STATISTICS

GFSM 2014 update

Discussion Note:

2.17 Boundary between capital and current transfers

Summary Details

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Summary of Issues and Draft Recommendations:

Capital transfers cover a broad and heterogeneous set of transactions, and the current GFSM wording does not always provide sufficient practical guidance for distinguishing them from current transfers. In particular, the existing definition may create confusion regarding capital transfers in cash, transfers linked to the acquisition or disposal of assets, and transactions such as investment grants, capital injections, and compensation payments. The note therefore recommends aligning the definition of capital transfers in the *GFSM 2014*[2] more closely with the *2025 SNA*[3] and supplementing it with illustrative examples.

Recommendations:

- Revise the definition of capital transfers in *GFSM 2014* in line with the *2025 SNA*.
- Supplement the definition with illustrative examples, including investment grants or capital grants, capital injections, and major compensation payments that qualify as capital transfers.
- Add examples of borderline current or capital cases, in which it may be useful to consider the perspective of the government's counterparty when distinguishing current from capital transfers.
- Retain the current GFSM guidance on the time of recording of capital transfers.

Introduction

1. The GFSM distinguishes between current and capital transfers on both the revenue and the expenditure sides of the accounts. This distinction is analytically important as the two types of transfers have different economic effects. For example, only current transfers redistribute income and affect gross disposable income and gross savings. In contrast, capital transfers are linked to the acquisition or disposal

[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)*

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

of assets (or liabilities) and primarily affect balance sheets rather than income and saving (in a national accounts context). As such, it is important to have clear guidance on distinguishing between current and capital transfers.

2. Like the *2025 SNA* (paragraph 4.28), the *GFSM 2014* (paragraphs 3.15-3.16) explains the distinction between current and capital transfers by first defining capital transfers. However, capital transfers in GFS and national accounts encompass a broad range of transactions and are therefore hard to define.

3. The definition of capital transfers in the *2025 SNA* and the *BPM7*[4] has been revised compared to the *SNA 2008* and the *BPM6*. This new definition brings it somewhat closer to the description in *GFSM 2014*, but it also differs in some important aspects. For instance, the *2025 SNA* explicitly mentions that transfers intended to address accumulated losses incurred over a multi-year period are to be recorded as capital transfers. While the definitions are otherwise similar in substance, the one in the *2025 SNA* / *BPM7* is arguably easier to understand. For example, the first sentence in the GFSM definition might be misinterpreted in the sense that capital transfers cannot be made in cash. Furthermore, the description in the GFSM might benefit from an illustrative enumeration of different types of capital transfers just after the definition of capital transfers (similar to the *ESA 2010*[5]).

4. This discussion note considers whether the definition of current and capital transfers in the *GFSM 2014* is adequate to differentiate between the two types of transfer, and whether the current guidance on the time of recording requires supplementing.

Issue A: Definition of capital transfers

Background to Issue

5. The *2025 SNA* (paragraphs 4.28, 9.10, 11.239) defines capital transfers as "unrequited transfers, either in cash or in kind, linked to the acquisition, disposal or transfer of an asset (other than cash or inventories); or where a liability is forgiven or assumed; or where the transfers are intended to address accumulated losses incurred over a multi-year period." It adds that "capital transfers are often large and irregular but neither of these are necessary conditions for a transfer to be considered a capital rather than a current transfer. If there is doubt about whether a transfer should be treated as current or capital, it should be treated as current".

6. This definition is similar to the one in the *2008 SNA*. However, the reference to transfers intended to address accumulated losses incurred over a multi-year period has been added to the *2025 SNA*. This is an important change to the definition as such transfers might be misclassified as subsidies or current transfers. Including this in the definition of capital transfers in the GFSM would add further clarity.

7. Furthermore, the *2025 SNA* definition makes clear from the outset that transfers can be provided either "in cash or in kind". In contrast, GFSM paragraph 3.16 first states that "capital transfers are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another", and only subsequently clarifies that cash transfers may also qualify as capital transfers. This ordering could confuse readers, as it may suggest that capital transfers are primarily restricted to non-cash transactions.

[4] *Balance of Payments, Seventh Edition (BPM7)*

[5] Eurostat's *European System of Accounts 2010 (ESA 2010)*

The *2025 SNA* avoids this ambiguity by defining capital transfers as transfers that are “linked to the acquisition, disposal or transfer of an asset”. This wording makes it clear that “other than cash” in the GFSM refers to the asset in recipient’s balance sheet and not the medium of transfer. This avoids possible confusion about whether capital transfers can be made in cash. At the same time, the more explicit reference to the recipient’s balance sheet makes it clearer that capital transfers include investment grants, which are the main component of capital transfers in many countries.

8. Capital transfers encompass a wide range of different transactions. The *2025 SNA*, and particularly the *ESA 2010* (paragraphs 4.145 – 4.167, 11.252), provide helpful examples of capital transfers to support practical application. Such as, major payments for compensation, transfers from government to corporations to cover large accumulated deficits, transfers to lower levels of government, and more. Examples of capital transfers in the *ESA 2010* include investment grants for the purposes of construction or maintenance of fixed assets; capital taxes; and other capital transfers such as those related to debt forgiveness or assumption and compensation payments.

9. The GFSM also provides additional guidance on capital transfers (paragraphs 6.91 and 6.124). In particular, these paragraphs clarify the distinction from subsidies and indicate that items such as investment grants, and transfers to cover the large operating deficits accumulated over two or more years are treated as capital transfers. The latter point also helps to clarify that certain capital injections can be treated as capital transfers. However, the GFSM could benefit from explicitly mentioning these two important examples of capital transfers in the definition of capital transfers (GFSM paragraph 3.16) and by referencing the more detailed description in paragraphs 6.91 and 6.124 as well as box 6.3.[6]

10. The GFSM defines a transfer as “a transaction in which one institutional unit provides a good, service, or asset to another unit without receiving from the latter any good, service, or asset in return as a direct counterpart.” (paragraph 3.10). This is identical to the *2025 SNA* and is compatible with the description of capital transfers. Therefore, no change to the general definition of a transfer in *GFSM 2014* para 3.10 is required.

Options Identified to Address Issue

Option A1: Maintain the current language in the *GFSM 2014*

11. This option would leave the current definition of capital transfers in GFSM 2014 unchanged. It would preserve consistency with the existing manual and avoid reopening drafting in a conceptually difficult area. However, it would leave unresolved the concerns identified above, in particular the potential confusion arising from the wording on assets “other than cash”, the absence of immediate examples following the definition, and the limited guidance in Chapter 3 on how to distinguish capital transfers from current transfers in practice.

Option A2: Align the language used in the new GFSM to the new definition in the *2025 SNA / BPM7*

12. This option would align the definition of capital transfers in the GFSM to the new definition from *2025 SNA* paragraphs 4.28, 9.10 and 11.239 (as well as BPM7, paragraph 3.33). It would do so by

[6] Table A7.4 which shows the correspondence of GFS and SNA expense transactions makes explicit reference to D.91 capital taxes and D.99 other capital transfers but not D.92 investment grants. The updated GFSM should therefore explicitly include D.92 investment grants in Table A7.4 for completeness.

replacing the first two sentences in *GFSM 2014* paragraph 3.16 with: “A capital transfer is an unrequited transfer, either in cash or in kind, linked to the acquisition, disposal or transfer of an asset (other than cash or inventories); or where a liability is forgiven or assumed; or where the transfers are intended to address accumulated losses incurred over a multi-year period.” This would improve consistency across macroeconomic statistical standards and would clarify certain aspects of the current definition, including the treatment of transfers intended to address accumulated losses incurred over a multi-year period. However, this option would not fully address the practical difficulties faced by compilers unless additional explanatory guidance was also provided.

Option A3: Revise the definition of capital transfers in Chapter 3 and supplement it with examples

13. This option would align the core definition in Chapter 3 with the language of the *2025 SNA* and, in addition, provide illustrative examples directly after the definition. The coverage of multi-year losses is already included in the core definition of the *2025 SNA* (see Option A2). In addition, there should be an explicit reference to investment grants as they are the most important type of capital transfers on the expenditure side. Possibly, there could also be an additional sentence on capital injections. Furthermore, there should be references to the more detailed description of capital transfers in GFSM chapter 6. This option would improve consistency with the *2025 SNA* while also making the guidance in the GFSM more practical and accessible for compilers. Presenting the examples together with the definition would help to clarify the distinction between capital and current transfers.

14. Potential drawbacks of Option A3 include: (1) an illustrative list added to Chapter 3 may be perceived as exhaustive, creating unintended boundary effects for transactions not explicitly listed; and (2) drafting illustrative examples that work appropriately across all country contexts is inherently challenging and will require careful consultation. To mitigate these risks a sentence is suggested within the proposed text for the GFSM update (see paragraph 34), which explicitly states that the examples given are not exhaustive.

Draft Recommendations

15. **The task team recommends option A3.** This option best addresses the issues identified above because it combines closer alignment with the *2025 SNA* with clearer and more operational guidance in the GFSM. Revising the core definition would improve conceptual consistency across standards, while the addition of examples in Chapter 3 would make the guidance easier to apply in practice.

16. **At the May 2026 GFS Advisory Committee (GFSAC) meeting there was support for the Task Team’s recommendation of Option A3.** For fiscal analysis purposes, the GFSAC also suggested considering a box to clarify the different types of unrequited transfers and their implications for fiscal policy analysis.

Issue B: Distinguishing between current and capital transfers

Background to Issue

17. Like the SNA, the *GFSM 2014* defines current transfers as transfers which are not capital transfers. The further explanations of what constitutes a current transfer are also very similar to those in the *2025 SNA*. For example, *2025 SNA* paragraph 9.39 and *GFSM 2014* paragraph 3.17 both state that "Current transfers directly affect the level of disposable income and influence the consumption of goods or services."

18. In the GFS framework, both current and capital transfers affect net lending/net borrowing, which is the main balancing item for the government sector.[7] However, within the frameworks of the SNA and BPM the distinction may also affect other important balancing items, such as saving in the sequence of national accounts or the current account balance in balance of payments statistics.

19. As noted in Section A, the distinction between capital and current transfers could be made clearer by revising the definition of capital transfers and adding illustrative examples in Chapter 3. However, additional guidance may still be needed on how to distinguish the two categories in borderline cases.

20. Unlike the SNA, the GFSM is focused specifically on government. However, the distinction between current and capital transfers may often be easier to assess from the perspective of the government's counterparty, since the economic impact of the transfer is frequently more apparent on that side of the transaction. For example, investment grants for home improvements may constitute a regular and recurring budget item from the government's perspective, but they are typically linked to the acquisition or improvement of assets by the recipient household and may therefore be more readily identified as capital transfers from the household's perspective.

21. Both the GFSM and the SNA provide similar guidance on what to do when in doubt about the nature of a transfer, The *GFSM 2014* (paragraph 3.18) adopts the sentence from the SNA that "if there is doubt about whether a transfer should be treated as current or capital, it should be treated as current." Without further explanation, such guidance might induce readers to classify investment grants as current transfers.

22. The importance of considering both parties to a transaction when determining whether a transfer is capital or current is stressed in paragraph 3.18 in the current GFSM and in paragraphs 9.40 and 11.241 of the *2025 SNA*. However, in contrast to the GFSM, the paragraphs in the SNA also provide illustrative examples where the perspective of the government's counterparty is crucial for the classification of transfers as current or capital. Building on *2025 SNA* paragraph 4.28, the GFSM might add such examples from the perspective of governments' counterparties. This would also provide a good contrast to the explanation in *GFSM 2014* paragraph. 3.17 that "Current transfers directly affect the level of disposable income and influence the consumption of goods or services".

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[7] The one exception to this are in-kind capital transfers where the transfer is in the form of a nonfinancial asset. In this scenario there is an impact on net worth but no impact on net lending / net borrowing.

Options Identified to Address Issue

Option B1: **Maintain the current language in the *GFSM 2014***

23. This option would retain the current treatment in *GFSM 2014* without additional guidance on the distinction between current and capital transfers. It would preserve the existing structure of the manual and avoid introducing further interpretative language. However, it would not resolve the practical difficulties that may arise in borderline cases, particularly where the nature of the transfer is clearer from the perspective of the counterparty than from that of government.

Option B2: Add guidance on considering the counterparty perspective when distinguishing between current and capital transfers

24. This option would supplement the *GFSM 2014* guidance (paragraph 3.18) by noting that, in determining whether a transfer is current or capital, it may be useful to consider the perspective of the government's counterparty. This would not change the underlying classification principles but would provide an additional interpretative aid in cases where the classification is not immediately clear from the government's perspective alone. Such guidance could be particularly helpful for transfers related to the acquisition, disposal, or improvement of assets by households or other sectors. Paragraphs 9.40 and 11.241 in the *2025 SNA* are good examples of how this could be done.

25. Potential drawbacks of Option B2 include: (1) government compilers may not always have reliable information about the counterparty's balance sheet treatment, making it difficult to apply the counterparty perspective in practice; and (2) without worked examples accompanying the guidance, the counterparty perspective test may be interpreted inconsistently across countries, potentially undermining cross-country comparability.

Draft Recommendations

26. **The task team recommends Option B2.** This option would strengthen the practical guidance in the GFSM by clarifying that, in borderline cases, the classification of a transfer may be easier to assess from the perspective of the counterparty.

27. This recommendation complements the proposals in Section A, which would already improve the distinction by revising the definition and adding examples in Chapter 3.

28. **At the May 2026 GFSAC meeting there was support for the Task Team's recommendation of Option B2.**

Issue C: Time of recording

Background to Issue

29. The *2025 SNA* (paragraphs 4.198–4.204) provides substantially more detailed guidance on the time of recording of distributive transactions than the *2008 SNA*. It states that fines and penalties are recorded at the time the issuing unit has an unconditional claim on the funds (paragraph 4.203). For grants and voluntary transfers, it distinguishes between cases where the recipient has a legal claim or not. In the first case it is recorded when the conditions are fulfilled, in the latter when the payment is made (paragraph

4.204). This is in line with the *GFSM 2014* and much of the wording is identical to paragraphs 3.85 and 3.86. Therefore, conceptual changes to the time of recording do not seem warranted.

30. Such guidance is particularly important for some transactions classified under other capital transfers (D.99 in 2025 SNA / 2822 in the GFSM). For example, transfers intended to address accumulated losses incurred over a multi-year period are not recorded when the losses are incurred, but when the obligation to cover them arises. Both the *2025 SNA* and the *GFSM 2014* explain that cash grants where the recipient has no legal claim are recorded at the time of the cash payment (*GFSM 2014,* paragraph 3.86).

Options Identified to Address Issue

Option C1: **Maintain the current guidance in GFSM 2014**

31. This option would leave the current GFSM guidance on the time of recording of capital transfers unchanged. It would preserve the existing treatment, which appears to be adequate in general, and avoid introducing more detailed rules in an area where only a limited number of cases appear to raise practical questions.

32. A potential drawback of Option C1 is that there may be still some room for interpretation on time of recording, particularly for investment grants and transfers related to accumulated losses. This may lead to divergent practices across countries and frameworks over time.

Option C2: Maintain principles concerning time of recording, but add more guidance for specific types of capital transfers where the meaning of accrual is less clear

33. This option would retain the current general principles but supplement them with additional guidance for specific types of capital transfers for which the meaning of accrual is less clear. It would thereby provide more detail than the *2025 SNA*. Such guidance would focus on cases where the timing of recording does not coincide with the period in which the underlying economic event occurred. This concerns in particular transfers intended to cover losses incurred over a multi-year period. It would also explain how to treat borderline cases of legal claims on investment grants. This would help compilers apply the accrual principle more consistently in practice without changing the overall framework.

34. A potential drawback of Option C2 is the risk of over-specifying rules in an area where flexibility is appropriate and edge cases are limited. More detailed guidance could inadvertently create rigidity or unintended hierarchy among the rules, complicating application in practice. More detailed guidance than in the SNA could also contribute to inconsistencies.

Draft Recommendations

35. **The task team recommends Option C1.** The existing GFSM guidance on time of recording is in line with the new SNA. While there may be some practical difficulties, they seem limited to a small number of specific cases. On balance, these issues do not appear to warrant a revision of the core guidance.

36. **At the May 2026 GFSAC meeting there was support for the Task Team's recommendation of Option C1.**

Preliminary Views of the GFSAC

37. **An earlier version of the discussion note was discussed at the GFSAC meeting of May 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 May 2026 GFSAC meeting.

Proposed Text for GFSM Update

38. The drafting team proposes to substantially extend paragraphs 3.16 and 3.18 in the GFSM and align the definition of capital transfers with *2025 SNA* (new text in green). Paragraph 3.16 should also include an extensive list of the most important types of capital transfers (option A3). Paragraph 3.18 should give examples of cases where the perspectives of parties to a transaction differ, similar to the 2025 SNA (option B2).

> *3.16* ~~Capital transfers are transfers in which the ownership of an asset~~ ~~**(other than cash or inventories)**~~ ~~changes from one party to another, or that oblige one or both parties to acquire or dispose of an asset (other than cash or inventories), or where a liability is forgiven by the creditor.~~ Capital transfers are unrequited transfers, either in cash or in kind, linked to the acquisition, disposal or transfer of an asset (other than cash or inventories); or where a liability is forgiven or assumed; or where the transfers are intended to address accumulated losses incurred over a multi-year period. ~~**Cash transfers**~~ ~~involving disposals of noncash assets (other than inventories) or acquisition of noncash assets (other than inventories) are also capital transfers.~~ A capital transfer results in a commensurate change in the stock position of one or both parties to the transaction. Capital transfers are typically large and infrequent, but capital transfers cannot be defined in terms of size or frequency. A transfer in kind without a charge is a capital transfer when it consists of: the transfer of ownership of a nonfinancial asset (other than inventories); ~~and~~ or the forgiveness of a liability by a creditor when no corresponding value is received in return. Major nonrecurrent payments in compensation for accumulated losses or extensive damages or serious injuries not covered by insurance policies are also capital transfers. A transfer of cash is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of an asset by one or both parties to the transaction. This means that investment grants to finance construction or acquisition of infrastructure assets are also capital transfers. Capital injections are recorded as capital transfers when the government does not expect a realistic rate of return or receive nothing of equal value. More detailed explanations can be found in paragraph 6.124 and Box 6.3. While the above paragraph and the referenced text in Chapter 6 lists the most common types of capital transfers the list is necessarily non-exhaustive.
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> 3.18 It is possible that some cash transfers may be regarded as capital by one party to the transaction and as current by the other party. So that a donor and a recipient do not treat the same transaction differently, a transfer should be classified as capital for both parties even if it involves the acquisition or disposal of an asset, or assets, by only one of the parties. The characteristic of capital transfers that they redistribute wealth but leave savings unaffected, is frequently more apparent on the side of the government's counterparties. For example, investment grants for home improvements may constitute a regular and recurring budget item from the government's perspective, but they are typically linked to the acquisition or improvement of assets by the recipient households and may therefore be more readily identified as capital transfers from the households' perspective. When there

is doubt about whether a transfer should be treated as current or capital, it should be treated as a current transfer.

Questions for Global Consultation

Issue A. Definition of capital transfers

- 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).
- Is the current GFSM definition of a transfer (*GFSM 2014*, paragraph 3.10) clear and sufficient as a foundation for classifying capital and current transfers?

Issue B. Distinction from current transfers

- Indicate your preferred choice: Option B1 or Option B2. Please explain the reason for your choice and provide any other additional comments (including any alternative options you would like to propose).

Issue C. Time of recording

- 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).
- Do you encounter any challenges with respect to the time of recording of specific types of capital transfers for which the GFSM guidance is unclear or insufficient? If so, please specify?