

APPENDIX 6. LINKAGES WITH OTHER MACROECONOMIC DATASETS

(This appendix is subject to change since the *GFSM 2001* is currently under review and revision)

Part C. Linkages of the International Accounts with the Government Finance Statistics

Introduction

1. The *Government Finance Statistics Manual (GFSM 2012)* describes an integrated macroeconomic statistical framework (the Government Finance Statistics (GFS)) designed specifically to support fiscal analysis. The manual provides the economic and statistical principles to be used in compiling the statistics and guidelines for the presentation of fiscal statistics within an integrated analytic framework that includes appropriate balancing items.¹
2. As a result of the conceptual interlinkages between these two data sets, compilers of the international accounts and GFS may be able to usefully consult with one another to ensure consistency in definitions, coverage, concepts, and accounting rules. Compilers may also be able to share source data², and to reconcile these estimates where they overlap.
3. This appendix summarizes important similarities and differences between the GFS and the balance of payments and international investment position (IIP) statistics. It also indicates how the data compiled for general government in the balance of payments and IIP could be reconciled with GFS. It does not list, however, all similarities and differences between the two datasets and should not be considered a comprehensive guide.

Coverage and accounting rules

4. Since the *GFSM 2012* is harmonized with the *2008 System of National Accounts (2008 SNA)*, it is also harmonized with other macroeconomic systems, including the *Balance of Payments and International Investment Position Manual*, sixth edition, (*BPM6*). In GFS total economy is divided into five mutually exclusive sectors (general government, financial corporations,³ nonfinancial corporations, households, and nonprofit institutions serving households). The units in each sector have similar objectives and these objectives are, in turn, different from those of units in other sectors. The international accounts use the same sectors and subsectors as the *2008 SNA* and GFS framework but with a different presentation to allow continuity with previous international classifications (such as the *Balance of Payments Manual*, fifth edition, (*BPM5*)). The international accounts have a shorter list of four main sectors:

¹ Balancing items summarize the net value of the activities covered by a set of accounting entries, such as the net operating balances which is the value of total revenue less total expense.

² For the selection of data sources for the compilation of GFS, see the *Government Finance Statistics-Compilation Guide for Developing Countries* (IMF 2011) at <http://www.imf.org/external/data.htm#guide>.

³ Financial corporations include subsectors for the central bank, deposit-taking corporations and other financial corporations, while the GFS framework also recommends that subsectors for public corporations be identified both in the financial and nonfinancial corporate sectors.

general government, central bank, deposit-taking corporations except the central bank, and other sectors⁴ (see Table 4.2 in the *BPM6* for the detailed classification of the institutional sectors) for economies in which it is not practical to implement the full classification. The general government sector⁵ follows the definitions of the SNA in the GFS and the international accounts. Compilers of both datasets should ensure that the actual coverage of the general government used in their statistics is identical.

5. Both frameworks can be described as the systematic recording and presentation of stock positions and flows, with flows comprising transactions and other economic flows. The accrual basis of recording is used and the valuation principle for debt securities is the current market value. Both uses the double-entry accounting system (i.e., each transaction is recorded as consisting of a debit and credit entry of equal value) and the sum of credit entries and the sum of the debit entries are the same.

6. Both GFS and the international accounts record revenue and expense on a gross basis; both record current and capital transactions on a gross basis; and both record transactions and other changes in financial assets and liabilities on net bases for each category of assets or liabilities. For dissemination purposes, GFS presents revenue (credits) and expense (debits) separately (i.e. in two different detailed tables), while in the international accounts, credits and debits are presented under the same respective categories. Stock positions of financial assets and liabilities are recorded on a gross basis in both datasets.

7. Consolidation is a method of presenting statistics for a set of units as if they constituted a single unit. Because the international accounts reflect transactions involving residents and nonresidents and external financial assets and liabilities, including other flows associated with them, consolidation is not relevant for international accounts of an individual economy. In GFS, consolidation is relevant and used for the preparation of statistics for the general government and its subsectors (central, regional, and local governments). General government units, by definition are resident units, therefore GFS consolidation principles would not affect the consistency in data between the two datasets.

Comparison of the structures of the GFS and the balance of payments and the IIP

8. The structure of the GFS framework is similar to the structure used in the balance of payments and IIP frameworks, and comprises: (1) *the statement of government operations* which records the results of all transactions during an accounting period; (2) *the statement of other economic flows* which summarizes changes in assets, liabilities, and net worth that have not been generated by transactions; and (3) *the balance sheet* which shows stock positions of

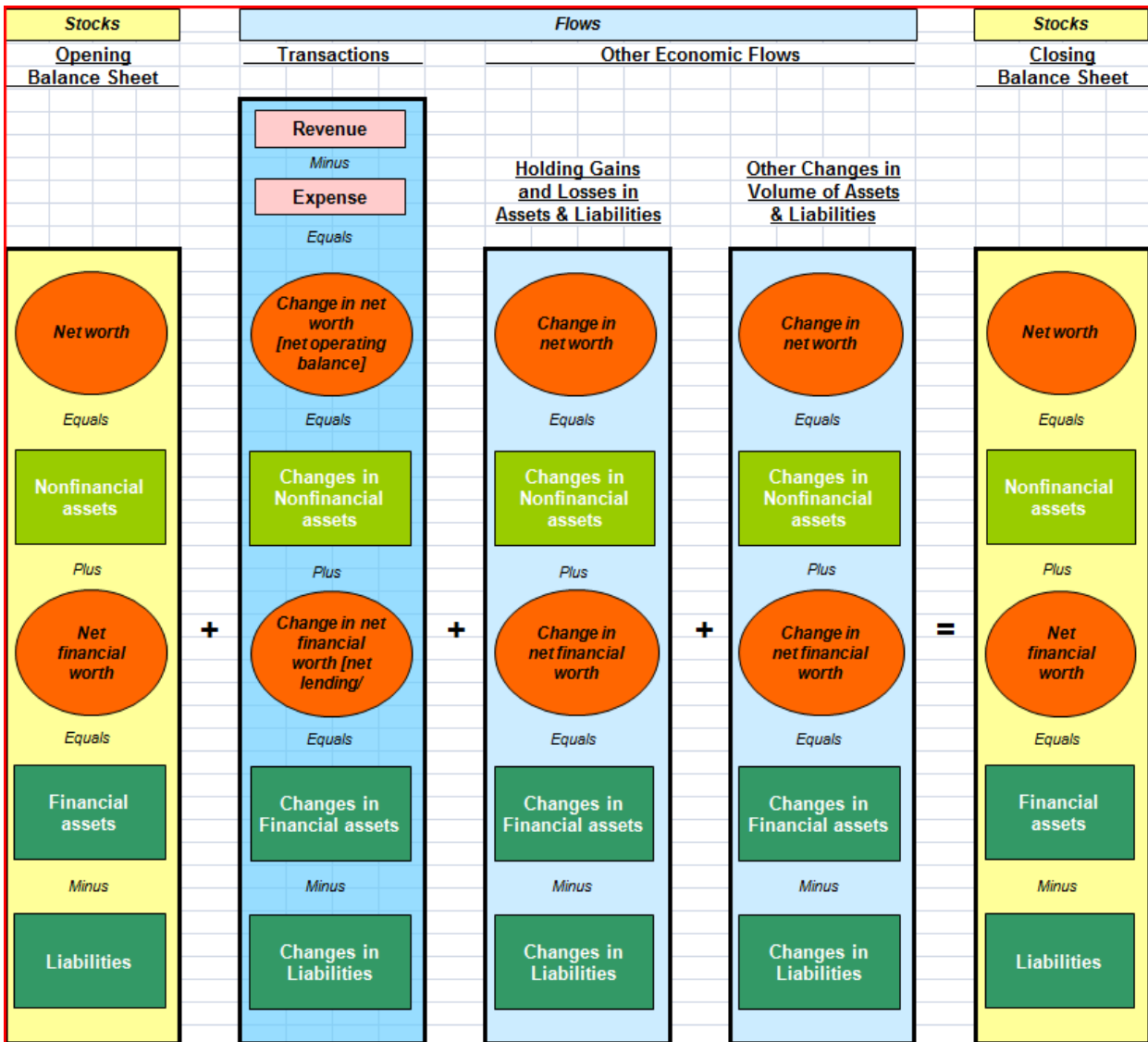
⁴ The “other sector” category in the international accounts includes both financial and nonfinancial sectors, so it is recommended that, at least, the other financial corporations be identified separately. The full institutional sector detail is required for international accounts to be fully integrated with monetary, flow of funds, and other financial data. Public corporations may be identified separately on a supplementary basis.

⁵ The general government sector consists of entities that fulfill the functions of government as their primary activity. Depending on the administrative and legal arrangements, there may be more than one level of government within an economy, and statistics should be compiled for each level. In GFS, provision is made for three levels of government: central, state/provincial/regional, and local. Social Security Funds are permitted to either be included in one of these levels or could constitute a separate level of government. Not all the countries will have all the levels of government. The international accounts identify general government, but it does not present data for the subsectors of the general government, as is the case in GFS.

financial and nonfinancial assets owned, stock positions of liabilities owed, and net worth, which is equal to the total value of all assets less the total value of all liabilities. As illustrated in Figure 1, the comprehensive treatment of transactions and other economic flows in GFS enables the opening and closing balance sheets to be fully integrated. That is, the stock position of a given type of asset or liability at the beginning of an accounting period plus the changes in that stock indicated by transactions and other economic flows equals the stock position at the end of the period.

9. The *GFSM 2012* framework generates a set of statistical statements, which if combined, demonstrate that all changes in the stock positions results from flows. This is similar to the accounting identity in the IIP that requires all changes in investment positions to result from transactions and other flows. In addition, the GFS framework includes a *statement of sources and uses of cash* to provide key information on liquidity. A similar statement is not prepared in the international accounts.

Figure 1: Government Finance Statistics Framework



A. The statement of government operations

10. *The statement of government operations is a summary of transactions of the general government sector in a given accounting period.* This statement presents three main categories of transactions (See Table A.6.1): (1) transactions affecting net worth that include details of transactions on *revenue* and *expense* (2) transactions in nonfinancial assets (*net acquisition of nonfinancial assets*);⁶ and (3) transactions in financial assets and liabilities (*net acquisition of financial assets*, and the *net incurrence of liabilities*). The *statement of operations* has similarities with the balance of payments, because both statements summarize transactions during a period. In the balance of payments, transactions are presented in a sequence of three accounts, the current, capital, and financial account. Each of them has several sub-accounts (goods and services, primary income, and secondary income in the current account; gross acquisitions/disposals of nonproduced nonfinancial assets and capital transfers in the capital account; and direct investment, portfolio investment, financial derivatives (other than reserves) and employee stock options, and other investment accounts, and reserve assets in the financial account).

Table A.6.1: Statement of Government Operations
Transactions Affecting Net Worth
Revenue
Expense
<i>Net/Gross Operating Balance 1/</i>
Transactions in Nonfinancial Assets:
Net Acquisitions of Nonfinancial Assets 2/
<i>Net Lending/Borrowing [GFS] 3/</i>
Transactions in Financial Assets and Liabilities (Financing)
Net Acquisition of Financial Assets
Net Incurrence of Liabilities
1/ The net operating balance equals revenue minus expense. The gross operating balance equals revenue minus expense other than consumptions of fixed capital.
2/ Acquisitions minus disposals and consumption of fixed capital.
3/ Net lending/borrowing equals the net operating balance minus the net acquisitions of nonfinancial assets. It is also equal to the net acquisition of financial assets minus the net incurrence of liabilities.

11. The transactions presented in the first two categories of the GFS framework, namely revenue and expense are similar to the transactions in the current account of the balance of payments with two exceptions: (1) capital transfers included in respectively revenue (credit (CR)) and expense (debit (DR)) of the GFS, because these transactions affect net worth, are presented in the capital account of the balance of payments; and (2) gross acquisitions (DR)/disposals (CR) of nonproduced nonfinancial assets included in the net acquisitions of

⁶ Expenditure is the sum of expense and the net acquisition of nonfinancial assets.

nonfinancial assets of GFS are presented in the capital account of the balance of payments. All the GFS transactions in financial assets and liabilities of the statement of operations are shown in the financial account of the balance of payments.

12. The *statement of operations* in GFS has a linkage to the accounts in the balance of payments to the extent that general government/public sector units are involved in transactions with nonresidents. For grants, interest, and transactions in financial assets and liabilities, GFS separately identifies transactions with nonresidents. However, for other transactions with nonresidents GFS will usually not separately identify these transactions, which limit opportunities for reconciliation between the international accounts and the GFS. However, in some cases, supplementary information in the general government/public sector accounting system may identify such transactions – particularly where these are of an unusual nature, large volume, or large value.

13. In GFS, *revenue* is defined as an increase in net worth resulting from a transaction, and *expense* as a decrease in net worth resulting from a transaction. The *net acquisition of nonfinancial assets* equals gross fixed capital formation less consumption of fixed capital, plus changes in inventories, transactions in valuables, and nonproduced assets. The *net acquisition of financial assets* and the *net incurrence of liabilities* represent financial transactions that change a government's holdings of financial assets and/or liabilities.

14. Two important analytical balances are derived in the GFS in the *statement of government operations*. *Revenue less expense* equals the *net operating balance* (change in the net worth due to transactions). The subsequent deduction of the *net acquisition of nonfinancial assets* results in *net lending (+)/borrowing (-)* (change in the net financial worth), which is also equal to the net result of transactions in financial assets and liabilities, i.e. equals to the *net acquisition of financial assets* minus the *net incurrence of liabilities*. The *net operating balance* is a summary measure of the ongoing sustainability of government operations, and the *net lending (+)/borrowing (-)* is a summary measure indicating the extent to which the government is either putting financial resources at the disposal of other sectors in the economy or to abroad, or utilizing the financial resources generated by other sectors or from abroad. In addition, the *gross operating balance* is a balance that differs from the *net operating balance* in that it does not include *consumption of fixed capital as an expense*.⁷

15. There are more balancing items in the balance of payments than in GFS, partly because there are more transaction accounts than categories in the *statement of operations*. In GFS, as indicated in the previous paragraph, the balancing items are: the *net operating balance* and the *net lending/borrowing*, while in the balance of payments the balancing items are: *current account balance; balance on goods and services; balance on trade in goods; balance on trade in services; balance on primary income; balance on secondary income; capital account balance; net lending/borrowing (i.e. balance from current and capital accounts); and net*

⁷ Consumption of fixed capital can be difficult to measure in practice and a satisfactory estimate may not be possible. If so, the gross operating balance may be more practical for analysis than the operating balance. The net operating balance is, however, preferred because it captures all current costs of government operations.

lending/borrowing (i.e. balance from financial account). In both datasets, the net *lending/net borrowing* is equal to the financial account balance.

a. Revenue

16. Governments receive four major types of revenue⁸ from their fiscal operations: compulsory levies in the form of taxes and certain types of social contributions, property income derived from the ownership of assets,⁹ sales of goods and services,¹⁰ and transfers receivable from other units. Of these, compulsory levies and transfers are the main sources of revenue for most general government units. Public corporations do not levy taxes, but derive their revenue from other sources—of these, property income and the sales of goods and services are often the main sources of revenue. Revenue is composed of heterogeneous elements classified according to different characteristics depending on the type of revenue. The four types of revenue are classified in four groups: (i) taxes; (ii) social contributions; (iii) grants; and (iv) other revenue.

i. Taxes

17. *Taxes* are compulsory, unrequited amounts receivable by government units from institutional units.¹¹ The coverage, timing, and valuation of tax revenue in the balance of payments and GFS are identical but the classifications differ. The balance of payments has provisions for compilation of (i) *taxes on production and imports*; (ii) *current taxes on income, wealth, etc.*; and (iii) *capital taxes*, while the approach adopted in GFS is to classify taxes mainly by the basis on which the tax is levied. Taxes are grouped in six major categories in GFS: (i) *taxes on income, profits, and capital gains*; (ii) *taxes on payroll and workforce*; (iii) *taxes on property*; (iv) *taxes on goods and services*; (v) *taxes on international trade and transactions*; and (vi) *other taxes* (see Table A.6.2 below for additional details).¹²

18. While certain taxes may be levied on nonresidents (such as some taxes on international trade and on international transactions), the portion attributable to nonresidents may be difficult to identify in GFS and may vary from one tax category to the next and from one year to another.

19. *Taxes on products and production* reported in the balance of payments primary income account comprise the same tax categories as in the *SNA*. Some examples of these taxes¹³ are

⁸ These four types are not used for the classification of revenue.

⁹ Financial assets and natural resources put at the disposal of another institutional unit.

¹⁰ In GFS, sales of goods and services consist of sales by market establishments, administrative fees, incidental sales by nonmarket establishments, and imputed sales of goods and services.

¹¹ Tax revenue is considered to be unrequited because the government provides nothing directly to the individual unit in exchange for the payment. Certain compulsory receivables, such as fines, penalties, and most social security contributions, are excluded from taxes. These transfers have, under certain conditions an element of exchange and are therefore not classified as taxes.

¹² The Classification of taxes in the *GFSM 2012* is quite similar to the classification employed in *Revenue Statistics* by the *Organization for Economic Cooperation and Development (OECD)*.

¹³ For a complete list of taxes, see Chapter 5, *GFSM 2012*.

value added taxes (11411); sales taxes (GFS 11412); excises (GFS 1142); taxes on specific services (GFS 1144); customs and other import duties (GFS 1151); taxes on exports (GFS 1152); and profits of export or import monopolies (GFS 1153). Exceptionally, some taxes and duties may be payable on goods that physically enter the country but where there is no change of ownership so they are not treated as imports. Nevertheless, any such taxes and duties are still included in the heading of taxes and duties on imports in GFS.

20. Current taxes on income, wealth, etc. reported in the balance of payments secondary income account are the sum of several detailed tax categories as reported in the GFS, and comprise taxes on income, profits and capital gains (GFS 111)¹⁴ and several other tax categories mainly payable by final consumers (such as taxes on use of goods and on permission to use goods or perform activities (GFS 1145), and other taxes on international trade and transactions (GFS 1156).

21. Capital taxes included in the balance of payments capital account consist of taxes levied at irregular and infrequent intervals on the values of the assets or net worth owned by institutional units or on the value of assets transferred between institutional units as a result of legacies, gifts inter vivos, or other transfers. Capital taxes¹⁵ are the sum of estate, inheritance, and gift taxes (GFS 1133), and capital levies (GFS 1135).

GFS: Taxes		Balance of Payments: Taxes	
1	Revenue	I.B	Primary income
11	Taxes	I.B.3.1	Taxes on production and on imports
111	Taxes on income, profits and capital gains	I.C	Secondary income
1111	Payable by individuals	I.C.1	General government
1112	Payable by corporations and other enterprises	I.C.1.1	Current taxes on income, wealth, etc.
1113	Unallocable	I.C.2	Financial corporations, nonfinancial corporations, households, and NPISHs
112	Taxes on payroll and workforce	I.C.2.2	Other current transfers
113	Taxes on property	I.C.2.0.1	Current taxes on income, wealth, etc.
1131	Recurrent taxes on immovable property		
1132	Recurrent taxes on net wealth		
1133	Estate, inheritance, and gift taxes	2	Capital account
1134	XXX	2.2	Capital transfers
1135	Capital levies	2.2.1	General government
1136	Other recurrent taxes on property	2.2.1.2	Other capital transfers
114	Taxes on goods and services	2.2.1.2.1	of which: Capital taxes
1141	General taxes on goods and services	2.2.2	Financial corporations, nonfinancial corporations, households, and NPISHs
11411	Value-added taxes	2.2.2.2	Other capital transfers
11412	Sales taxes	2.2.2.2.1	of which: Capital taxes
11413	Turnover and other general taxes on goods and services		
11414	Taxes on financial and capital transactions		
1142	Excise		
1143	Profits of fiscal monopolies		
1144	Taxes on specific services		
1145	Taxes on use of goods and on permission to use goods or perform		
11451	Motor vehicle taxes		
11452	Other taxes on use of goods and on permission to use goods or		
1146	Other taxes on goods and services		
115	Taxes on international trade and transactions		
1151	Customs and other import duties		
1152	Taxes on exports		
1153	Profits of export or import monopolies		
1154	Exchange profits		
1155	Exchange taxes		
1156	Other taxes on international trade and transactions		
116	Other taxes		
1161	Payable solely by business		
1162	Payable by other than business or unidentifiable		

¹⁴ Here and further the numbers in parentheses next to GFS refer to classification codes in *GFSM 2012*.

¹⁵ GFS does not have a category of capital taxes.

ii. *Social contributions*

22. In GFS, *social contributions* are actual or imputed revenues receivable by social insurance schemes to make provision for social insurance benefits payable. Social contributions may be from either employers on behalf of their employees or from employees, self-employed, or non-employed persons on their own behalf. These contributions secure entitlement to *social benefits* that are payable to the contributors, the dependents, or their survivors. The contributions may be compulsory or voluntary. Social contributions are classified as *social security contributions* (GFS 121) or *other social contributions* (GFS 122) depending on the type of scheme receiving them. Additional breakdowns are included to classify this information by employees, employers, and self-employed or non-employed persons. In GFS, social contributions are not divided between residents and nonresidents.

23. The coverage of social contributions in GFS is more restricted than in the *2008 SNA* and *BPM6*. In GFS, only contributions that constitute revenue are included in *social contributions* (GFS 12), that is, only transactions that increase the net worth are included. In GFS, social contributions exclude contributions to autonomous and nonautonomous pension funds and to unfunded employment related schemes that provide pension and other retirement benefits. Social contributions to autonomous and non-autonomous pension funds and to unfunded employer social insurance schemes that provide retirement benefits are recorded as incurrence of liabilities by the government.¹⁶ The *2008 SNA* and *BPM6*¹⁷ record all *social contributions* and incurrence of liabilities, with the double accounting being neutralized by recording an adjustment for the change in pension entitlements. *Social contributions* receivable from nonresidents by general government/public sector units, are included in the secondary income account in the balance of payments and, when identified, they should be consistent with the corresponding GFS categories.

iii. *Grants*

24. *Grants* are transfers receivable by government units from other resident or nonresident government units or international organizations, and that do not meet the definition of a tax, subsidy or a social contribution. Three sources of grants are recognized in GFS: *grants from foreign governments* (GFS 131), *grants from international organizations* (GFS 132), and *grants from other general government units* (GFS 133). Each of these categories distinguishes current and capital grants.

¹⁶ For additional information about autonomous and nonautonomous pension funds and funded and unfunded employer social insurance schemes, see [Appendix XXX](#) in the *GFSM 2012*.

¹⁷ See *BPM6*, paragraph 12.38 for additional information about the adjustment (“adjustment for change in pension entitlements”).

Table A.6.3 Other Revenue Categories in the GFS and Balance of Payments

GFS: Other Revenue Categories		Balance of Payments: Other Revenue Categories	
12	Social contributions [GFS]	I	Current Account
121	Social security contributions	I.A	Good and services
1211	Employee contributions	I.B	Primary income
1212	Employer contributions	I.B.2	<i>Investment Income</i>
1213	Self-employed or nonemployed contributions	I.B.2.1	Direct Investment
1214	Unallocable contributions	I.B.2.1.1	Income on equity and investment fund shares
122	Other social contributions	I.B.2.1.1.1	Dividends and withdrawals from income of quasi-corporations
1221	Employee contributions	I.B.2.1.1.2	Reinvested earnings
1222	Employer contributions		Investment income attributable to policy holders in insurance, pension schemes, and standardized guarantee schemes and to investment funds
1223	Imputed contributions	I.B.2.1.2	Interest
13	Grants	I.B.2.2	Portfolio Investment
131	From foreign governments	I.B.2.2.1	Investment Income on equity and investment fund shares
1311	Current	I.B.2.2.1.1	Dividends
1312	Capital	I.B.2.2.1.2	Investment income attributable to investment fund shareholders
132	From international organizations	I.B.2.2.1.2.1	Dividends
1321	Current	I.B.2.2.1.2.2	Reinvested earnings
1322	Capital	I.B.2.2.2	Interest
133	From other general government units	I.B.2.3	Other investment
1331	Current	I.B.2.3.1	Withdrawals from income of quasi-corporations
1332	Capital	I.B.2.3.2	Interest
14	Other revenue	I.B.2.3.3	Investment income attributable to policy holders in insurance, pension schemes, and standardized guarantee schemes
141	Property income [GFS]	I.B.2.4	Reserve assets
1411	Interest [GFS]	I.B.2.4.1	Income on equity and investment fund shares
1412	Dividends	I.B.2.4.2	Interest
1413	Withdrawals from income of quasi-corporations	I.B.3	<i>Other primary income</i>
1414	Property income attributed to insurance policy holders, and holders of investment fund shares	I.B.3.3	Rent
1415	Rent		
1416	Reinvested earnings on foreign direct investment	I.C	Secondary income
142	Sales of goods and services	I.C.1	<i>General government</i>
1421	Sales by market establishments	I.C.1.1	Social contributions
1422	Administrative fees	I.C.1.4	Current international cooperation
1423	Incidental sales by nonmarket establishments	I.C.1.5	Miscellaneous current transfers of general government
1424	Imputed sales of goods and services		Net nonlife insurance premiums
143	Fines, penalties, and forfeits	2	Capital account
144	Transfers n.e.c.	2.2	Capital transfers
1441	Current transfers n.e.c.	2.2.1	<i>General government</i>
14411	Subsidies	2.2.1.1	Debt forgiveness
14412	Other current transfers		
1442	Capital transfers n.e.c.		
145	Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes		
1451	Current premiums, fees, and claims		
1452	Capital claims		

25. *Current grants* receivable from foreign general governments and international organizations (GFS 1311 and 1321, respectively) are often the most important linkage between the GFS and the balance of payments secondary income account. *Capital grants* receivable from foreign general governments and international organizations (GFS 1312 and 1322, respectively) are linked to the capital transfer category of the general government in the balance of payments capital account. *Current* (GFS 1331) and *capital* (GFS 1332) *grants* receivable from other general government units are transactions between residents i.e. units within the general government of any particular country, and they do not impact the balance of payments.

26. Below is presented the treatment of some capital transfers in the GFS and balance of payments accounts:

- Debt forgiveness¹⁸ received from nonresidents will be reflected in the GFS as *revenue in capital grants* received either *from foreign governments* (GFS 1312), or *international organizations* (GFS 1322), or as *capital transfers n.e.c.* (GFS 1442), when received from other nonresident entities. A corresponding reduction in the appropriate foreign debt instrument will be recorded. In the balance of payments, debt forgiveness is recorded as a capital transfer (see *BPM6* paragraph 13.23) in the capital account from the creditor economy to the debtor economy, offset by a reduction in the liability of the debtor (reduction in the asset of the creditor) under the appropriate debt instrument in the financial account.
- Investment transfer consist of capital transfers in cash or in kind made by foreign governments or international organizations to other institutional units to finance all or part of the cost of their acquiring fixed assets. These transfers will be recorded in the same categories of revenue and expense as for debt forgiveness as described above in GFS. However, in this case, a corresponding increase in cash will be recorded if the investment grant was received in cash, while the appropriate nonfinancial asset will increase in the case of a grant in kind. In the balance of payments, investment grants are recorded as other capital transfer (see *BPM6* paragraph 13.25) in the capital account from the donor economy to the recipient economy.
- Calls on one-off guarantees and other debt assumption are capital transfers that occur when a one-off guarantee is activated and the guarantor acquires no claim on the debtor, or a claim worth less than the value of the guarantee, or in other cases of debt assumption. When general government/public sector units and nonresident are involved in these transactions, they should be consistently treated in the capital account and GFS. For treatment in balance of payments see *BPM6* paragraph 13.27.

27. Other capital transfers consist of major nonrecurring payments in compensation for extensive damage or serious injuries not covered by insurance policies. When general government/public sector units are the recipients of this type of transfer from nonresidents, they will be recorded as part of *capital grants* receivable either *from foreign governments* (GFS 1312), or *international organizations* (GFS 1322), or as *capital transfers n.e.c.* (GFS 1442), when receivable from other nonresident entities. In balance of payments such payments are recorded as other capital transfers in capital account (see *BPM6* paragraph 13.29). When statistics are compiled for the general government sector, grants from other domestic government units would be eliminated in consolidation¹⁹ so that only grants from foreign governments and international organizations would have nonzero values the general government accounts.

¹⁸ Debt forgiveness is defined as the voluntary cancellation by mutual agreement of all or part of a debt obligation within a contractual arrangement between a creditor and a debtor.

¹⁹ See paragraph 7 for consolidation.

iv. *Other revenue*

28. In GFS, *other revenue* includes *property income, sales of goods and services, fines, penalties, and forfeits, transfers not elsewhere classified, and premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes.*

29. The contribution of the general government/public sector to investment income in the primary income account is mainly derived from the portion receivable from nonresidents of the GFS categories *interest* (GFS 1411), *dividends* (GFS 1412), *withdrawals from income of quasi-corporations* (GFS 1413), *property income from investment income disbursements* (GFS 1414)²⁰, *rent* (GFS 1415), and *reinvested earnings on foreign direct investment* (GFS 1416). The primary income account groups these items by functional category (direct investment, portfolio investment, other investment, and reserve assets). GFS does not present a functional classification²¹ similar to that in the international accounts.

30. The contribution of the general government/public sector to the goods and services accounts of the balance of payments comprises the sales of goods and services to nonresidents. These sales are classified in the corresponding categories of the goods and services accounts. In the services account, a separate disclosure of *government goods and services n.i.e.*, is included and covers:

- Goods and services supplied by enclaves, such as embassies, military bases, and international organizations;
- Goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad and their dependents but will exclude revenue/expense of workers who are residents of the local economy; and
- Services supplied by governments and not included in other categories of services.

31. As foreign government and international organization enclaves are not residents of the territory in which they are physically located, their transactions with residents of the territory of location are international transactions. Government supply of licenses and permits to nonresidents are also included in this category if they are not instead treated as taxes, as well as some activities related to technical assistance provided by one country to another (see *BPM6*, Box 10.6).

²⁰ Insurance enterprises hold technical reserves in the form of prepayments of premiums, reserves against outstanding claims, and actuarial reserves against outstanding risks with respect to life insurance policies. These reserves are considered to be assets of the insurance company with matching liabilities toward the beneficiaries, including any government units that are policyholders. Any income receivable from the investment of insurance technical reserves is also considered to be the property of the policy holders or beneficiaries and is described as *property income from investment income disbursements* (GFS 1414). In *BPM6*, the account title used is Investment income attributable to policyholders in insurance, standardized guarantees, and pension funds.

²¹ The GFS framework also uses a functional classification for expenses, based on the OECD/UN Classification of the functions of government (COFOG). It is a detailed classification of the functions (socioeconomic objectives) that general government units aim to achieve through various kinds of expenditure (see the *GFSM 2012*, paragraph A6.1 for additional information).

32. The GFS framework does not specifically require the identification of transactions with nonresidents in goods and services, or produced nonfinancial assets owned by the government.. However, where these transactions can be identified and classifications are built into the underlying public sector accounting system, the information could be supplied to balance of payments compilers for estimating credits from the *sales of goods and services* category of the GFS (GFS 142), as well as the net acquisition of the nonfinancial assets, other than nonproduced assets.

33. The secondary income and the capital accounts of the balance of payments have linkages to several GFS *other revenue* categories, including *finances, penalties, and forfeits* (GFS 143), *current transfers n.e.c.* (GFS 1441) and *premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes* (GFS 145) in the secondary income account, and capital grants (GFS 131 and 132) and *capital transfers n.e.c.* (GFS 1442) in the capital account.

b. Expenses

34. Sometimes governments supply goods and services to the community. In doing so, a government may produce the goods and services itself and distribute them, purchase them from a third party, or transfer cash to households so they can purchase the goods and services directly. The types of expenses that relate to the costs of production undertaken by government itself incurred for these activities are: *compensation of employees, use of goods and services, and consumption of fixed capital*. Expenses also include *subsidies, grants, social benefits, and other expense* related to transfers in cash or in kind, and purchases of goods and services from third parties for delivery to other units. In addition, expenses include *interest* that is payable by units that incur certain kinds of liabilities, namely deposits, debt securities, loans, and other accounts payable (see Table A.6.4 below for additional details).

Table A.6.4: Expense in the GFS and Balance of Payments

GFS: Expense		Balance of Payments: Expense	
2	Expense	1	Current Account
21	Compensation of employees [GFS]	I.A	Good and services
211	Wages and salaries [GFS]	I.B	Primary income
2111	Wages and salaries in cash [GFS]	<i>I.B.1</i>	<i>Compensation of employees</i>
2112	Wages and salaries in kind [GFS]	I.B.2.1	Direct Investment
212	Employers' social contributions [GFS]	I.B.2.1.1	Income on equity and investment fund shares
2121	Actual social contributions [GFS]	I.B.2.1.1.1	Dividends and withdrawals from income of quasi-corporations
2122	Imputed social contributions [GFS]	I.B.2.1.1.2	Reinvested earnings
22	Use of goods and services		
			Investment income attributable to policy holders in insurance, pension schemes, and standardized guarantee schemes and to investment funds
23	Consumption of fixed capital [GFS]	I.B.2.1.2	Interest
24	Interest [GFS]	I.B.2.2	Portfolio Investment
241	To nonresidents	I.B.2.2.1	Investment Income on equity and investment fund shares
242	To residents other than general government	I.B.2.2.1.1	Dividends
243	To general government units	I.B.2.2.1.2	Investment income attributable to investment fund shareholders
25	Subsidies	I.B.2.2.1.2.1	Dividends
251	To public corporations	I.B.2.2.1.2.2	Reinvested earnings
2511	To nonfinancial public corporations	I.B.2.2.2	Interest
2512	To financial public corporations	I.B.2.3	Other investment
252	To private enterprises	I.B.2.3.1	Withdrawals from income of quasi-corporations
2521	To nonfinancial private enterprises	I.B.2.3.2	Interest
2522	To financial private enterprises		Investment income attributable to policy holders in insurance, pension schemes, and standardized guarantee schemes
253	To other sectors	I.B.2.3.3	Reserve assets
2531	To general government units	I.B.2.4	Income on equity and investment fund shares
2532	To nonprofit institutions serving households	I.B.2.4.1	Interest
2533	To households	<i>I.B.3</i>	<i>Other primary income</i>
26	Grants	I.B.3.3	Rent
261	To foreign governments		
2611	Current	I.C	Secondary income
2612	Capital	<i>I.C.1</i>	<i>General government</i>
262	To international organizations	I.C.1.1	Social contributions
2621	Current	I.C.1.3	Social Benefits
2622	Capital	I.C.1.4	Current international cooperation
263	To other general government units	I.C.1.5	Miscellaneous current transfers of general government
2631	Current		Net nonlife insurance premiums
2632	Capital	2	Capital account
27	Social benefits [GFS]	2.2	Capital transfers
271	Social security benefits	<i>2.2.1</i>	<i>General government</i>
2711	Social security benefits in cash	2.2.1.1	Debt forgiveness
2712	Social security benefits in kind		
272	Social assistance benefits		
2721	Social assistance benefits in cash		
2722	Social assistance benefits in kind [GFS]		
273	Employment-related social benefits		
2731	Employment-related social benefits in cash		
2732	Employment-related social benefits in kind		
28	Other expense		
281	Property expense other than interest		
2811	Dividends		
2812	Withdrawals from income of quasi-corporations		
2813	Property expense attributed to insurance policy holders, pension entitlements, and holders of investment fund shares [GFS]		
2814	Rent		
2815	Reinvested earnings on foreign direct investment		
282	Transfers n.e.c.		
2821	Current transfers n.e.c.		
2822	Capital transfers n.e.c.		
283	Premiums, fees, and claims related to nonlife insurance and standardized		
2831	Current premiums, fees, and claims		
2832	Capital claims		

35. The following linkages exist between the international accounts and the GFS:

v. *Compensation of Employees*

36. *Compensation of employees* is the total remuneration, in cash or in kind, payable to an individual in an employer-employee relationship in return for work done by the latter during the accounting period. Compensation of employees [GFS] (21) excludes amounts connected with own-account capital formation. In GFS compensation of employees payable to employees engaged in own-account capital formation, which is the production of nonfinancial assets for

own use, is directly recorded as a component of the cost of the acquisition of nonfinancial assets.²² It includes both *wages and salaries* (GFS 211) and *social contributions* (GFS 212). *Wages and salaries* are payments in cash or in kind to employees in return for services rendered, before deduction of withholding taxes and employees' contributions to social insurance schemes. In the balance of payments, the definition of compensation of employees is the same.

37. Because government employment usually has some residency criteria as preconditions, international payments of employee compensation by government is often not very large. However, in the case of territorial enclaves, all *compensation of employees* (GFS 21) payable by government to residents of the host country should be included in the primary income account. The GFS classifications do not specifically require the identification of compensation of employees to nonresidents. However, when such payments are identified in the underlying source system, the information should be reported consistently in the GFS and primary income account debits in the balance of payments.

vi. Uses of goods and services

38. This category consists of goods and services used for the production of market and nonmarket goods and services. Excluded are the consumption of fixed capital (23), the use of goods and services in own-account capital formation which are recorded as the acquisition of nonfinancial assets, and goods purchased by government and distributed without transformation which are recorded as some type of transfer in kind.²³

39. The use of goods and services of the general government/public sector from nonresidents is reflected in the corresponding categories of the goods and services accounts in the international accounts. In the balance of payments, goods and services accounts contain a separate category for government goods and services n.i.e., (See paragraph 30).

40. The GFS system does not specifically require the identification of transactions in goods and services of the government with nonresidents. However, where these transactions can be identified and classifications are built into the underlying public sector accounting system, the information could be supplied to balance of payments compilers for estimating debits from the *uses of goods and services* (GFS 22) category of the GFS.

vii. Consumption of fixed capital

41. *Consumption of fixed capital* is the decline during an accounting period in the current value of fixed assets owned and used by a general government unit as a result of physical deterioration, normal obsolescence, or normal accidental damage. It is valued in the average prices of the period. This is an internal transaction where government act in two capacities, and would therefore not have any impact on the balance of payments.

²² Compensation of employees engaged in own-account capital formation, which is the production of nonfinancial assets for own use, is recorded as the acquisition of nonfinancial assets (see Chapter...in the *GFSM 2012*).

²³ See paragraphs 6.25 – 6.30 in the *GFSM 2012*.

viii. *Interest*

42. *Interest* is the expense that the general government unit (the debtor) incurs for the use of certain kinds of financial assets, for putting these financial and other resources at the disposal of another institutional unit. In the GFS framework, the *interest* category is not compiled using an international account functional classification. The *interest expense* (GFS 24) category in the GFS framework is broken down in three subcategories: *to nonresidents* (GFS 241), *to residents other than general government* (GFS 242), and *to general government units* (GFS 243). As opposed to other categories in GFS, the nonresident portion of interest (GFS 234) is separately identified and it should be linked with the corresponding categories in the balance of payments accounts. The compiler should also be aware that, as opposed to general government interest receipts and payments recorded in the balance of payments, interest in the GFS framework is *not* adjusted for FISIM.

ix. *Subsidies*

43. Subsidies are current unrequited payments that government units make to enterprises on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import. Subsidies may be designed to influence the level of production and the prices at which outputs are sold, or the profits or losses of the enterprises involved.

44. In calculating other primary income in the balance of payments, linkages with the GFS data arise from the transactions with nonresidents related to *subsidies* (GFS 25). Where the identification of such payments to nonresidents is provided in the underlying public sector accounting system, the information should be consistent with the primary income account.

x. *Grants*

45. *Grants* are transfers payable by a government unit to other resident or nonresident government unit, or international organizations, that do not meet the definition of a tax, subsidy, or social contribution. These three recipients of grants are recognized in GFS. For reconciliation with the international accounts, the following grants are relevant: current grants payable to *foreign governments* (GFS 2611) and *international organizations* (GFS 2621) are linked to the secondary income account in the balance of payments, and capital grants payable to *foreign governments* (GFS 2612) and *international organizations* (GFS 2622) are linked to the capital account in the balance of payments.

46. When the government/public sector unit is the grantor of debt relief to a nonresident, an expense will be reflected in capital grants to foreign governments (GFS 2612), international organizations (GFS 2622), or *capital transfers not elsewhere classified* (GFS 2822), when provided to other entities different from foreign government and international organizations. A corresponding reduction in the appropriate foreign financial asset will be recorded. The GFS framework does not identify a separate category for debt forgiveness. Exceptionally large nonlife insurance claims—where these claims are payable by government/public sector units—may be recorded as *capital claims* (GFS category 2832) in the *premium, fees, and claims related to nonlife insurance and standardized guarantee schemes* category.

47. Governments are often involved in grant transfers, which should be reported in a consistent way in the GFS and the secondary income or capital account of the balance of payments. Governments undertake transfers to convey a benefit to another party, or benefit from transfers receivable. These capital transfers consist of compulsory transfers to governments, transfers under court orders, and voluntary transfers. There may also be imputed capital transfers as a result of governments' use of entities resident in other economies, for fiscal purposes (see paragraph XX of GFS and paragraphs 8.24–8.26 of BPM6).

xi. Social Benefits

48. *Social benefits* are current transfers receivable by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education, or family circumstances.²⁴ In GFS, not all social benefits are treated as expense. The payment of pension and other retirement benefits through employer social insurance schemes are treated as reductions in liabilities (See also paragraph 23). *Social benefits* (GFS 27) payable to nonresidents should feed into those corresponding categories in the secondary income account. In the international accounts, social benefits are divided in two subcategories, i.e., those related to the general government and those to the financial corporations, nonfinancial corporations, households, and NPISHs. In the GFS framework, social benefits are compiled with a different disaggregation, *social security benefits* (GFS 271), *social assistance benefits* (GFS 272), and *employment-related social benefits* (GFS 273).

xii. Other Expense

49. The GFS framework, in addition to compensation of employees, use of goods and services, consumption of fixed capital, interest, subsidies, grants, and social benefits, identifies other expense. *Other expense comprises property expense other than interest, transfers not elsewhere classified and premium, fees, and claims related to nonlife insurance and standardized guarantees.*

50. The contribution of the general government/public sector to primary income account of the balance of payments is often largely derived from the nonresident portion of all the subcategories of *property expense other than interest* (GFS 281): *dividends* (GFS 2811), *withdrawals from income of quasi-corporations* (GFS 2812), *property expense for investment income disbursements* (GFS 2813), *rent* (GFS 2814), and *reinvested earnings on foreign direct investment* (GFS 2815).

51. In calculating secondary income and capital account categories of the balance of payments, linkages with the GFS *other expense* categories arise from the transactions with nonresidents related to *current transfers not elsewhere classified*. (GFS 2821) and *premiums, fees, and claims related to nonlife insurance and standardized guarantees* (GFS 283) in the secondary income account, and *capital transfers not elsewhere classified* (GFS 2822) in the capital account.

²⁴ A social risk is an event or circumstance that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or by reducing their incomes.

c. Transactions in nonfinancial assets

52. Nonproduced nonfinancial assets consist of: natural resources; contracts, leases, and licenses; and marketing assets and goodwill in the balance of payments, which are identified in the GFS framework. There is full consistency in the macroeconomic statistical framework with regards to the categories of nonproduced, nonfinancial assets that exist. Where general government/public sector units acquire or dispose of these assets in transactions with nonresidents, supplementary information would be helpful from the GFS transactions to feed into the international accounts.

53. In GFS, transactions in nonfinancial assets included all categories of produced and nonproduced assets. It should be noted that, contrary to GFS, the capital account in the balance of payments does not include produced and nonproduced nonfinancial assets; it instead records only transactions in nonproduced nonfinancial assets. Transactions in produced nonfinancial assets are included in the respective categories goods as recorded in the goods and services account. The goods and services account does not distinguish whether those goods or services are of a capital or current nature.

d. Transactions in financial assets and liabilities

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

55. Although the classification of financial assets and liabilities as presented in the GFS does not follow the same functional classification of the international accounts, it is fully consistent with the instrument and sector classification as used in the international accounts. The guidelines of the GFS framework suggest that transactions in financial assets and liabilities with residents and nonresidents be separately disclosed. The GFS follows the same criteria for determining residence as the international accounts. Conceptually it therefore allows international financial transactions that are included in GFS to be compared to the data for general government as presented in the financial account of the international accounts.²⁵

B. The statement of other economic flows

56. In the GFS framework, the other economic flows in financial assets and liabilities account shows changes in stock positions that arise for reasons other than transactions between residents and nonresidents. These changes are also called “other flows” and, as with the international accounts, it includes holding gains and losses, reclassifications and other changes in volume of financial assets and liabilities.²⁶ The classification of financial instruments for

²⁵ The international accounts identify general government, but, contrary to GFS, it does not present data for the subsectors of the general government.

²⁶ Because of the importance of different currencies in the IIP, revaluations (holding gains and losses) are separately shown for those arising from exchange rate changes and those arising from other price changes.

assets and liabilities are conceptually fully consistent in the GFS and international accounts, which should promote consistency in the data reported for other flows in the two datasets.

C. The balance sheet

57. In addition to classifying financial assets and liabilities by the characteristics of the financial instrument, categories of the general government balance sheet are also classified according to the residence of the other party to the instrument (the debtors for financial assets and the creditors for liabilities). Because there has been a growing recognition of the role of balance sheet analysis in understanding sustainability and vulnerability, currency composition, and maturity analysis of the balance sheet are encouraged as additional information. In the IIP, the highest level of classification used is the functional classification. However, in addition, the IIP is disaggregated by financial instrument, and most of these instruments are further disaggregated according to the counterpart institutional sector (which is the lender for assets, and is the borrower for liabilities).

58. General governments' financial asset/liability position with nonresidents as reported in the GFS balance sheet following the same classification of instruments, and accounting rules as the IIP. The maturity and currency breakdowns, as suggested in the *Public Sector Debt Statistics: Guide for Compilers and Users* and *GFSM 2012*, are also fully consistent with the IIP.