Discussion Note:

2.6 Further defining and subclassifying extrabudgetary units

Summary Details

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Summary of Issues and Draft Recommendations:

- The definition of extrabudgetary units in *GFSM 2014* is not precise. The change in the wording of the *2025 SNA* definition of central government implies a need to review the language in the GFSM. In particular, the term "nonmarket NPIs" (nonprofit institutional units) should be replaced by the broader term "nonmarket institutional units".
- There is a lack of guidance on how to distinguish between budgetary and extrabudgetary units (particularly funds) and a lack of examples.
- Given that various types of extrabudgetary units are very different from each other, a subsectorization of extrabudgetary funds may be analytically useful. Specifically, some of them have a production function while the others mostly have specific financing functions.
- The Discussion Note proposes to clarify the definition of extrabudgetary units (using the SNA language and providing examples) and to examine options for splitting them into different subsectors.

Introduction

1. The *GFSM 2014*[2] (paragraph 2.80) distinguishes at each subsector level of the general government (central, state, and local government) whether the units in the subsector are financed by the budget approved by the legislative bodies of that level of government or by extrabudgetary sources. For example, governments may create specialized boards, commissions, or agencies either as part of their budgetary accounts or as separate units, that is distinguishing between budgetary and extrabudgetary units' subsectors. *GFSM 2014* (paragraph 2.82) goes on to explain that "general government entities with individual budgets not fully covered by the main (or general) budget are considered as extrabudgetary units".

[1] The views expressed in this Discussion Note are those of the authors and/or Task Team and do not necessarily represent the views of the IMF.

[2] Government Finance Statistics Manual 2014 *(GFSM 2014)*

2. The government may establish extrabudgetary funds for specific purposes (such as welfare, compensation for damages) which are fully financed by dedicated transfers from the budget. Based on the current guidance in *GFSM 2014* (paragraph 2.82), there may also be other extrabudgetary units that are established to carry out specific government functions, such as road construction, or the nonmarket production of health or education services that may rely in varying degrees on financing from the main budget. Nonmarket nonprofit institutions controlled by government are also typically classified as extrabudgetary units if they satisfy the criteria to be an institutional unit (*GFSM 2014,* paragraph 2.83). Additionally, there may be situations in which a public corporation is reclassified as an extrabudgetary unit. In the current version of the GFSM, the range of examples for extrabudgetary units is narrow. The same applies to the definition of extrabudgetary units, which is appropriate in most cases, but limited in a few other paragraphs. Both a clear definition and sufficiently broad examples of extrabudgetary units are crucial for readers of the GFSM to understand one of the main differences between administrative accounts and GFS data.

3. If a fund does not satisfy the criteria to be an autonomous institutional unit, they are classified as part of the budgetary government or public sector unit that controls them. Where these extrabudgetary funds are autonomous institutional units, they are presented together with other extrabudgetary units of the subsector that controls them. As part of the update to the System of National Accounts (SNA), new guidance has been developed on when to treat trust funds and other funds as separate institutional units, that should be taken into account in the GFSM update (see reference below).

4. Separate data on extrabudgetary units can be helpful for analysts to better understand the link between administrative data and GFS data. This is particularly true for the central government level, where there is typically only one core institutional unit. The *GFSM 2014* framework does not prescribe the level of details in which the data for various subsectors need to be disaggregated. Given that various types of extrabudgetary units are very different from each other, it has been suggested that a subsectorization of extrabudgetary funds may be analytically useful. More disaggregated data could show what type of activities are conducted outside core units but still considered as general government. This information can be useful to understand how governments are organized in different countries. For example, one could learn to what extent financing functions or production of government services might be performed outside core government units.

Issue A: Reviewing the definition of EBUs in light of changes in the *2025 SNA*

Background to Issue

5. The *2025 SNA*[3] defines the central government sector as "Part of general government that includes all administrative departments of the national executive, legislative, and judicial functions, other central agencies and those nonmarket producers controlled by the central government, whose competence extends normally over the whole economic territory" replacing the previous definition (in *GFSM 2014* paragraph 2.85) which speaks of "institutional units of the central government plus those nonmarket NPIs that are controlled by the central government".

[3] 2025 System of National Accounts *(2025 SNA)*

6. Concerning the definition of extrabudgetary units, most parts of the *GFSM 2014* do not need to be amended. Specifically, paragraphs 2.1 (Introduction), 2.31-2.32 (Corporations), 2.64-2.66 (Delineating General Government and Public Corporations), 2.98 (Local Governments) and 2.124 (Decision Tree for Sector Classification of the Public Sector) describe the issues at stake well.

7. However, the term "nonmarket NPIs" (NPI standing for nonprofit institutional units) should be replaced by the broader term "nonmarket institutional units". The latter also includes entities which are legally entitled to record profits in their business accounts and to distribute them to their shareholders. For example, in many countries public transport providers are organized as enterprises, but receive high government grants, and are therefore classified as nonmarket units. Such changes to wording would also be in line with the draft chapter 30 (General government and the public sector) of the *2025 SNA*.

8. Therefore, in the GFSM paragraphs 2.58 (General Government Sector) and 2.83 "nonmarket NPIs" should be replaced by "nonmarket institutional units". In 2.1 (Government Control of Nonprofit Institutions) "NPIs" should be replaced by "nonmarket institutional units".

9. Furthermore, it should be considered to rewrite the beginning of *GFSM 2014* paragraph 2.59 as follows: Instead of "The general government sector does not include public corporations" it may be stated "The general government sector does not include entities classified as public corporations". This would make it clearer that "public corporations" is meant as a statistical term here, and that publicly owned enterprises (in a legal sense) can also be extrabudgetary units in a statistical sense.

Options Identified to Address Issue

Option A1: Maintain the Current *GFSM 2014* Guidance

10. Under this option the existing *GFSM 2014* reference to the extrabudgetary sector would remain as currently drafted.

Option A2: Align the language with the language in the *2025 SNA*.

11. Under this option the language of the definition would be adjusted to be in greater alignment with the language in Chapter 30 of the *2025 SNA*.

Option A3: Align the language with that in the *2025 SNA* and expand on what is covered within nonmarket producers, central agencies, administrative "departments".

12. Under this option the language of the definition will be adjusted to follow the *2025 SNA* language and additional clarifications would be added (see paragraphs 7-9 of this discussion note).

Draft Recommendations

13. **The research team and wider Task Team recommend option A3.** Alignment of *GFSM 2014* with the *2025 SNA* is an underlying objective for the update of the manual, and the additional clarifications will be helpful to both compilers and users to confirm the scope and nature of extrabudgetary government units.

Issue B: Clarifying Guidance on Identifying and Differentiating EBUs

Background to Issue

14. *GFSM 2014* (paragraph 2.82) defines the extrabudgetary entities and sectorizes them according to the control criteria. If these entities are separate institutional units they are presented separately as a subsector extrabudgetary central government. If an entity does not qualify as a unit, it is considered as part of the unit that controls it. The paragraph is written clearly, but it will be useful to incorporate the language in footnote 28 into the paragraph itself. Countries may have "off budget" funds which are simply special deposit accounts of the budgetary government that are usually not institutional units, but are confused for extrabudgetary units. It is crucial to provide the distinction between the "off budget" units and the real extrabudgetary units which are the separate institutional unit.

15. *GFSM 2014* (paragraph 2.83) mentions the NPI's controlled by government as an example of the extrabudgetary units. However, the example of units which are primary involved in financing activities is missing. Therefore, GFSM paragraph 2.82 or 2.83 should mention that trusts and other funds where the government carries all risk and rewards are considered as extrabudgetary units (see also Proposed Recommendations Document: 1.26 Treatment of trusts and other types of funds as separate institutional units). The possible examples of such funds are: COVID funds, R&D funds, emergency funds, compensation funds, or funds providing social benefits financed by taxes. It should also be mentioned that in some cases these extrabudgetary units are non-market "special purpose units" with rather narrow tasks and low staffing (see also Proposed Recommendations Document 1.19 Treatment of special purpose entities (SPEs) and residency).

16. In general, it might be useful if *GFSM 2014* paragraphs 2.82 and 2.83 are extended to include a broader range of common examples of EBUs, such as government controlled non-market units that are substantially, but not fully, funded from the budget like public transport companies, universities, public hospitals, as well as government controlled entities that are self-financed through compulsory fees, taxes or revenues from natural resources that do not enter the budgetary accounts such as price/trade regulators, compensation funds, wealth funds, guarantee funds, petroleum/oil funds, environmental fund, pension funds, etc.

17. Furthermore, GFSM paragraphs 2.81 or 2.82 could mention that the line between budgetary government and extrabudgetary units can be a bit blurry in terms of what exactly constitutes an institutional unit.

Options Identified to Address Issue

18. With respect to the current guidance on the nature and scope of extrabudgetary units and distinguishing them more clearly from the budgetary central government, the research team identified the following three options.

Option B1: Maintain the Current *GFSM 2014* Guidance.

19. Under this option the existing *GFSM 2014* reference to the extrabudgetary sector would remain intact.

Option B2: Expand the examples of extrabudgetary units but with no further principle-based guidance.

20. Under this option, the additional examples of the extrabudgetary units (see paragraphs 16-18) will be provided.

Option B3: Expand the examples of extrabudgetary units and distinguish between "off-budget" funds within the budgetary central government and actual extrabudgetary units.

21. This option proposes to expand the examples of the extrabudgetary units as in Option B2, but also to add additional principles-based guidance to distinguish between the units which are not autonomous institutional units, especially "off budget" funds, which have to be a part of the budgetary government, and those which can be considered true extrabudgetary units.

Draft Recommendations

22. **The research team and wider Task Team recommend option B3.** Expanded descriptions of extrabudgetary units will be useful, and additional guidance in principle will help to clarify the issue of "off budget" funds, providing extra clarity to users and compilers of the kinds of entities that are considered extrabudgetary and how and where to record them in their GFS data.

Issue C: Subsectorization of EBUs

Background to Issue

23. There is also the question of whether the extrabudgetary units should be split into subgroups. For GFS data, the Classifications of the Functions of Government (COFOG) classification is often used to illustrate the various functions of government expenditure (to some extent also for the main government subsectors). Among them, divisions 04 economic affairs, 07 health and 09 education would be of particular importance for extrabudgetary units. However, using COFOG would require a lot of detail from statistical providers and could cause significant confusion. The COFOG system does not foresee that the expenditure of a single government is allocated to a single COFOG division. Most importantly, the expenditure by universities on education is recorded in 09 education, but its R&D spending is recorded in the field of the research (typically to a large extent 04 economic affairs) and/or as basic research (part of 01 general administration). Furthermore, interest expenditure and Financial Intermediation Services Indirectly Measured (FISIM) are always recorded in 01 general administration.

24. Classification systems designed to classify whole entities into one function like the International Standard Industrial Classification of All Economic Activities (ISIC) might add some value for users, but the burden for compilers would be extremely high. Even total government expenditure is currently not allocated according to this classification.

25. An alternative approach would be to split the extrabudgetary sector into producing entities (extrabudgetary nonfinancial producers and extrabudgetary financial producers) and extrabudgetary funds (entities paying out transfers). This might be useful as extrabudgetary funds are often borderline cases between being an institutional unit on its own or being part of the core unit. In case of funds paying out social benefits, they may also be borderline to be considered social security funds. Furthermore,

extrabudgetary producers of financial services will often be borderline cases to public financial corporations classified outside of government. The decision tree for classifying financial and nonfinancial enterprises is different, too. However, such a breakdown would still be an additional burden for compilers and it would introduce new definitions which might lead to an inconsistent application across countries.

26. The available data in IMF's GFS database indicates that extrabudgetary central government is typically substantially smaller than budgetary central government. It might be seen as odd that the smaller component has to be broken down further. See the Annex of this Discussion Note for further information on the data availability for extrabudgetary units.

Options Identified to Address Issue

27. Based on considerations above, the research team identified the following two options:

Option C1: **Keep the status quo by not suggesting any split to the extrabudgetary sector.**

28. Under this option the existing *GFSM 2014* presentation of the extrabudgetary sector would remain unchanged.

Option C2: Split the extrabudgetary sector into subsectors.

29. Under this option the extrabudgetary units subsector would be shown to comprise three subsectors:

a) Extrabudgetary funds (entities paying out transfers)

b) Extrabudgetary non-financial producers

c) Extrabudgetary producers of financial services.

Draft Recommendations

30. **The research team and wider Task Team recommend option C1.** On balance, the Task Team concluded that the cost to compilers of breaking down extrabudgetary units outweighs the benefits for users. However, aggregate data for extrabudgetary units remains very useful for users and exists at least in the EU member states and in many countries that report data to the IMF GFS Database.

31. **One of the main benefits of showing extrabudgetary units separately is that it allows users to look at the core budgetary central government and extrabudgetary entities separately.** GFS information on the budgetary central government only enables users to better understand the link between administrative and GFS data. Therefore, countries should continue to be encouraged to provide at least aggregate data on extrabudgetary units.

Proposed Text for GFSM Update

32. The drafting team proposes to add the clarifications to the GFSM Update as described in recommendations A3 and B3 of this Discussion Note.

Preliminary Views of the GFSAC

33. **An earlier version of the discussion note was discussed at the GFSAC meeting of January 2026.** This version of the discussion note has addressed suggestions made by GFSAC members at that meeting and the Task Team recommendations in the note are consistent with the preliminary views of most GFSAC members. More information is available in the Summary of Discussions of the January 2026 GFSAC meeting.

Questions for Global Consultation

Issue A: Definition of EBUs

- Indicate your preferred choice: Option A1, Option A2 or Option A3. Please explain the reason for your choice and provide any other additional comments (including any alternative options you would like to propose).

Issue B: Identifying and Differentiating EBUs

- Indicate your preferred choice: Option B1, Option B2 or Option B3. Please explain the reason for your choice and provide any other additional comments (including any alternative options you would like to propose).
- What different types of extrabudgetary units are prevalent in your country?

Issue C: Subsectorization of EBUs

- Indicate your preferred choice: Option C1 or Option C2. Please explain the reason for your choice and provide any other additional comments (including any alternative options you would like to propose).
- If you do not agree with the recommendation, what type of breakdown (subsectorization) would be most useful and how would you use this information?

Annex: Data Reporting of Extrabudgetary Units

34. Extrabudgetary units are defined in the *GFSM 2014*, but only merit passing reference in the *2025 SNA* and Eurostat's *European System of Accounts 2010 (ESA 2010)*. For this reason, outside of the IMF's GFS framework, there is only very limited statistical reporting on extrabudgetary units. EU countries generally do not separately report the net lending of extrabudgetary government units (although Table 2 of the Excessive Deficit Procedure reporting does have the concept of "working balance" with the net lending of entities outside the working balance shown separately in aggregated form), but instead include them at the subsector level (i.e., central government, state governments, local governments, social security funds). Although, the current European System of Accounts transmission program includes voluntary items concerning the public debt of budgetary central government and extrabudgetary central government. As of August 2025, the Eurostat database shows this data for only 2 countries.

35. In contrast to that, the IMF's GFS database contains entries for the full accounts of extrabudgetary units at the central government level. However, a large proportion of countries do not provide these data. This limited availability is an indication that requiring additional breakdowns might be fruitless.

36. If data requirements on extrabudgetary units were extended, decisions would have to be made with respect to which data points should be required for each subgroup of extrabudgetary units. Currently some countries show the full accounts of extrabudgetary units. Requiring only the net lending ("budget balance") might provide valuable information for advanced users as there tends to be more information (both on plans and on intra-year realizations) for the core budgetary unit. Requiring only net lending would imply that countries would not need to show consolidating elements within subsectors (i.e., transfers and loans within the same level of government), which they might hesitate to publish.