STATISTICS

GFSM 2014 update

Proposed Recommendations Document:

2.1 Boundary between government-controlled nonmarket producers engaged in nonfinancial activities (government units) and public nonfinancial corporations

Summary Details

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<tr><td colspan="2">Links to Related Guidance/Discussion/Issue Notes and Latest Manuals:

DN 2.1 Boundary between government-controlled nonmarket producers engaged in nonfinancial activities (government units) and public nonfinancial corporations

GFSM 2014, 2025 SNA (pre-edit) and BPM7 (pre-edit) [1]</td></tr>
<tr><td>Global Consultation(s):</td><td>GFSM: March 2026</td></tr>
<tr><td>Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):</td><td>N/A</td></tr>
<tr><td>Discussions at GFSAC Meeting(s):</td><td>October 2025</td></tr>
<tr><td colspan="2">Summary of Proposed Recommendations:

The proposed recommendations to update the GFSM are to:

• adopt a more structured approach for sector classification that combines qualitative and quantitative criteria supported by decision trees;

• update the production cost base used in the quantitative market test to include depletion and rent of nonproduced assets;

• estimate the net return to capital using an opportunity-cost approach, operationalized through the Weighted Average Cost of Capital method;

• provide clearer guidance for public utilities, emphasizing that monopoly/oligopoly conditions, tariff regulation, and public service obligations are not sufficient on their own to imply nonmarket status;

• introduce a simple decision tree to support the sector classification of market regulatory agencies;</td></tr>
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[1] Links are to the pre-edit (or "white cover") versions of the *2025 SNA* and *BPM7*. While technically still considered draft only editorial amendments will be made between these versions and the final versions.

- apply the standard quantitative market test to market regulatory agencies, implying no change to existing *GFSM 2014* criteria;
- ensure consistency with the *2025 SNA* by excluding tax revenues (including compulsory tax revenues which are now considered taxes, and government compensation for tax collection) from sales in the market test; and
- not introduce additional guidance for the classification of regional regulatory agencies; or for NPIs controlled by public corporations, maintaining existing *GFSM 2014* guidance.

Background and Issues

1. The principles set out in *GFSM 2014* (paragraphs 2.64 - 2.75) on how to distinguish between market producers and nonmarket producers can be challenging for compilers (and users) to interpret and apply. As a result, this can lead to issues of comparability between the coverage of general government. As one country may apply the *GFSM 2014* principles and classify a government-controlled unit as a public nonfinancial corporation while another country might classify a unit with similar characteristics as a government unit. This perceived lack of clarity on whether or not a government-controlled unit is a government unit or a public corporation can impact fiscal data and hinder fiscal analysis and decision making, such as with respect to risk exposure and sustainability.

2. Updates introduced in the *2025 SNA* expand the production costs used in the market test[2] by incorporating rent and depletion, as well as including the net return to capital for both market and nonmarket units. In addition, the reclassification of compulsory licenses as taxes, clarifies that these should be excluded from sales revenue. Concurrently, Eurostat's *MGDD 2022*[3] and IMF technical assistance have moved toward more prescriptive applications of the market test, combining quantitative thresholds with qualitative indicators. These developments highlight the need for additional guidance in complex cases, including regulated public utilities, regulatory agencies, entities operating under regional arrangements, and nonprofit institutions controlled by public corporations.

Issue A: More Prescriptive Guidance on the Market Test

3. *GFSM 2014* and the *2025 SNA* define market producers as units that charge economically significant prices, but deliberately avoid prescribing rigid numerical thresholds, recognizing cross-country and sectoral differences. Classification is therefore principle-based and undertaken on a case-by-case basis, although this lack of precision can make it difficult to consistently determine whether a government-controlled unit should be treated as a market or nonmarket producer. In practice, existing guidance has not always been sufficient to ensure clear and comparable outcomes.

4. While *GFSM 2014* does not mandate a fixed quantitative rule, it notes that public corporations are generally expected to cover at least half of production costs over a sustained multi-year period. This has led many countries to apply an implicit 50 percent sales-to-cost threshold when conducting the market test. However, uncertainties remain regarding the appropriate time horizon, the metric to be used across

[2] The "market test" refers to the quantitative ratio of sales to production costs, as described in *GFSM 2014* paragraphs 2.73-2.74.

[3] *Manual on Government Deficit and Debt 2022* *(MGDD 2022)*

years, and the precise definition of sales and costs, despite guidance in the *GFSM 2014* on the exclusion of taxes, subsidies, and own-account production from sales.

5. European statistical guidance, notably Eurostat's *MGDD 2022*, adopts a more prescriptive, rules-based approach that combines quantitative thresholds with qualitative criteria and decision trees to enhance comparability. Building on this, recent IMF technical assistance work has proposed structured indicator-based frameworks that incorporate factors such as government financial support, profitability, competitive conditions, and price setting. These developments suggest that a more systematic approach could improve consistency while still requiring careful judgment in classification decisions.

6. Most respondents to the global consultation on GFSM Update Discussion Note 2.1 supported clearer principle-based guidance that combines quantitative and qualitative criteria, using tools like decision trees to enhance consistency and transparency. There was less support for strictly rules-based approaches, which were viewed as overly prescriptive. Some favored using select indicators with decision trees for classifying units in nonfinancial activities. The 50 percent quantitative threshold was generally considered suitable but not sufficient on its own.

Issue B: Sum of Costs Approach

7. The *2025 SNA* expands the sum-of-costs approach to value nonmarket output and production for own final use, to include two additional cost components - depletion of natural resources used in production and rent payable for the use in production of nonproduced nonfinancial assets - alongside intermediate consumption, remuneration of employees, other taxes on production, depreciation, and return to capital. This expansion raises both practical and conceptual issues. Conceptually, rent now extends beyond natural resources to cover all nonproduced nonfinancial assets, including intangible nonproduced assets. Practically, the inclusion of depletion and rent increases measured production costs for public entities engaged in forestry, mining or other natural resource intensive industries, potentially impacting whether they pass the quantitative market test.

8. The treatment of return to capital presents particular challenges. While *GFSM 2014* recognizes return to capital as a production cost, it provides limited guidance on estimation. In contrast, *MGDD 2022* uses net interest as a proxy, and the *2025 SNA* defines return to capital as the rate of return applied to the value of nonfinancial assets used in production. Applying a return rate designed for nonmarket producers in the context of the market test raises methodological concerns, leading the discussion note to consider alternative approaches from corporate finance, notably simplified applications of the weighted average cost of capital (WACC) method, which incorporates both debt and equity financing.

Issue C: Public Utility Companies

9. Public utilities such as water, electricity, energy, postal services, and telecommunications pose particular challenges for applying the market–nonmarket distinction, as they typically operate under monopoly or oligopoly conditions, face high fixed costs and economies of scale, and are subject to tariff regulation and public service obligations. While these characteristics influence revenue and cost structures, they do not, in themselves, determine nonmarket status. Nonetheless, limited autonomy in setting prices or output has led some countries to classify such entities as nonmarket producers, even where regulated tariffs cover production costs, including a return to capital.

10. Neither the existence of a natural monopoly nor government control alone implies that prices are not economically significant; classification should rest on whether prices meet the market test. In practice, rate-of-return regulation often results in tariffs set at average cost, yielding zero economic profit while still covering capital costs. Relevant qualitative indicators for public utilities include barriers to entry beyond natural ones, tariff levels relative to costs, and profitability, suggesting that clearer guidance, potentially through the systematic use of such indicators, could improve consistency in classification decisions.

11. The global consultation on GFSM Update Discussion Note 2.1 indicated that most respondents encountered few classification challenges, particularly for long-established entities where accounting data are readily available. Challenges were reported mainly for newly created entities, in distinguishing between market and nonmarket activities, and in cases where data limitations or gaps exist.

Issue D: Regulatory Agencies – Clarity in Sectoral Classification

12. *GFSM 2014* provides guidance on the classification of market regulatory agencies but allows for overlap between regulatory functions and subsidy distribution, which can create uncertainty in sectoral classification across countries. In contrast, Eurostat's MGDD 2022 adopts a narrower and more structured approach, clearly distinguishing agencies engaged in direct market intervention from regulatory bodies performing indirect functions such as licensing and supervision. This distinction, already applied to financial regulators, could be extended to agencies overseeing agricultural products, monopolistic markets, and natural resources to improve consistency and clarity in classification.

Issue E: Regulatory Agencies – Market Test

13. While the standard market test applies to all units, *ESA 2010* and Eurostat's *MGDD 2022* propose a specific approach for regulatory agencies based on their main activity. Where possible, agencies should be split into market operations and subsidy distribution and classified separately; if not, the *MGDD 2022* applies an 80-percent cost rule, classifying an agency as a market producer only if most of its costs relate to market activities. This activity-based approach differs from the sales-to-cost ratio and can lead to different classification outcomes.

Issue F: Regulatory Agencies – Fees, Licenses, and Revenue in the Market Test

14. The *2025 SNA* reclassifies compulsory nontransferable license fees as taxes, requiring their exclusion from sales in the market test and rerouting of such revenues through government accounts, even when collected by regulatory agencies classified as public nonfinancial corporations. While tax collection alone does not determine sector classification, agencies that also have the authority to impose and set tax rates may be performing inherently governmental functions, particularly if tax revenues are material or create conflicts of interest. To preserve the concept of economically significant prices, taxes should be excluded from the sales-to-cost ratio used in the market test, although this approach would not apply if an alternative cost-based criterion is adopted for regulatory agencies.

15. Respondents to the global consultation mainly supported excluding from sales revenues compulsory nontransferable license fees, emphasizing a principle-based treatment that ensures consistency with the *2025 SNA* and uniform application of the market test, with taxes excluded from sales. Some noted that regulatory agencies with the power to impose taxes should generally be classified as government units but saw no need to introduce a specific rule to this effect.

Issue G: Regulatory Agencies – Classification as Regional or International Institutions

16. Some regulatory agencies operate under the economic ownership of economic unions and simultaneously undertake market regulation and subsidy management in line with common supranational policies, rather than national government direction. This creates classification challenges for both institutional sector and residency, as current *GFSM 2014* guidance for regional and international organizations is limited and does not explicitly address such agencies. While *MGDD 2022* provides a detailed approach, distinguishing market and nonmarket producers and separating inventories whose economic ownership lies with the union, this can introduce conceptual and practical complexities. Under BPM7, it can be inferred that the outcome of the market test determines both the classification and residency of entities operating under regional economic arrangements: nonmarket producers are treated as international organizations, while market producers are classified as resident public corporations.

17. The global consultation highlighted that while respondents supported the clarification of guidance, none of the respondents reported being aware of regulatory agencies under the ownership or control of an economic union that both regulate markets and distribute subsidies.

Issue H: NPIs Controlled by Public Corporations

18. In some countries, public corporations establish nonprofit institutions (NPIs) to carry out quasi-fiscal or nonmarket activities and finance them largely through transfers rather than direct government budget funding. This can raise classification questions, and some additional guidance on this scenario may be merited. That said, it can be argued that *GFSM 2014* already guides (through Figure 2.4) that if such NPIs qualify as institutional units and are controlled by a public unit, they are classified as public units, with their sector determined by whether they are market or nonmarket producers. Market NPIs are classified within the public corporations sector, while nonmarket NPIs are classified within general government, potentially as extrabudgetary units.

Proposed Recommendations

19. The proposed recommendation to address **Issue A** is to:

- Provide more prescriptive quantitative and qualitative guidance for sector classification based on a decision tree approach. The proposed decision tree is included below alongside the proposed text for the updated GFSM.

20. The proposed recommendations to address **Issue B** are to:

- Update the production costs in the quantitative market test to include depletion and rent.
- Apply an opportunity-cost approach to estimating the net return to capital, using the Weighted Average Cost of Capital (WACC) method.

21. The proposed recommendation to address **Issue C** is to:

- Provide more guidance on the classification of public utility companies, in particular by clarifying that utility companies operating as a monopoly or oligopoly, subject to tariff regulation, and fulfilling public service obligations are not, in themselves, sufficient to classify them as nonmarket producers.

22. The proposed recommendation to address **Issue D** is to:

- Introduce a simple decision tree to support the sector classification of market regulatory agencies. The decision tree is included below alongside the proposed text for the updated GFSM.

23. The proposed recommendation to address **Issue E** is to:

- Apply the same quantitative market test criteria to market regulatory agencies as used for other public corporations. This results in no change to the guidance in *GFSM 2014.*

24. The proposed recommendations to address **Issue F** is to:

- Explicitly exclude tax revenues (including payments for compulsory transferable licenses which are to be recorded as taxes in the next GFSM[4] and government compensation for tax collection) from the sales numerator in the market test.

25. The proposed recommendation to address **Issue G** is to:

- Clarify that, for regulatory agencies controlled by economic unions, it is important to assess whether or not they are market producers to guide whether to classify them as regional/international organizations (nonmarket producers) or public corporations (market producers).

26. The proposed recommendation to address **Issue H** is to:

- Not introduce additional guidance on the sector classification of non-profit institutions controlled by public corporations and maintain existing guidance on the control of non-profit institutions in the *GFSM 2014.*

Rationale for Proposed Recommendations

27. The proposed recommendations aim to enhance the clarity and consistency in applying sector classification guidance for government-controlled units. By addressing the challenges in interpreting the principles outlined in *GFSM 2014*, the recommendations aim to reduce discrepancies in classification practices across countries.

[4] This decision was reached through GFSM Update Research Project DN 1.24 *Distinction between taxes, services and other flows*.

Proposed Text for GFSM Update[5,6]

Delineating General Government and Public Corporations

2.64 The general government sector consists of all government units and all resident nonmarket NPIs that are controlled by government units, while the public corporations subsector (see paragraph 2.104) consists of all corporations controlled by government units or other public corporations. General government also includes public enterprises, legally constituted as corporations, but that do not satisfy the statistical criteria to be treated as corporations (see paragraphs 2.31–2.35).[21] To determine which public enterprises are treated as general government units and which as public corporations, it is necessary to delineate nonmarket and market producers. Such a delineation is undertaken on a case-by-case basis, drawing on both qualitative (see paragraphs 2.67—x.x) and quantitative (see paragraphs x.x--2.75) assessments to determine whether a producer is nonmarket or market. The qualitative assessment should be conducted first, as it may be sufficient on its own to conclude that a unit is nonmarket.

[21] *Public enterprises are often also referred to as state-owned enterprises or parastatals.*

2.65 A **market producer** is an institutional unit that provides all or most of its output to others at prices that are economically significant. A **nonmarket producer** provides all or most of its output to others for free or at prices that are not economically significant.

2.66 Economically significant prices are prices that have a significant effect on the amounts that producers are willing to supply and on the amounts purchasers wish to buy. These prices normally result when:

- The producer has an incentive to adjust supply either with the goal of making a profit in the long run or, at a minimum, covering capital and other costs.
- Consumers have the freedom to purchase or not purchase and make the choice on the basis of the prices charged.

These conditions usually mean that prices are economically significant if sales cover the majority of the producer’s costs and consumers are free to choose whether to buy, and how much to buy, on the basis of the prices charged.

2.67 A price is not economically significant when it has little or no influence on how much the producer is prepared to supply and on the quantities demanded. Economically insignificant prices may be charged in order to raise some token revenue and/ or reduce, but not eliminate, excessive demand that may occur if goods and services are provided free of charge. An economically insignificant price may be set on administrative, social, or political grounds for goods or services for which the amount to be supplied is fixed.

[5] The proposed text for the updated GFSM remains subject to further review and may not be finalized until the conclusion of the drafting phase of the GFSM update.

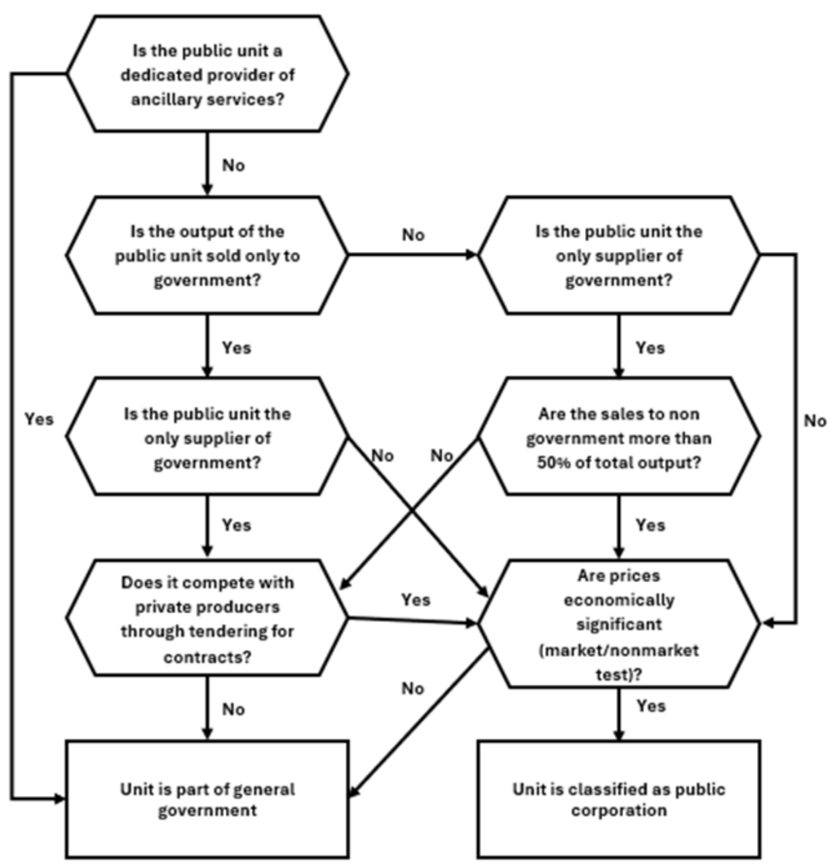
[6] Text shown in red indicates proposed additions; text shown with strikethrough indicates proposed deletions; and text shown in blue indicates text moved from elsewhere in the same section.

2.68 It can be presumed that prices are economically significant when the producers are private corporations and their output is primarily sold to other corporations and households. When there is public control, however, the unit's prices may be modified for public policy purposes. This may cause difficulties in determining whether the prices charged are economically significant. Public corporations are often established to provide goods and services in larger quantities than a private corporation would provide at the same selling price. Even when the sales of public corporations may cover a large portion of their costs, one can expect that they respond to market forces quite differently than would private corporations.

2.72 For the qualitative assessment, ~~the~~ a question arises as to whether government owned entities supplying goods and services to government should be treated as market or nonmarket producers. The producer of these goods and services is not a market producer if it is a dedicated provider of ancillary services (see paragraph 2.45). These entities will, in general, not satisfy the criteria to be an institutional unit. Similarly, it can often be assumed that the producer is not a market producer if the unit provides the goods and services in the absence of competition[23] with private producers, and when the choice of supplier to government is not based on price. This is true regardless of whether the supplier is the only supplier and whether the government is the only customer of the supplier. To facilitate this qualitative assessment, the decision tree set out in [xx] is provided.

[23] *Prices determined in a competitive market are highly likely to be economically significant prices.*

2.71 Furthermore, it is likely that corporations receiving substantial government financial support, or enjoying other risk-reducing factors such as substantial government guarantees, will respond to changes in the economic conditions differently from corporations without such advantages because their budget constraints are softer, and so are more likely to be classified as nonmarket producers.



2.69 For the quantitative assessment, a review of sales and production costs should be conducted. Although there is no prescriptive numerical relationship between the value of sales (excluding both taxes and subsidies on products) and the production costs, one would expect the value of the sales by public corporations to average at least half of the production costs over a sustained multiyear period.

2.70 In principle, the distinction between market and nonmarket producers should be made on a case-by-case basis. The classification of a producer as a market or nonmarket producer should be considered over a range of years.[22] Once classified, only if a change in pricing holds for several years or is expected to hold for several years

> [22] *When a newly established unit needs to be classified to a sector, the classification as a market or nonmarket producer should be based on its intent regarding the prices it is to charge for its goods and services.*

~~**2.71** It is likely that corporations receiving substantial government financial support, or enjoying other risk-reducing factors such as substantial government guarantees, will respond to changes in the economic conditions differently from corporations without such advantages because their budget constraints are softer, and so are more likely to be classified as nonmarket producers.~~

~~**2.72** The question arises whether government owned entities supplying goods and services to government should be treated as market or nonmarket producers. The producer of these goods and services is not a market producer if it is a dedicated provider of ancillary services (see paragraph 2.45). These entities will, in general, not satisfy the criteria to be an institutional unit. Similarly, it can often be assumed that the producer is not a market producer if the unit provides the goods and services in the absence of competition[23] with private producers, and when the choice of supplier to government is not based on price. This is true regardless of whether the supplier is the only supplier and whether the government is the only customer of the supplier.~~

> ~~[23] *Prices determined in a competitive market are highly likely to be economically significant prices.*~~

2.73 To assess whether a producer is a market producer, it is necessary to carry out a comparison between the receipts from sales and the production costs of the goods and services sold. Sales are measured before any taxes applicable to the products are added. Sales exclude all payments receivable from government unless they would be granted to any producer undertaking the same activity. Additionally, tax revenues (including compensatory license fees and government compensation for tax collection) should be excluded from the value of sales. Production for own use, known as own-account production, does not generate receipts from sales, and so it is not considered as part of sales in this context.

2.74 Production costs are calculated as the sum of compensation of employees, use of goods and services, consumption of fixed capital, depletion, rent on nonproduced nonfinancial assets, net return to capital and other taxes on production.[24] These concepts used in the calculation of production costs exclude all costs associated with own account capital formation. ~~Further, a return to capital is included in production costs if the unit is to be treated as a market producer.~~ Subsidies receivable on production are not deducted from the production costs.

> [24] *For a detailed breakdown of other taxes on production, see paragraph A7.41 and Table A7.3.*

x.x The net return to capital is equal to the rate of return to capital multiplied by the value of nonfinancial assets used in the production and it is recommended to use a rate of return from an opportunity cost perspective. The weighted average cost of capital (WACC) is generally the preferred method for calculating the net return to capital. However, where the WACC cannot be estimated due to the nature of the unit being assessed or data availability, the rate of return could be approximated by applying a mark-up for normal net operating surplus, or using a rate based on the interest rate paid for the borrowing of funds. The latter approach would be preferable for nonmarket producers, who do not aspire to make profits.

[footnote] The WACC is calculated as the product of the stock of nonfinancial assets and an average cost of capital. The latter combines the cost of equity and debt - proxied by the nominal net return to capital.

2.75 As a nonmarket producer, a general government institutional unit will have mostly nonmarket establishments (see paragraph 2.24), but it may have one or more market establishments.[25] A **market establishment** is an establishment that charges economically significant prices. Where a general government unit sells some of its output at prices that are economically significant, it may be possible to identify market producers. Market establishments within government that satisfy the criteria to be separate institutional units are quasi-corporations (see paragraph 2.22), and are treated in the same way as corporations. The remaining market establishments would remain an integral part of the general government sector.

[25] The sales of goods and services (142) include sales of market establishments and sales by nonmarket establishments, and are identified as specific categories of revenue (see paragraphs 5.136–5.141).

Practical Application of Sector Classification Principles

Public utility companies

x.x Public utility companies, including providers of water, electricity, gas, energy, postal services, and telecommunications, often operate under monopoly or oligopoly conditions, are subject to regulation and may be required to fulfil public service obligations. These characteristics affect the structure of revenues and costs but do not, in themselves, determine whether prices are economically significant. In particular, the existence of a natural monopoly, the presence of price regulation, or limited autonomy to set prices or output levels should not be interpreted as sufficient grounds for classifying a utility as a nonmarket producer.

x.x Public utility companies should be evaluated using the same qualitative and quantitative criteria as other government-controlled units to determine whether their prices are economically significant. Even when prices are regulated, it is possible for them to remain economically significant. Qualitative considerations, such as barriers to entry that extend beyond natural monopoly conditions, or price controls so restrictive that corporations are unable to adjust supply or prices to achieve at least long-term cost recovery, are relevant indicators for classification as nonmarket producers but do not replace the qualitative and quantitative criteria outlined in paragraphs 2.64—2.75.

Market Regulatory Agencies

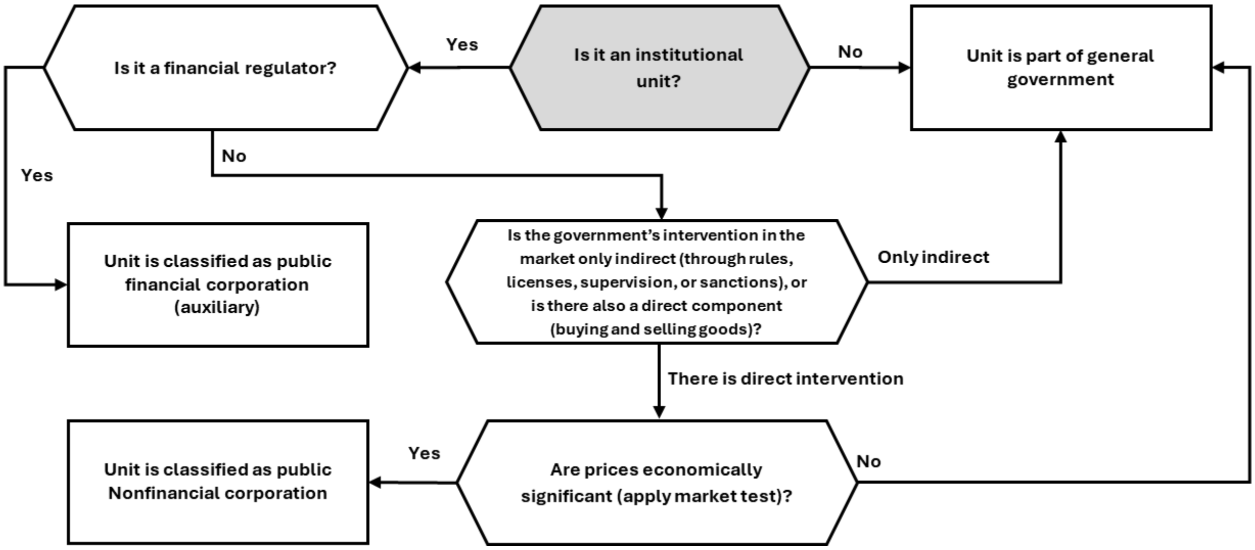
2.158 Following the residence principle, those market regulatory agencies that meet the definition of an international or regional organization are not included in the statistics of the individual member countries, but their activities should be reflected in regional data (see Appendix 5). By convention, financial regulatory (supervisory) bodies are considered as financial corporations, specifically as financial auxiliaries when they are separate institutional units. For those resident market regulatory agencies involved with nonfinancial goods and services, the following guidance applies:

- Those agencies that do not satisfy the criteria to be an institutional unit remain an integral part of the general government unit that controls them. This would usually be the case for those agencies exclusively or principally involved in the distribution of subsidies on behalf of government.
- Those agencies that satisfy the criteria to be institutional units, and that are mainly nonmarket producers, such as performing some administrative functions, setting standards, or overseeing and regulating the production process, should be classified in the general government sector. Although the agency may have active participation of members from the market it serves, government control is established by the enabling instruments and nonmarket nature of these entities.
- Those agencies that satisfy the criteria to be an institutional unit and that are mainly a market producer should be classified in the nonfinancial corporations subsector. These market regulatory agencies' sole or principal activity is to buy, hold, and sell the goods or services at economically significant prices.

To facilitate the classification of market regulatory agencies, decision tree [xx] is provided.

2.159 Where market regulatory agencies are involved in a mixture of activities, such as distributing subsidies and buying, holding, and selling goods and services, the sector classification may require careful consideration. In classifying such units, it is important to distinguish regulatory functions from activities related to the distribution of subsidies or similar transfers. If it is possible to separately identify a quasi-corporation that is undertaking market activities, it should be classified in the nonfinancial corporations subsector. The nonmarket activities should be classified in the general government sector. If it is not possible to distinguish two institutional units, the majority of the activities of the entity should determine the sector classification. If the main activity is the distribution of subsidies, this constitutes an indication that the unit is nonmarket.

Decision Tree: Market Regulatory Agency



Economic Unions

A5.22 An economic union requires specific entities endowed with the authority to manage an autonomous budget. These entities may have more or less autonomy to perform their tasks, in accordance with the institutional arrangements agreed between the members of the union. For regulatory agencies that are controlled by economic unions, it is important to first establish whether they are market producers. Where such regulatory agencies are determined to be nonmarket, they should be treated as international / regional organizations, while market producers should be classified as resident public corporations.