



STATISTICS

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

Discussion Note

**GFSAC MEETING
OCTOBER 22-23, 2025**

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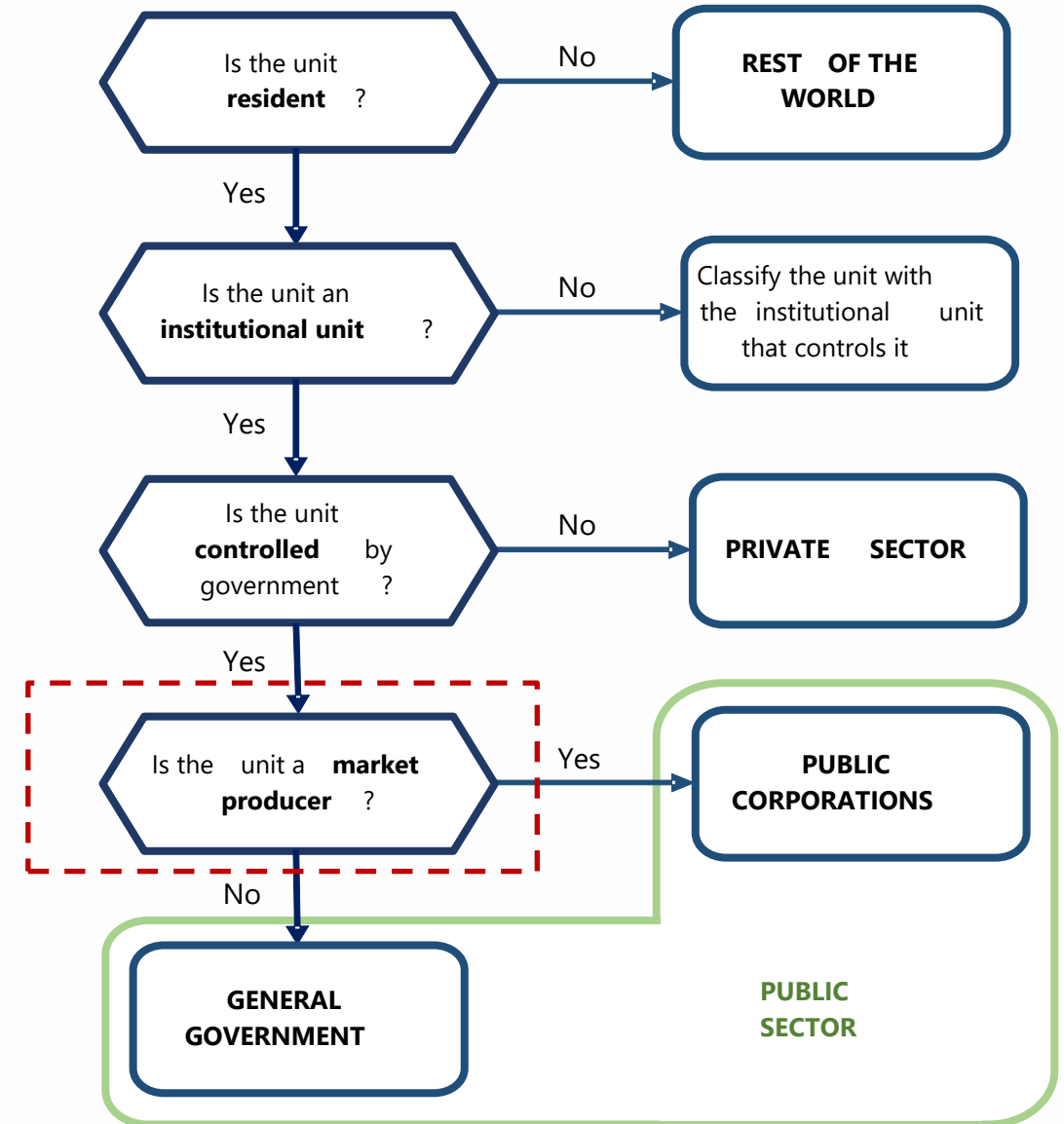
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Background

How to better distinguish between market and nonmarket producers? (Nonfinancial)

- Economically significant prices.
- **GFSM 2014 and 2025 SNA: Conceptual guidance**
 - Lack of international comparability
 - Fiscal data
 - Fiscal analysis
 - Decision making



Background

Approach taken in developing discussion note:

- **Issue → dedicated subtopic → options**
- **Options:**
 - Status quo
 - New alternatives (other references or practices)
- **Each Option:**
 - Description
 - Advantages and disadvantages

Editorial team involved in preparing the discussion note:

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- **IMF GFSM Update Coordination Team**

Issue A: More Prescriptive Guidance on the Market Test

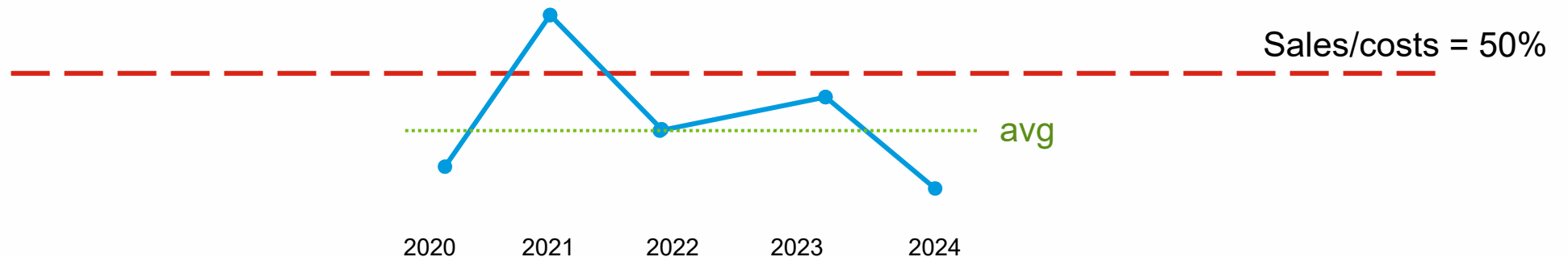
Quantitative criteria

- Thresholds (ratio sales / cost)
- Sales and Cost components
- Time period & the metric used (average or consecutive years)

Qualitative criteria

- Ancillary services
- Profitability
- Barriers to entry
- Price control

*“2.69 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.**”*



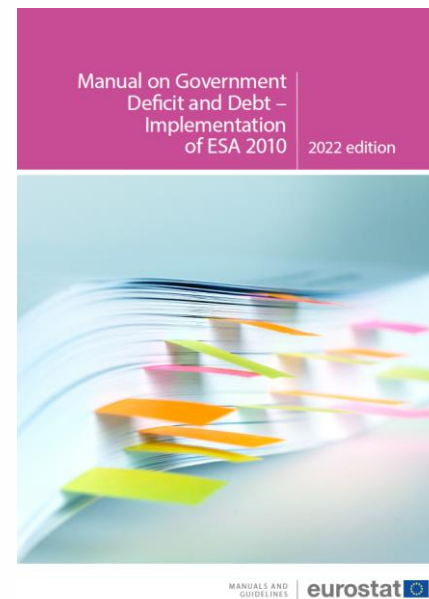
Issue A: More Prescriptive Guidance on the Market Test

Sales components (2.73)

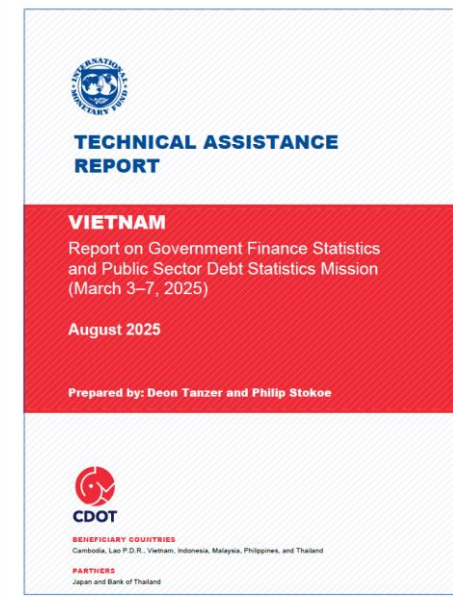
- Sales receipts, excluding:
 - ☐ product taxes
 - ☐ subsidies (unless general to all producers in the same activity)
 - ☐ government payments (unless general to all producers in the same activity)
 - ☐ own-account production.
 - ☐ Taxes (compulsory nontransferable licenses) **(Issue F)**

Cost components (2.74) (Issue B)

- ☐ compensation of employees,
- ☐ use of goods and services,
- ☐ rent on nonproduced assets,
- ☐ CFC (depreciation)
- ☐ depletion,
- ☐ other taxes on production
- ☐ return to capital.



MGDD 2022 (Section 1.2.4)

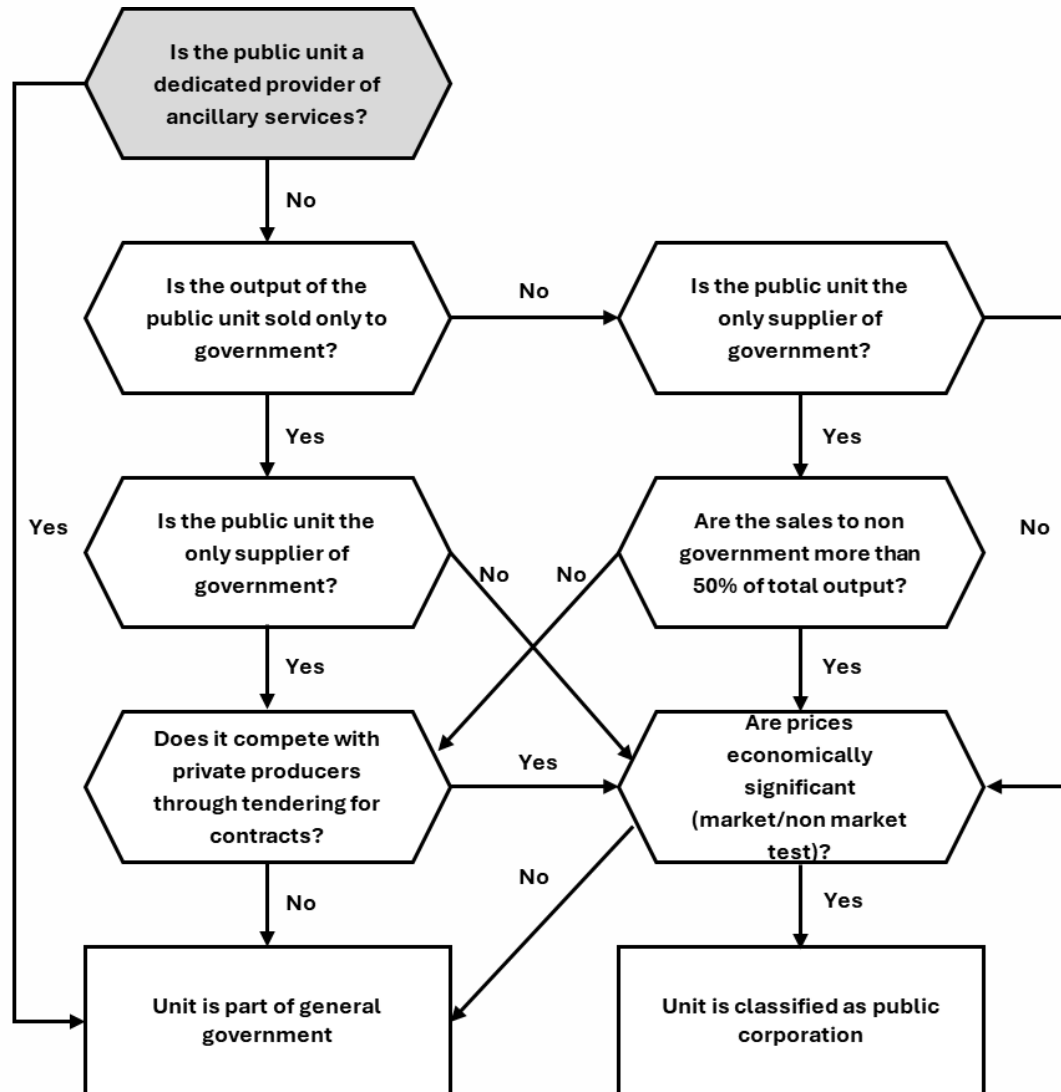


Deon Tanzer (see Box 1 in Tanzer & Stokoe, 2025)

Options to address Issue A

- Option **A1: Maintain** the current GFSM 2014 guidance.
- Option **A2**: Provide more prescriptive quantitative and qualitative guidance based on a **decision tree approach**.
- Option **A3**: Provide more prescriptive quantitative and qualitative guidance based on an **indicator approach**
- **Task Team Recommendation**
 - **Option A3** – Provide more prescriptive quantitative and qualitative guidance based on an indicator approach

Options to address Issue A: A2 (decision tree approach)



- Threshold 50%
- Period: 3 years
- Metric: Consecutive years
- Excluding one-off exceptional cases
- Expectations about future performance
- Start-up (forecast for sales to costs)

Options to address Issue A: A3 (indicator approach)

Primary Indicators

Indicator 1: Is the government the unit's sole client? (yes or no)

Indicator 2: Ratio of sales to production costs over the last three years.

Indicators 3: (3-year average)

- $\geq 50\%$ debt government-guaranteed or liabilities to government $\geq 150\%$ equity? (yes or no)
- government transfers $\geq 50\%$ total revenue? (yes or no)
- current transfers $\geq 30\%$ operating expenses? (yes or no)
- capital transfers $\geq 50\%$ fixed asset acquisitions (yes or no)

Secondary Indicators

Profitability indicator (yes if any of the following are true):

- Absence of dividends or accumulation of reserves in 3-years? (yes or no)
- Negative equity? (yes or no)

Limited competition indicator:
prohibitive barriers to entry? (yes or no)

Price control indicator:
prices, set by government $<$ the unit cost? (yes or no)

Options to address Issue A: A3 (indicator approach)

A3A

Assessed in the following sequence

- **Primary Indicator 1:** If “yes” → nonmarket. Otherwise:
- **Primary Indicator 2:**
 - If all years PI2 ≤ 50% → nonmarket.
 - If any year PI2 > 50% but ≤ 100% and at least PI3 is “yes” → nonmarket.
 - If any year PI2 > 100% and at least 2 PI3 are “yes” → nonmarket.
- Otherwise, if **at least 2** of the **Secondary Indicators** are “yes” → nonmarket.

A3B

Assessed in the following sequence

- **Primary Indicator 1:** If “yes” → nonmarket. Otherwise:
- **Primary Indicator 2:**
 - If avg PI2 ≤ 50% → nonmarket
 - If avg PI2 > 50% but ≤ 75% and at least PI3 is “yes” → nonmarket.
 - If avg PI2 > 75% but ≤ 100%, and at least 2 of PI3 are “yes” → nonmarket.
 - If avg PI2 > 100% → market, unless there are very strong nonmarket indicators, like...
- if **all** of the **Secondary Indicators** are “yes” → nonmarket.

A3C

Other similar option

Issue B: Sum of Costs Approach

- **2025 SNA expands the scope of costs:**
 - **rent** on nonproduced assets,
 - **depletion**,
 - **depreciation** (terminology) and
 - treatment of the **net return to capital**:

net return to capital = rate of return X nonfinancial assets

- **PR 1.27 recommended further research** to this Research Project **2.1**
- On the **net return to capital**:
 - MGDD 2022: **net interest expense**.
 - PR 1.27: **rate of return for nonmarket** producers
 - Academic literature in corporate finance adopts an **intermediate approach**: an **average** (WACC).

Options to address Issue B

- **All options** propose to incorporate:
 - **Depletion** and
 - **Rent** of nonproduced assets
 - **Add a footnote:**
 - **Accounting depreciation** and **depletion** may **differ** from the **statistical** measure
 - Nevertheless, **financial statement information** may be used for **market test purposes**

About **return to capital**:

- **Option B1:** the **net interest expense**.
- **Option B2:** by Weighted Average Cost of Capital (WACC)
$$\text{Return to Capital} = \text{Nonfinancial Assets} \times \text{Average Cost of Capital}$$
- **Option B3:** using the rate of return for nonmarket producers
$$\text{Return to Capital} = \text{Nonfinancial Assets} \times \text{Rate of return for nonmarket producers}$$

- **Task Team Recommendation**

- **Option B2** – Adopt estimation of cost of capital from Weighted Average Cost of Capital (WACC)

Issue C: Public Utility Companies

Are prices economically significant under:

- Monopoly or oligopoly,
- Price regulation,
- Public Service Obligation.

∃ Natural Monopoly: Private Vs Public

- Government **control** \nRightarrow **economically significant price**

Government control **should not influence** the assessment about **economically significant price**

*“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.”

Options to address Issue C

- **Option C1:** Maintain the current GFSM 2014 guidance.
- **Option C2:** Add explanatory text: **tariff regulation**, and fulfilling **public service obligations are not** sufficient to classify utilities as **nonmarket producers**
- **Option C3:** Apply secondary indicators to public utilities, **if Option A3 is not selected:**
Secondary Indicators (If 2 out of 3 indicators are “yes”, classify as nonmarket producer):
 - **Profitability** indicator
 - **Limited competition indicator**
 - **Price control indicator**
- **Task Team Recommendation**
 - **Option C2** – Provide more detailed guidance on the classification of public utility companies

Issue D: Regulatory Agencies – Clarity in Sectoral Classification

GFSM 2014:

- **Types of market intervention (2.156):** distinguishes between **direct** and **indirect** market intervention.
- **Types of functions (2.157–2.158):** (i) perform administrative functions, (ii) engage in buying, holding, and selling goods or services, or (iii) distribute subsidies.
- **Main issue (2.159):** the current wording may create **ambiguity** in a mix of market and nonmarket activities.

MGDD 2022:

- **“Market regulatory bodies”** (section 1.6.5.): **indirect** intervention (rules, licensing, supervision, sanctions).
- **“Market regulatory agencies”** (section 1.4.): **direct** intervention (buying, selling, and stocking goods).
 - **agricultural regulator: buffer stock policies** (purchasing, storing, and selling food to reduce price volatility).

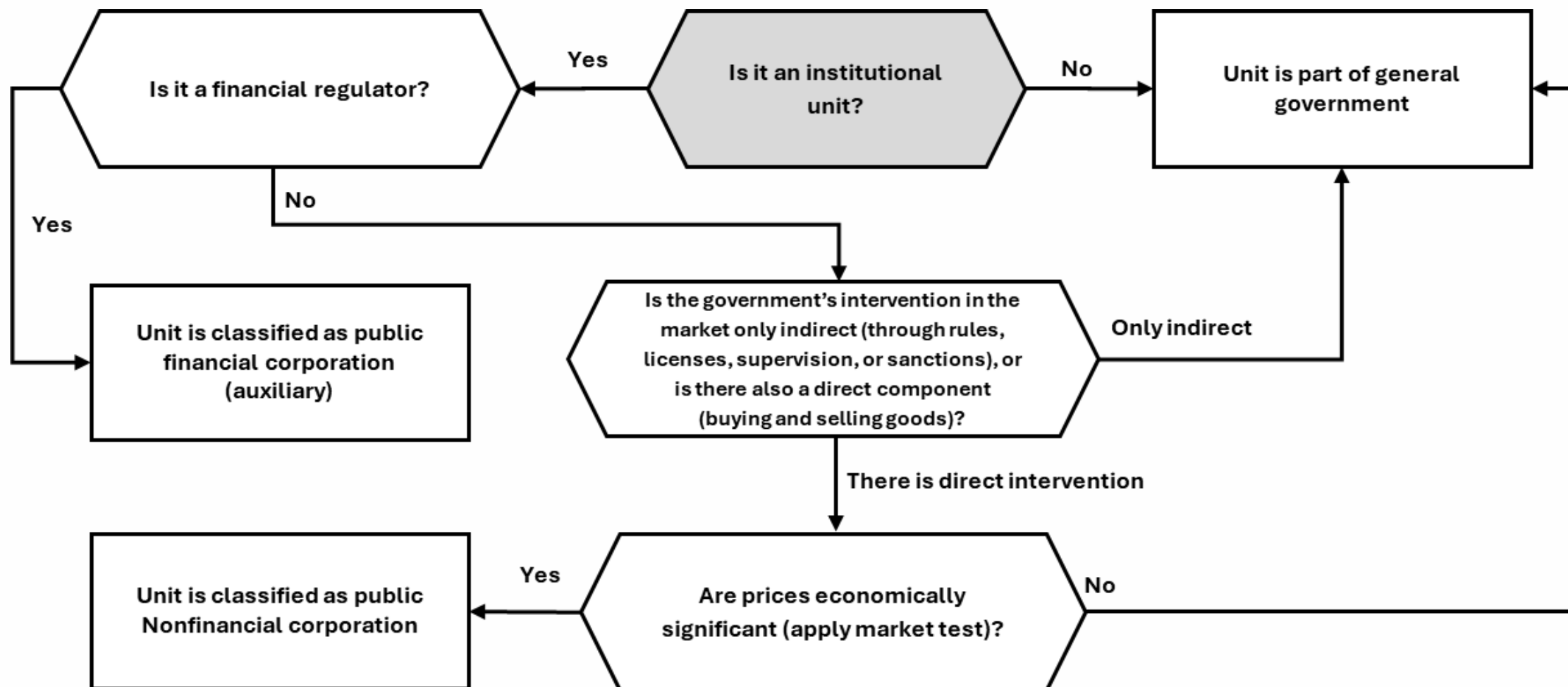
Options to address Issue D

- **Option D1:** Maintain current GFSM 2014 guidance.
- **Option D2:** Simple decision tree.
- **Option D3:** Agricultural-Parametrized decision tree.

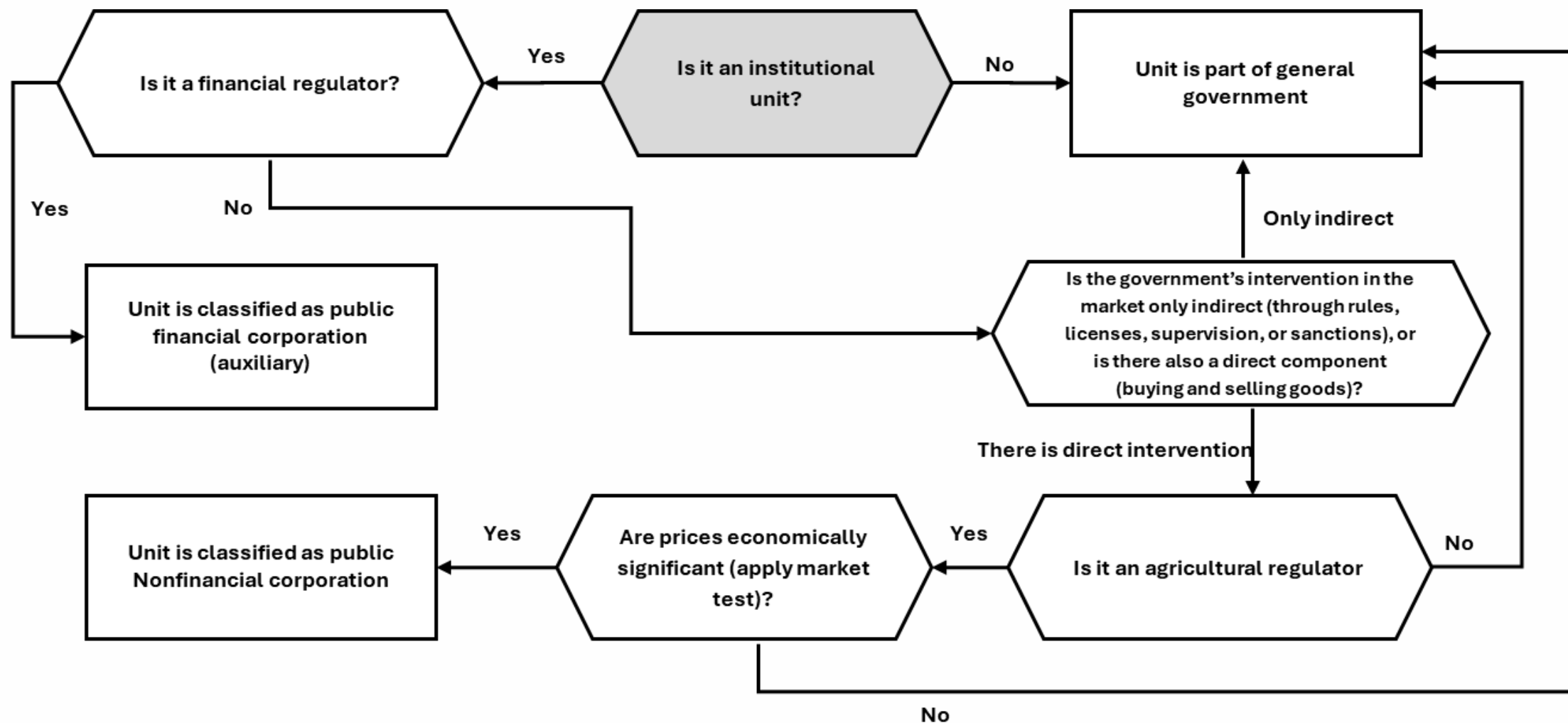
Options D2 and D3 propose to add a textual: distribution of **subsidies should be distinguished from regulatory functions**, and the assessment must be done.

- **Task Team Recommendation**
 - **Option D2** – Simple decision tree.

Options to address Issue D: D2 (simple tree approach)

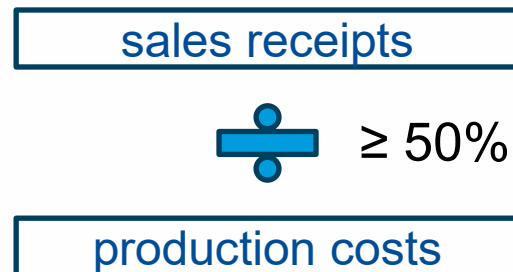


Options to address Issue D: D3 (Agricultural tree approach)

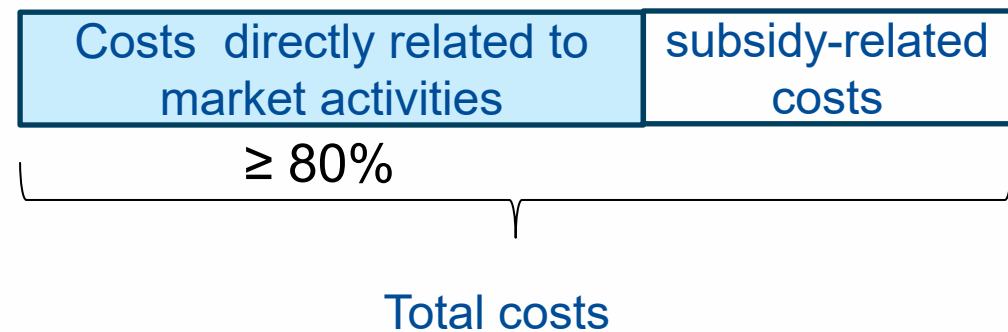


Issue E: Regulatory Agencies – Market Test

- **Issue A: the general market test** to all institutional units.
- **The MGDD 2022: main activity, by 80% cost rule:**
 - Market producer if **market activities costs $\geq 80\%$ total costs**.
 - General government if subsidy-related costs $\geq 20\%$ total costs.



decision tree or indicator approach



Options to address Issue E

Under both options, a two-step process would be followed:

- **First, split** the agency **into** market activities and subsidies, classifying them separately **If such separation is not feasible**. Otherwise:
 - **Option E1: Apply the same** criteria to **all** institutional units (**Issue A**).
 - **Option E2:** Adopt the MGDD 2022 criterion (**80% cost rule**).
- **Task Team Recommendation**
 - **Option E1** – Apply the same criteria used for other public corporations.

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

- 2025 SNA (and PR 1.24) reclassifies compulsory nontransferable licenses as taxes.
- Can a PNFC collect taxes?
 - A nongovernment unit may collect taxes.
 - **Tax attribution:** collection alone does not determine GG.
- When the regulatory agency also imposes the tax and sets the rate:
 - Tax attribution is inherently governmental. If the agency itself exercises this power, it suggests classification in general government.
 - Classification outcome depends on **revenue composition:**
 - If taxes are a substantial **share of revenue**, so classify as government.
 - If not substantial, classify as market producer (pass by market test).

Options to address Issue F

- **Option F1:** Maintain current GFSM 2014 guidance.
- **Option F2: Exclude license** revenues from the market test.

Sales components

- Sales receipts, excluding:
 - ☐
 - ☐ Taxes (compulsory nontransferable licenses)
- **Option F3:** Agencies with tax-imposing powers as government.
By convention, agencies with authority to **impose taxes** and **set rates** should be classified as **government** units.
- **Task Team Recommendation**
 - **Option F2** – Exclude compulsory nontransferable license revenues from the market test.

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

Regulatory agencies in economic unions

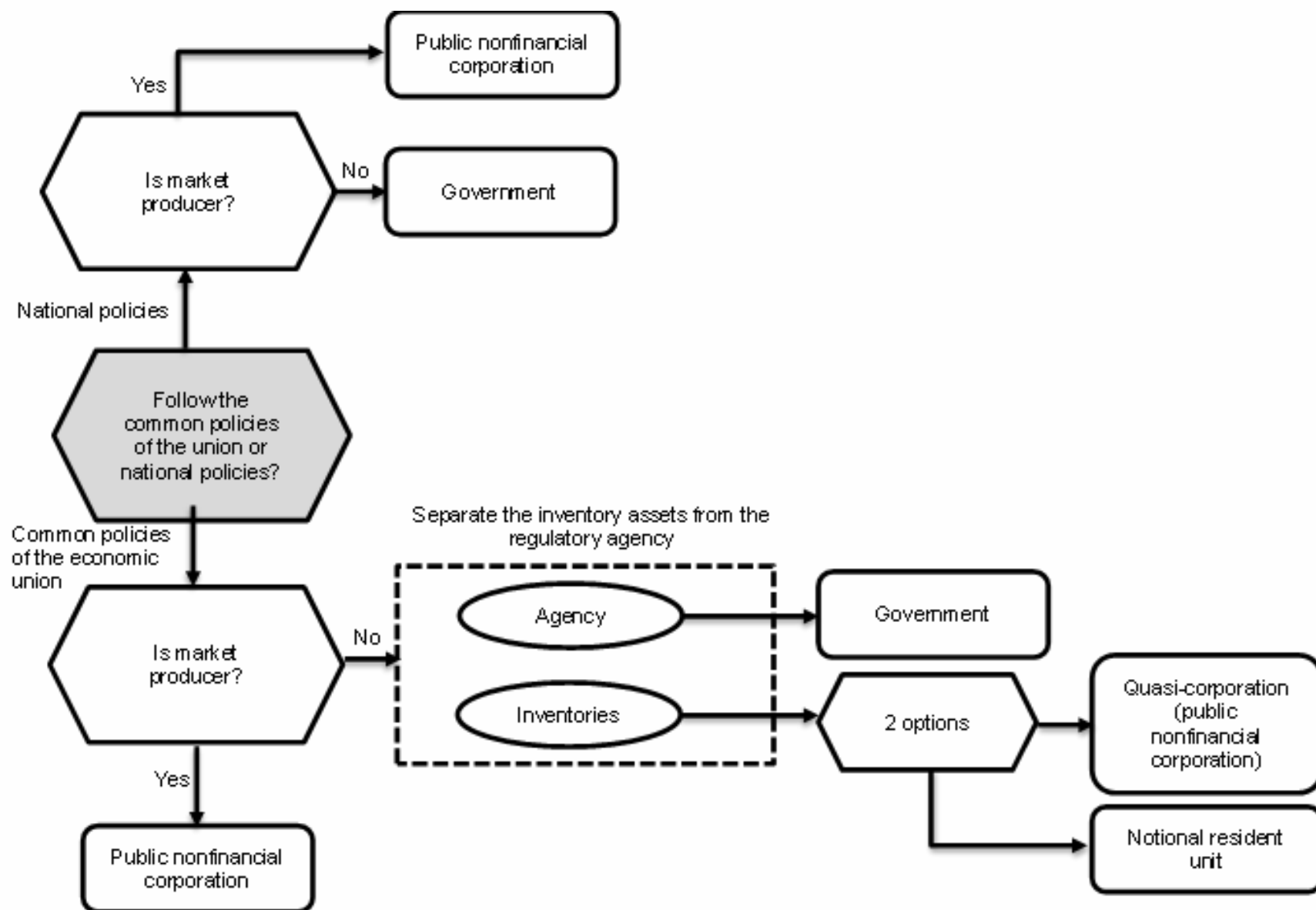
- **The key factor: common policies** of the economic **union**.
- **GFSM 2014** (paragraph 2.158):
 - refers to Appendix 5.
 - However, **Appendix 5 provides no specific guidance** on regulatory agencies.
- **MGDD 2022** (section 1.4)
 - **Agricultural regulatory agencies** operating on behalf of the European Union.
 - Separate **agency** and **inventories**.
- **BPM7**: whether **they are market or nonmarket producers** ” → the residence can be changed

Options to address Issue G

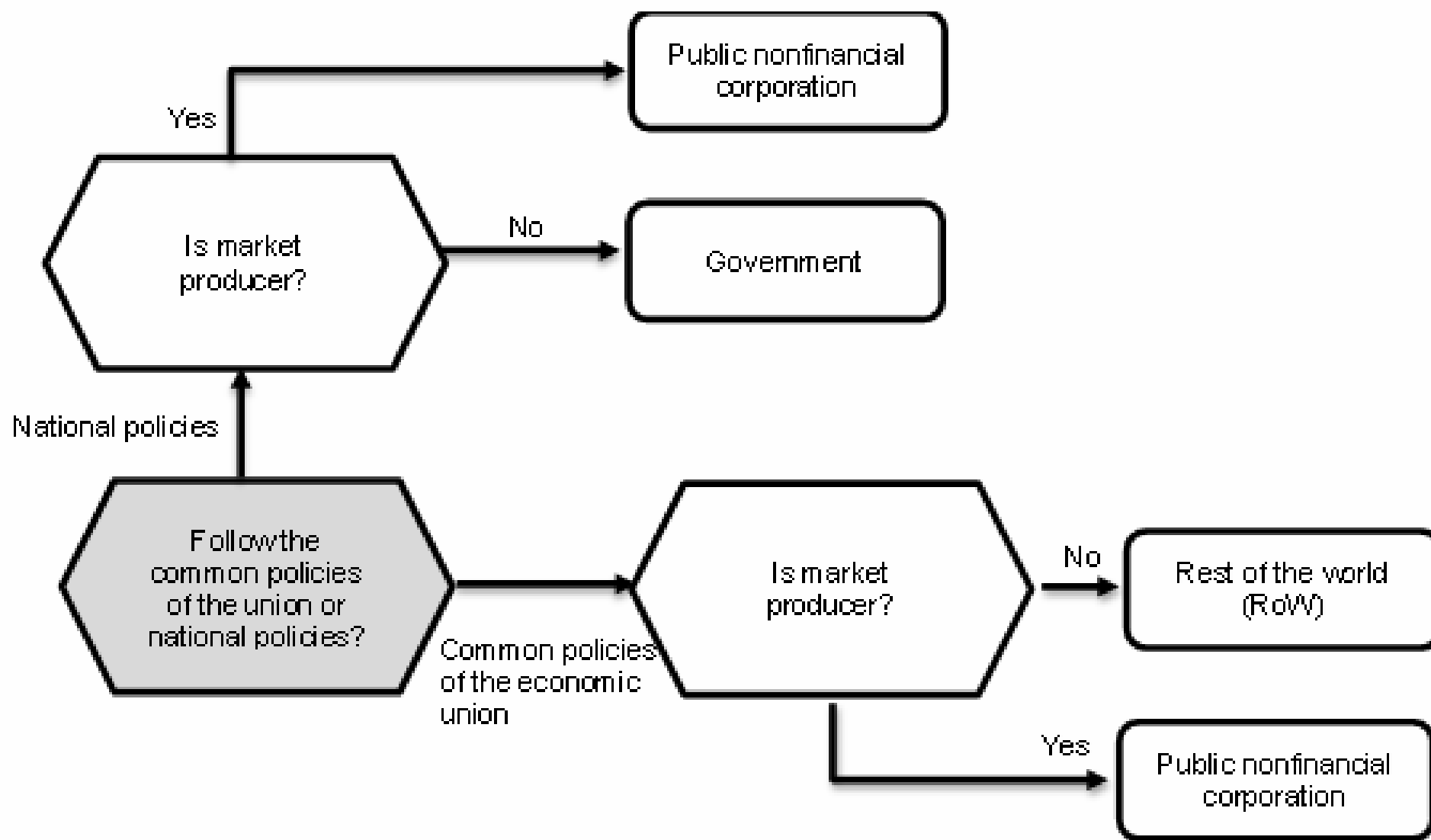
- **Option G1:** Maintain current GFSM 2014 guidance.
- **Option G2:** Incorporate the MGDD 2022 approach.
- **Option G3:** Follow the BPM7 Approach – Change Residence Classification Depending on Market Test.

- **Task Team Recommendation**
 - **Option G3** – Follow the BPM7 Approach – Change Residence Classification Depending on Market Test

Options to address Issue G: G2 (MGDD 2022 approach)



Options to address Issue G: G3 (Follow the BPM7 Approach)



Issue H: NPIs Controlled by Public Corporations

- **Public corporations may establish nonprofit institutions (NPIs)**, often referred to as charities, foundations, institutes, or similar entities.
- **Because their resources generally do not come from direct budgetary transfers from general government,**
- **But instead, from the public corporations themselves, classification issues may arise.**

Options to address Issue H

- **Option H1: Maintain the current GFSM 2014 guidance.**

- **Option H2: Provide more detailed guidance:**

With the following Decision Tree for Sector Classification of the Public Sector:

Step 1: Assess whether these **NPI** qualify as institutional units.

Step 2: Assess whether they are **controlled by another public unit**, the units is controlled by government.

Step 3: Applying the market test (**Issue A**):

- If market producers: public nonfinancial corporations;
- If nonmarket producers: general government.

- **Task Team Recommendation**

- **Option H2** – Provide more detailed guidance on the classification of NPI controlled by public corporations.

Task Team Recommendations

- **Issue A : Option A3** – Provide more prescriptive quantitative and qualitative guidance based on an indicator approach
- **Issue B : Option B2** – Adopt estimation of cost of capital from Weighted Average Cost of Capital (WACC)
- **Issue C: Option C2** – Provide more detailed guidance on the classification of public utility companies
- **Issue D: Option D2** – Simple decision tree.
- **Issue E: Option E1** – Apply the same criteria used for other public corporations.
- **Issue F: Option F2** – Exclude compulsory nontransferable license revenues from the market test.
- **Issue G: Option G3** – Follow the BPM7 Approach – Change Residence Classification Depending on Market Test
- **Issue H: Option H2** – Provide more detailed guidance on the classification of NPI controlled by public corporations.

Questions for GFSAC

Issue A. More prescriptive guidance on the market test

- Do you support the introduction of more prescriptive guidance on the Market Test for classifying government-controlled institutional units?
- Do you believe that a structured framework (such as the one presented in Option A2 and Option A3A or A3B) should be a recommended tool to guide judgment, rather than a prescriptive rule?
- Are there any other options you would like to propose?

Issue B. Sum of Costs Approach

- Do you support on practical grounds the use of depletion and depreciation from financial statements in the Market Test?
- Which option do you support for estimating a return to capital (Option B1, B2 or B3), and why?
- Are there any other options you would like to propose?

Issue C. Public utility companies

- Should the GFSM Update include expanded guidance for the classification of public utility companies to account for their regulated and often monopolistic nature?
- If you support the inclusion of expanded guidance, do you prefer Option C2 or C3, and why?
- Are there any other options you would like to propose?

Issue D. Regulatory agencies – clarity in sectoral classification

- Should the GFSM Update include expanded guidance for the classification of regulatory agencies based on their unique function?
- If you support the inclusion of expanded guidance, do you prefer Option D2 or D3, and why?
- Are there any other options you would like to propose?

Questions for GFSAC

Issue E. Regulatory agencies – market test

- Do you support a modified market test for regulatory agencies, and if so do you support Option E2 (an 80% market test), and why?
- Are there any other options you would like to propose?

Issue F. Regulatory agencies – fees, licenses, and revenue in the market test

- Do you support the exclusion of compulsory license revenues from the market test (Options F2 and F3)?
- Should the GFSM Update go further and regulatory agencies with the authority to set or adjust tax rates be classified as government units by convention (Option F3), and why?
- Are there any other options you would like to propose?

Issue G. Regulatory agencies – classification as regional or international institutions

- Do you support that the GFSM Update include expanded guidance for the classification of regulatory agencies under the control of an economic unions (Options G2 and G3)?
- If you support the inclusion of expanded guidance, do you prefer Option G2 or G3, and why?
- Are there any other options you would like to propose?

Issue H. NPIs controlled by public corporations

- Do you support that the GFSM Update include additional guidance for the classification of NPIs controlled by public nonfinancial corporations (Option H2), and why?
- Are there any other options you would like to propose?

Thank you!!