involved. Privatization is not well defined beyond an action that results in assets moving from public to private ownership. Thus, one task is to provide a better definition of privatization or a better classification of the types of privatization.

57. In the easiest from, a government owns shares of a public corporation and sells them to the general public. Such a sale would be a purely financial transaction. Other possibilities are sales of shares in a private corporation, sales of individual non-financial assets, and sales of complexes of primarily non-financial assets that form a new corporation after being sold. In the latter case, a reclassification of assets and the formation of a quasi-corporation might be required.

58. In some cases, a government forms a holding corporation, which owns, in turn, the shares of public corporations. The purpose of the holding corporation might be to privatize its subsidiaries or it might be to supervise the operations of its subsidiaries on a continuing basis. In the former case, it is likely that the holding corporation will transfer most of the funds resulting from its sale of shares to

the government. The status of the holding corporation as a government unit or a public corporation and the treatment of the payments resulting from the sales need to be specified. Treatment of the payments as a withdrawal of equity is most likely, but the legal form of the payments is often a dividend or a tax.

59. If the holding corporation uses the profits earned by one subsidiary to subsidize the operations of a second subsidiary, it has been suggested that the subsidies should be rerouted through general government. Similar reasons would lead investment grants also to be rerouted.

5. Mergers and spin-offs of government units and public corporations and reclassifications between government units and public corporations

60. A component of a government unit might begin to sell its output for economically significant prices or scattered components selling their output at economically significant prices might be reorganized into a single, more independent organizational component. In both cases, it might be appropriate to form a quasi-corporation. Alternatively, a public corporation can cease selling its output for economically significant prices or be merged with a larger government unit and it should be reclassified as a government unit. Generally, a non-transaction reclassification of assets will be used.

61. More difficult is the case of a separate legal unit that sells its output for prices, but the assessment of those prices changes on an annual basis between economically significant and not economically significant. Some guidance needs to be provided about how often and in what conditions such a unit should be reclassified from a public corporation to a government unit or vice-versa.

6. Transactions with the central bank[7]

62. Transactions between government units and the central bank are particularly troublesome and need elaboration. There may be regular payments of current earnings that should be treated as dividends, but there may also be one-time payments resulting from sales of foreign reserves or unrealized revaluations of foreign reserves. Given that sales and revaluations are part of the bank's normal business, should these payments be withdrawals of equity or dividends? When there is an upward revaluation of foreign reserves but no payment to the government, should the change in total equity be a revaluation or reinvested earnings?

63. When the central bank operations adversely affect its viability, the government may need to recapitalize the bank. If government bonds are issued with the bank receiving the proceeds, is the transaction an acquisition of equity or a capital transfer?

64. The central bank may undertake quasi-fiscal operations on behalf of the government by lending at favorable rates. Should operations clearly undertaken on a non-commercial basis be treated as a subsidy from the government, an acquisition of equity, a capital transfer, or a revaluation? Should central bank quasi-fiscal loans be partitioned to show a transfer payment?

[7] References to the central bank include other institutional units that perform monetary authority-type functions.

C. Public-Private Partnerships

65. A public-private partnership (PPP) is a long-term agreement between a government unit and a corporation that obligates the corporation to acquire one or more major non-financial assets using its own financial resources and then to use those assets to produce and deliver services, or exceptionally goods, either to the government in exchange for agreed levels of compensation or to the public on behalf of the government in exchange for the right to attempt to obtain compensation from the public. There is a wide variety of PPPs covered by this definition, both in the scope of the activities involved and in the financial arrangements. A crucial element in all PPPs is the stipulations about the disposition of the non-financial assets at the end of the contract, which can range from being transferred to government legal ownership without any direct compensation to being retained by the corporation for any use it may choose. As reflected by the name "public-private partnerships," the corporation will be, in most cases, a private corporation, but it could be a public corporation, a SPV, or a joint venture with mixed public and private ownership.

66. The Canberra II group is developing guidance of the treatment to be applied to PPPs, and that guidance will be reproduced here. That guidance is likely to be developed as a series of questions and answers. The first question is to determine which unit is the economic owner of the non-financial assets. The answer depends of which unit is bearing the majority of a complex variety of risks.

67. If the corporation is the economic owner, there is a set of questions about the treatment of the transactions resulting from the contract. If the assets are transferred to government ownership at the end of the contract or sold at a bargain price, then is there a transfer payment involved or did the government pay a market price and part of the payment was included in other transactions? If the government is deemed to have paid a market price, then the prices of the services sold to the government or to the public must be adjusted in some manner.

68. If the government is the economic owner at the beginning of the contract, then how was the purchase transaction accomplished. In most cases, a finance lease will be imputed. Because the corporation is the actual user of the assets, an operating lease or other access arrangement must be imputed. Most likely, these two imputations will have implications for the prices of the services sold to the government or to the public.

D. Bailouts

69. It was earlier suggested that government transactions intended to transfer resources to other units might be structured legally as exchanges rather than transfers. If possible, such transactions should be partitioned. Government "bailouts" may involve combined exchanges and transfers or more explicit transfers. The operations are likely to involve highly publicized one-time transactions with large values and, therefore, are easier to identify. For example, a government might buy assets other than loans from financial institutions at a price higher than the market price or provide equity financing on exceptionally favorable terms. In principle, a capital transfer should be recognized.

70. Loans provide a particular problem. If a government purchases poor quality loans from a financial institution, there may not be justification for recording a capital transfer even though there clearly has been a transfer because loans are valued at their nominal values. The electronic discussion group on nonperforming loans may provide guidance that can be included here.

71. When a government acquires a large volume of assets from failing financial institutions, it may create a new legal entity to manage sales of assets. Guidance is needed on how to decide if this type of entity is a government unit or a public corporation.

E. Securitization

72. Securitization is neither defined nor covered well in the SNA but this type of operation has steadily increased in importance for government. Securitization usually involves the creation of a SPV and the transfer of something of value to the SPV. Questions concern the status of the SPV as a separate unit or an ancillary unit, whether the SPV is a corporation or a government unit, whether the SPV is publicly or privately controlled, whether the SPV has purchased assets from the government, whether the operation is a type of defeasance, and the residence of the SPV.

V. SUPPLEMENTARY ACCOUNTS FOR THE PUBLIC SECTOR

73. Statistics for the public sector can advantageously be presented within the same framework as the sequence of accounts for institutional sectors as presented in chapters VI through XII of the SNA. An example of this type of presentation is displayed in table A.1 of this annex. For specialized analysis of government macroeconomic policies and their impact on the total economy, however, a modified presentation of the same economic events is often preferred. A set of accounts for this type of presentation is shown in tables A.2 through A.6.[8]

74. In particular, measuring production, especially non-market production, is not important for this type of analysis. As a result, there is no separate production account. Separation of the stages of distribution of income is also less important and the various entries for this distribution of income can be shown in the same account. The focus in table A.2, the public sector operations account, is on revenue and expense rather than resources and uses, and some types of revenue, notably taxes, are combined into a single category of transactions rather than in several separate categories.

75. It is also advantageous to omit certain internal transactions. For example, the costs of producing fixed assets on own account are recorded in the System as uses in the production account and then recorded again as the acquisition of a fixed asset in the capital account. Because analysis of government policies does not require a measure of production, the statistics can be simplified by recording the production expenses only as capital transactions. Another major difference concerns output produced for non-market distribution. To record both its production and its disposition as a transfer or final consumption requires the same value to be recorded twice, similar to own-account capital formation. The second recording as consumption or a transfer payment can be avoided without loss for this type of analysis.

76. This section will describe the entries in tables A.2 through A.6 in various degrees of detail. For each category of transactions, other economic flows, stocks of assets and liabilities, and balancing items, four columns are provided in each table. The first column is for the general government sector. In many cases, the values entered here will be the same as for the general government sector in the sequence of accounts. The second column is for the aggregate of public corporations. The third column shows the total value of items that are to be eliminated in consolidation, and the fourth column shows the resulting total for the entire public sector. This presentation emphasizes the advantage of consolidated statistics described above and stresses the accountability of governments for the entire public sector.

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[8] For the actual publication, a complete worked example will be provided. For this outline, only the schematic tables are necessary.

77. If a category of flows or stocks is identical to the category with the same name in one of the chapters of the SNA, then a simple cross reference may be sufficient. If different accounting rules or coverage apply to a category or if there is a modified treatment because government is involved, then a more extended description will be provided. For this outline, there is little need to provide details, and only a rough outline follows. Some examples of subjects that will lead to detailed explanations are: differences in the treatment of production regarding the output of non-market goods and services and own-account capital formation; imputed sales of goods and services to employees, social benefits, transfers to other governments and international organizations, transfers to NPISHs and households to compensate for damage or settle insurance claims, the difference between intermediate consumption and the use of goods and services, FISIM, insurance services, goods purchased for resale, change in inventories of work in progress, finished goods, and goods for resale, strategic stocks, the classification of capital transfers as current transactions, and the classification of taxes.

A. The Public Sector Operations Account

78. The operations account includes the transactions that would normally be recorded in the production account, the generation of income account, the allocation of primary income account, the secondary distribution of income account, the use of income account, and the capital account, but with different treatments given to certain transactions to meet the needs of government macroeconomic policy analysis. The receipts side of the account (equivalent to the resource side of the current accounts in the system) includes all revenue transactions, which are defined as transactions that increase the net worth of the unit. The outlays side of the account (equivalent to the use side of the current accounts in the system) includes all expense transactions, which are defined as transactions that decreases net worth, and acquisitions less disposals of non-financial assets.

79. Revenue less outlays is equal to the operating balance. Because estimates of consumption of fixed capital may be exceptionally problematic, provision is allowed for expense to be recorded gross and net of consumption of fixed capital. Revenue less all expense other than consumption of fixed capital is defined as the gross operating balance. The gross operating balance less consumption of fixed capital is the net operating balance. The net operating balance less acquisitions less disposals of non-financial assets equals net lending/borrowing.

80. The combining of current and capital transactions in the same account causes the balancing item of revenue less expense to differ from saving, the corresponding balancing item in the System. This difference, and the need for it, needs to be explained and justified.

1. Revenue

81. Taxes in the System are allocated to various accounts depending of the role of the taxes in income and accumulation. In the public sector accounts, all taxes are collected in the same category of transactions. The classification of taxes is quite different from the classification in the System, and a cross-classification will be provided. Capital and current taxes are combined within the same category, illustrating a crucial difference between the public sector accounts and the accounts of the System.

82. Social contributions differ substantially from the System because only those contributions that do not lead to increases in liabilities are recorded here and all contributions are recorded in the System. One consequence is that the adjustment item for the change in net equity of households in pension funds is not required in the public sector accounts.

83. Transfer payments between governments are scattered in the main classification of transactions among current transfers within general government, current international cooperation, miscellaneous current transfers, investment grants, and other capital transfers. In this account, all of these transfers are combined and labeled grants. Grants received are particularly important for fiscal analysis because they represent revenue beyond the direct control of the receiving government.

84. Other revenue includes all property income receivable and all market sales. This section will require an explanation of the difference between sales and output and the consequences for using sales in the public sector accounts. The need for imputed sales of goods and services delivered to employees and certain other non-market deliveries of output that do not enter government final consumption will also be explained.

2. Expense

85. Compensation of employees is the same as in the System except that the amount associated with own-account capital formation is recorded only as the acquisition of a fixed asset. The same is true regarding the intermediate consumption and consumption of fixed capital associated with own-account capital formation. In order to maintain the same concept of compensation of employees as in the production account, the goods and services produced by the employer and provided to its employees as compensation are deemed to be sold to the employees with an equal amount imputed as compensation.

86. The item use of goods and services in the public sector account differs from intermediate consumption slightly because of own-account formation and the possible difference between sales and production of market output.

87. Property income payable is the same as in the allocation of primary income account except that no estimate of FISIM is made in the public sector account.

88. Subsidies are recorded as a use (outlay) in the public sector account. In the allocation of primary income account, they are recorded as a negative resource (receipt). Otherwise, the concepts are identical.

89. Grants payable correspond to grants receivable in concept, but the category is less important for fiscal analysis because grants payable are within the control of the unit. As with receipts, grants payable include capital as well as current grants.

90. Social benefits in the public sector account are quite different from the same category in the allocation of primary income account. In the public sector account, the payment of social benefits that were recognized as liabilities, primarily pensions, are not classified as social benefits. In addition, the value of any goods and services produced by the unit involved and distributed as a social benefit is recorded under the various production expense categories rather than as a social benefit.

91. Other expense, like grants payable, is a mixture of current and capital transfers.

3. Acquisitions less disposals of non-financial assets

92. This category of outlays corresponds closely with the left hand side of the capital account. It includes acquisitions less disposals of each category of non-financial asset. Disposals include consumption of fixed capital wherever relevant. Changes in inventories differs slightly from the capital account because strategic stocks are considered a separate category of inventories.

93. It is generally desirable to separate capital and current transactions and this separation is accomplished in the sequence of accounts for institutional sectors by means of the Capital Account in Chapter X and the Financial Account in Chapter XI. Here the separation is partially accomplished by placing the acquisitions and disposals of non-financial assets in a separate section and introducing a balancing item, the gross/net operating balance, excluding these transactions. The separation of capital and current transactions is not complete because, as is acknowledged in Chapter X, capital transfers receivable and payable by governments are more likely to be viewed as current transactions. As such, they are included in the various categories of revenue and expense.

B. The Public Sector Financial Account

94. The financial account includes the net acquisition of financial assets and the net incurrence of liabilities. The account differs from the financial account in chapter XI mainly in the classifications used. Here, financial assets and liabilities are classified first by the residence of the counterparty of the instrument (either domestic or foreign) and then by type of instrument using the same classification of instruments as in chapter XI. One impact of the residence criterion is that monetary gold and SDRs is a separate category not associated with residence because there is no counterparty. An additional, alternative classification of financial assets and liabilities by the residence and sector of the counterparty rather than by the type of instrument is also encouraged.

95. The same degree of netting as in chapter XI is suggested. That is, each category of financial assets and liabilities represents the net change in that category. Financial assets are not netted against liabilities of the same category.

1. Financial assets

96. In general, the same guidance for financial assets also applies to liabilities of the same category.

97. Privatization operations and transactions between government units and public corporations are likely to need particular care in compiling the net acquisition of financial assets.

98. Transactions in policy-related financial assets are particularly important for fiscal analysis. It is suggested that a sub-category be created for these assets whenever possible. These assets will be found primarily in loans, securities other than shares, and currency and deposits.

99. There is no category of international reserves, but governments are encouraged to report statistics on these assets. Either a sub-category can be created or a memorandum item can be added.

2. Liabilities

100. Arrears are important for some governments. A subcategory of each type of liability involving arrears is encouraged.

101. Debt is not an official category of liabilities. It is recommended above that a definition of debt be established. If successful, all liabilities could be classified as debt, equity, and other at a level after residence and before type of instrument.

102. Governments are more likely to be involved in complex debt operations, the treatment of which is described in the section on accounting rules. These operations may require exceptional attention.

C. The Public Sector Other Changes in Assets Accounts

103. These two accounts are virtually identical to the parallel accounts described in chapter XII. All entries in both accounts originate from sources other than transactions. There are two accounts, however, because revaluations are quite different sources of change than other changes in volume.

104. Both account records changes in assets and changes in liabilities from the two non-transaction sources separately.

1. The public sector revaluation account

105. Revaluations will be the same as in the account described in chapter XII unless a modified accounting rule implies a change. One possibility is the treatment of undistributed earnings of public corporations. If they are treated as being reinvested, then some revaluations will be eliminated.

106. A division of revaluations into neutral and real revaluations is encouraged in chapter XII. The same division is encouraged in the public sector account.

107. Revaluations in the equity of public corporations held by government units are likely to be particularly important and, at the same time, difficult to measure because it is unlikely that there will be any market prices.

2. The public sector other changes in volume of assets account

108. Other changes in the volume of assets should be identical to those described in chapter XII. There are no modified accounting rules that will affect these flows.

109. The classification of other changes in the volume of assets should be considered suggestive and should be implemented flexibly. Some categories might be quite important for a given country and others quite unimportant. The latter could be combined easily.

110. It is helpful to classify other changes in the volume of assets by type of asset and by type of event causing the change in volume. A full double classification would be difficult to display and a practical compromise is encouraged.

D. The Public Sector Assets and Liabilities Account

111. This account completes the sequence of public sector accounts and is completely integrated with the flow accounts. Otherwise known as the balance sheet, this account is presented as a set of three sub-accounts. The first sub-account is the balance sheet at the beginning of the accounting period. The second sub-account is a compilation of all changes in the stocks of assets and liabilities during the period, with all of the changes being recorded in one of the prior accounts. Thus, this sub-account can be derived as the sum of the relevant entries in the other accounts and is not independent of those accounts. The third sub-account is the balance sheet at the end of the accounting period. It is equal to, and can be derived from, the sum of the entries in the first two sub-accounts. That is, the stock of any given category of assets or liabilities at the end of the accounting period is equal to the stock at the beginning of the period and the change in that stock during the period.

112. The same definition of an economic asset is used in the public sector accounts as in the System. Hence, the total value of assets and liabilities should be identical and the classification of each should be identical. The importance of public debt, however, may suggest a slightly different presentation to indicate clearly which liabilities are considered debt and the total value of the outstanding debt.

113. In addition to the classification of assets described in chapter XIII, it may be useful to classify general government assets as being general-purpose assets, which are assets that are used much like any other unit might use them; heritage assets, such as historic monuments; and infrastructure assets, such as roads and communications facilities.

114. Other supplemental classifications were suggested for the other accounts and carryover to the balance sheet. For example, the division of liabilities into debt, equity, and other may be appropriate and the identification of policy-related financial assets and international reserves may be helpful.

VI. Relationship with Government Finance Statistics

115. The content of this section depends on how completely the government finance statistics system (GFS) is harmonized with the new SNA. In various places above, it was asserted that a certain category, classification, or total value should be identical to the same category, classification, or total value in the System. If the GFS system is not completely harmonized in this revision, some of those assertions may have to be revised.

116. This section may or may not be necessary. Its primary function is to relate the public sector accounts displayed in this annex with the "financial statements" used in the GFS system.

VII. Additional Topics

117. The following topics will be included only to the extent they are not included adequately elsewhere in the SNA. If any of these topics are included in the annex, they will be added to the relevant sections above rather than here. This section will not be necessary in the actual annex.

118. Social security funds are special types of government units that often require an exception of the definition of an institutional unit. They produce non-market output and, therefore remain within the general government sector. Their primary reason to recognize social security funds is that their activities often involve large financial flows that would obscure the nature of the other fiscal activities of government if both types of flows were combined in the same unit. Social security funds often will not satisfy the definition of an institutional unit because they will be a ministry or a department in a larger government unit and cannot incur liabilities or enter contracts on their own account. If the stocks and flows of at least the major social security schemes can be segregated into separate institutional units, then a social security sub-sector of the general government sector can be created.

119. The current guidance in the SNA does not suggest a need for making an exception to the definition of an institutional unit. Social security funds must be separately organized from the other activities of government units and hold their assets and liabilities separately from the latter. They must be autonomous funds with their own assets and liabilities and engage in financial transactions on their own account. It is likely that many government agencies managing social security schemes will not meet these requirements and, therefore, require an exception to be considered institutional units.

120. The majority of operations are normally financed by budgets approved by the legislature, and the organizations operating based on budgetary appropriations are referred to as budgetary institutions. Individual budgetary organizations are not likely to be institutional units, but it is likely that all budgetary organizations will be part of the same institutional unit. By definition, extra-budgetary organizations depend primarily on funds obtained outside of the central legislative budget, either from sales to customers or from the legal authority to levy and collect specialized taxes. Extra-

budgetary organizations are not necessarily institutional units, but they are quite likely operated independently of budgetary organizations and it would be possible to compile complete sets of accounts for them. Fiscal analysis often makes use of statistics budgetary organizations, extra-budgetary organizations, and social security funds.

121. An ancillary corporation is a wholly owned subsidiary corporation, whose productive activities are strictly confined to providing services to the parent corporation or other ancillary corporations owned by the same parent corporation. A productive activity is ancillary when its sole function is to produce one or more common types of services for intermediate consumption within the same enterprise. The kinds of services that may be produced by ancillary activities are transportation, purchasing, sales and marketing, various kinds of financial or business services, computing and communications, security, maintenance, and cleaning. These services are likely to be needed, to some extent or other, in most enterprises, whatever the nature of their principal activities.

122. There are many kinds of activities whose outputs are entirely consumed within the same enterprise but are not ancillary, such as producing machinery and equipment, constructing structures, and carrying out research and development for own use. These activities are not ancillary because they are not found frequently and extensively in all kinds of enterprises. Ancillary corporations are not treated as separate institutional units in the System. Neither the inputs into, nor the outputs from, ancillary activities are recorded separately from others consumed or produced by the principal or secondary productive activities. An ancillary corporation should be treated as an integral part of the parent and its accounts consolidated with those of the parent.

123. Government units may establish corporations or agencies with considerable independence to produce services that will be sold to other elements of the parent government unit. The goal is to encourage these organizations to act as if they were private corporations and to improve the efficiency of government operations. A corporation that produces munitions and sells all of its output to the relevant government units and a central borrowing authority that borrows on the market and lends only to government agencies on market terms are examples. These organizations could be treated as ancillary corporations or as quasi-corporations. The United Nations is conducting an electronic discussion group on this topic.

124. In their role as employers, government units and public corporations often establish autonomous funds to provide pensions and other social benefits to their employees. It is quite possible that the trustees or other managers of these funds will be government agencies or government employees and, therefore, the pension funds can be construed as being controlled by government. If so, the funds would be public financial corporations. The employees covered by the social insurance schemes have a claim against the assets of the fund that are intended to be used to pay the social benefits. The controlling government has a claim only on the physical assets—office buildings and equipment—that may be owned by the fund and any excess of the other assets of the fund over the liabilities of the fund.

125. Governments may be responsible for other autonomous funds on a fiduciary basis. That is, a government may manage a fund whose accounts are fully separated from other government accounts and the government has no claim on the assets of the fund. For example, a court may require a fund to be established to protect the interests of the parties of a lawsuit or a government may control funds required to be set aside by private enterprises and spent for specific purposes set out in special legislation or court orders. All of the assets of such a fund should be attributed to the beneficiaries of the fund.

126. Governments provide development assistance to other countries by lending funds at an interest rate that is intentionally less than the market interest rate for a loan with comparable risk. In general, *it is difficult for a statistician to determine the market interest rate of a loan and the SNA guidance is to accept the contractual rate as if it were the market rate. In the case of concessional development loans, the difference between the market rate and the contractual rate may be large and an estimate of the market rate may be available within acceptable error. In this case, the grant component of the loan could be calculated and treated as a transfer payment. This issue is being studied by the Balance of Payments Committee. The resolution will be included here.*

127. Another method of providing international assistance is through grants in kind, such as deliveries of food stocks. There are two valuation issues in these transactions. First, it is not clear what costs should be included, such as transportation to the foreign country, delivery costs within that country, the compensation of government employees to prepare the shipments or oversee their delivery, insurance, and so forth. Second, the prices of the goods being delivered, such as the food stocks, in the receiving country might be quite different from the prices in the donor country. In Government Finance Statistics Manual 2001, it is stated that the prices of the donor country should be used. If the Task Force accepts this or some alternative guidance, it will be included here.

128. Governments conduct their fiscal policy by means of a variety of transactions. One method of assisting private units is to purchase assets at prices that are above the market prices, selling assets at prices that are below their market prices, and purchasing current inputs for above-market prices. Usually it is not possible to determine the current market prices of these transactions and the transaction price must be accepted. If an acceptable estimate of the true market price is available, however, then it should be used and the difference in the actual and market prices should be treated as a transfer payment, similar to a loan at a concessional interest rate.

129. Many governments own historic monuments, national parks, and other heritage-type assets that have no market price. Any guidance developed on the valuation of these assets will be included here if it is not included elsewhere.

130. Loans are important liabilities for many governments and several topics related to loans are being investigated. Most topics should be included elsewhere in the SNA, such as chapter XI on the Financial Account. Any guidance not stated elsewhere will be included here. For example, loans generally are valued at their nominal value, but there is more than one definition of nominal value. How should nonperforming loans be valued by the debtor? High inflation and index-linked debts create problems in defining interest and revaluations.

John Pitzer

Table A.2: Public sector operations account

	General Government	Public Corporations	Consolidated Transactions	Consolidated Public Sector
Revenue				
Taxes				
Social contributions				
Grants				
Other revenue				
Expense, excluding consumption of fixed capital				
Compensation of employees				
Use of goods and services				
Property income				
Subsidies				
Grants				
Social benefits				
Other expense				
Gross operating balance				
Consumption of fixed capital				
Net operating balance				
Acquisitions less disposals of non-financial assets				
Net lending/borrowing				

Table A.3: Public sector financial account

	General Government	Public Corporations	Consolidated Transactions	Consolidated Public Sector
Changes in assets				
Net acquisition of financial assets				
Domestic				
Foreign				
Changes in liabilities and net worth				
Net incurrence of liabilities				
Domestic				
Foreign				
Net lending/borrowing				

Table A.4: Public sector revaluation account

	General Government	Public Corporations	Consolidated Transactions	Consolidated Public Sector
Changes in assets				
Non-financial assets				
Financial assets				
Changes in liabilities and net worth				
Liabilities				
Change in new worth due to holding gains/losses				

Table A.5: Public sector other changes in volume of assets account

	General Government	Public Corporations	Consolidated Transactions	Consolidated Public Sector
Changes in assets				
Non-financial assets				
Financial assets				
Changes in liabilities and net worth				
Liabilities				
Changes in net worth due to other changes in volume of assets				

Public sector balance sheet account

Table A.6.1: Opening balance sheet

	General Government	Public Corporations	Consolidated Transactions	Consolidated Public Sector
Assets				
Non-financial assets				
Financial assets				
Domestic				
Foreign				
Liabilities and net worth				
Liabilities				
Domestic				
Foreign				
Net worth				

Table A.6.2: Changes in balance sheet

	General Government	Public Corporations	Consolidated Transactions	Consolidated Public Sector
Changes in assets				
Net acquisition of non-financial assets				
Net acquisition of financial assets				
Domestic				
Foreign				
Changes in liabilities and net worth				
Net incurrence of liabilities				
Domestic				
Foreign				
Change in net worth				

Table A.6.3: Closing balance sheet

	General Government	Public Corporations	Consolidated Transactions	Consolidated Public Sector
Assets				
Non-financial assets				
Financial assets				
Domestic				
Foreign				
Liabilities and net worth				
Liabilities				
Domestic				
Foreign				
Net worth				