GOVERNMENT FINANCE

STATISTICS MANUAL 2001

COMPANION MATERIAL

COVERAGE AND SECTORIZATION
OF THE
PUBLIC SECTOR

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Executive Summary

Sound fiscal policy requires high quality fiscal statistics. Coverage and sectorization are key characteristics of such statistics. Disaggregating the economy into various sectors and subsectors makes it possible to observe the interactions among the different parts of the economy that need to be measured and analyzed for purposes of policy-making. In particular, to formulate, execute and monitor fiscal policy, analysts need to have information about the government and its public corporations.

The general government sector usefully separates the non-market activities of government from those of the rest of the economy because the powers, motivation, and functions of government are different from other sectors. Information on the broader public sector is also useful because governments often fulfill their public policy objectives through the operation of public corporations (for example, railways, airlines, public utilities and public financial corporations).

A government in one country may structure the public sector differently from the government in another country. For example, one government may choose to provide hospital services directly, another might provide these services using public corporations, a third might let the private sector provide them, and yet another may choose a mixture of these alternatives. An understanding of the coverage of government and the public corporations it controls is important, therefore, not only for domestic fiscal analysis but also when making international economic comparisons.

This paper describes the scope of the general government and public sectors, and discusses in some detail their components. It provides also a decision tree for identifying government and other public sector units that is based on two fundamental questions: (i) who controls the unit? and (ii) is it a market or non-market producer? The use of the decision tree is illustrated by means of examples. Two annexes are also provided: Annex 1 provides the factors to be considered when determining control, while Annex 2 addresses the market/non-market delineation.

The paper expands the discussion of coverage provided in the *Government Finance Statistics Manual 2001* and draws on material prepared during the review of the *System of National Accounts, 1993*.

Coverage and Sectorization of the Public Sector[1]

The purpose of this companion note is to provide guidance to compilers and users of fiscal statistics on the appropriate coverage and sectorization of public sector entities consistent with the recommendations of the Government Finance Statistics Manual 2001 *(*GFSM 2001*).*

I. Introduction

Sound fiscal policy requires high quality fiscal statistics. Coverage and sectorization are key characteristics of such statistics. Disaggregating the economy into various sectors and subsectors makes it possible to observe the interactions among the different parts of the economy that need to be measured and analyzed for purposes of policy-making. In particular, to formulate, execute and monitor fiscal policy, analysts need to have information about the government and its public corporations.

The general government sector usefully separates the non-market activities of government from those of the rest of the economy because the powers, motivation, and functions of government are different from other sectors. Governments have compulsory powers to raise taxes and other compulsory levies and to pass laws affecting the behavior of other economic units. Governments also provide the regulatory framework under which other units operate. They focus on providing public goods and services rather than profit maximization, and the principal economic activities of government are:

- To assume responsibility for the provision of goods and services to the community on a non-market basis, either for collective consumption (such as public administration, defense, and law enforcement) or individual consumption (education, health, housing and cultural services); and
- To redistribute income and wealth by means of transfer payments (taxes or social benefits).

Information on the broader public sector is also useful because governments often fulfill their public policy objectives through the operation of public corporations (for example, railways, airlines, public utilities and public financial corporations). It may do so by requiring the corporation to service areas of the economy that would not be covered otherwise and/or by charging subsidized prices, including low interest lending. As a result, the public corporation operates with a reduced profit, or at a loss. Such public policy operations are known as quasi-fiscal activities.

Fiscal data can be compiled separately for the subsectors of the general government (central government—budgetary, extrabudgetary, and social security funds—state governments and local governments). The entire public sector comprises the general government, and the nonfinancial and financial public corporations (including the central bank) subsectors. These subsectors can be consolidated into a variety of useful sets of fiscal data. For example, the consolidated central

[1] This note deals directly and only with issues affecting the consolidation of institutional units in the general government sector. The *GFSM 2001* also recommends compiling data for broader public sector groupings, including the nonfinancial public sector, the nonmonetary public sector, and the overall public sector. Similar consolidation principles apply to these groupings, and will be addressed in a separate note.

government, consolidated general government, consolidated nonfinancial public sector, consolidated non-monetary public sector (that is, excluding the central bank), and the consolidated public sector.

A government in one country may structure the public sector differently from the government in another country. For example, one government may choose to provide hospital services directly, another might provide these services using public corporations, a third might let the private sector provide them, and yet another may choose a mixture of these alternatives. An understanding of the coverage of government and the public corporations it controls is important, therefore, not only for domestic fiscal analysis but also when making international economic comparisons.

To provide a common understanding of the coverage of fiscal statistics recommended in the *GFSM 2001*, this companion note begins in Section II with a brief description of the building blocks that constitute the domestic economy. Section III then describes the scope of the general government and public sectors. It provides also a decision tree for identifying government and other public sector units that is based on two fundamental questions: (i) who controls the unit? and (ii) is it a market or non-market producer? Section IV discusses in some detail the components of the general government sector, while section V addresses public corporations. Section VI illustrates the use of the decision tree by means of examples. Two annexes are also provided: Annex 1 provides the factors to be considered when determining control, while Annex 2 addresses the market/non-market delineation.

II. Institutional Units

A. Overview

The basic building block of macroeconomic statistics is the institutional unit. It is the unit for which information on its economic activities is obtained and combined as statistics. An institutional unit is defined to be *an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and transactions with other entities*. In other words, an institutional unit is an entity that can act economically on its own behalf and be held directly responsible and accountable for those actions. In particular, it is able to own assets and incur liabilities on its own behalf, and either a complete set of accounts exists for the unit (including a balance sheet) or it would be possible and meaningful to compile a complete set of accounts for it.

Two main types of entities qualify as institutional units: (a) households and (b) legal and social entities whose existence is recognized independently of the persons, or other entities, that may own or control them. The individual members of multi-person households are not treated as separate institutional units because many assets are owned jointly, liabilities incurred jointly, income is often pooled, and expenditure decisions made collectively for the household as a whole. The second type of unit—legal or social entities—comprises corporations, non-profit institutions, and government units. Corporations produce goods and services for the market and may be a source of profit to their owners, while government units primarily produce goods and services on a non-market basis. Non-profit institutions (NPIs) may be market or non-market producers but cannot be a source of profit to their owners.[2]

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[2] Market producers sell most or all of their output at economically significant prices (i.e., at prices that have a significant influence on the amount producers are willing to supply or on the amounts purchasers wish to purchase). Non-market producers provide most or all of their output to others free or at prices that are not economically significant.

Some unincorporated entities belonging to households or government units may produce market goods and services in much the same way as corporations. If they have a complete set of accounts, or it is possible and meaningful to compile a complete set of accounts, they are considered to be quasi-corporations and treated as corporations.

B. Residency

All macroeconomic statistics relate to an *economy*, defined to comprise all its resident institutional units. Resident is a term used to designate institutional units that have a closer tie with the economic territory of the country in question than with that of any other country. Units that are not residents of the given economy are residents of the rest of the world and are termed nonresidents. Residency is not based on nationality or currency of denomination. Rather, it is based on where the unit's center of economic interest lies.

The economic territory of a country consists of the geographic territory administered by a government. Within the territory, persons, goods, and capital circulate freely. It includes the airspace, territorial waters, and continental shelf lying in international waters over which the country enjoys exclusive rights or over which it has, or claims to have, jurisdiction in respect of economic exploitation. It includes, also, territorial enclaves in the rest of the world, such as embassies, consulates and military bases.

An institutional unit has a center of economic interest within a country when some location—dwelling, place of production, or other premises—exists within the economic territory of the country from which the unit engages in economic activities on a significant scale, either indefinitely or over a finite but long period of time. Normally, a one-year rule is applied.

A country's general government units at all levels (central, state, local) are regarded as residents of that country, even when they carry out activities abroad. Thus, any embassies, consulates, military bases, and other general government units located abroad are treated as residents of the home country, as are its nationals assigned to such agencies. Conversely, the embassies, consulates, etc maintained by a foreign government in a given country are nonresidents, as are their personnel who are not recruited locally. Similarly, international organizations whose members are governments are treated as being nonresidents of the country in which they are located. However, the residency of the staff of an international organization is determined according to the criteria applied to other households in the country.

A corporation (public or private) is a resident of a country (economic territory) when it is engaged in a significant amount of production there or when it owns land or buildings there, even when the corporation is owned wholly or partly by nonresidents. A branch or subsidiary of a foreign corporation located in a given country, therefore, is regarded as a resident of that country. Conversely, the foreign branches and subsidiaries of resident corporations are regarded as nonresidents. Offshore enterprises are residents of the economy in which the offshore enterprise is located, regardless of whether they are in special zones of exemption from customs or other regulations.

III. Scope of the General Government and Public Sectors

A. Introduction

Institutional units are grouped into five mutually exclusive institutional sectors of the economy according to their different economic objectives, functions, and behavior. The sectors are:

- general government sector,
- financial corporations sector,
- nonfinancial corporations sector,
- non-profit institutions serving households sector (NPISH), and
- households sector.

The general government sector comprises general government units that are not treated as quasi-corporations and non-market NPIs that are controlled by government units. The two corporations sectors comprise corporations, quasi-corporations, and NPIs that are market producers. The NPISH sector comprises non-market NPIs that are not controlled by government. The household sector comprises households and their unincorporated enterprises that are not treated as quasi-corporations.

The public sector comprises the general government sector and all public corporations. Figure 1 shows the relationship between the public sector and the other institutional sectors that make up an economy.

Figure 1: The Public Sector and Its Relation to Other Institutional Sectors

<table>
<tr><th>General Government Sector</th><th>Financial Corporations Sector</th><th>Nonfinancial Corporations Sector</th><th>Non-profit Institutions Serving Households Sector</th><th>Households Sector</th></tr>
<tr><td rowspan="2">PUBLIC</td><td>PUBLIC</td><td>PUBLIC</td><td rowspan="2">PRIVATE</td><td rowspan="2">PRIVATE</td></tr>
<tr><td>PRIVATE</td><td>PRIVATE</td></tr>
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A prerequisite to developing the accounts for both the general government sector and the public sector is to clarify the delineation between the public sector and the private sector; and then within the public sector to identify government units separately from other public sector units.

The distinction between the public sector and the private sector is based on who controls the unit. The public sector consists of public units, which are institutional units that are themselves government units or are controlled, directly or indirectly, by one or more government units. The private sector comprises institutional units that are not controlled by the government.

The distinction between the general government sector and the rest of the public sector arises from the distinction between market and non-market producers. A general government unit is a particular type of non-market producer, namely one that is financed, directly or indirectly, by taxes and/or compulsory social contributions. Units of the general government sector also include non-profit institutions that are non-market producers and are controlled by government or other public units. The general government sector can, therefore, be defined as the collection of all public institutional units that are non-market producers. It should be noted, however, that it is perfectly possible for a non-market producer to produce some market output, as a secondary activity. On the other hand, if all or most of a public unit's output is market, the unit is a market producer and becomes a public corporation; a member of either the financial corporations or nonfinancial corporations sector.

The crucial issues for determining the composition of the general government sector and the public sector are, therefore:

- what constitutes control of an institutional unit, and
- the borderline between market and non-market producers.

The following sections deal with these topics.

B. Identification of the general government and public sectors

A decision tree for government units and other public units

The starting point for sectorizing an economy is to identify the residency of entities operating in the economy. For each resident entity, the following steps should then be followed:

- Identify whether the entity constitutes an institutional unit—that is, is it capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and transactions with other entities? If not, the entity should be classified with the unit that controls it.
- Identify whether the institutional unit belongs in the private sector or the public sector. This involves determining whether the unit is a government unit, or is controlled by a government unit or public corporation. If so, it is a public unit and part of the public sector. If not, it is part of the private sector.
- Determine for each public sector unit whether it is a market or non-market producer—that is, does it dispose of its all or most of its output at economically significant prices?
    - If it is a market producer it is to be classified as a public corporation.
    - If it is a non-market producer it is necessary to determine whether the unit includes any unincorporated activity that should be considered to be a quasi-corporation.
        - If so, the quasi-corporation should be classified as a public corporation.
        - If not, the unit is a general government unit and should be classified to the general government sector.
- Determine for each public corporation (and public quasi-corporation) whether it provides financial services.

- If so, it is a public financial corporation.
- If not, it is a public nonfinancial corporation.

The procedure for evaluating economic entities in an economy and grouping them inside or outside the public sector and its subsectors is presented in the form of a decision tree in Figure 2 and further discussion of the steps is provided below.

Determining control

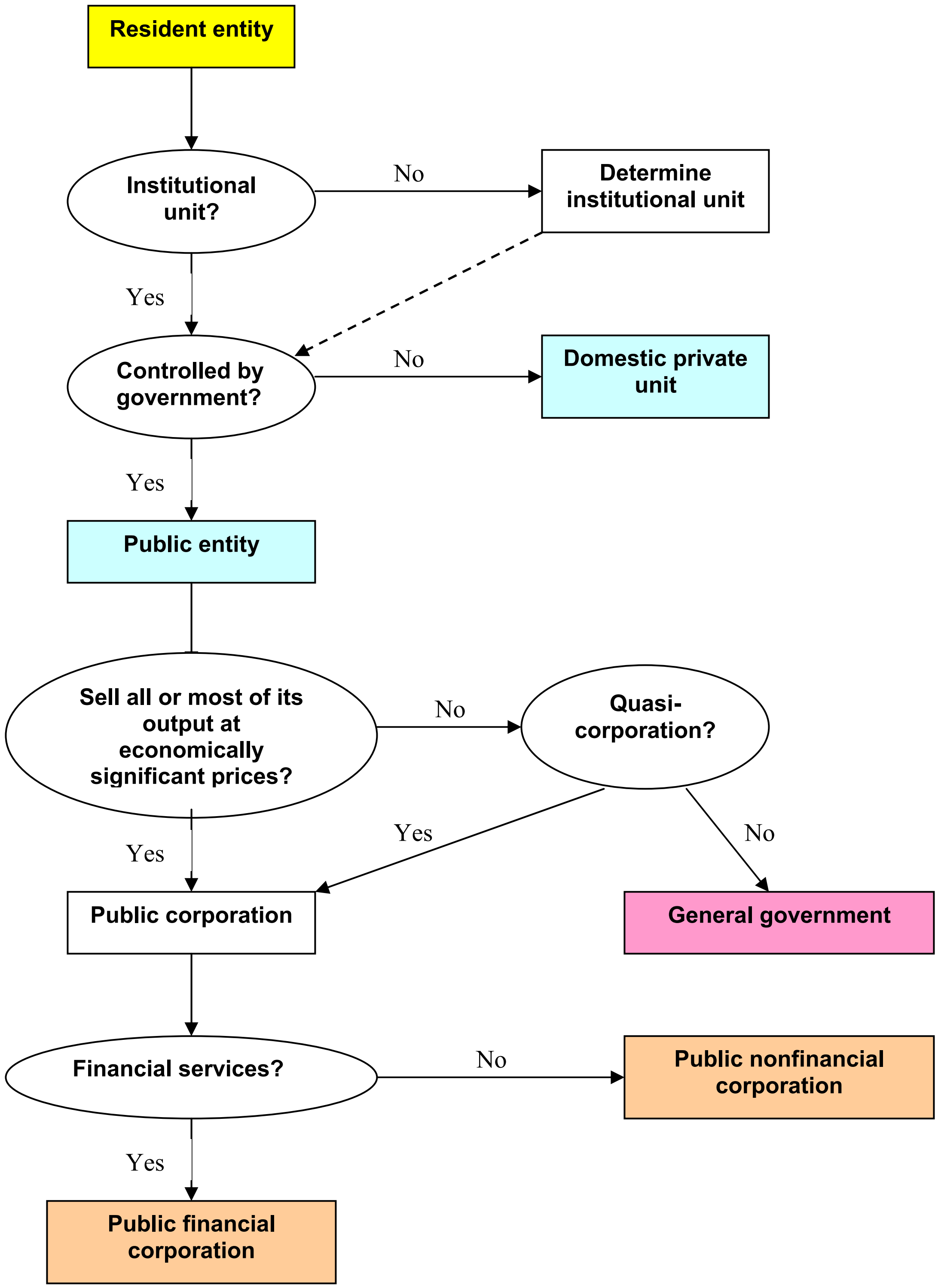
A crucial step in the decision tree is to determine whether an institutional unit belongs in the public or private sector. The decision to assign a unit to the public or private sector is based on whether or not the unit is itself a government unit or is controlled directly (or indirectly through another public unit) by government.

Government units are legal entities established by political processes that have legislative, judicial or executive authority over other institutional units within a given area. As discussed in section IV below, there are many government entities that are not separate institutional units but are part of a primary budgetary institutional unit. Similarly, some extrabudgetary entities may not be institutional units. To be considered an institutional unit the government entity must meet the general criteria for an institutional unit mentioned earlier—notably, have control over its own funds, and be able to own assets and incur liabilities on its own account.

Government control could be exerted through such factors as 1) majority ownership by the government of equity shares (or exerting similar control through holding companies); 2) the appointment of executive board members or management staff; 3) direct participation of government officials in these controlling institutions; or 4) having government officials (such as the Minister of Finance retain decision-making power on operations, investments, or financing. Any of these factors, alone or in combination could be sufficient to recognize government control over the production and other operations, investment or financing decisions of the entity. However, the mere regulation of an activity does not by itself constitute control, especially if both private and public sector units participate in that activity. More information on the factors to consider when determining control is provided in Annex 1.[3]

[3] Previously, for a non-market NPI to be considered a general government unit, the government needed to control and mainly finance the NPI. The financing criterion is now considered to be one of the list of indicators of control.

FIGURE 2: SECTORIZING PUBLIC ENTITIES (GENERAL GOVERNMENT VERSUS PUBLIC CORPORATIONS)



Market or non-market producer

The second crucial step in the decision tree is to determine whether the unit is a market producer or non-market producer. First, it needs to be identified whether the unit sells any goods or services to the public at large:

- If it does not sell any goods or services then it is a non-market producer and is classified to the general government sector.
- If it sells all its goods or services only to its parent corporation or other government units (i.e., it provides only ancillary services such as transportation, marketing, bookkeeping) then it is an ancillary unit and should be included with its parent corporation.[4]

On the other hand, if the entity sells goods or services to the general public, then another question needs to be answered: does it sell all or most its output at economically significant prices? This question contains two parts: whether any output is sold at economically significant prices, and if so, how much of the output is sold at those prices. These aspects are discussed separately.

Economically significant prices are prices that have a significant influence on the amount producers are willing to supply or on the amounts purchasers wish to purchase. It may be difficult to determine in practice what constitutes an economically significant price and broad consultation may be required. Broadly, prices are economically significant if they move the market for those goods or services toward equilibrium between supply and demand; that is, they have an impact on market behavior. Further information is provided in Annex 2.

If all or most of the institutional unit's output is sold at economically significant prices, then the unit is a market producer and is classified as a public corporation.

The case of units engaged in financial activities needs special consideration. In some cases, financial institutions charge directly for their services and these fees represent the price for those services. In the case of financial intermediation, however, the institution charges fees indirectly through the use of differential interest rates. Financial intermediation is considered a market activity, and financial intermediaries are classified in the financial corporations sector. However, an important characteristic is that a financial intermediary does not simply act as an agent for other institutional units but places itself at risk by incurring liabilities on its own account. In this context, if a public financial unit does not place itself at risk by incurring liabilities on its own account, it will not be considered a financial intermediary and the unit is to be classified in the general government sector rather than in the financial corporations sector.

A particular example of these financial risk characteristics applies to restructuring activity by public units. Such activity may be related to restructuring the public sector (such as privatization) or it may relate to the defeasance of impaired assets (such as in a banking crisis). In either case, if the restructuring agency acts only to implement government policy, and bears no risk in the transformation of financial instruments connected with the restructuring, the agency is regarded as a non-market unit

[4] It is likely that an outcome of the SNA Review will be to change the treatment of ancillary corporations that satisfy the criteria of being an institutional unit. They will be treated as separate institutional units and be classified in their own right. Ancillary establishments will still be classified with the institutional unit to which they belong.

and part of the general government sector. On the other hand, if the restructuring agency puts itself at risk in the transformation, it is treated as a public financial corporation.

Special Purpose Entities (SPEs, also known as Special Purpose Vehicles (SPVs)) are set up to carry out activities directly related to a specific purpose. They commonly engage in activities such as asset management, corporate treasury services, trusts, public-private partnerships, and securitization programs. Most SPEs have little or no employment or physical presence. The *1993 SNA* does not provide explicit guidance on the treatment of SPEs, although it can be inferred that they are considered to be ancillary corporations serving other corporations, the government, or households. As such, they would not be treated as separate institutional units. This is the treatment given to them in the *Monetary and Financial Statistics Manual*. However, the SNA Review is likely to recommend that they be considered as institutional units and classified to the different sectors of the economy in the same way as other institutional units.[5]

If most of the unit's output is ***not*** *sold at economically significant prices*, then the unit is a non-market producer. However, it should be remembered that a non-market producer could sell some of its output at economically significant prices. If this occurs, then a further question needs to be asked: is the entity selling the output a quasi-corporation or a market establishment of a general government unit? This can be one of the more difficult questions to resolve when sectorizing the public sector.

Quasi-corporations: A government establishment, or group of establishments engaged in the same kind of production under common management, should be treated as a quasi-corporation if it:

- charges prices for its outputs that are economically significant;
- is operated and managed in a similar way to a corporation; and
- has a complete set of accounts that enable its operating balances, savings, assets and liabilities to be separately identified and measured, or it would be possible to construct such a set of accounts.

The intent behind the concept of a quasi-corporation is to separate from their owners those unincorporated enterprises that are sufficiently self-contained and independent that they behave in the same way as corporations. If they function like corporations, they must keep complete sets of accounts. Indeed, the existence or possibility to construct a complete set of accounts, including balance sheets, for the enterprise is a necessary condition for it to be treated as a quasi-corporation. Otherwise, it would not be feasible from an accounting point of view to distinguish the quasi-corporation from its owner.

In order to be treated as a quasi-corporation the government must allow the management of the enterprise considerable discretion not only with respect to the management of the production process but also the use of funds. Government quasi-corporations must be able to maintain their own working balances and business credit and be able to finance some or all of their capital formation out of their own savings, depreciation reserves or borrowing. Flows of income and capital between quasi-corporations and government must be identifiable, despite the fact that they are not separate legal entities.

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[5] If a government establishes a special purpose entity (SPE) abroad, the SPE is considered to be a non-resident institutional unit. As such, the SPE is not part of the domestic economy and care needs to be taken to ensure that the stock and flow positions between the government and the SPE are reflected correctly.

Quasi-corporations, therefore, are unincorporated enterprises that function as corporations. The distinction between a corporation and a quasi-corporation is merely that the former is incorporated. Quasi-corporations are treated as separate institutional units from the units to which they legally belong. Thus, quasi-corporations owned by government units are grouped with corporations in the nonfinancial or financial corporate sectors.

Market establishments of a general government unit that cannot be treated as quasi-corporations remain as components of the general government. Their sales represent a secondary activity of the general government unit (for example, T-shirt sales at a public park by the national park service). They need to be identified separately for national accounts purposes.

Scope, coverage, and consistency

The outcome of this sectorization procedure should be a unique list of public sector institutional units that is identical with that used for the entire economy by national accounts compilers. A list of units comprising the public sector, by subsector, should be compiled and updated at least annually. While one agency may be assigned this task, all agencies involved in the compilation of macroeconomic statistics should use the same list in their compilation practices. Consistency in this sectorization list across agencies will strengthen the consistency of a country's macroeconomic statistics.

This list provides information on the scope of the public sector. In addition, the compilers of government finance statistics should provide information on the actual coverage of these units in the data. For example, the institutional tables presented in the IMF's *Government Finance Statistics Yearbook* provide scope and coverage information for the countries covered by the yearbook.

Equally important is some measure of stability in this sectorization list over time. While periodic review of the sectorization list is strongly encouraged, stability in the definition of each level of the public sector should be considered when the list is under review. It would be problematic to shift a unit, say, out of the general government and into the public nonfinancial corporations sector one year and switch it back again 1–2 years later. Of course, if the government engages in a privatization program or restructures the functioning of government agencies, then these changes should be reflected in the list when they occur.

IV. Components of the General Government Sector

A. Types of general government entities

A government unit is a public unit whose output is primarily non-market. Any institutional unit principally engaged in the redistribution of income and wealth should be considered a government unit. An important characteristic of government units is that they are mainly financed by units belonging to other sectors through the collection of taxes, compulsory social contributions, or by transfers from other government units.

Typically, there are four types of general government entities: budgetary, social security units, NPIs, and other extrabudgetary entities.

Budgetary entities

In all countries, there exist primary budgetary units. They are an important institutional unit of the general government sector in terms of size and power, in particular the power to exercise control over many other units. At the central government level, it is a single unit that encompasses the fundamental activities of the national executive, legislative and judiciary powers. Its revenue as well as its spending normally are regulated and controlled by a Ministry of Finance or its functional equivalent by means of a general budget approved by the legislature.[6] Most of the ministries, departments, agencies, boards, commissions, judicial authorities, legislative bodies, and other entities of the central government are not separate institutional units, but are part of this primary central government budgetary unit because each of them generally does not have the authority to own assets, incur liabilities, or engage in transactions in their own right.[7] If there are state and/or local governments, as defined in sub-section IV.B below, then it is likely that each of these governments will also have a primary government budgetary unit that encompasses their principal executive, legislative, and judicial powers.

Social security units

A social security unit is a particular kind of government unit that is devoted to the operation of one or more social security schemes. Social security schemes are a form of social protection that involve mandatory contributions and cover all or a broad part of the entire population. The social contribution differs from a tax in that it secures for the contributor (or their dependents) the entitlement to receive the benefits from the scheme. In contrast, compulsory contributions that are earmarked for social benefits, but do not secure an entitlement to receive the benefits, are taxes. A social security unit must satisfy the general requirements of an institutional unit. That is, it must be separately organized from the other activities of government units, hold its assets and liabilities separately, and engage in financial transactions on its own account.

Governments as employers may establish social insurance schemes that are restricted to their employees. There are broadly three types of employer schemes: those operated through insurance enterprises, those operated by the government concerned as an autonomous fund, and those operated by the government as a non-autonomous fund. Such arrangements are <u>not</u> social security. The insurance corporation would be classified as a financial corporation (either public or private depending on control), the autonomous pension fund would be treated as a private financial corporation (on the grounds that the employees are the beneficiaries and the government's involvement is as a fiduciary or trustee), and the non-autonomous fund would be classified to the general government sector.

Non-profit institutions

A non-profit institution (NPI) is a legal or social entity created for the purpose of producing goods and services, but whose status does not permit them to be a source of income, profit or other financial gain for the units that establish, control and mainly finance them.

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[6] These units are often referred to as national government or main budget account.

[7] In most countries that use the French accounting system, the distinction between budgetary and extrabudgetary is made on the basis of operations rather than entities. "Budgetary" refers to Treasury operations and may include some operations of extrabudgetary entities, while excluding some operations of budgetary entities.

Non-profit institutions (NPIs) that are non-market producers and are controlled by a government are units of the general government sector. Although they may legally be established to be independent from government, they are considered to be carrying out government policies and effectively are part of government. Governments may choose to use non-profit institutions rather than government agencies to carry out certain government policies because NPIs may be seen as detached, objective, and not subject to political pressures. For example, research and development, and the setting and maintenance of standards in fields such as health, safety, the environment, and education are areas in which NPIs may be more effective than government agencies.

Non-profit institutions (NPIs) that are market producers and are controlled by government are classified as public corporations. For example, schools, universities, hospitals, clinics etc that are constituted as NPIs would be considered to be market producers when they charge fees that are based on their production costs and that are sufficiently high to have a significant impact on the demand for their services.

Other extrabudgetary entities

General government entities with individual budgets that are not fully covered by the general budget are considered extrabudgetary government entities. These entities operate under the authority or control of a central, state or local government. Typically, these entities have their own-revenue sources, which may be supplemented by grants (transfers) from the general budget or from other sources, and have discretion over the volume and composition of their spending. Such entities are often established to carry out specific functions, such as road construction or the non-market production of health or education services. Budgetary arrangements vary widely among countries, and various terms are used to describe these entities, but they are often referred to as extrabudgetary entities.

The wide variety of extrabudgetary entities stems from the diversity of country practices regarding the coverage of the general budget of a central, state or local government. Other institutional arrangements, such as the degree of autonomy and funding for these entities, also contribute to the diversity. From a transparency point of view, it is desirable to include as many as possible of these extrabudgetary entities in the general budget.

These extrabudgetary entities are classified in the general government sector to the extent that they are non-market producers and are controlled by another government unit. In particular, they are classified with the level of government that controls them (see next section). At the same time, there may be extrabudgetary entities at any level of government that are market producers fulfilling the criteria to be a quasi-corporation. These units should not be classified in the general government sector, but in the nonfinancial or financial corporations sector, as relevant. As public units, they are, however, part of the public sector.

B. Subsectoring of the general government sector

Depending on the administrative and legal arrangements, there may be more than one level of government within a country. In the *GFSM 2001*, provision is made for three levels of government: central, state and local. Not all countries will have all levels; some may have only a central government or a central government and one lower level. Other countries may have more than three levels. In that case, for the purposes of government finance statistics, the various units should be classified to one of the levels suggested above.

The classification of general government units according to their level of government can be accommodated in two alternative sets of subsectors, depending on the treatment of social security. First, all social security units could be combined into a separate subsector and all other general government units could be classified according to their level. In that case, the central, state, and local government subsectors would consist of all government units other than social security. Alternatively, all social security units could be classified according to the level of government that operates them and combined with other general government units at that level.

The alternative methods of subsectoring are designed to accommodate different analytic needs. The decision as to which method is more appropriate in a given country depends on the importance of social security and on the extent to which it is managed independently of the government. In some cases, the management of social security may be so closely integrated with the short- or medium-term requirements of the government's general economic policy that contributions and benefits are deliberately adjusted in the interests of overall economic policy. As such, it becomes difficult, at a conceptual level, to draw any clear distinction between the management of social security and the other economic functions of government. In other cases, social security may exist in only a very rudimentary form. In either of these circumstances it is difficult to justify treating social security as a separate subsector on a par with central, state, and local government.

Central government subsector

The **central government subsector** consists of all government units and non-market NPIs having a national sphere of competence (with the possible exception of social security units). The political authority of a country's central government extends over the entire territory of the country. The central government can impose taxes on all resident institutional units and on non-resident units engaged in economic activities within the country. The central government typically is responsible for providing collective services for the benefit of the community as a whole, such as national defense, relations with other countries, public order and safety, and the efficient operation of the social and economic system of the country. In addition, it may incur expenses for the provision of services, such as education or health, primarily for the benefit of individual households, and it may make transfers to other institutional units, including other levels of government.

The compilation of statistics for the central government is particularly important because of the special role it plays in economic policy analysis. It is mainly through central government finances that fiscal policy impacts on inflationary or deflationary pressures within the economy. It is generally at the central government level that a decision-making body can formulate and carry out policies directed toward nationwide economic objectives. Other levels of government do not have national economic policies as their objective.

The central government subsector is a large and complex subsector in most countries. It is generally composed of a central group of departments or ministries that make up a single institutional unit plus, in many countries, miscellaneous agencies operating under the control of the central government with a separate legal identity and enough autonomy to form additional central government units.

The central government entities covered fully by the budget make up the *budgetary central government*, i.e., "budgetary entities" described above. Typically these entities might include courts of law, ministries, departments, and the parliament. *Extrabudgetary central government* comprises all non-market NPIs and other extrabudgetary entities controlled by central government. *Social security* comprises all social security entities controlled by central government (unless a separate subsector is used for social security nationally). The central government also may control nonfinancial or financial corporations; however, these corporations are classified outside of the central government subsector (and therefore outside of the general government), but inside the public sector.

State government subsector

The **state government subsector** consists of all government units having a state sphere of competence (again with the possible exception of social security units). A state is the largest geographical area into which the country as a whole may be divided for political or administrative purposes. These areas may be described by other terms, such as provinces, länder, cantons, republics, prefectures, or administrative regions. The legislative, judicial, and executive authority of a state government extends over the entire area of an individual state, which usually includes numerous localities, but does not extend over other states. In some countries, individual states and state governments may not exist. In other countries, especially those with federal constitutions, considerable powers and responsibilities may be assigned to state governments.

A state government usually has the fiscal authority to levy taxes on institutional units that are resident in or engage in economic activities in its area of competence. To be recognized as a government unit the entity must be able to own assets, raise funds, and incur liabilities on its own account, and it must also be entitled to spend or allocate at least some of the taxes or other income that it receives according to its own policies. The entity may, however, receive transfers from the central government that are tied to certain specified purposes. A state government should also be able to appoint its own officers independently of external administrative control. If a government entity operating in a state is entirely dependent on funds from the central government, and if the central government also dictates the ways in which those funds are to be spent, then the entity should be treated as an agency of the central government.

Similar to the central government, state governments may have budgetary and extrabudgetary (including non-market NPIs controlled by a state government) entities, and may contain social security agencies. State governments also may control nonfinancial or financial corporations; however, these corporations are classified outside of the state governments subsector (and therefore outside of the general government).

Local government subsector

The **local government subsector** consists of all government units having a local sphere of competence (again with the possible exception of social security units). Local governments typically provide a wide range of services to local residents, some of which may be financed out of grants from higher levels of government. Statistics for local government may cover a wide variety of governmental units, such as counties, municipalities, cities, towns, townships, boroughs, school districts, and water or sanitation districts. Often local government units with different functional responsibilities have authority over the same geographic areas. For example, separate government units representing a town, a county, and a school district may have authority over the same area. In addition, two or more contiguous local governments may organize a government unit with regional authority that is accountable to the local governments. Such units should also be included in the local government subsector.

The legislative, judicial, and executive authority of local government units is restricted to the smallest geographic areas distinguished for administrative and political purposes. The scope of a local government's authority is generally much less than that of the central or a state government, and such governments may or may not be entitled to levy taxes on institutional units or economic activities taking place in their areas. They are often heavily dependent on grants from higher levels of government, and they may also act as agents of central or state governments to some extent. To be treated as institutional units, however, they must be entitled to own assets, raise funds, and incur liabilities by borrowing on their own account. They must also have some discretion over how such funds are spent, and they should be able to appoint their own officers independently of external administrative control.

Similar to the central government and state governments, local governments may have budgetary and extrabudgetary entities (including non-market NPIs controlled by a local government), and may contain social security agencies. Local governments also may control nonfinancial or financial corporations; however, these corporations are classified outside of the local governments subsector (and therefore outside of the general government).

Social security subsector

In those countries that identify social security separately from the level of government that controls it, the **social security subsector** consists of all social security units, regardless of the level of government that operates or manages the schemes. If a social security scheme does not meet the requirements to be an institutional unit, it should be classified with its parent unit in one of the other subsectors of the general government sector.

V. PUBLIC CORPORATIONS

A. Public financial corporations

Public financial corporations are corporations and quasi corporations that are controlled directly or indirectly by government, and are principally engaged in financial intermediation or related auxiliary financial activities. Financial intermediation is a productive activity in which an institutional unit raises funds by incurring liabilities on its own account for the purpose of channeling these funds to other units by way of lending or otherwise acquiring financial assets. The provision of related auxiliary financial services may be carried out as secondary activity by financial intermediaries or may be provided by specialized agencies or brokers.

Some corporations or quasi-corporations engage only to a limited extent in the production of financial services. For instance, certain manufacturers or retailers provide consumer credit to their customers. Such units are classified in their entirety as nonfinancial corporations provided they engage mainly in the production of nonfinancial goods and services.

Public financial corporations comprise the central bank, other public depository corporations, public insurance corporations and pension funds, other public financial intermediaries, and public financial auxiliaries. Each of these types of unit is discussed briefly below.

Central Bank

The central bank is the national financial institution (or institutions) that exercises control over key aspects of the financial system and carries out such activities as issuing currency, managing international reserves, transacting with the IMF, and providing credit to other depository corporations. It includes the central bank proper, as well as currency boards and other public institutional units that primarily perform central bank activities.

Other depository corporations

Other depository corporations are all the resident public financial corporations (excluding the central bank) and quasi-corporations that are mainly engaged in financial intermediation and that issue liabilities included in the national definition of broad money. They include such corporations as commercial banks, merchant banks, savings banks, saving and loan associations, credit unions, and building societies.

Insurance corporations and pension funds

Another group of public financial corporations covers resident public insurance corporations (and quasi-corporations) and pension funds. Insurance corporations consist of entities whose principal function is to provide life, accident, health, fire or other forms of insurance to other institutional units. Pension funds are established for the purpose of providing retirement benefits.[8] They have their own assets and liabilities and engage in financial transactions on their own account.

Other financial intermediaries

These units comprise a wide range of institutions that generally raise funds by accepting long-term or specialized types of deposits and by issuing securities and equity. They often specialize in lending to particular types of borrowers and in using specialized financial arrangements such as financial leasing, securitized lending, and financial derivative operations. They include such institutions as finance companies, financial leasing companies, investment pools, securities underwriters and other specialized financial intermediaries.

Financial auxiliaries

These institutions are financial corporations that engage in activities closely related to financial intermediation, but do not act as intermediaries. They include such corporations as public exchanges and securities markets, brokers and agents, foreign exchange companies, and financial guarantee corporations.

B. Public nonfinancial corporations

Nonfinancial corporations comprise corporations and quasi-corporations that engage primarily in the production of goods and nonfinancial services. They include corporations engaged in agriculture, mining, manufacturing, electricity, construction, wholesale or retail distribution services, transportation, communications, health, education, and other nonfinancial personal and business services.

As was noted earlier, non-profit institutions (NPIs) that are controlled by government and are market producers of goods and nonfinancial services are also included here. For example, schools, universities, hospitals, clinics etc., that are constituted as NPIs are market producers when they charge

[8] An autonomous pension fund established by a government solely for its employees is considered to be a private financial institution on the grounds that the employees are the beneficiaries and the government's involvement is as a fiduciary or trustee.

fees that are based on their production costs and are sufficiently high to have a significant impact on the demand for their services. Such NPIs are not charities, their real objective being to provide educational, health or other services.

C. Subsectoring of the public sector

It is possible to construct different subsectors of the public sector to meet analytical demands. Two methods of subsectoring the public sector immediately present themselves, although other combinations also may be analytically useful. First, the public sector could be divided into the general government sector as one subsector and the aggregate of all public corporations as a second subsector. The public corporations might be further divided into public nonfinancial corporations, public financial corporations other than the central bank, and the central bank.

Alternatively, the public sector could be divided by level of government. In this case, the subsectors would be the central government public sector, the state government public sector, and the local government public sector. Each of these subsectors would consist of the corresponding subsector of the general government sector plus all public corporations controlled by a unit of that level of government. Social security units could form a separate subsector or could be combined with each level of government. It should be recalled (see section IV.A above) that autonomous government employee pension funds are considered to be financial institutions and not government social security units.

VI. Illustration of the Sectorization Decision Tree

This section provides examples of classifying resident entities using the sectorization decision tree described earlier. These examples have been simplified and are not exhaustive. Nonetheless, they serve as an illustration of the approach.

A. A Government Ministry or Department

The Ministry of Finance is fully covered in the central government's budget. It is clearly a resident entity that is controlled by government—a public entity. However, the services it provides are not sold in the market. It is a non-market producer. It is not an ancillary entity supplying services to its parent corporation. Therefore, it is a general government entity—more specifically a central government budgetary entity.

B. A Transport Pool for Government

A state government has centralized its fleet of government cars in a single pool from which cars can be ordered for use by staff in any ministry. The cars can only be used by government officials. A fee for the use of the cars is charged to the department from which the user comes. The revenue from the fees is used to maintain the cars and pay the salaries of drivers as well as other operating costs.

This is a public entity. Even though fees are charged for the use of the cars it is not a market producer because the services are provided only to government. It is providing ancillary services to the government and not to a corporation. Therefore, it is a general government entity. Its further sub-classification depends on whether it covered by the budget or not; if so, it is part of the budgetary state government.

C. A Transport Pool for a Public Corporation

A public manufacturing enterprise centralized its fleet of trucks and other vehicles in a single pool that provides services to carry goods between the different establishments that comprise the corporation and to wholesale outlets.

a. It does not charge separate fees for the carriage of the goods. This is a public entity that is a non-market producer. It provides ancillary services to a corporation and should be classified with that corporation.

b. If the transport pool charged fees for the carriage of the goods, it might be considered a market producer. In this case, it would be either an institutional unit or a market establishment of a corporation and, therefore, also be classified to the public nonfinancial corporate sector.

D. A Museum Shop

A public municipal museum provides free entry to the museum and incorporates a shop that sells books and other items on a retail basis to the public. The classification of the museum is straightforward. It is not a market producer and should be classified to the general government sector. The classification of the shop depends on the degree of autonomy that it receives, as follows.

a. It has virtually no autonomy and uses general staff from the museum as sales staff. The revenue raised goes through the museum's accounts and the operating costs are met by the museum and not identified separately. The shop is not a separate entity but is an integral part of the museum. The sales are incidental sales of the museum, which is part of the municipal government unit (local government sector).

b. The shop has some autonomy. It has its own staff and keeps its own accounts. However, it cannot incur liabilities on its own behalf. The shop would be considered to be a market producer, but not an institutional unit or quasi-corporation. It would be classified as a market establishment of the museum in the local government sector.

c. The shop has a great deal of autonomy. It operates independently of the museum and maintains a full set of accounts. It has the right to incur liabilities on its own behalf. The shop would be a market producer. If it is not incorporated separately it would be considered to be a quasi-corporation. In either case, it would be classified to the public nonfinancial corporations sector.

E. A University Established as a Non-Profit Institution

A university has been created under a charter that establishes it as a non-profit institution. That is, it cannot be a source of profit to those that set it up and must retain any surpluses for its own use.

The first step in classifying the university is to identify whether it is controlled by the government or by the private sector. If it is controlled by the government then it is a public institutional unit, otherwise it is a private unit.

If it is a public unit, the next question is whether it is a market producer of education services. (Even though it is a NPI it can still be a market producer and have a surplus—it just cannot return the surplus to the government.)

a. If it does not charge fees, or charges only nominal fees, then the university would be considered to be a non-market producer and part of the general government sector.

b. If it charges fees that are based on its production costs and are sufficiently high to significantly affect demand for its services then it would be considered a market producer. It is clearly an institutional unit and so would be classified as a nonfinancial corporation.

F. Joint Operations

Many public units enter into arrangements with private entities or other public units to undertake a variety of activities jointly. The activities could result in market or non-market output. Joint operations can be structured broadly as one of two types: through a jointly controlled unit (referred to here as a joint venture); or through jointly controlled operations or assets.

a. A joint venture involves the establishment of a corporation, partnership or other institutional unit in which each party has legally joint control over the activities of the unit. The units operate in the same way as other units except that a legal arrangement between the parties establishes joint control over the unit. As an institutional unit, the joint venture may enter into contracts in its own name and raise finance for its own purposes. A joint venture maintains its own accounting records. The principal question to be considered here is whether the effective economic control of the joint venture establishes a public or a private unit.

The same indicators as described in Annex1 should be used to determine which unit controls the joint venture. Normally, the percentage of ownership will be sufficient to determine control. If each owner owns an equal percentage of the joint venture, the other indicators of control should be consulted.

b. Public units can also enter into joint operating arrangements that do not involve separate institutional units. In this case, there are no additional units requiring classification, but care must be taken to ensure that the proper ownership of assets is recorded and any sharing arrangements of revenues and expense are made in accordance with the provisions of the governing contract. The operations and assets should be attributed to the units that undertake and own them, respectively.

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ANNEX 1: Factors to Consider when Determining Control

The public sector includes all general government units and all public corporations. To be classified as a public corporation, an institutional unit must be controlled by another public unit, and must sell most of its output for economically significant prices. Control is defined as the ability to determine the general policy or program of an institutional unit. Government is in a position to exercise control over many kinds of units: miscellaneous extrabudgetary agencies, non-profit institutions and corporations (nonfinancial or financial).

Government control of non-profit institutions[9]

Control of a NPI is defined as the ability to determine the general policy or program of the NPI. Government controlled NPIs should be included in consolidated government finance statistics. Nonetheless, all NPIs allocated to the general government sector should retain their identity as NPIs in statistical records, to facilitate analysis of the complete set of NPIs. To determine if a NPI is controlled by the government, the following five indicators of control should be considered:

- The appointment of officers. The government may have the right to appoint the officers managing the NPI either by the NPI's constitution, its articles of association or other enabling instrument.
- Other provisions of enabling instrument. The enabling instrument may contain other provisions that effectively allow the government to determine significant aspects of the general policy or program of the NPI. For example, the enabling instrument may give the government the right to remove key personnel or veto proposed appointments, or require the government's prior approval of budgets, investments or financial arrangements.
- Contractual agreements. The existence of a contractual agreement between a government and an NPI may allow the government to determine key aspects of the NPI's general policy or program.
- Degree of financing. In the absence of other factors, an NPI that is mainly financed by government may be considered controlled by that government. However, majority financing does not necessarily provide control, and less than majority financing does not preclude control.
- Risk exposure. If a government openly allows itself to be exposed to all or a large proportion of the financial risks associated with a NPI's activities, then the arrangement constitutes control.

Totality of all indicators. A single indicator could be sufficient to establish control in some cases, but in other cases, a number of separate indicators may collectively indicate control. A decision based on the totality of all indicators will necessarily be judgmental in nature. As long as the NPI is ultimately able to independently determine its policy or program to a significant extent, then it would not be considered controlled by government.

[9] Criteria developed for non-profit institutions (NPIs) apply also to other kinds of non-profit entities like extrabudgetary agencies.

Government control of corporations

A corporation is a public corporation if a government unit, another public corporation, or some combination of government units and public corporations controls the entity; where control is defined as the ability to determine the general corporate policy of the corporation. The expression "general corporate policy" as used here is understood in a broad sense to mean the key financial and operating policies relating to the corporation's strategic objectives as a market producer.

Because governments exercise sovereign powers through legislation, regulations, orders and the like, care needs to be applied in determining whether the exercise of such powers amounts to a determination of the general corporate policy of a particular corporation and therefore control of the corporation. Laws and regulations applicable to all units as a class or to a particular industry should not be viewed as amounting to control of these units.

The ability to determine the general corporate policy does not necessarily require the direct control of the day-to-day activities or operations of a particular corporation. The officers of such corporations would normally be expected to manage these in a manner consistent with and in support of the overall objectives of the particular corporation.

The ability to determine the general corporate policy of a corporation also does not require the direct control over any professional, technical or scientific judgments, as these would normally be viewed as part of the core competency of the corporation itself. For example, the professional or technical judgments exercised by a corporation set up to certify aircraft airworthiness would not be considered a factor in determining control, though its broader operating and financial policies, including the airworthiness criteria, may well be determined by a government unit as part of the corporation's corporate policy.

Determining the general corporate policy of a corporation while acting as a fiduciary would not imply control. This is because the trustee, in executing its fiduciary obligations, would be obliged to act strictly in accordance with the trust deed. The trustee would act in the interests of the beneficiaries and not at the behest of its controlling entity. Two examples where this may apply relate to autonomous government employee pension funds and public trustees.

Because the arrangements for the control of corporations can vary considerably, it is neither desirable nor feasible to prescribe a definitive list of factors to be taken into account. The following eight indicators, however, will normally be the most important and likely factors to consider:

- Ownership of the majority (or plurality) of the voting interest. Owning a majority of shares will normally constitute control when decisions are made on a one-share one-vote basis. Being the single largest shareholder, or the lead in a consortium of shareholders that holds a plurality of voting shares, could provide effectively a similar degree of control. The shares may be held directly or indirectly, and the shares owned by all other public entities should be aggregated. If decisions are not made on a one-share one-vote basis, the classification should be based on whether the shares owned by other public entities provide a majority (or controlling) voice.
- Control of the board or other governing body. The ability to appoint or remove a majority of the board or other governing body as a result of existing legislation, regulation, contractual, or other arrangements will likely constitute control. Even the right to veto proposed appointments can be seen as a form of control if it influences the choices that can be made. If another body is responsible for appointing the directors, it is necessary to examine its composition for public influence. If a government appoints the first set of directors but does not control the

appointment of replacement directors, this factor would need to be considered only until the initial appointments had expired.

- Control of the appointment and removal of key personnel. If control of the board or other governing body is weak, the appointment of key executives, such as the chief executive, chairperson, and finance director, may be decisive. Non-executive directors may also be relevant if they sit on key committees, such as the remuneration committee determining the pay of senior staff.
- Control of key committees of the entity. Sub-committees of the board or other governing body could determine the key operating and financial policies of the entity. Majority public sector membership on these sub-committees could constitute control. Such membership can be established under the constitution or other enabling instrument of the corporation.
- Golden shares and options. A government may own a "golden share," particularly in a corporation that has been privatized. In some cases, this share gives the government some residual rights to protect the interests of the public by, for example, preventing the company from selling some categories of assets or appointing a special director who has strong powers in certain circumstances. A golden share is not of itself indicative of control. If, however, the powers covered by the golden share do confer on the government the ability to determine the general corporate policy of the entity in particular circumstances, and those circumstances arise, then the entity should be in the public sector from the date in question. The existence of a share purchase option available to a government unit or a public corporation in certain circumstances may be similar in concept to the golden share arrangement discussed above. It is necessary to consider whether the consequences of such exercise means that the government currently has "the ability to determine the general corporate policy of the entity" by exercising that option. This involves identifying whether the circumstances in which the option may be exercised currently exist, and the volume of shares which may be purchased under the option. An entity's status in general should be based on the government's existing ability to determine corporate policy exercised under normal conditions rather than in exceptional economic or other circumstances such as wars, civil disorders or natural disasters.
- Regulation and control. The borderline between regulation that applies to all entities within say a class or industry group and the control of an individual corporation can be difficult to judge. There are many examples of government involvement through regulation, particularly in areas such as monopolies and privatized utilities. It is possible for regulatory involvement to exist in important areas, such as in price setting, without the entity ceding control of its general corporate policy. Choosing to enter into, or continuing to operate in, a highly regulated environment does not suggest that the entity is subject to government control. However, when regulation is so tight as to effectively dictate how the entity performs its business, then it could be a form of control. If an entity retains unilateral discretion on pricing and on whether it will take funding from, interact commercially with, or otherwise deal with the public sector, the entity has the ultimate ability to determine its own corporate policy and is not controlled by the public sector entity.
- Control by a dominant customer. If all of the sales of a corporation are to a single public sector customer or a group of public sector customers, there is clear scope for dominant influence. The presence of a minority private sector customer usually implies an element of independent decision-making by the corporation; and the entity would not be considered controlled. In general, if there is clear evidence that the corporation could not choose to deal with non-public sector clients because of the public sector influence, then public control is implied.

- Control attached to borrowing from the government. Lenders often impose controls among conditions for making loans. If the government imposes controls through lending or issuing guarantees that are more than would be typical when a healthy private sector entity borrows from a bank, control may be indicated. Similarly, control may be implied if only the government was prepared to lend.

Totality of all indicators. Although a single indicator could be sufficient to establish control, in other cases, a number of separate indicators may collectively indicate control. A decision based on the totality of all indicators must necessarily be judgmental in nature. Of course, there has to be consistency in classification decisions among statistical compilers for such judgments.

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ANNEX 2: Market/non-market delineation—The notion of economically significant prices

Economically significant prices are prices that have a significant influence on the amounts the producers are willing to supply and on the amounts that purchasers wish to buy. It is the criterion that is used to classify output and producers as market or non-market. Market producers provide all or most of their output at prices that are economically significant. Non-market producers provide all or most of their output to others free of charge or at prices that are not economically significant. Thus the criterion of economically significant price is used to decide whether the unit set up by government, or in which government has controlling interest, is to be designated as market and considered a public corporation, or non-market and classified in the general government sector.

It can be presumed that prices are economically significant when the producers are private corporations. When there is public control, however, the unit's prices may be modified for public policy purposes, which may cause difficulties in determining whether the prices are economically significant. Public corporations are often established to provide goods that the market would not produce in the desired quantities or prices. The sales of such corporations may cover a large portion of their costs, but one can expect that they respond to market forces quite differently than would private corporations.

It is likely that corporations receiving substantial government financial support or that enjoy other risk reducing factors such as government guarantees will act differently than corporations without such advantages because their budget constraints are softer. Public corporations also may provide goods and services where markets are concentrated (monopolies and monopsonies). These corporations may charge below-market prices and effectively subsidize their customers, or above-market prices and effectively tax them.

The difference between a market and non-market producer that sells its output for a price, then, relates largely to the ways in which the producer responds to changes in market conditions. To decide this inherently difficult question, it is useful to consider a taxonomy that specifies which units are the consumers of the goods and services in question and whether the producer is the only supplier.

The output is sold primarily to corporations and households

Prices are economically significant when they encourage supply—such as by covering the majority of the producer's costs (including consumption of fixed capital and a return to capital)—and consumer's choices are significantly determined by the prices charged. There is no prescriptive numerical relationship between the value of output and production costs, for the price to be considered a market price. While no specific threshold carries full agreement at the international level, Eurostat requires the value of goods and services sold to average at least half of the production costs over a sustained multi-year period.

Because economic circumstances vary considerably, it may be desirable to accept a different threshold to achieve consistent economic measurement over time, between branches and across countries. For the same reason, the distinction between market and non-market may be made for a group of entities undertaking similar activities (such as higher educational institutions or transport systems) rather than on a case-by-case basis.

One method of assessing whether a price is economically significant is to compare the output of a public unit selling goods and services with its production costs. The output at basic prices of the unit is measured as equal to the total amount of goods and services sold (the "sales"), plus the change in inventories of finished goods and work-in-progress (if significant), excluding taxes on products and subsidies on products (except those subsidies that are also granted to all private producers for this type of activity). In all cases, subsidies or transfers to cover an overall deficit are excluded. Own-account production is not considered part of sales in this context. Production costs are the sum of intermediate consumption, compensation of employees, capital services, and other taxes on production.

The output is sold only to government

Some services that are typically required by all units are supplied as ancillary services by a unit specially created for the purpose. These include activities such as transportation, purchasing, sales, marketing, computer services, communications, cleaning, and maintenance. A unit that provides these types of services exclusively to its parent unit or to other units in the same group of units is described as an ancillary unit, and is classified to the same sector as the parent unit.

A public producer is considered an ancillary unit to government when it is the only supplier of its services and supplies all its output only to government. That is, it is treated as a non-market unit unless it competes with a private producer in tendering for a contract with government on normally accepted commercial terms.

If a public producer supplies all its output to government but is one of several producers, it is considered a market producer if there is evidence that it competes with other producers in the market and its prices satisfy the general criteria of economically significant prices.

The output is sold to both government and others

If a unit is the only supplier of its services, it is a market producer if its sales to non-government units are more than half of its total output or its sales to government satisfies the tender condition above.

If there are several suppliers, a public producer is a market producer if it competes with the other producers.

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