

**GFSAC Meeting: May 13-15, 2025****Cover Page****1.27 Consistency in the Application of the Sum-of-Costs Approach***Paper: GFSAC/2025/05/13H***For Endorsement****For Discussion****Global Consultation Responses:**

Do you agree with the recommendations and their incorporation into the update of the GFS manual?	Count
Yes	23
No	3
Partially	5
No Comment	6
Total	37

Global Consultation Comments:

The three respondents who disagreed with the Proposed Recommendations focused their concerns on the inclusion of a net return on capital within the sum of costs calculation for nonmarket production, suggesting that the costs of its inclusion outweighed the benefits and also raising concerns about practical implementation. One of these respondents was also opposed to the use of the rate of 2% for the real rate of return, which was initially proposed in document SNA/M3.24/05, arguing that as this was based on an EU benchmark, it was not reflective of many other countries. The same respondent highlighted text in the same document which notes the use of real bond rates.

Respondents that partially agreed with the Proposed Recommendations agreed with the 2025 SNA approach to include net return to capital in the sum of costs approach, however, had concerns with practical implementation. Some of these implementation concerns were also raised by respondents who supported the proposals.

With regard to the market test, several respondents noted the potential implications from the inclusion of rent and depletion in the market test. Some suggested this was an opportunity for further research into the market test, while one respondent suggested that GFSM research project 2.1 (*Boundary*

between government-controlled nonmarket producers engaged in nonfinancial activities) should also consider guidelines for estimating the net return to capital.

Select comments are replicated below:

- *“Document SNA/M3.24/05 provides guidelines for estimating the net return to capital for non-market production. It uses the European Union as a benchmark to define a default real rate of return of 2% per year. However, the rate of return in the European Union may differ significantly from that of the vast majority of other countries. Document SNA/M3.24/05 explicitly addresses this limitation by noting that:*

“Taking these criteria into consideration, and based on analysis undertaken in the EU, it is recommended that a two percent be used as the default real rate of return for estimating the net return for government non-market output. Where a country’s real bond rate is persistently and significantly in excess of two percent, it is recommended that a real bond rate specific for that country be estimated.”

However, neither the recommendation in SNA/M3.24/05 nor the proposal to update GFSM 2014 presented in the Proposed Recommendations Document 1.27 Consistency in the application of the sum of costs approach addresses how alternative rates should be considered for the majority of countries whose economic conditions differ from the EU benchmark. To adopt such a simplification, it would be necessary to estimate the net return to capital for non-market production across a wide range of countries in order to assess how much the rate varies and what impact this simplification could have on data quality and comparability.

Additionally, I propose that the final recommendation of the Proposed Recommendations Document 1.27 – Consistency in the application of the sum of costs approach explicitly recommend that the GFSM Update research project 2.1 – Boundary between government-controlled nonmarket producers engaged in nonfinancial activities and public nonfinancial corporations also include guidelines for estimating the net return to capital for market producers. These guidelines would support the application of the market test used to distinguish between general government entities and public corporations. This topic is already under discussion within research group 2.1, and such a recommendation would constructively reinforce the ongoing work.”

- *“On the whole, we agree with the 2025 SNA approach. We had practical reservations around a specific rate being prescribed in a statistical standard at the time of the SNA consultation, noting how infrequently these standards are updated. As long as the GFSM language permits deviating from the rate where strong rationale exist, we endorse the proposal. With regards to the market test implications, we acknowledge the potential this change may have on some types of public units, notably infrastructure companies. We would find further research helpful but not essential in our national context, where the fiscal framework covers public sector as a whole.”*
- *“Agree conceptually but note concerns about measurement issues, potential for divergence between GFS and accounting standards, and impact on providers. We note that the revisions to*



the definition of production costs may lead to an increase in costs and therefore may impact sector classifications due to the market/non-market test.”

- *“We suppose that calculating net return the net return to capital for general government will complicate the GFS compilation process.”*
- *“While it is acknowledged that this is a significant change and we will seriously consider its implementation, we don’t agree that this proposal is economically desirable or its proposed methodology robust. A return on capital is more akin to an accounting concept than an economic one and it causes disconnection from the sum of costs methodology. It seems to run counter to the concept of nonmarket gross operating surplus. Furthermore, it does not add to the analytical usefulness of GFS, making it harder to reconcile operating balance with Government’s annual financial statements.”*
- *“The benefits of applying a return on capital to non-market production, as introduced in the SNA 2025, must outweigh the disadvantages of the method. This fact is questionable. The approach relies on assumptions that may not reflect local realities, introduces complexity, and could distort macroeconomic aggregates like GDP or national savings. While it seeks to enhance international comparability, the potential for inaccuracies and the added methodological burdens call into question its overall effectiveness.”*
- *“The application of the sum of costs approach makes the data more complete. Including the net return to capital and rent payable for the calculation enhances the accuracy of Value Added and gross output estimation.”*
- *“The proposal enhances the conceptual consistency of the valuation approach for government production and reduces asymmetries in the treatment of market and non-market units. The adoption of standardized parameters facilitates implementation by countries, including in contexts with data limitations.”*

Questions for GFSAC:

- Do you agree for the updated GFSM to be less prescriptive in rates to be used for estimating the return to capital, and instead describe possible options for estimation? (Although the document SNA/M3.24/05 recommended a 2% real rate of return, the 2025 SNA did not specify this rate.)
- Do you endorse the draft Notice of Decision?



GFS Notice of Decision

DRAFT

1.27 Consistency in the application of the sum-of-costs approach

GFS Notice of Decision:

The *GFSM 2014* guidance on the valuation of government own-account production of fixed assets (research and development, computer software and databases, entertainment, literary and artistic originals) will be updated to no longer exclude a net return to capital. This will also apply to the valuation of government data assets, as discussed in GFSM Update research project 1.11 (*Identifying, valuing and reporting government data assets*). Language around the net return to capital will also be clarified to make clearer the scope of assets and discuss methodology for estimation.

The updated GFSM will explain that the method for determining the net return to capital for nonmarket production is to multiply a rate of return to capital by the value of nonfinancial assets used in nonmarket production. The updated GFSM will also explain possible options for estimation, such as the interest rates on government borrowing.

The definition of production costs, for the market test, will be revised to include rent payable for the use of nonproduced assets and depletion of natural resources used in production.

GFSM Update research project 2.1 (*Boundary between government-controlled nonmarket producers engaged in nonfinancial activities and public nonfinancial corporations*) will further explore the implications of including depletion and rent payable on nonproduced assets in the market test as well as to clarify the use of net return to capital in the market test.¹

GFS Related Documents:

GFS Proposed Recommendations Document	GFSM PR 1.27
GFS Discussion Note	Not applicable
GFS Global Consultations	April 2025
Discussions at GFSAC Meeting(s)	To be added
SNA/BPM Related Documents:	
Guidance/Issue Note	SNA/BPM Action Point A.8 ; and IN SNA/M3.24/05

¹ The PR mentioned that the net return to capital is already included in the market test in the *GFSM 2014*, however, based on the global consultation responses it is proposed to further clarify how to measure this in the context of the market test.



STATISTICS

GFSM 2014 update

Global Consultation(s)	SNA: June 2023
Discussions at the AEG/BOPCOM² Meeting(s)	AEG: October 2024 ; July 2024 ; July 2023

² AEG = Advisory Expert Group on National Accounts, BOPCOM = Balance of Payments Committee