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Linkages with Other Macroeconomic Datasets

Linkages of the International Accounts with the National Accounts

Introduction

A6.1 Information from the international accounts is essential to a full implementation of the *System of National Accounts 2008 (2008 SNA)*. The addition of the balance on primary income converts GDP, a measure of the income arising in an economy from production by units resident in that economy, to gross national income (GNI), a measure of the income arising from production anywhere in the world attributable to the residents of the particular economy. This is further converted to gross disposable income by the balance on secondary income. The difference between domestic saving and capital formation (investment) equal to the current account balance is reflected in the capital account balance and net lending or borrowing in the international accounts. Further, the financial account information and the international investment position (IIP) make it possible to see to what extent an economy has claims on non-residents or liabilities to nonresidents.

A6.2 This integration of the two systems is made possible because the underlying accounting systems are identical, although different terminology and forms of presentation are sometimes used. Appendix 7 of the *BPM6* provides a summary account of the complete concordance between the *2008 SNA* and the *BPM6* in respect to residence, valuation, time of recording, conversion procedures, and coverage of flows and positions.

A6.3 In addition to measuring activity within the domestic economy, the *SNA* records the exchanges between the domestic economy and the rest of the world as if the nonresident units engaged in transactions with units resident in the domestic

economy formed a distinct institutional sector of the economy. The exchanges (flows) of all resident units with nonresident units (and claims of one set of units on the other) are recorded in the rest of the world sector of the *2008 SNA* from the perspective of the rest of the world. Thus, for example, imports are a resource to the domestic economy and exports are used by the rest of the world, reversing the *BPM6* convention that imports are a debit and exports a credit.

A6.4 Chapter 2 of the *BPM6* includes a separate annex (Annex 2.2) illustrating with a numeric example (1) an overview of the integrated economic accounts as presented in the *2008 SNA*, and (2) the links between the financial instruments and the functional categories used in the *BPM6*, including the conversion of data from instrument to functional category. Furthermore, standard components (*BPM6*, Appendix 9) include the *2008 SNA* codes, where appropriate, which facilitates comparison between the international accounts and the *2008 SNA*.

A6.5 This appendix complements the text in the *BPM6* with a presentation in parallel of the recording of various flows and positions in the *2008 SNA* vis-à-vis the *BPM6* along the lines of the accounting structure of the two systems. The intention here is to illustrate the correspondence of indicators and the consistency between the two datasets. It also serves the need for validation of the two datasets by their respective compilers, in particular when different source data are used for some of the indicators. It is worth noting the practice common in many economies whereby the balance of payments and IIP data are compiled first and subsequently incorporated as the relevant components of the *2008 SNA* rest of the world accounts.

Classification

A6.6 The classification systems of the *2008 SNA* and *BPM6* mainly employ consistent coverage and terminology. There is, however, a major presentational difference regarding the grouping of the financial assets and liabilities by functional categories—the primary level of classification in the *BPM6* with impacts on the financial account, the IIP, and the categories of investment income—as compared with the categories used by the *2008 SNA* in the same accounts. These differences are illustrated in the presentation of the sequence of accounts at the end of this appendix.

A6.7 Other differences between the *BPM6* and the *2008 SNA* concern the breakdown of the institutional sectors and their groupings. While consistent in coverage, the aggregation of institutional sectors differs according to the importance given to sectors and sub-sectors in the two datasets. Table A6.1 illustrates the correspondence between the classification of institutional sectors in the two systems.

Comparison/Correspondence between the International Accounts and the SNA

A6.8 As in the *2008 SNA*, the international accounts (*BPM6*) cover current and accumulation accounts (flows), as well as positions in the balance sheet (IIP). In the international accounts, transactions (flows) are gathered together under the balance of payments. In the balance of payments the current accounts comprise the goods and services account, the primary income account, and the secondary income account while the accumulation accounts include the capital account and the financial account. In addition, flows that are not transactions but affect the position of assets and liabilities are incorporated in a further account, the other changes in financial assets and liabilities. The IIP covers that part of the national balance sheet that represents the cross border element—that is, the position of financial claims (assets) and liabilities where one party is nonresident, and gold bullion held as reserves.

A6.9 The presentation ahead highlights the similarities and differences in the accounting presentation

Table A6.1 Conversion of the Sector Breakdown: System of National Accounts (SNA)—Balance of Payments

<i>Domestic sectors as they appear in the 2008 SNA and BPM6</i>	
2008 SNA	BPM6
Nonfinancial corporations	Central bank
Financial corporations	Deposit-taking corporations except the central bank
Central bank	General government
Deposit-taking corporations except the central bank	Other sectors
	Other financial corporations
Money market funds	Money market funds
Non-MMF investment funds	Non-MMF investment funds
Other financial intermediaries except insurance corporations and pension funds	Other financial intermediaries except insurance corporations and pension funds
Financial auxiliaries	Financial auxiliaries
Captive financial institutions and money lenders	Captive financial institutions and money lenders
Insurance corporations	Insurance corporations
Pension funds	Pension funds
General government	Nonfinancial corporations, households, and NPISHs
	Nonfinancial corporations
Households	Households
Nonprofit institutions serving households	Nonprofit institutions serving households

of the *2008 SNA* and *BPM6*. This presentation is account by account and emphasizes the balancing items, as applicable. In the *BPM6*, the entries in the current accounts are described as credits and debits. In the *2008 SNA*, they are described as resources and uses, but, as noted in paragraph A6.3, a credit for the national economy in the *BPM6* is treated as a use by the rest of the world in the *2008 SNA* and a *BPM6* debit as a resource in the *2008 SNA*. In the *BPM6*, there is a balancing item for each account showing the excess of credits over debits (or a net balance of the financial account). In addition, the *BPM6* shows the cumulative value of balancing items up to and including the account under consideration. This is done for comparison with the *2008 SNA*, where only the cumulative balance is shown because the *2008 SNA* records the balancing item on the use side of the previous account as the first entry on the resource side of the subsequent account.

A6.10 To aid the exposition, Table A6.2 at the end of this appendix shows the main entries for the domestic economy as well as those for the rest of the world from the *2008 SNA* perspective, as well as the main entries for the international accounts. The numeric values are those given in the annex to Chapter 2 of the *BPM6*.

Current Accounts

A6.11 As well as accounts showing transactions between different units in the economy, or between a resident and a nonresident unit, the *2008 SNA* also contains an account called the goods and services account. It shows how all goods and services made available in the economy through domestic production or imports are used domestically or are exported. It contains all items that do not have counterpart items elsewhere in the sequence of accounts in the *SNA* and is the source of deriving GDP.

A6.12 There is no equivalent in the international accounts for the *SNA*'s production account that shows how goods and services are made available to the domestic economy via production. Thus, the recording of imports and exports in the balance of payments is taken as parallel to part of the goods and services account.

A6.13 The balance of payments emphasizes the distinction between goods and services. Goods are

presented at an aggregated level while services are covered in detail. The classification of services in the *2008 SNA* is strictly consistent with the Central Product Classification (CPC); in the *BPM6*, it differs from the CPC for a few products—that is, travel, construction, and government goods and services n.i.e., which are transactor-based (relating to the provider/acquirer rather than the product itself). These distinctions reflect policy interests as well as source data issues (see Chapter 10, *BPM6*). In summary tables of the *SNA*, imports and exports are usually shown in total or broken down into goods and services separately only.

A6.14 The external balance on goods and services for the rest of the world, which is part of the goods and services account, is mirrored by the balance on goods and services in the international accounts.

A6.15 There are no matching accounts in the international accounts to the *SNA*'s production account, showing the value of goods and services produced by resident units, or generation of income account, which shows how value added arising from production accrues to government and to the other resident units participating directly in the production process.

A6.16 The primary income account entries in the balance of payments are largely concerned with compensation of employees and property income, exactly as in the allocation of primary income account in the *2008 SNA*. Also recorded in the primary income account are the payments of taxes on production payable by a resident to another government, as well as any subsidy receivable by a resident from another government.

A6.17 Property income in the *2008 SNA* is equal to investment income in the balance of payments plus rent. Rent rarely arises in cross border situations because all land is deemed to be owned by residents, if necessary by creating a notional resident unit. An example where rent may be recorded in the international accounts may be short-term fishing rights in territorial waters provided to foreign fishing fleets. Also, production sharing agreements in exploration of natural resources may include rent transactions (see Chapter 10, Box 10.1). Investment income in relation to cross border transactions reflects the return to the financial capital invested abroad and vice

versa. Interest flows are measured on exactly the same basis in both the *BPM6* and the *2008 SNA*. With effect from the *BPM6*, interest is adjusted for the implicit service charge (known as financial intermediation services indirectly measured (FISIM)) levied by deposit-taking corporations and treated by them as part of interest. FISIM is treated as an import/export of financial services.

A6.18 In order to make the reconciliation between investment income in the international accounts and in the *2008 SNA*, subcomponents below the level of the functional categories of investment income need to be used. For example, the figures for interest payments to and from the rest of the world as shown in the *2008 SNA* are the sum of interest payments under each functional category heading, as indicated by the supplementary table to the right of these headings.

A6.19 The balance on primary income, the balancing item of the primary income account in the balance of payments, shows how GDP is converted to the GNI by payments of primary income to and from abroad. The cumulative balancing item for this sequence of the international accounts is the balance on goods, services, and primary income.

A6.20 The entries in the secondary income account of the balance of payments are mainly current transfers. These entries correspond exactly to those in the secondary distribution of income account in the *SNA*. Several of these are particularly important in the balance of payments, in particular current international cooperation and personal transfers (remittances) sent by households in one economy to households in another economy (see *BPM6*, Chapter 12 and Appendix 5). Insurance flows related to reinsurance can be of significant importance internationally. The balance of payments records these flows in the same way as the *SNA*, both as regards the separation of a financial service charge and the treatment of direct insurance and reinsurance flows separately and not on a consolidated basis (more details in Chapter 10, *BPM6*). The balance of payments also includes in the secondary income account an item known as the adjustment for the change in pension entitlements. This appears in the use of income account in the

SNA, but this account does not exist in the balance of payments.

A6.21 The balancing item recorded at this point for the international accounts is the balance on secondary income. The cumulative balance is the current account balance. The *SNA* records disposable income as the cumulative balancing item on the secondary distribution account. There is then another *SNA* account, the use of income account, for which there is no corresponding account in the international accounts. The cumulative balancing item on the use of income account is saving for the domestic economy and the current external balance for the rest of the world. This item corresponds exactly to the current account balance from the international accounts.

The Capital Account

A6.22 The elements of the capital account subject to international transactions contain fewer items than those covered in the *SNA*. There are no transactions recording capital formation of produced assets because the international accounts are not concerned with the final use of products imported/exported. There are entries to cover acquisitions and disposals of nonproduced nonfinancial assets and capital transfers, although these are infrequent and for many economies may not appear. The account also records capital transfers receivable by and payable by the domestic economy, leading to a capital account balance.

The Financial Account

A6.23 Of major importance for the international accounts is the financial account, which, together with the IIP, plays an important role in understanding the international financing, as well as the international liquidity and vulnerability of a given domestic economy. In particular it indicates how a current account deficit was funded and how a surplus was used.

A6.24 As mentioned earlier, the major difference in presentation in the *2008 SNA* and *BPM6* concerns the grouping of the financial assets and liabilities by functional categories as the primary level of classification in the *BPM6* and the use of the instruments

and sectors by the *2008 SNA* for the same categories. However, data by functional category are further subdivided by instrument and institutional sector, which makes it possible to link them to the corresponding *2008 SNA* and monetary and financial statistics items.

A6.25 It must always be the case that the sum of transactions in financial assets must be equal to the sum of the transactions in liabilities in the matching instruments. Thus the sum of the transactions within the domestic economy and between residents and nonresidents in one financial instrument must be equal for both asset holders and liability holders. For example, Table A6.2 shows that in the financial account the change in assets of currency and deposits held by residents was 89 and by residents in the rest of the world was 11. The matching liability was 102 for residents and -2 for nonresidents, making total assets and liabilities equal to 100.

A6.26 As in the *2008 SNA*, the balance of payments has exactly the same balancing item—net lending or net borrowing, which represents the balancing item for the sum of the current and capital accounts, as well as for their counterpart—the financial account. In both systems, net lending or borrowing covers transactions in all instruments used for providing or acquiring funding, without consolidating matching asset and liability transactions. Conceptually, it has the same value as the national accounts item for the total economy, and the same as the national accounts item for the rest of the world but with the sign reversed.

Balance Sheet—IIP

A6.27 The balance sheet in the *2008 SNA* measures the positions of assets, both nonfinancial and financial, and liabilities for each institutional sector so as to derive at the end the net worth by the total economy. It also shows how the transactions and other flows occurring during the course of a year explain the changes in positions between the opening and closing balance sheet. The part of the balance sheet covered in the international accounts is called the IIP and matches the rest of the world sector in the *2008 SNA* for financial assets and liabilities. Non-financial assets do not appear in the international

accounts as they do not have a counterpart liability or other international aspect. (If an item previously classified as a capital item is sold abroad, it appears as part of trade in goods.) In the case of financial claims, the cross border element arises when one party is resident and the other party is nonresident. In addition, while gold bullion is an asset that has no counterpart liability, it is included in the IIP when held as a reserve asset, because of its role as a means of international payments.

A6.28 There is also a balancing item for the balance sheet called net worth, reflecting the difference between the total value of assets and liabilities. Changes in net worth due to different transactions and other flows may also be derived.

A6.29 Figure 2.1 in the *BPM6*, which shows an overview of the *SNA* as a macroeconomic framework including international accounts, illustrates the sequence of accounts in the *2008 SNA* including the balance sheet framework. This is the framework illustrated in the following table showing the relationship between the national and international accounts.

A6.30 Table A6.2 gives you a comparative overview of the *SNA*—Balance of Payments accounts. For the financial account and financial assets and liabilities in the accumulation account part, as well as for the financial assets and liabilities in the balance sheet part, an additional breakdown is presented of the financial instruments by functional category.

Linkages of the International Accounts with Monetary and Financial Statistics

Introduction

A6.31 The most recent methodology for compiling monetary and financial statistics is contained in the draft *Monetary and Financial Statistics Manual and Compilation Guide (MFSM-CG)* of 2013. The *MFSM-CG* is broadly consistent with the *2008 SNA* and *BPM6*, and take account of financial developments since the *Monetary and Financial Statistics Manual (MFSM) 2000* was published. The MFS focus on the compilation and reporting of balance-

Table A6.2 A Comparative Overview of SNA—International Accounts

Current accounts	SNA						Balance of Payments	
	Domestic economy		Rest of the world ¹		Goods and services account ²		Credits	Debits
	Uses	Resources	Uses	Resources	Uses	Resources		
Imports of goods and services				499	499			499
Goods				392	392			392
Services				107	107			107
Exports of goods and services			540			540	540	
Goods			462			462	462	
Services			78			78	78	
<i>External balance on goods and services</i>			-41				41	
<i>Production account</i>								
Output		3604			3604			
Intermediate consumption	1883					1883		
Taxes less subsidies on products		133			133			
<i>Value added/Net domestic product</i>	1632							
<i>Generation of income account</i>								
<i>Value added/Net domestic product</i>		1632						
Compensation of employees	1150							
Taxes on production and imports	235							
Subsidies	-44							
<i>Surplus and mixed income</i>	291							
<i>Allocation of primary income account</i>								
<i>Operating surplus and mixed income</i>		291						
Compensation of employees		1150	6	2			6	2
Taxes on production and imports		235		0			0	
Subsidies		-44		0				0
Property income	391	397	44	38			44	38
Interest	217	209	13	21			13	21
Distributed income of corporations	62	62	17	17			17	17
Reinvested earnings on FDI	0	14	14	0			14	0
Other investment income	47	47	0	0			0	0
Rent	65	65	0	0			0	0
							10	
<i>Balance of primary income, net</i>	1642						51	

	Goods and services ³					
	Goods					
	Services					
	Goods and services					
	Goods					
	Services					
	<i>Balance on goods and services, net exports</i>					
	<i>This account does not exist in balance of payments</i>					
	<i>This account does not exist in balance of payments</i>					
	<i>Primary income account</i>					
	Compensation of employees					
	Taxes on production and imports					
	Subsidies					
	Investment income	Direct investment	Portfolio investment	Financial derivatives and employee stock options	Other investment	Reserve assets
	Interest	*	*		*	*
	Distributed income of corporations	*	*			*
	Reinvested earnings on FDI	*	*			
	Other investment income		*		*	*
	Rent					
	<i>Balance of primary income</i>					
	<i>Balance on goods, services and primary income</i>					

Table A6.2 A Comparative Overview of SNA—International Accounts (*continued*)

Current accounts	SNA						Balance of Payments	
	Domestic economy		Rest of the world ¹		Goods and services account ²		Credits	Debits
	Uses	Resources	Uses	Resources	Uses	Resources		
Secondary distribution of income account								
<i>Balance of primary income, net</i>		1642						
Current taxes on income, wealth etc.	212	213	1	0			1	0
Net social contributions	333	333	0	0			0	0
Social benefits other than social benefits in kind	384	384	0	0			0	0
Other current transfers	283	244	16	55			16	55
Net nonlife insurance premiums	56	47	2	11			2	11
Net nonlife insurance claims	48	57	12	3			12	3
Current transfers within general government	96	96						
Current international cooperation	31	1	1	31			1	31
Miscellaneous current transfers	52	43	1	10			1	10
Current transfers between resident and non-resident households	7	1	1	7			1	7
							17	55
							-38	
<i>Disposable income</i>	1604							
Use of income account								
<i>Disposable income</i>		1604						
Household consumption expenditure	1015					1015		
General government consumption expenditure	352					352		
NPISH consumption expenditure	32					32		
Adjustment for the change in pension entitlements	11	11	0	0			0	0
<i>Saving</i>	205							
<i>Current external balance</i>			-13				13	

	Secondary income account	
	Current taxes on income, wealth etc.	
	Net social contributions	
	Social benefits other than social benefits in kind	
	Other current transfers	
	Net nonlife insurance premiums	
	Net nonlife insurance claims	
	Current international cooperation	
	Miscellaneous current transfers	
	Current transfers between resident and non-resident households	
	<i>Total current transfers</i>	
	<i>Balance on secondary income</i>	
	<i>This account does not exist in balance of payments (but note the adjustment item and also current account balance shown below other items in the secondary income account)</i>	
	Adjustment for the change in pension entitlements	
	<i>Current account balance</i>	

Current account balance

Acquisitions less disposals of non-produced non-financial assets

Capital transfers

*Capital account balance**Net lending (+) / net borrowing (-)*

<i>Net lending (+) / net borrowing (-)</i>	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets
Monetary gold and SDRs ¹				/1	*
Currency and deposits	*			-5/11	3/
Debt securities	2/4	14/5			5/
Loans	*			35/4	*
Equity and investment fund shares	10/3	4/9		*	*
Insurance , pension and standardized guarantee schemes	*			*	
Financial derivatives and employee stock options			3/0		*
Other accounts payable/receivable	-4/4			-10/6	
Net acquisition of financial assets	8	18	3	20	8
Net incurrence of liabilities	11	14	0	22	

Table A6.2 A Comparative Overview of SNA—International Accounts (*continued*)

Accumulation accounts	SNA						Other changes in financial assets and liabilities account	
	Domestic economy		Rest of the world		Goods and services account		Net changes in financial assets	Net changes in liabilities
	Changes in assets	Changes in liabilities and net worth	Changes in assets	Changes in liabilities and net worth	Changes in assets	Changes in liabilities and net worth		
Accumulation accounts, continued								
<i>Other changes in the volume of assets</i>								
Non-financial assets	10							
Financial assets and liabilities	3	3						
Monetary gold and SDRs ⁴								
Currency and deposits								
Debt securities								
Loans								
Equity and investment fund shares	2	2						
Insurance, pension and standardized guarantee schemes	1	1						
Financial derivatives and employee stock options								
Other accounts payable/receivable								
<i>Revaluation account</i>								
Non-financial assets	280							
Financial assets and liabilities	84	76	7	15			15	7
Monetary gold and SDRs ⁴	12			12			12	
Currency and deposits	0							
Debt securities	40	42	4	2			2	4
Loans	0							
Equity and investment fund shares	32	34	3	1			1	3
Insurance, pension and standardized guarantee schemes	0							
Financial derivatives and employee stock options	0							
Other accounts payable/receivable	0							

	Financial assets and liabilities	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets
	Monetary gold and SDRs ⁴					*
	Currency and deposits	*			*	*
	Debt securities	*	*			*
	Loans	*			*	*
	Equity and investment fund shares	*	*		*	*
	Insurance, pension and standardized guarantee schemes	*			*	
	Financial derivatives and employee stock options			*		*
	Other accounts payable/receivable	*			*	
	<i>* value possible but unknown or negligible</i>					
	Financial assets and liabilities	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets
	Monetary gold and SDRs ⁴					12/
	Currency and deposits	*			*	*
	Debt securities	1/1	1/3			*
	Loans	*			*	*
	Equity and investment fund shares	0/1	1/2		*	*
	Insurance, pension and standardized guarantee schemes	*			*	
	Financial Derivatives and employee stock options			*		*
	Other accounts payable/receivable	*			*	

Table A6.2 A Comparative Overview of SNA—International Accounts (*concluded*)

Balance sheets	SNA				Goods and services account	IIP	
	Domestic economy		Rest of the world			Assets	Liabilities
	Assets	Liabilities	Assets	Liabilities			
Opening balance sheet							
Non-financial assets	4621						
Financial assets and liabilities	8231	7762	805	1274		1274	805
Monetary gold and SDRs ⁴	770	0	0	770		770	
Currency and deposits	1482	1471	105	116		116	105
Debt securities	1263	1311	125	77		77	125
Loans	1384	1437	70	17		17	70
Equity and investment fund shares	2614	2756	345	203		203	345
Insurance, pension and standardized guarantee schemes	470	471	26	25		25	26
Financial derivatives and employee stock options	21	14	0	7		7	0
Other accounts payable/receivable	227	302	134	59		59	134
Total changes in assets/liabilities							
Non-financial assets	482						
Financial assets and liabilities	523	505	54	72		72	54
Monetary gold and SDRs ⁴	11	0	1	12		12	1
Currency and deposits	89	102	11	-2		-2	11
Debt securities	126	116	13	23		23	13
Loans	78	47	4	35		35	4
Equity and investment fund shares	141	141	15	15		15	15
Insurance, pension and standardized guarantee schemes	49	49	0	0		0	0
Financial derivatives and employee stock options	14	11	0	3		3	0
Other accounts payable/receivable	15	39	10	-14		-14	10
Closing balance sheet							
Non-financial assets	5103						
Financial assets and liabilities	8754	8267	859	1346		1346	859
Monetary gold and SDRs ⁴	781	0	1	782		782	1
Currency and deposits	1571	1573	116	114		114	116
Debt securities	1389	1427	138	100		100	138
Loans	1462	1484	74	52		52	74
Equity and investment fund shares	2755	2897	360	218		218	360
Insurance, pension and standardized guarantee schemes	519	520	26	25		25	
Financial derivatives and employee stock options	35	25	0	10		10	0
Other accounts payable/receivable	242	341	144	45		45	144

Note: SNA = system of national accounts; IIP = international investment position. An entry of * indicates an entry is possible but in the example given the value is either unknown or zero. Where two values are given separated by /, the first figure relates to assets, the second to liabilities.

¹ Rest of the world, as a pseudo sector in the SNA, records flows reaching/leaving the national economy from/to the rest of the world

² The goods and services account (SNA), shows the balance between the total goods and services supplied as resources to the economy and the use of the same goods and services

³ Balance of payments is part of the goods and services account (SNA)

⁴ In this table, "monetary gold and SDRs" are shown at equivalent values on the asset and liability sides of the balance sheet. Because monetary gold bullion has no counterpart liability, this table implicitly assumes that holdings of monetary gold bullion are zero.

Financial assets and liabilities	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets
Monetary gold and SDRs ⁴					770/
Currency and deposits	0/0			80/105	36/
Debt securities	10/15	40/110			27/
Loans	*			17/70	*
Equity and investment fund shares	53/155	150/190		*	*
Insurance, pension and standardized guarantee schemes	*			25/26	
Financial derivatives and employee stock options			7/0		*
Other accounts payable/receivable	15/40			44/94	
Financial assets and liabilities	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets
Monetary gold and SDRs ⁴				/1	12/
Currency and deposits	*			-5/11	3/
Debt securities	3/5	15/8			5/
Loans	*			35/4	*
Equity and investment fund shares	10/4	5/11		*	*
Insurance, pension and standardized guarantee schemes	*			*	
Financial derivatives and employee stock options			3/0		*
Other accounts payable/receivable	-4/4			-10/6	
Financial assets and liabilities	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets
Monetary gold and SDRs ⁴				/1	782/
Currency and deposits	*			75/116	39/
Debt securities	13/20	55/118			32/
Loans	*			52/74	*
Equity and investment fund shares	63/159	155/201		*	*
Insurance, pension and standardized guarantee schemes	*			25/26	
Financial derivatives and employee stock options			10/0		*
Other accounts payable/receivable	11/44			34/100	

sheet data (end-of-period positions) for the central bank and other depository corporations. However, the new draft *MFSM-CG* provides more detailed coverage of the other financial corporations sector. A major step in the implementation of the methodology in the *MFSM* has been the introduction of standardized report forms (SRFs) for economies' transmittal of monetary data for publication in *IFS* and for operational purposes of the IMF. The SRFs are designed for reporting of position data only. An overview of the monetary statistics framework supporting the SRFs is presented in Annex 1 of this appendix.

Common Principles and Differences in Classifications

A6.32 Monetary statistics share many principles and concepts with the *BPM6* and the *SNA*.¹ The *MFSM-CG* and the *BPM6* are consistent on such issues as the definition and delineation of resident and nonresident entities, time of recording of transactions and other flows, financial asset and liability valuation, and data aggregation and consolidation. However, there are some differences in sectoring of the institutional units and in the classification of the various categories of financial assets and liabilities.

A6.33 As regards the delineation of institutional units and sectors, a special case is the definition of other depository corporations (ODC). In the monetary statistics methodology, all financial corporations that issue liabilities included in broad money are designated as depository corporations. These include the central bank subsector, the other deposit-taking corporations (ODC) subsector, and, in many economies, money market fund shares. The latter two form the ODC subsector in *MFSM-CG*. In the *BPM6*, money market funds are not consolidated with deposit-taking corporations but with other financial corporations. In summary in the *BPM6* the financial corporations sector is divided into central bank, deposit-taking corporations,

except the central bank, and other financial corporations, while the *MFSM-CG* defines the following subsectors: central bank, ODCs, and other financial corporations (OFC). Therefore if the balance of payments compiler uses monetary statistics the compiler should request separate data on money market funds balance of payments transactions and IIP in order to classify financial transactions and positions correctly within the OFC subsector. The balance of payments compiler should also confirm the institutional coverage of the deposit-taking corporations subsector, as some deposit-takers may be excluded; for instance, offshore banks that do not accept deposits from residents are still considered deposit-taking institutions in the *BPM6* but classified as other financial corporations in the monetary statistics.

A6.34 The major categories for financial assets and liabilities in the monetary statistics follow the classification in the 2008 *SNA* and *BPM6* financial instruments classification. Regarding the classification of financial assets, the differences with the *BPM6* are as follows:

- Classification by maturity—In the *BPM6*, most of debt instruments are divided into separate categories for short-term instruments (original maturity of one year or less) and long-term instruments. The standard components in the *MFSM-CG* do not include loans and debt securities classified by maturity, although the SRFs include a maturity breakdown for central bank liabilities with nonresidents.
- Classification by currency of denomination—The *BPM6* recommends a breakdown of all debt assets and all debt liabilities by major currency. *MFSM-CG* requires a breakdown of all instruments, financial assets and liabilities, except equity liabilities, into (1) national currency and (2) foreign currency.

Limitations in Using Monetary Statistics in Compiling an IIP, and How to Overcome Them

A6.35 For the compilation of the IIP using the monetary statistics as source data, the following types of limitations can be identified: valuation, coverage,

¹ The annex to the Linkages of the International Accounts with Monetary and Financial Statistics contains an overview of the monetary statistics framework.

sector classification, functional categories, and maturity breakdown. These limitations also affect the compilation of other external sector statistics—such as the financial account of the balance of payments and the external debt statistics—that use monetary statistics.

Valuation

A6.36 The valuation principles and other accounting rules in the *MFSM-CG* are in general agreement with those in the *BPM6*. However, a major exception for the monetary statistics is the valuation of equity on the liability side of the sectoral balance sheets of financial corporations. For the monetary statistics, liabilities in the form of equity are measured at book value. In the *BPM6*, equity securities (for both assets and liabilities) should be valued at the market or fair value of the shares.

A6.37 Valuing equity at book value, particularly on the SRFs, has important implications. The equity liability account in the sectoral balance sheet, instead of being subclassified by counterpart sector, as in the rest of the accounts, is classified by types of equity resources (i.e., funds contributed by owners; retained earnings; general and special reserves; and valuation adjustments). Therefore, the value of the equity issued by the domestic financial system and held by nonresidents is not identified.

A6.38 To cover for the compilation needs of the financial statistics, including the financial account of the *SNA*, the SRFs contain a memorandum item requesting the market or fair value of shares and other equity by counterpart sector, thus allowing for the recognition of equity owned by nonresidents. However, the great majority of economies do not report this memorandum item, implying that this information is not currently compiled by the monetary statisticians. To solve this situation, the IIP compiler (who often does possess data on equity liabilities to nonresidents) should be encouraged to coordinate with their monetary statistics counterparts to promote the compilation of the referred SRF memorandum items, thus avoiding duplication of efforts or excessive reporting burden on financial institutions. Furthermore, foreign liabilities in the monetary statistics are often underestimated because of the lack of liabilities to nonresidents in the form of equity.

Coverage

A6.39 One significant difference between the *BPM6* and *MFSM-CG* regards the treatment of money market funds, which in the *BPM6* are part of the other financial corporations sector and in the *MFSM-CG* are part of the other depository corporations sector. This and other possible deviations from the *BPM6* definition of other deposit-takers is discussed in paragraph A6.33.

A6.40 For OFCs in many economies the major reporting challenges arise from the large number and diversity of OFCs, as well as from multiple channels of existing data reporting. The OFCs might well outnumber ODCs owing to the prevalence of insurance corporations, pension funds, and other financial intermediaries and auxiliaries such as financial asset dealers and brokers. In some economies, OFC data reporting is incomplete or is not performed on a timely basis (or both); reporting by some categories of OFCs may not even exist.

A6.41 Ideally, all OFCs should report the monetary data on a timely basis directly to the data compiler. However, such reporting presently exists in relatively few economies. Instead, OFCs report to government agencies responsible for supervision of particular segments of the financial services industry—for example, national agencies for supervision of securities trading or the operation of organized exchanges, and national or state supervisors of insurance corporations or pension funds. Data reporting sometimes is channeled through trade associations or other nongovernment entities that represent the interests of specific groups of OFCs.

A6.42 Establishment of data reporting from OFCs directly to the monetary statistics compiler should result in improved data quality and timelier reporting, with the possibility of sharing these data with the IIP compiler, if efforts to define and gather the data are coordinated. However, national policy may dictate that data reporting to the monetary statistics compiler be channeled through supervisory agencies to which OFCs already report. In any case, if the central bank gathers data on OFCs for monetary or financial sector analysis, and provided *BPM6* recording principles are followed, these data should be used for balance of payments purposes too, thus avoiding duplication of efforts.

A6.43 The ODCs subsector may include corporations operating under the control of receivers or regulators or that are no longer dealing with the public. Technically, bankrupt institutions that continue to operate may retain the legal status of operating banks, or a special status may be imposed. In the *BPM6*, bankrupt deposit-taking corporations that continue to operate remain classified in the deposit-taking corporations institutional sector.

Functional categories

A6.44 Monetary statistics do not use functional categories to classify financial assets and liabilities. This can pose compilation challenges where monetary statistics are used to estimate balance of payments/IIP data on direct investment equity transactions and positions for deposit-takers. For OFCs, as a subsector, there are compilation challenges for direct investment data when monetary data are used in balance of payments / IIP.

A6.45 The emphasis on group consolidated supervision of the financial sector made the relationship between parent, subsidiary, and associate financial corporations broadly available as subaccounts within the accounting chart of accounts used by financial corporations. Nonetheless, the balance of payments compiler faces the difficulty of reconciling the definition of control and significant influence between financial accounting and macroeconomic statistics. In other words, these definitions in the *BPM6* do not entirely correspond to the definitions found, for example, in the international financial reporting standards (IFRS). Nevertheless, the closeness of the definitions may encourage some economies to use banking supervisor data or data based on IFRS (without adjustment) for compiling the international accounts.

Maturity breakdown

A6.46 The SRFs contain maturity breakdown only for central bank liabilities with nonresidents, but not for financial assets or for assets and liabilities in other financial subsectors. While traditional monetary analysis does not focus on maturity of financial assets, supervisory data often used to compile the monetary sta-

tistics present the short and long-term breakdowns required by the *BPM6* for selected financial instruments. These breakdowns are often available to the monetary statistics compiler.

A6.47 New requirements for financial sector data focused on financial stability analysis, particularly on liquidity, are putting emphasis on the availability of maturity breakdowns useful for the compilation of the IIP.²

Reconciliation Exercise between Monetary Statistics and IIP

A6.48 This section presents tables reconciling monetary statistics and IIP components. It shows the use and limitations of the monetary statistics in details—that is, component by component.

A6.49 As mentioned in Chapter 9, the *Sectoral Balance Sheet for ODC*,³ can be used for the deposit-taking corporations, except the central bank sector of the IIP. *The Sectoral Balance Sheet for the Central Bank* can be used to compile data for the central bank sector in the IIP. If economies complete the *Sectoral Balance Sheet for OFC*,⁴ it can be used to compile IIP data for other sectors—other financial corporations.

A6.50 The *Sectoral Balance Sheet for ODC*, which can be used by the compiler to identify and select the external assets and liabilities of deposit-taking corporations, except the central bank, is reported to the IMF through the SRFs for reporting monetary and financial data. Table A6.3 presents the reconciliation of positions of depository corporations, except the central bank vis-à-vis nonresidents, with the corresponding IIP components.⁵

A6.51 Table A6.3 shows that, although the sectoral balance sheet data can largely correspond with IIP components, the differences in the classification do not allow a full reconciliation of the two frameworks.

² An IMF project to expand the SRFs called the Supplementary Data Report Forms (SDRFs) is under consideration. The SDRFs include maturity breakdowns.

³ See footnote 3, Chapter 9.

⁴ See footnote 4, Chapter 9.

⁵ The reconciliation of OFC vis-à-vis nonresidents with the corresponding IIP components is very similar to the one for ODC and is, therefore, not included in this annex.

A6.52 Table A6.4 presents the reconciliation of positions of the central bank vis-à-vis nonresidents with the relevant corresponding IIP components.

A6.53 Tables A6.3 and A6.4 demonstrate that there may be a number of limitations when using monetary statistics to derive the IIP. In many instances,

Table A6.3 Reconciliation of Other Depository Corporations' Balance Sheet Items with International Investment Position (IIP) Components

Monetary statistics: Sectoral Balance Sheet Other Depository Corporations	IIP: Deposit-taking corporations, except central bank
Assets: Claims on nonresidents¹	
Foreign currency	4.2.2 Other investment, currency and deposits
Deposits (transferable and other, in national and foreign currency)	4.2.2.1 Short-term 4.2.2.2 Long-term
Debt securities	2.2.2 Portfolio investment, debt securities 2.2.2.1 Short-term 2.2.2.2 Long-term
Loans	4.3.2 Other investment, loans 4.3.2.1 Short-term 4.3.2.2 Long-term
Equity and investment fund shares	1.1 Direct investment assets, equity and investment funds shares 1.1.1 Direct investor in direct investment enterprise 1.1.2 Direct investment enterprise in direct investor (reverse investment) 1.1.3 Between fellow enterprises 2.1.2 Portfolio investment, equity and investment fund shares 4.1 Other investment, other equity
Insurance, pension, and standardized guarantee schemes	4.4.2 Other investment, insurance, pension, and standardized guarantee schemes
Financial derivatives and employee stock options	3.2 Financial derivatives and employee stock options (other than reserves)
Other accounts receivable Trade credit and advances	4.5.3 Other investment, trade credit and advances 4.5.3.1 Short-term 4.5.3.2 Long-term
Other	4.6.2 Other investment, other accounts receivable—other 4.6.2.1 Short-term 4.6.2.2 Long-term
Liabilities to nonresidents	
Deposits (excluded from broad money, transferable and other, in national and foreign currency)	4.2.2 Other investment, currency, and deposits 4.2.2.1 Short-term 4.2.2.2 Long-term
Debt securities (excluded from broad money, in national and foreign currency)	2.2.2 Portfolio investment, debt securities 2.2.2.1 Short-term 2.2.2.2 Long-term
Loans	4.3.2 Other investment, loans 4.3.2.1 Short-term 4.3.2.2 Long-term
Insurance, pension, and standardized guarantee schemes	4.4.2 Other investment, insurance, pension, and standardized guarantee schemes
Financial derivatives and employee stock options	3.2 Financial derivatives and employee stock options (other than reserves)

Table A6.3 Reconciliation of Other Depository Corporations' Balance Sheet Items with International Investment Position (IIP) Components (concluded)

Monetary statistics: Sectoral Balance Sheet Other Depository Corporations	IIP: Deposit-taking corporations, except central bank
Other accounts payable	
Trade credit and advances	4.5.3 Other investment, trade credit and advances 4.5.3.1 Short-term 4.5.3.2 Long-term
Other	4.6.2 Other investment, other accounts payable—other 4.6.2.1 Short-term 4.6.2.2 Long-term
Equity and investment fund shares: Market value, by holding sector (<i>memorandum item</i>)	1.1 Direct investment liabilities, equity and investment funds shares 1.1.1 Direct investor in direct investment enterprise 1.1.2 Direct investment enterprise in direct investor (reverse investment) 1.1.3 Between fellow enterprises 2.1.2 Portfolio investment, equity and investment fund shares 4.1 Other investment, other equity

Note: Numbers shown in the table follow the numbering sequence in the standard components of the IIP in the *BPM6*.

¹ Reserve assets are excluded from this table, because reserves are not commonly held by deposit-taking corporations, except the central bank.

Table A6.4 Reconciliation of Sectoral Balance Sheet Items for the Central Bank with International Investment Position (IIP) Components

Monetary statistics: Sectoral Balance Sheet Central Bank	IIP: Central bank
Assets: Claims on nonresidents	
Monetary gold	Reserve assets 5.1 Monetary gold 5.1.1 Gold bullion 5.1.2 Unallocated gold accounts
Holdings of SDRs	Reserve assets 5.2 Special drawing rights (SDRs)—Holdings
Foreign currency included in official reserve assets	Reserve assets 5.4.1 Currency and deposits 5.4.1.1 Claims on monetary authorities 5.4.1.2 Claims on other entities
Foreign currency other	Other investment 4.2.1 Currency and deposits 4.2.1.0.1 Short-term 4.2.1.0.2 Long-term
Deposits in national currency (transferable and other)	Other investment 4.2.1 Currency and deposits 4.2.1.0.1 Short-term 4.2.1.0.2 Long-term
Deposits in foreign currency (transferable and other) Included in official reserve assets	Reserve assets 5.4.1 Currency and deposits 5.4.1.1 Claims on monetary authorities

Table A6.4 Reconciliation of Sectoral Balance Sheet Items for the Central Bank with International Investment Position (IIP) Components (continued)

Monetary statistics: Sectoral Balance Sheet Central Bank	IIP: Central bank
Other	5.4.1.2 Claims on other entities Other investment 4.2.1 Currency and deposits 4.2.1.0.1 Short-term 4.2.1.0.2 Long-term
Debt securities Included in official reserve assets	Reserve assets 5.4.2.1 Debt securities 5.4.2.1.1 Short-term 5.4.2.1.2 Long-term
Other	Portfolio investment 2.2.1 Debt securities 2.2.1.1 Short-term 2.2.2.1 Long-term
Loans Loans to IMF Repurchase agreements Included in official reserve assets Other Other loans Included in official reserve assets Other	Reserve assets 5.3 Reserve position in the IMF 5.4.4 Other claims Other investment 4.3.1 Loans 4.3.1.1 Credit and loans with the IMF (other than reserves) 4.3.1.2 Other short-term 4.3.1.3 Other long-term
Equity and investment fund shares Included in official reserve assets	Reserve assets 5.4.2.2 Equity and investment fund shares Portfolio investment 2.1.1 Equity and investment fund shares
Other	Other Investment 4.1 Other equity
Insurance, pension, and standardized guarantee schemes	Other investment 4.4.1 Insurance, pension, and standardized guarantee schemes
Financial derivatives and employee stock options Included in official reserve assets Other	3.1 Financial derivatives (other than reserves) and employee stock options Reserve assets 5.4.3 Financial derivatives (net)
Other accounts receivable Trade credit and advances	Other investment 4.5.1 Trade credit and advances 4.5.1.1 Short-term 4.5.1.2 Long-term
Other	4.6.1 Other accounts receivable—other 4.6.1.1 Short-term 4.6.1.2 Long-term
Liabilities to nonresidents¹	
Currency in circulation (nonresidents' holdings, not separately identified in balance sheet)	Other investment 4.2.1 Currency and deposits 4.2.1.0.1 Short-term 4.2.1.0.2 Long-term
Deposits excluded from broad money (transferable and other, in national and foreign currency) ² Short-term Long-term	
Debt securities excluded from broad money Short-term Long-term	Portfolio investment 2.2.1 Debt securities 2.2.1.1 Short-term 2.2.1.2 Long-term

Table A6.4 Reconciliation of Sectoral Balance Sheet Items for the Central Bank with International Investment Position (IIP) Components (concluded)

Monetary statistics: Sectoral Balance Sheet Central Bank	IIP: Central bank
Loans	Other investment
Loans from IMF	4.3.1 Loans
Repurchase agreements	4.3.1.1 Credit and loans with the IMF
Short-term	4.3.1.2 Other short-term
Long-term	4.3.1.3 Other long-term
Other Loans	
Short-term	
Long-term	
Financial derivatives and employee stock options	3.1 Financial derivatives (other than reserves) and employee stock options
Short-term	
Long-term	
Other accounts payable	Other investment
Trade credit and advances	4.5.1 Trade credit and advances
	4.5.1.1 Short-term
	4.5.1.2 Long-term
Other	4.6.1 Other accounts payable—other
	4.6.1.1 Short-term
	4.6.1.2 Long-term
SDR Allocations	4.7 SDRs (Allocations)

Note: Numbers shown in the table follow the numbering sequence in the standard components of the IIP in the *BPM6*.

¹In the "Monetary statistics: Sectoral Balance Sheet Central Bank" column, the short-term and long-term breakdown is provided only for liabilities in foreign currency.

²It includes IMF accounts and use of Fund credit.

monetary statistics do not provide enough detail to compile the full breakdown of standard components in the IIP. But both systems have enough in common to consider pursuing a coordinated effort to use the same source data with the necessary details to compile both types of statistics. When properly designed and implemented, this approach would avoid duplication of effort and improve consistency between these related datasets.

Linkages of the International Accounts with the Government Finance Statistics

Introduction

A6.54 The *Government Finance Statistics Manual 2014 (GFSM 2014)* describes an integrated macroeconomic statistical framework (the government finance statistics (GFS)) designed specifically to support fiscal

analysis. The manual provides the economic and statistical principles to be used in compiling the statistics and guidelines for the presentation of fiscal statistics within an integrated analytic framework that includes appropriate balancing items.⁶

A6.55 As a result of the conceptual interlinkages between these two datasets, the compiler of the international accounts and GFS may be able to usefully consult with one another to ensure consistency in definitions, coverage, concepts, and accounting rules. The compiler may also be able to share source data,⁷ and to reconcile these estimates where they overlap.

⁶Balancing items summarize the net value of the activities covered by a set of accounting entries, such as the net operating balances, which is the value of total revenue less total expense.

⁷For the selection of data sources for the compilation of GFS, see the *Government Finance Statistics-Compilation Guide for Developing Countries* (IMF, 2011) at <http://www.imf.org/external/data.htm#guide>.

A6.56 This appendix summarizes important similarities and differences between GFS and the balance of payments and IIP statistics. It also indicates how the data compiled for general government in the balance of payments and IIP could be reconciled with GFS. It does not list, however, all similarities and differences between the two datasets and should not be considered a comprehensive guide.

Coverage and Accounting Rules

A6.57 Since the *GFSM 2014* is harmonized with the *2008 SNA*, it is also harmonized with other macroeconomic systems, including the *BPM6*. In GFS total economy is divided into five mutually exclusive sectors (general government, financial corporations,⁸ nonfinancial corporations, households, and nonprofit institutions serving households). The units in each sector have similar objectives, and these objectives are, in turn, different from those of units in other sectors. The international accounts use the same sectors and subsectors as the *2008 SNA* and the GFS framework but with a different presentation to allow continuity with previous international classifications (such as the *Balance of Payments Manual*, fifth edition). The international accounts have a shorter list of sectors and include only four main sectors: general government, central bank, deposit-taking corporations, except the central bank, and other sectors⁹ (see Table 4.2 in the *BPM6* for the detailed classification of the institutional sectors) for economies in which it is not practical to implement the full classification. The general government sector¹⁰ follows the definitions of the *SNA* in GFS and the international accounts. The compiler of both

⁸ Financial corporations include subsectors for the central bank, deposit-taking corporations, except the central bank, and other financial corporations, while the GFS framework also recommends that subsectors for public corporations be identified both in the financial and nonfinancial corporate sectors.

⁹ The “other sector” category in the international accounts includes both financial and nonfinancial sectors, so it is recommended that the other financial corporations be identified separately. The full institutional sector detail is required for international accounts to be fully integrated with monetary, flow of funds, and other financial data. Public corporations may be identified separately on a supplementary basis.

¹⁰ The general government sector consists of entities that fulfill the functions of government as their primary activity. Depending on the administrative and legal arrangements, there may be more than one level of government within an economy, and statistics should be compiled for each level. In GFS, provision is made for three levels of government: central, state/provincial/regional, and local. Social security funds are permitted to either be included in one of

datasets should ensure that the actual coverage of the general government used in their statistics is identical.

A6.58 Both frameworks can be described as the systematic recording and presentation of positions and flows, with flows comprising transactions and other economic flows. The accrual basis of recording is used, and the valuation principle is the current market value for recording positions and flows. Both use the double-entry accounting system (i.e., each transaction is recorded as consisting of a debit and credit entry of equal value), and the sum of credit entries and the sum of the debit entries are the same.

A6.59 Both GFS and the international accounts record, respectively, revenue and expense and current and capital transactions on a gross basis; and both record transactions and other changes in financial assets and liabilities on net bases for each category of assets or liabilities. For dissemination purposes, GFS presents revenue (credits) and expense (debits) separately (i.e., in two different detailed tables), while in the international accounts, credits and debits are presented under the same respective categories. Positions of financial assets and liabilities are recorded on a gross basis in both datasets.

A6.60 Consolidation is a method of presenting statistics for a set of units as if they constituted a single unit. Because the international accounts reflect transactions involving residents and nonresidents and external financial assets and liabilities, including other flows associated with them, consolidation is not relevant for international accounts of an individual economy. In GFS, consolidation is relevant and used for the preparation of statistics for the general government and its subsectors (central, regional, and local governments). General government units by definition are resident units; therefore GFS consolidation principles would not affect the consistency in data between the two datasets.

Comparison of the Structures of GFS and the Balance of Payments and the IIP

A6.61 The structure of the GFS framework is similar to the structure used in the balance of payments and IIP frameworks, and comprises: (1) the statement

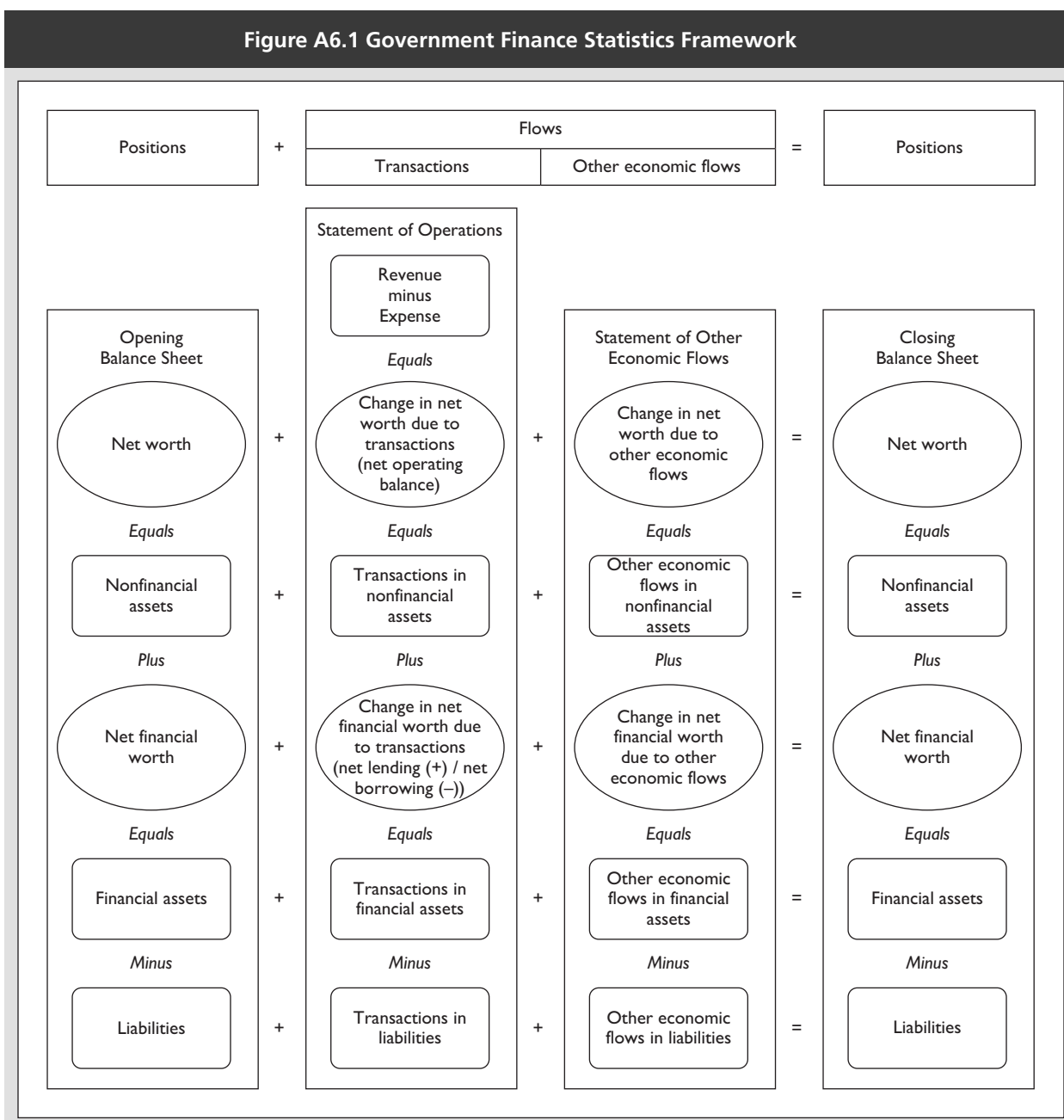
these levels or constitute a separate level of government. Not all the economies will have all the levels of government. The international accounts identify general government, but they do not present data for the subsectors of the general government, as is the case in GFS.

of operations, which records the results of all transactions during an accounting period; (2) the statement of other economic flows, which summarizes changes in assets, liabilities, and net worth that have not been generated by transactions; and (3) the balance sheet, which shows positions of financial and nonfinancial assets owned, positions of liabilities owed, and net worth, which is equal to the total value of all assets less the total value of all liabilities. As illustrated in Figure A6.1, the comprehensive treatment of transactions and other economic flows in GFS enables the opening

and closing balance sheets to be fully integrated. That is, the position of a given type of asset or liability at the beginning of an accounting period *plus* the changes in that position indicated by transactions and other economic flows equal the stock position at the end of the period.

A6.62 The GFS framework generates a set of statistical statements, which if combined, demonstrate that all changes in the positions result from flows. This is similar to the accounting identity in the IIP that requires all changes in investment positions to result

Figure A6.1 Government Finance Statistics Framework



from transactions and other flows. In addition, the GFS framework includes a statement of sources and uses of cash to provide key information on liquidity. A similar statement is not prepared in the international accounts.

The Statement of Operations

A6.63 The statement of operations is a summary of transactions of the general government sector in a given accounting period. This statement presents three main categories of transactions (see Table A6.5): (1) transactions affecting net worth that include details of transactions on revenue and expense; (2) transactions in nonfinancial assets (net acquisition of nonfinancial assets);¹¹ and (3) transactions in financial assets and liabilities (net acquisition of financial assets, and the net incurrence of liabilities). The statement of operations has similarities with the balance of payments, because both statements summarize transactions during a period. In the balance of payments, transactions are presented in a sequence of three accounts, the current, capital, and financial account.

A6.64 The transactions presented in the first two categories of the GFS framework—namely, revenue and expense—are similar to the transactions in the current account of the balance of payments with one exception: capital transfers included in respectively revenue (credit) and expense (debit) of GFS, because these transactions affect net worth, are presented in the capital account of the balance of payments. Gross acquisitions (debit)/disposals (credit) of nonproduced assets included in the net investment of nonfinancial assets of GFS are presented in the capital account of the balance of payments. The GFS transactions in financial assets and liabilities of the statement of operations are fully consistent with those shown in the financial account of the balance of payments.

A6.65 The statement of operations in GFS has a linkage to the accounts in the balance of payments to the extent that general government sector units are involved in transactions with nonresidents. For grants, interest, and transactions in financial assets and liabilities, GFS separately identifies transactions with nonresidents. However, for other transactions with nonresidents GFS will usually not separately identify

these transactions, which limit opportunities for reconciliation between the international accounts and GFS. However, in some cases, supplementary information in the general government sector accounting system may identify such transactions—particularly

Table A6.5 Statement of Operations

Transactions Affecting Net Worth	
1	Revenue
11	Taxes
12	Social contributions [GFS]
13	Grants
14	Other revenue
2	Expense
21	Compensation of employees [GFS]
22	Use of goods and services
23	Consumption of fixed capital
24	Interest
25	Subsidies
26	Grants
27	Social benefits [GFS]
28	Other expense
<i>NOB/GOB</i>	<i>Net/gross operating balance (1–2)¹</i>
Transactions in nonfinancial assets:	
31	Net/gross investment in nonfinancial assets ²
311	Fixed assets
312	Inventories
313	Valuables
314	Nonproduced assets
2M	Expenditure (2+31)
<i>NLB</i>	<i>Net Lending (+)/borrowing (-)[GFS] (1–2–31=1–2M=32–33)</i>
Transactions in financial assets	
32	Net acquisition of financial assets
321	Domestic ³
322	External ³
Transactions in liabilities	
33	Net incurrence of liabilities
331	Domestic ³
332	External ³

¹ The net operating balance equals revenue minus expense. The gross operating balance equals revenue minus expense other than consumptions of fixed capital.

² The net investment in nonfinancial assets equals acquisitions minus disposals minus consumption of fixed capital. The gross investment in nonfinancial assets equals acquisitions minus disposals.

³ Classified by instrument and/or sector of the counterparty (see Table 9.1 and 9.2, *GFSM 2014*).

¹¹ Expenditure is the sum of expense and the net acquisition of nonfinancial assets.

where these are of an unusual nature, large volume, or large value.

A6.66 In GFS, revenue is defined as an increase in net worth resulting from a transaction, and expense as a decrease in net worth resulting from a transaction. The net investment in nonfinancial assets equals gross fixed capital formation less consumption of fixed capital, plus changes in inventories, transactions in valuables, and nonproduced assets. The net acquisition of financial assets and the net incurrence of liabilities represent financial transactions that change a government's holdings of financial assets and/or liabilities.

A6.67 Two important analytical balances are derived in GFS in the statement of operations. Revenue less expense equals the net operating balance (change in the net worth due to transactions). The subsequent deduction of the net investment in nonfinancial assets results in net lending (+)/net borrowing (-) (change in the net financial worth), which is also equal to the net result of transactions in financial assets and liabilities—that is, equal to the net acquisition of financial assets minus the net incurrence of liabilities. The net operating balance is a summary measure of the ongoing sustainability of government operations, and the net lending (+)/net borrowing (-) is a summary measure indicating the extent to which the government is either putting financial resources at the disposal of other sectors in the economy or to abroad, or utilizing the financial resources generated by other sectors or from abroad. In addition, the gross operating balance is a balance that differs from the net operating balance in that it does not include consumption of fixed capital as an expense.¹²

A6.68 There are more balancing items in the balance of payments than in GFS, partly because there are more transaction accounts than categories in the statement of operations. In GFS, as indicated in the previous paragraph, the balancing items are: the net operating balance and the net lending/net borrowing, while in the balance of payments the balancing items are: current account balance; balance on goods

and services; balance on goods; balance on services; balance on primary income; balance on secondary income; capital account balance; net lending/borrowing (i.e., balance from current and capital accounts); and net lending/net borrowing (i.e., balance from financial account). In both datasets, the net lending/net borrowing is equal to the financial account balance.

Revenue

A6.69 Governments receive four major types of revenue from their fiscal operations: compulsory levies in the form of taxes and certain types of social contributions, property income derived from the ownership of assets,¹³ sales of goods and services,¹⁴ and transfers receivable from other units. Of these, compulsory levies and transfers are the main sources of revenue for most general government units. Revenue is composed of heterogeneous elements classified according to different characteristics depending on the type of revenue. The four types of revenue are classified in four categories: (1) taxes; (2) social contributions; (3) grants; and (4) other revenue.

Taxes

A6.70 *Taxes* are compulsory, unrequited amounts receivable by government units from institutional units.¹⁵ The coverage, timing, and valuation of tax revenue in the balance of payments and GFS are identical, but the classifications differ. The balance of payments has provisions for compilation of (1) taxes on production and imports; (2) current taxes on income, wealth, and so forth; and (3) capital taxes, while the approach adopted in GFS is to classify taxes mainly by the basis on which the tax is levied. Taxes are grouped in six major categories in GFS: (1) taxes on income, profits, and capital gains; (2) taxes on payroll and workforce; (3) taxes on property; (4) taxes on goods and services;

¹² Consumption of fixed capital can be difficult to measure in practice, and a satisfactory estimate may not be possible. If so, the gross operating balance may be more practical for analysis than the operating balance. The net operating balance is, however, preferred because it captures all current costs of government operations.

¹³ Financial assets and natural resources put at the disposal of another institutional unit.

¹⁴ In GFS, sales of goods and services consist of sales by market establishments, administrative fees, incidental sales by nonmarket establishments, and imputed sales of goods and services.

¹⁵ Tax revenue is considered to be unrequited because the government provides nothing directly to the individual unit in exchange for the payment. Certain compulsory receivables, such as fines, penalties, and most social security contributions, are excluded from taxes. These transfers have, under certain conditions, an element of exchange and are therefore not classified as taxes.

(5) taxes on international trade and transactions; and
(6) other taxes (see Table A.6.6 for additional details).¹⁶

A6.71 While certain taxes may be levied on non-residents (such as some taxes on international trade and on international transactions), the portion attributable to nonresidents may be difficult to identify in GFS and may vary from one tax category to the next and from one year to another.

A6.72 Taxes on products and production reported in the balance of payments primary income account comprise the same tax categories as in the SNA. Some examples of these taxes¹⁷ are value added taxes (GFS 11411);¹⁸ sales taxes (GFS 11412); excise (GFS 1142); taxes on specific services (GFS 1144); customs and other import duties (GFS 1151); taxes on exports (GFS 1152); and profits of export or import monopolies (GFS 1153). Exceptionally, some taxes and duties may be payable on goods that physically enter the economy but where there is no change of ownership, so they are not treated as imports. Nevertheless, any such

taxes and duties are still included in the heading of taxes and duties on imports in the GFS.

A6.73 Current taxes on income, wealth, and so forth reported in the balance of payments secondary income account are the sum of several detailed tax categories as reported in the GFS, and comprise taxes on income, profits and capital gains (GFS 111) and several other tax categories mainly payable by final consumers (such as taxes on use of goods and on permission to use goods or perform activities (GFS 1145), and other taxes on international trade and transactions (GFS 1156).

A6.74 Capital taxes included in the balance of payments capital account consist of taxes levied at irregular and infrequent intervals on the values of the assets or net worth owned by institutional units or on the value of assets transferred between institutional units as a result of legacies, gifts inter vivos, or other transfers. Capital taxes¹⁹ are the sum of estate, inheritance, and gift taxes (GFS 1133), and capital levies (GFS 1135).

Table A6.6 Taxes in Government Finance Statistics (GFS) and Balance of Payments

GFS: Taxes		Balance of payments: Taxes	
1	Revenue	I.B	Primary income
11	Taxes	I.B.3.1	<i>Taxes on production and on imports</i>
111	Taxes on income, profits and capital gains		
1111	Payable by individuals	I.C	Secondary income
1112	Payable by corporations and other enterprises	I.C.I	General government
1113	Other taxes on income, profits, and capital gains	I.C.1.1	<i>Current taxes on income, wealth, etc.</i>
112	Taxes on payroll and workforce	IC.2	Financial corporations, nonfinancial corporations, households, and nonprofi
113	Taxes on property	LC.2.2	Other current transfers
1131	Recurrent taxes on immovable property	I.C.2.0.1	<i>Current taxes on income, wealth, etc.</i>
1132	Recurrent taxes on net wealth		
1133	Estate, inheritance, and gift taxes	2	Capital account
1135	Capital levies	2.2	Capital transfers
1136	Other recurrent taxes on property	2.2.1	General government
114	Taxes on goods and services	2.-2.1.2	Other capital transfers

¹⁶ The classification of taxes in the *GFSM 2014* is quite similar to the classification employed in Revenue Statistics by the Organization for Economic Cooperation and Development (OECD).

¹⁷ For a complete list of taxes, see Chapter 5, *GFSM 2014*.

¹⁸ Here and further the numbers in parentheses next to GFS refer to classification codes in the *GFSM 2014*.

¹⁹ GFS does not have a category of capital taxes.

Table A6.6 Taxes in Government Finance Statistics (GFS) and Balance of Payments (concluded)

GFS: Taxes		Balance of payments: Taxes	
1141	General taxes on goods and services	2.2.1.2.1	<i>of which: Capital taxes</i>
11411	Value-added taxes	2.2.2	Financial corporations, nonfinancial corporations, households, and NPISHs
11412	Sales taxes	2.2.2.2	Other capital transfers
11413	Turnover and other general taxes on goods and services	2.2.2.2.1	<i>of which: Capital taxes</i>
11414	Taxes on financial and capital transactions		
1142	Excise		
1143	Profits of fiscal monopolies		
1144	Taxes on specific services		
1145	Taxes on use of goods and on permission to use goods or		
11451	Motor vehicle taxes		
11452	Other taxes on use of goods and on permission to use goods		
1146	Other taxes on goods and services		
115	Taxes on international trade and transactions		
1151	Customs and other import duties		
1152	Taxes on exports		
1153	Profits of export or import monopolies		
1154	Exchange profits		
1155	Exchange taxes		
1156	Other taxes on international trade and transactions		
116	Other taxes		
1161	Payable solely by business		
1162	Payable by other than business or unidentifiable		

Note: To maintain consistency with codes used in *GFSM 2001*, the 11414 code does not follow directly the code of the previous category of taxes- taxes on capital and financial transactions (GFS 1134 in *GFSM 2001*) are now classified in taxes on goods and services (GFS 114) to enhance consistency with *2008 SNA*.

Social contributions

A6.75 In GFS, social contributions are actual or imputed revenues receivable by social insurance schemes to make provision for social insurance benefits payable. Social contributions may be from either employers on behalf of their employees or from employees, self-employed, or nonemployed persons on their own behalf. These contributions secure entitlement to social benefits (GFS 27) that are payable to the contributors, the dependents, or their survivors. The contributions may be compulsory or voluntary. Social contributions are classified as social security contributions (GFS 121) or other social contributions

(GFS 122) depending on the type of scheme receiving them. Additional breakdowns are included to classify this information by employees, employers, and self-employed or nonemployed persons. In GFS, social contributions are not divided between residents and nonresidents.

A6.76 The coverage of social contributions in GFS is more restricted than in the 2008 SNA and BPM6. In GFS, only contributions that constitute revenue are included in social contributions (GFS 12)—that is, only transactions that increase the net worth are included. In GFS, social contributions exclude contributions to autonomous and nonautonomous pension funds and

to unfunded employment related pension schemes that provide pension and other retirement benefits. Social contributions to autonomous and nonautonomous pension funds and to unfunded employer social insurance schemes that provide retirement benefits are recorded as incurrence of liabilities by the government.²⁰ The 2008 SNA and BPM6²¹ record all social contributions and incurrence of liabilities, with the accounting being neutralized by recording an adjustment for the change in pension entitlements. Social contributions receivable from nonresidents by general government sector units are included in the secondary income account in the balance of payments,

and, when identified, they should be consistent with the corresponding GFS categories.

Grants

A6.77 Grants are transfers receivable by government units from other resident or nonresident government units or international organizations, and that do not meet the definition of a tax, subsidy or a social contribution. Three sources of grants are recognized in GFS: grants from foreign governments (GFS 131), grants from international organizations (GFS 132), and grants from other general government units (GFS 133). Each of these categories distinguishes current and capital grants.

Table A6.7 Other Revenue Categories in Government Finance Statistics (GFS) and Balance of Payments

GFS: Other revenue categories		Balance of payments: Other revenue categories	
12	Social contributions [GFS]	I	Current account
121	Social security contributions	I.A	Good and services
1211	Employee contributions	I.B	Primary income
1212	Employer contributions	I.B.2	Investment income
1213	Self-employed or nonemployed contributions	I.B.2.1	Direct investment
1214	Unallocable contributions	I.B.2.1.1	Income on equity and investment fund shares
122	Other social contributions	I.B.2.1.1.1	Dividends and withdrawals from income of quasi-corporations
1221	Employee contributions	I B 2 1 1 2	Reinvested earnings
1222	Employer contributions		<i>Investment income attributable to policy holders in insurance, pension schemes, and standardized guarantee schemes and to investment funds</i>
1223	Imputed contributions	I.B.2.1.2	Interest
13	Grants	I.B.2.2	Portfolio investment
131	From foreign governments	I.B.2.2.1	Investment income on equity and investment fund shares
1311	Current	I.B.2.2.1.1	Dividends
1312	Capital	I.B.2.2.1.2	Investment income attributable to investment fund shareholders
132	From international organizations	I.B.2.2.1.2.1	Dividends on equity excluding investment fund shares
1321	Current	I.B.2.2.1.2.2	Reinvested earnings
1322	Capital	I.B.2.2.2	Interest
133	From other general government units	I.B.2.3	Other investment
1331	Current	I.B.2.3.1	Withdrawals from income of quasi-corporations
1332	Capital	I.B.2.3.2	Interest

²⁰ For additional information about autonomous and nonautonomous pension funds and funded and unfunded employer social insurance schemes, see Appendix 2 in the *GFSM 2014*.

²¹ See the *BPM6*, paragraph 12.38, for additional information about the adjustment (“adjustment for change in pension entitlements”).

Table A6.7 Other Revenue Categories in Government Finance Statistics (GFS) and Balance of Payments (concluded)

GFS: Other revenue categories		Balance of payments: Other revenue categories	
14	Other revenue	I.B.2.3.3	<i>Investment income attributable to policy holders in insurance, pension schemes, and standardized guarantee schemes</i>
141	Property income [GFS]	I.B.2.4	Reserve assets
1411	Interest [GFS]	I.B.2.4.1	Income on equity and investment fund shares
1412	Dividends	I.B.2.4.2	Interest
1413	Withdrawals from income of quasi-corporations	IB.3	Other primary income
1414	Property income from investment income disbursements	I.B.3.3	<i>Rent</i>
1415	Rent		
1416	Reinvested earnings on foreign direct investment	I.C	Secondary income
142	Sales of goods and services	I.C.I	General government
1421	Sales by market establishments	I.C.I.I	<i>Social contributions</i>
1422	Administrative fees	I.C.I.4	<i>Current international cooperation</i>
1423	Incidental sales by nonmarket establishments	I.C.I.5	<i>Miscellaneous current transfers of general government</i>
1424	Imputed sales of goods and services		<i>Net nonlife insurance premiums</i>
143	Fines, penalties, and forfeits	2	Capital account
144	Transfers not elsewhere classified	2.2	Capital transfers
1441	Current transfers not elsewhere classified	2.2.1	General government
14411	Subsidies	2.2.1.1	Debt forgiveness
14412	Other current transfers		
1442	Capital transfers not elsewhere classified		
145	Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes		
1451	Premiums, fees, and current claims		
1452	Capital claims		

A6.78 Current grants receivable from foreign general governments and international organizations (GFS 1311 and 1321, respectively) are often the most important linkage between the GFS and the balance of payments secondary income account. Capital grants receivable from foreign general governments and international organizations (GFS 1312 and 1322, respectively) are linked to the capital transfer category of the general government in the balance of payments capital account. Current (GFS 1331) and capital grants (GFS 1332) receivable from other general government units are transactions between residents—that is, units within the general government of any particular economy, and they do not impact the balance of payments.

A6.79 The following is the treatment of some capital transfers in the GFS and balance of payments accounts:

- Debt forgiveness²² received from nonresidents will be reflected in the GFS as revenue in capital grants received either from foreign governments (GFS 1312), or international organizations (GFS 1322), or as capital transfers not elsewhere classified (GFS 1442), when received from other nonresident entities. A corresponding reduction

²² Debt forgiveness is defined as the voluntary cancellation by mutual agreement of all or part of a debt obligation within a contractual arrangement between a creditor and a debtor.

in the appropriate external debt instrument will be recorded. In the balance of payments, debt forgiveness is recorded as a capital transfer (see *BPM6*, paragraph 13.23) in the capital account from the creditor economy to the debtor economy, offset by a reduction in the liability of the debtor (reduction in the asset of the creditor) under the appropriate debt instrument in the financial account.

- Investment transfer consists of capital transfers in cash²³ or in kind made by foreign governments or international organizations to other institutional units to finance all or part of the cost of their acquiring fixed assets. These transfers will be recorded in the same categories of revenue and expense as for debt forgiveness as described earlier in GFS. However, in this case, a corresponding increase in cash will be recorded if the investment grant was received in cash, while the appropriate nonfinancial asset will increase in the case of a grant in kind. In the balance of payments, investment grants are recorded as other capital transfer (see *BPM6*, paragraph 13.25) in the capital account from the donor economy to the recipient economy, and the counterentry is in the relevant financial instrument, if the transfer was received in cash, or in import of goods and services, if received in kind.
- Calls on one-off guarantees and other debt assumption are capital transfers that occur when a one-off guarantee is activated and the guarantor acquires no claim on the debtor or a claim worth less than the value of the guarantee, or in other cases of debt assumption. When general government sector units and nonresidents are involved in these transactions, they should be consistently treated in the capital account and GFS. For treatment in balance of payments see the *BPM6*, paragraph 13.27.

A6.80 Other capital transfers consist of major non-recurring payments in compensation for extensive damage or serious injuries not covered by insurance policies. When general government sector units are the recipients of this type of transfer from nonresidents, they will be recorded as part of capital grants receivable either from foreign governments (GFS 1312),

or international organizations (GFS 1322), or as capital transfers n.e.c. (GFS 1442), when receivable from other nonresident entities. In balance of payments, such payments are recorded as other capital transfers in capital account (see *BPM6*, paragraph 13.29). When statistics are compiled for the general government sector, grants from other domestic government units would be eliminated in consolidation²⁴ so that only grants from foreign governments and international organizations would have nonzero values in the general government accounts.

Other revenue

A6.81 In GFS, other revenue includes property income, sales of goods and services, fines, penalties, and forfeits, transfers not elsewhere classified, and premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes.

A6.82 The contribution of the general government sector to investment income in the primary income account is mainly derived from the portion receivable from nonresidents of the GFS categories interest (GFS 1411), dividends (GFS 1412), withdrawals from income of quasi-corporations (GFS 1413), property income from investment income disbursements (GFS 1414),²⁵ rent (GFS 1415), and reinvested earnings on foreign direct investment (GFS 1416). In the balance of payments, the primary income account groups these items by functional category (direct investment, portfolio investment, other investment, and reserve assets). GFS does not present a functional classification²⁶ similar to that in the international accounts.

²⁴ See paragraph A6.60 for consolidation.

²⁵ Insurance enterprises hold technical reserves in the form of prepayments of premiums, reserves against outstanding claims, and actuarial reserves against outstanding risks with respect to life insurance policies. These reserves are considered to be assets of the insurance company with matching liabilities towards the beneficiaries, including any government units that are policyholders. Any income receivable from the investment of insurance technical reserves is also considered to be the property of the policy holders or beneficiaries and is described as property income from investment income disbursements (GFS 1414). In the *BPM6*, the account title used is Investment income attributable to policyholders in insurance, standardized guarantees, and pension funds.

²⁶ The GFS framework also uses a functional classification for expenses, based on the OECD/UN classification of the functions of government (COFOG). It is a detailed classification of the functions (socioeconomic objectives) that general government units aim to achieve through various kinds of expenditure (see *GFSM 2014*, paragraph A6.1 for additional information).

²³ Cash is used in a broader sense since it includes all types of financial instruments.

A6.83 The contribution of the general government sector to the goods and services accounts of the balance of payments comprises the sales of goods and services to nonresidents. These sales are classified in the corresponding categories of the goods and services accounts. In the services account, a separate disclosure of government goods and services n.i.e. is included and covers the following:

- Goods and services supplied by enclaves, such as embassies, military bases, and international organizations
- Goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad, and their dependents but excluding revenue/expense of workers who are residents of the local economy
- Services supplied by governments and not included in other categories of services

A6.84 As foreign government and international organization enclaves are not residents of the territory in which they are physically located, their transactions with residents of the territory of location are international transactions. Government revenue from licenses and permits sold to nonresidents is also included in this category if it is not instead treated as taxes, as well as some activities related to technical assistance provided by one economy to another (see *BPM6*, Box 10.6).

A6.85 The GFS framework does not specifically require the identification of transactions with nonresidents in goods and services, or produced nonfinancial assets owned by the government. However, where these transactions can be identified and classifications are built into the underlying public sector accounting system, the information could be supplied to the balance of payments compiler for estimating credits from the sales of goods and services category of GFS (GFS 142), as well as the net investment in nonfinancial assets, other than nonproduced assets (GFS 31).

A6.86 The secondary income and the capital accounts of the balance of payments have linkages to several GFS other revenue categories, including fines, penalties, and forfeits (GFS 143), current transfers not elsewhere classified (GFS 1441) and premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes (GFS 145) in the secondary income account, and capital grants (GFS 131 and 132)

and capital transfers n.e.c. (GFS 1442) in the capital account.

Expenses

A6.87 Sometimes governments supply goods and services to the community. In doing so, a government may produce the goods and services itself and distribute them, purchase them from a third party, or transfer cash to households so they can purchase the goods and services directly. The types of expenses that relate to the costs of production undertaken by government itself incurred for these activities are: compensation of employees, use of goods and services, and consumption of fixed capital. Expenses also include subsidies, grants, social benefits, and other expense related to transfers in cash or in kind, and purchases of goods and services from third parties for delivery to other units. In addition, expenses include interest that is payable by units that incur certain kinds of liabilities—namely, deposits, debt securities, loans, and other accounts payable (see Table A6.8 for additional details).

A6.88 The linkages that exist between the international accounts and GFS are presented ahead.

Compensation of employees

A6.89 Compensation of employees is the total remuneration, in cash or in kind, payable to an individual in an employer-employee relationship in return for work done by the latter during the accounting period. Compensation of employees (GFS 21) excludes amounts connected with own-account capital formation. In GFS, compensation of employees payable to employees engaged in own-account capital formation, which is the production of nonfinancial assets for own use, is directly recorded as a component of the cost of the acquisition of nonfinancial assets. It includes both wages and salaries (GFS 211) and employers' social contributions (GFS 212). Wages and salaries are payments in cash or in kind to employees in return for services rendered, before deduction of withholding taxes and employees' contributions to social insurance schemes. In the balance of payments, the definition of compensation of employees is the same.

A6.90 Because government employment usually has some residency criteria as preconditions, international payments of employee compensation by government are often not very large. However, in the case of territorial enclaves, all compensation of employees

Table A6.8 Expense in Government Finance Statistics (GFS) and Balance of Payments

2	Expense	I	Current account
21	Compensation of employees [GFS]	I.A	Good and services
211	Wages and salaries [GFS]	I.B	Primary income
2111	Wages and salaries in cash [GFS]	I.B.1	Compensation of employees
2112	Wages and salaries in kind [GFS]	I.B.2.1	Direct Investment
212	Employers' social contributions [GFS]	I.B.2.1.1	Income on equity and investment fund shares
2121	Actual social contributions [GFS]	I.B.2.1.1.1	Dividends and withdrawals from income of quasi-corporations
2122	Imputed social contributions [GFS]	I.B.2.1.1.2	Reinvested earnings
22	Use of goods and services		<i>Investment income attributable to policy holders in insurance, pension schemes, and standardized guarantee schemes and to investment funds</i>
23	Consumption of fixed capital [GFS]	I.B.2.1.2	Interest
24	Interest [GFS]	I.B.2.2	Portfolio Investment
241	To nonresidents	I.B.2.2.1	Investment Income on equity and investment fund shares
242	To residents other than general government	I.B.2.2.1.1	Dividends
243	To general government units	I.B.2.2.1.2	Investment income attributable to investment fund shareholders
25	Subsidies	I.B.2.2.1.2.1	Dividends
251	To public corporations	I.B.2.2.1.2.2	Reinvested earnings
2511	Public nonfinancial corporations	I.B.2.2.2	Interest
2512	Public financial corporations	I.B.2.3	Other investment
252	To private enterprises	I.B.2.3.1	Withdrawals from income of quasi-corporations
2521	Private nonfinancial enterprises	I.B.2.3.2	Interest
2522	Private financial enterprises	I.B.2.3.3	<i>Investment income attributable to policy holders in insurance, pension schemes, and standardized guarantee schemes</i>
253	To other sectors	I.B.2.4	Reserve assets
26	Grants	I.B.2.4.1	Income on equity and investment fund shares
261	To foreign governments	I.B.2.4.2	Interest
2611	Current	I.B.3	Other primary income
2612	Capital	I.B.3.3	Rent
262	To international organizations		
2621	Current	I.C	Secondary income
2622	Capital	I.C.I	General government
263	To other general government units	I.C.I.I	<i>Social contributions</i>
2631	Current	I.C.I.3	<i>Social benefits</i>
2632	Capital	I.C.I.4	<i>Current international cooperation</i>
		I.C.I.5	<i>Miscellaneous current transfers of general government</i>
27	Social benefits [GFS]		<i>Net nonlife insurance premiums</i>
271	Social security benefits	2	Capital account
2711	Social security benefits in cash	2.2	Capital transfers

Table A6.8 Expense in Government Finance Statistics (GFS) and Balance of Payments (concluded)

2	Expense	I	Current account
2712	Social security benefits in kind	2.2.1	General government
272	Social assistance benefits	2.2.1.1	Debt forgiveness
2721	Social assistance benefits in cash		
2722	Social assistance benefits in kind [GFS]		
273	Employment-related social benefits		
2731	Employment-related social benefits in cash		
2732	Employment-related social benefits in kind		
28	Other expense		
281	Property expense other than interest		
2811	Dividends		
28111	To nonresidents		
28112	To residents		
2812	Withdrawals from income of quasi-corporations		
2813	Property expense attributed to insurance policy holders, pension		
2814	Rent		
2815	Reinvested earnings on foreign direct investment		
282	Transfers not elsewhere classified		
2821	Current not elsewhere classified		
2822	Capital not elsewhere classified		
283	Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes		
2831	Premiums, fees, and current claims		
2832	Capital claims		

(GFS 21) payable by government to residents of the host economy should be included in the primary income account. The GFS classifications do not specifically require the identification of compensation of employees to nonresidents. However, when such payments are identified in the underlying source system, the information should be reported consistently in the GFS and primary income account debits in the balance of payments.

Uses of goods and services

A6.91 This category consists of goods and services used for the production of market and nonmarket goods and services. Excluded are the consumption of

fixed capital (GFS 23), the use of goods and services in own-account capital formation that are recorded as the acquisition of nonfinancial assets, and goods purchased by government and distributed without transformation that are recorded as some type of transfer in kind.²⁷

A6.92 The use of goods and services of the general government sector from nonresidents is reflected in the corresponding categories of the goods and services accounts in the balance of payments where goods and services accounts contain a separate category for

²⁷ See paragraphs 6.25–6.30 in the *GFSM 2014*.

government goods and services n.i.e. (see paragraph A6.83). The GFS system does not specifically require the identification of transactions in goods and services of the government with nonresidents. However, where these transactions can be identified and classifications are built into the underlying public sector accounting system, the information could be supplied to the balance of payments compiler for estimating debits from the uses of goods and services (GFS 22) category of the GFS.

Consumption of fixed capital

A6.93 Consumption of fixed capital is the decline during an accounting period in the current value of fixed assets owned and used by a general government unit as a result of physical deterioration, normal obsolescence, or normal accidental damage. It is valued in the average prices of the period. This is an internal transaction where government act in two capacities, and would therefore not have any impact on the balance of payments.

Interest

A6.94 Interest is the expense that the general government unit (the debtor) incurs for the use of certain kinds of financial assets, for putting these financial and other resources at the disposal of another institutional unit. In the GFS framework, the interest category is not compiled using an international account functional classification. The interest expense (GFS 24) category in the GFS framework is broken down in three subcategories: to nonresidents (GFS 241), to residents other than general government (GFS 242), and to general government units (GFS 243). As opposed to other categories in GFS, the nonresident portion of interest (GFS 241) is separately identified and it should be linked with the corresponding categories in the balance of payments accounts. The compiler should also be aware that, as opposed to general government interest receipts and payments recorded in the balance of payments, interest in the GFS framework is not adjusted for FISIM.

Subsidies

A6.95 Subsidies are current unrequited payments that government units make to companies on the basis of the level of their production activities or the quantities or values of the goods or services they

produce, sell, export, or import. Subsidies may be designed to influence the level of production and the prices at which outputs are sold, or the profits or losses of the companies involved.

A6.96 In calculating other primary income in the balance of payments, linkages with the GFS data arise from the transactions with nonresidents related to subsidies (GFS 25). Where the identification of such payments to nonresidents is provided in the underlying public sector accounting system, the information should be consistent with the primary income account.

Grants

A6.97 Grants are transfers payable by a government unit to other resident or nonresident government unit, or international organizations, that do not meet the definition of a tax, subsidy, or social contribution. These three recipients of grants are recognized in GFS. For reconciliation with the international accounts, the following grants are relevant: current grants payable to foreign governments (GFS 2611) and to international organizations (GFS 2621) are linked to the secondary income account in the balance of payments, and capital grants payable to foreign governments (GFS 2612) and to international organizations (GFS 2622) are linked to the capital account in the balance of payments.

A6.98 When the government sector unit is the grantor of debt relief to a nonresident, an expense will be reflected in grants, to foreign governments, capital (GFS 2612); or, grants, international organizations, capital (GFS 2622); or capital transfers not elsewhere classified (GFS 2822), when provided to other entities different from foreign government and international organizations. A corresponding reduction in the appropriate foreign financial asset will be recorded. The GFS framework does not identify a separate category for debt forgiveness. Exceptionally large nonlife insurance claims—where these claims are payable by government sector units—may be recorded as capital claims (GFS category 2832) in the premium, fees, and claims related to nonlife insurance and standardized guarantee schemes (GFS 283) category.

A6.99 Governments are often involved in grant transfers, which should be reported in a consistent way in GFS and the secondary income or capital

account of the balance of payments. Governments undertake transfers to convey a benefit to another party, or benefit from transfers receivable. These capital transfers consist of compulsory transfers to governments, transfers under court orders, and voluntary transfers. There may also be imputed capital transfers as a result of governments' use of entities resident in other economies, for fiscal purposes (see *GFSM 2014*, paragraph 2.124, and *BPM6*, paragraphs 8.24–8.26).

Social benefits

A6.100 Social benefits are current transfers receivable by households intended to provide for the needs that arise from certain events or circumstances—for example, sickness, unemployment, retirement, housing, education, or family circumstances.²⁸ In GFS, not all social benefits are treated as expense. The payment of pension and other retirement benefits through employer social insurance schemes is treated as reductions in liabilities (see also paragraph A6.76). Social benefits (GFS 27) payable to nonresidents should feed into those corresponding categories in the secondary income account. In the international accounts, social benefits are divided in two subcategories—that is, those related to the general government and those to the financial corporations, nonfinancial corporations, households, and NPISHs. In the GFS framework, social benefits are compiled with a different disaggregation, social security benefits (GFS 271), social assistance benefits (GFS 272), and employment-related social benefits (GFS 273).

Other expense

A6.101 The GFS framework, in addition to compensation of employees, use of goods and services, consumption of fixed capital, interest, subsidies, grants, and social benefits, identifies other expense. Other expense comprises property expense other than interest, transfers not elsewhere classified, and premium, fees, and claims related to nonlife insurance and standardized guarantees.

A6.102 The contribution of the general government to the primary income account of the balance of payments is often largely derived from the nonresident portion of all the subcategories of property expense

other than interest (GFS 281): dividends (GFS 2811), withdrawals from income of quasi-corporations (GFS 2812), property expense for investment income disbursements (GFS 2813), rent (GFS 2814), and reinvested earnings on foreign direct investment (GFS 2815). In GFS, detailed classification of dividends presents breakdowns to nonresidents (GFS 28111) and to residents (GFS 28112).

A6.103 In calculating secondary income and capital account categories of the balance of payments, linkages with the GFS other expense categories arise from the transactions with nonresidents related to current transfers not elsewhere classified (GFS 2821) and premiums, fees, and claims related to nonlife insurance and standardized guarantees (GFS 283) in the secondary income account, and capital transfers not elsewhere classified (GFS 2822) in the capital account.

Transactions in Nonfinancial Assets

A6.104 In GFS, transactions in nonfinancial assets include all categories of produced and nonproduced assets. It should be noted that, contrary to GFS, the capital account in the balance of payments does not include produced nonfinancial assets; it instead records only transactions in nonproduced nonfinancial assets. Transactions in produced nonfinancial assets are included in the respective balance of payments categories—for example, goods as recorded in the goods and services account. The goods and services account does not distinguish whether those goods or services are of a capital or current nature.

A6.105 Nonproduced nonfinancial assets consist of natural resources; contracts, leases, and licenses; and marketing assets and goodwill in the balance of payments, which are identified in the GFS framework. There is full consistency in the macroeconomic statistical framework with regards to the categories of nonproduced, nonfinancial assets that exist. Where general government sector units acquire or dispose of these assets in transactions with nonresidents, supplementary information would be helpful from the GFS transactions to feed into the international accounts.

Transactions in Financial Assets and Liabilities

A6.106 The functional categories in the international accounts take into consideration some aspects

²⁸ A social risk is an event or circumstance that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or by reducing their incomes.

of the relationship between the parties and the motivation for investment (see *BPM6*, Chapter 6). In addition, data in the financial account are also presented according to the financial instrument employed, and the sector of the resident counterpart to the transaction.

A6.107 Although the classification of financial assets and liabilities as presented in the GFS does not follow the same functional categories of the international accounts, it is fully consistent with the financial instrument and sector classification as used in the international accounts. The guidelines of the GFS framework suggest that transactions in financial assets and liabilities with residents and nonresidents be separately disclosed. GFS follows the same criteria for determining residence as the international accounts. Conceptually it therefore allows international financial transactions that are included in GFS to be compared to the data for general government as presented in the financial account of the international accounts.²⁹

The Statement of Other Economic Flows

A6.108 In the GFS framework, the other economic flows in the financial assets and liabilities account shows changes in positions that arise for reasons other than transactions between residents and nonresidents. These changes are also called other flows, and, as with the international accounts, they include holding gains and losses, reclassifications, and other changes in volume of financial assets and liabilities.³⁰ The classification of financial instruments for assets and liabilities is conceptually fully consistent in GFS and international accounts, which should promote consistency in the data reported for other flows in the two datasets.

The Balance Sheet

A6.109 In addition to classifying financial assets and liabilities by the characteristics of the financial instrument, categories of the general government balance sheet are also classified according to the residence of the other party to the instrument (the debt-

ors for financial assets and the creditors for liabilities). Because there has been a growing recognition of the role of balance sheet analysis in understanding sustainability and vulnerability, currency composition and maturity analysis of the balance sheet are encouraged as additional information. In the IIP, the highest level of classification used is the functional categories. However, in addition, the IIP is disaggregated by financial instrument, and most of these instruments are further disaggregated according to the counterpart institutional sector (which is the lender for assets and the borrower for liabilities) and maturity. The currency composition of the IIP debt assets and liabilities is a memorandum item.

A6.110 General governments' financial asset/liability position with nonresidents as reported in the GFS balance sheet follows the same classification of instruments and accounting rules as the IIP. The maturity and currency breakdowns, as suggested in the *Public Sector Debt Statistics: Guide for Compilers and Users* and the *GFSM 2014*, are also fully consistent with the IIP.

Annex to Appendix 6

Overview of the Monetary Statistics Framework

A6.111 This annex describes the framework for the compilation of monetary statistics in accordance with the methodology recommended in the *MFSM-CG*. The monetary statistics cover position and flow data on the assets and liabilities of the financial corporations sector and its subsectors.

A6.112 The monetary statistics include data for all institutional units in the financial corporations sector, as described in Chapter 3 of the *MFSM-CG*. For compiling the monetary statistics, the financial corporations sector is divided into central bank subsector, other depository corporations subsector, and other financial corporations subsector. Taken together, the central bank and other depository corporations constitute the depository corporations subsector.

A6.113 The framework for the monetary statistics recommended in the *MFSM-CG* embodies two levels of data compilation and presentation. At the first level, position and flow data reported by individual institutional units are aggregated into sectoral balance

²⁹ The international accounts identify general government, but, contrary to GFS, they do not present data for the subsectors of the general government.

³⁰ Because of the importance of different currencies in the IIP, revaluations (holding gains and losses) are separately shown for those arising from exchange rate changes and those arising from other price changes.

Table A6.9 Financial Assets and Liabilities in Government Finance Statistics (GFS) and Balance of Payments

GFS: Financial assets and liabilities		Balance of payments: Financial assets and liabilities	
62	63	3.1	3.5
Financial assets	Liabilities	Direct investment	Reserve assets
6201 Monetary gold and special drawing rights (SDRs)	6301 Special drawing rights (SDRs)	3.1.1 Equity and investment fund shares	
62011 Monetary gold		3.1.1.1 Equity other than reinvestment of earnings	
62012 Special drawing rights (SDRs)		3.1.1.2 Reinvestment earnings	
6202 Currency and deposits	6302 Currency and deposits	3.1.2 Debt instruments	
6203 Debt securities	6303 Debt securities	3.2 Portfolio investment	
6204 Loans	6304 Loans	3.2.1 Equity and investment fund shares	
6205 Equity and investment fund shares	6305 Equity and investment fund shares	3.2.2 Debt instruments	
62051 Equity	63051 Equity	3.3 Financial derivatives	
62052 Investment fund shares or units	63052 Investment fund shares or units	3.4 Other investment	
6206 Insurance, pension, and standardized guarantee schemes [GFS]	6306 Insurance, pension, and standardized guarantee schemes [GFS]	3.4.1 Other equity	
62061 Nonlife insurance technical reserves	63061 Nonlife insurance technical reserves	3.4.2 Currency and deposits	
62062 Life insurance and annuities entitlements	63062 Life insurance and annuities entitlements	3.4.3 Loans	
62063 Pension entitlements [GFS]	63063 Pension entitlements [GFS]	3.4.4 Insurance, pension, and standardized guarantee schemes	
62064 Claims of pension funds on pension manager	63064 Claims of pension funds on pension manager	3.4.5 Trade credit and advances	
62065 Provisions for calls under standardized guarantee schemes	63065 Provisions for calls under standardized guarantee schemes	3.4.6 Other accounts receivable/payable—other	
6207 Financial derivatives and employee stock options	6307 Financial derivatives and employee stock options	3.4.7 Special drawing rights	
62071 Financial derivatives	63071 Financial derivatives		
62072 Employee stock options	63072 Employee stock options		
6208 Other accounts receivable	6308 Other accounts payable		
62081 Trade credit and advances	63081 Trade credit and advances		
62082 Miscellaneous other accounts receivable	63082 Miscellaneous other accounts receivable		
621 Domestic	631 Domestic		
6212- Same instrument breakdown as above, but	6312- Same instrument breakdown as above,		
6218 excluding monetary gold and SDRs	6318 but excluding monetary gold and SDRs		
622 External	632 External		
6221- Same instrument breakdown as above	6321- Same instrument breakdown as above		
6228	6328		

sheets, which contain comprehensive data for the individual financial corporations subsectors—that is, the central bank, other depository corporations, and other financial corporations. At the second level, the data in the sectoral balance sheets are consolidated into surveys.

A6.114 Surveys are compiled for financial corporations subsectors and for the entire financial corporations sector. The depository corporations survey (DCS) and its component surveys—the central bank survey (CBS) and the other depository corporations survey (ODCS)—are the major focus of the monetary statistics and constitute a core set of data for macroeconomic analysis. The DCS contains position and flow data on the depository corporations' liabilities that are components of broad money, as nationally defined, and data on the depository corporations' assets that are claims on (i.e., credit to) other sectors of the economy. The DCS also contains data on the depository corporations' claims on and liabilities to nonresidents. The CBS and ODCS show the data that are consolidated to obtain the DCS and other data that are used in monetary and credit analysis at the separate levels of the central bank and other depository corporations.

A6.115 The monetary statistics framework also includes the financial corporations survey (FCS), which extends the coverage beyond the depository corporations covered in the DCS. In the FCS, the position and flow data from the DCS are consolidated with the data from the other financial corporations survey (OFCS), which contains position and flow data consolidated for insurance corporations and pension funds, other financial intermediaries, and financial auxiliaries. The FCS thereby provides the position and flow data for analyzing claims on and liabilities to all other sectors of the economy and nonresidents, at the level of the entire financial corporations sector. In particular, the FCS shows a comprehensive measure of credit extended by financial corporations.

A6.116 The purpose of the sectoral balance sheets is to provide a framework for the collection and presentation of data in a format that facilitates the compilation of surveys, as described in the preceding paragraphs. The data for a sectoral balance sheet are obtained from the individual institutional units

within a financial corporations subsector and are classified into standard components, in accordance with the sectorization, instrument classification, and accounting principles in the *MFSM-CG*. In addition, sectoral balance sheets are directly useful for analyses requiring subsector data that are more highly disaggregated than the asset and liability categories shown in the corresponding financial subsector surveys.

A6.117 The surveys contain position and flow data³¹ encompassing all assets and liabilities for the units covered by the respective survey. Each is based on data for all institutional units within the subsector. Thus, the term survey refers to comprehensive data for all units in a subsector, rather than to sample survey data that would cover only a subset of units or only a subset of the asset and liability accounts.

A6.118 The DCS covers the accounts of the depository corporations and is a consolidation of the CBS and the ODCS. The FCS is a consolidation of the DCS and the OFCS.

A6.119 For many economies, the DCS will constitute the principal set of monetary statistics for macroeconomic policy. The DCS is a consolidated statement of positions and flows for the accounts of all financial sector corporations that incur liabilities included in the national definition of broad money. The framework of the DCS is designed to facilitate analysis of broad money and its components, credit aggregates and their components, and depository corporations' foreign assets and liabilities and other assets and liabilities.

A6.120 By maintaining the balance-sheet identity in the DCS, the broad money liabilities of depository corporations are linked to their claims on (i.e., credit to) nonresidents and sectors of the domestic economy, and to their other assets and liabilities. This balance sheet identity is reflected in the position and flow data in the DCS.

A6.121 The DCS is structured to facilitate macroeconomic analysis that makes use of the linkages between the monetary statistics and other macroeconomic statistics. The balance sheet presentation of the DCS links depository corporations' broad money liabilities to their foreign assets and liabilities and to

³¹ Through the SRFs, the IMF collects only stock data.

their claims on and liabilities to central government, thereby linking the monetary statistics to the IIP and GFS, respectively.

A6.122 The DCS can be rearranged to show that broad-money liabilities (BML) equal the sum of net foreign assets (NFA), domestic credit (DC), and other items (net) (OIN). That is, the opening or closing positions in the DCS can be shown as

$$BML = NFA + DC - OIN$$

where *DC* comprises credits to resident sectors (domestic credit). *OIN* denotes a residual category for other liabilities less other assets, when other liabilities includes all liabilities not included in broad money.

A6.123 Total flows (closing positions less opening positions) for the DCS are shown as

$$\Delta BML = \Delta NFA + \Delta DC - \Delta OIN$$

where Δ denotes a total flow (period-to-period change). The flow data in each category in the DCS are decomposed into separate flows for transactions, valuation changes, and other changes in volume.

A6.124 Changes in broad money liabilities can arise from changes in the foreign assets and foreign liabilities of the depository corporations, as can be seen from the identity that links ΔBML to ΔNFA , shown in the preceding paragraph.