



# **Government Finance Statistics**

## **IMF Statistics Department**

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# **Coverage of Units**

## **in Public Sector**

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# Contents of Lecture

## (1/2)

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- **Institutional units**
  - Residency
  - What is an institutional unit?
  - Types of institutional units
  - Sectorization of institutional units
  - *A government* institutional unit
- **What goes into general government sector?**
  - General
  - Boundary issues

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# Contents of Lecture

## (2/2)

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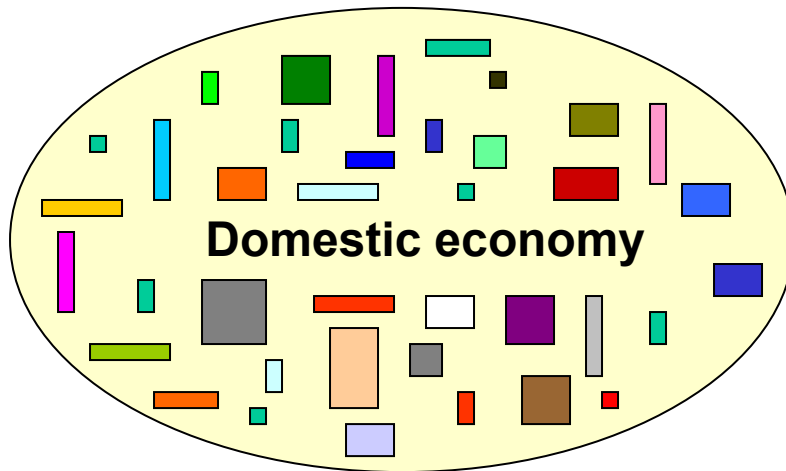
- **General government subsectors**
- **Public sector**
  - **Why statistics for public sector?**
  - **Composition of public sector**

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# Residency

(1/3)

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**Rest of the world**

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# Residency

## (1/3)

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- **Important for**
  - Determining the **coverage** of the GFS system
  - **Classification** of transactions
- **An institutional unit is **resident** in a country if it has a **center of economic interest** in the **economic territory** of that country**
  - **Economic territory of a country consists of**
    - **Geographic territory administered by a government**
      - Includes airspace, territorial water, continental shelf, territorial enclaves, free zones, etc.

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# Residency

## (3/3)

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- Residency is not based on
  - nationality
  - currency
- **Domestic economy** comprises all **resident institutional units**
- **Rest of the world** comprises all **nonresidents**

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# What is an Institutional Unit?

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- **An economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities**
- **Some important features of institutional unit**
  - **Ability to own assets means it is able to exchange these in transactions with other institutional units**
  - **Able to take economic decisions and engage in economic activity for which itself is held responsible and accountable by law**

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# What is an Institutional Unit?

(2/2)

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- Some important **features of institutional unit** (continued)
  - Able to incur liabilities on its own behalf, take on other obligations or future commitments, and to enter into contracts
  - A complete set of accounts exist for institutional unit, or possible/meaningful to compile a complete set of accounts if required

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# Types of Institutional Units

(1/7)

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- **Two types of entities** are institutional units
  - **Households**
    - Persons or groups of persons
  - **Legal or social entities**
    - Existence recognized by law or society
    - Independent of persons or other entities that may own or control them

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# Types of Institutional Units

(2/7)

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- **Four types of legal/social entities** in *GFSM 2001* (and *1993 SNA*) are institutional units
  - Corporations
  - Quasi-corporations
  - Nonprofit institutions
  - Government units

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# Types of Institutional Units

(3/7)

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- **Corporations**

- Legal entities created for purpose of producing goods & services for market
- May be source of profit or other financial gain for owners
- Collectively owned by shareholders
  - Authority to appoint directors for its general management
- Key is not its legal status, but **characteristic of producing goods and services for market and being source of profit/financial gain for owners**

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# Types of Institutional Units

(4/7)

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- **Corporations (continued)**

- **What are not corporations?**

- Legal status of corporation, but not producing goods and service for market
    - Produce goods and services for market, but not for profit/financial gain of owners

- **Quasi-corporations**

- **Entities that function as if they were corporations, but they are not incorporated or otherwise legally established**

- Treated the same as corporations in GFS system, i.e., as units separate from the units to which they belong
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# Types of Institutional Units

(5/7)

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- **Quasi-corporations (continued)**
  - **Must have a complete set of accounts or possible to construct such accounts**
  - **Public quasi-corporation**
    - **Government allows management considerable discretion with management of production and use of funds**
    - **Able to maintain working capital**
    - **Able to finance some or all of its capital formation**
    - **Operating and financing activities are not fully integrated with parent's corresponding activities**

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# Types of Institutional Units

(6/7)

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- **Nonprofit institutions (NPIs)**
  - **Legal or social entities created for purpose of producing or distributing goods & services, but not a source of income / other financial gain for owners**
  - **Engage in market or nonmarket production**
    - **Market NPIs**
      - Classified with corporations and quasi-corporations
    - **Nonmarket NPIs**
      - Serve households or general government
      - Depends on which units control & mainly finance them

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# Types of Institutional Units

(7/7)

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- **Government units**

- Carry out functions of government *as primary activity*, i.e.,

- Have legislative, judicial, or executive authority over other institutional units in given area;
- Assume responsibility for provision of goods & services to community as a whole, or to individual households on a **nonmarket basis**;
- Make transfer payments to redistribute income and wealth;
- Finance their activities by means of taxes and other compulsory transfers from other units

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# Sectorization of Institutional Units

(1/5)

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- Use these types of resident institutional units to divide total economy into sectors
  - Units in each sector have **similar objectives**
    - Objectives of sector are different from those of units in other sectors
  - Sectors are **mutually exclusive**

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# Sectorization of Institutional Units

(2/5)

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- **Nonfinancial corporations sector**
  - Created for purpose of producing goods and nonfinancial services for market
- **Financial corporations sector**
  - Engaged in providing financial services for market
- **General government sector**
  - Entities that fulfill functions of government as primary activity and NPIs controlled and mainly financed by government

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# Sectorization of Institutional Units

(3/5)

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- **Nonprofit institutions serving households sector**
  - Resident NPIs, except those controlled and mainly financed by government, that provide nonmarket goods and services to households
- **Households sector**
  - Person or small group of persons who share same living accommodation, pool some or all of their income & wealth, consume certain types of goods and services collectively

# Sectorization of Institutional Units

(4/5)

| Type of Institutional Unit | Sector of Economy  |
|----------------------------|--|
| Corporations               | <b>Nonfinancial corporations sector</b><br><b>Financial corporations sector</b>      |
| Quasi-corporations         | <b>Nonfinancial corporations sector</b><br><b>Financial corporations sector</b>      |
| Nonprofit institutions     | <b>Nonprofit institutions serving households</b><br><b>General government sector</b> |
| Government units           | <b>General government sector</b>   |
| Households                 | <b>Households sector</b>   |

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# Sectorization of Institutional Units

(5/5)

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| <b>Sector of Economy</b>         | <b>Further breakdown</b>  |
|----------------------------------|---|
| <b>Nonfinancial corporations</b> | <b>Public nonfinancial corporations</b><br><b>Private nonfinancial corporations</b> |
| <b>Financial corporations</b>    | <b>Public financial corporations</b><br><b>Private financial corporations</b>       |

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# A Government Institutional Unit

## (1/4)

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- Can be difficult to identify government units
- Most ministries, departments, agencies, boards, commissions, judicial authorities, legislative bodies, etc. that make up government are **not institutional units**
  - Amalgamate them into single institutional unit
- Government unit is not limited to its geographical location

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# A Government Institutional Unit

## (2/4)

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- **Some government entities have separate legal identity and substantial autonomy**
  - **Discretion over volume and composition of expenditures**
  - **Direct source(s) of revenue**
  - **Often established to carry out specific functions**
    - **E.g., road construction, nonmarket production of health services**
  - **Treat them as separate government units if**
    - **Maintaining a full set of accounts**

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# A Government Institutional Unit

(3/4)

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- **Treat them as separate government units if (continued)**
  - **Maintain full set of accounts,**
  - **Own assets in own right,**
  - **Engage in nonmarket activities for which they are held accountable at law, and**
  - **Are able to incur liabilities and enter into contracts**

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# A Government Institutional Unit

## (4/4)

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- **If two or more institutional units in government**
  - **One usually controls the other units**
    - **Control by appointing its managers and/or determining the laws and regulations that provide its finance**
    - **I.e., not through equity ownership, as with corporations**
      - No government unit owns another government unit
      - Government units do not issue equity securities

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# What Goes into General Government Sector? (1/5)

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- **General government units = units of the general government sector, i.e.,**
  - **All government units and nonmarket NPIs that are controlled and mainly financed by government units**
- **Government units**
  - **Carry out functions of government as primary activity**

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# **What Goes into General Government Sector? (2/5)**

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- **Nonmarket NPIs controlled and mainly financed by government units**
  - **Legally nongovernment entities**
  - **Considered to carry out government policies**

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# What Goes into General Government Sector? (3/5)

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- **When does a government control a nonmarket NPI?**
  - **When it has the ability to determine the general policy or program of the NPI, i.e.,**
    - **Having right to appoint officers managing the NPI**
    - **Through financial means**
      - Depends on timing and restrictions attached to funds and amount of financing

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# What Goes into General Government Sector? (4/5)

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- **When is an nonmarket NPI mainly financed by government?**
  - When the **main portion** of the NPI's operating funds are provided by a government unit
- **Public corporations and quasi-corporations are **not included** in general government sector**

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# What Goes into General Government Sector? (5/5)

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- **Boundary issues**
  - **General government unit, public corporation, or quasi-corporation?**
    - **Generally based on whether unit sells its output at market prices**
      - All or most of output: corporation or quasi-corporation
      - All other are government units

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# Boundary Issues

(1/7)

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- **Market prices for public units not always easy to identify**
- **Economically significant prices** determine whether market or nonmarket price
  - **Prices that have significant influence on amounts producers are willing to supply and amounts purchasers are willing to pay**
  - **Involves judgment after considering facts and circumstances**
  - **No precise guidelines**

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# Boundary Issues

(2/7)

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- **Broad guidelines** for economically significant prices
  - Do not have to be so high to cover all costs of production to be economically significant
    - >50% rule?
  - Not economically significant if not quantitatively significant from the point of view from either supply and demand

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# Boundary Issues

(3/7)

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- **Market output**
  - Goods and services sold at economically significant prices
    - If entire output, then a **market producer**
- **Nonmarket output**
  - Goods and services supplied free or at prices that are not economically significant
    - If mainly to households and community as a whole, then a **nonmarket producer**
      - May have sales of market output as secondary activity

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# Boundary Issues

(4/7)

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- **Establishment** is an enterprise, or part of an enterprise, situated in single location at which only a single productive activity is carried out, or where principal productive activity accounts for most of the value added
  - **Market establishment** within general government
    - Unit that sells or otherwise disposes of **all or most of its output at prices that are economically significant**
    - Closest equivalent to GFSM 1986 “departmental enterprise”

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# Boundary Issues

(5/7)

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- **A market establishment (continued)**
  - Need complete accounting records
  - Not complete balance sheet
  - Not engaging in financial transactions in its own name
- **Nonmarket establishments within general government**
  - **All other establishments that are not market establishments**
  - General government has mostly nonmarket establishments
  - Can sell at economically significant prices or not

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# Boundary Issues

(6/7)

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- **Two exceptions** to general rules
  - If unit is **internal service organization** that mainly sells output to other government units
    - E.g., transportation pool, supply depot, munitions factory
    - Treated as ancillary unit and consolidate activities with those of government unit that controls it
  - Unit **appears to be financial corporation**, but is a general government unit
    - Typically, government establish a central borrowing authority that borrows on the market and lends only to general government units (on commercial terms)

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# Boundary Issues

(7/7)

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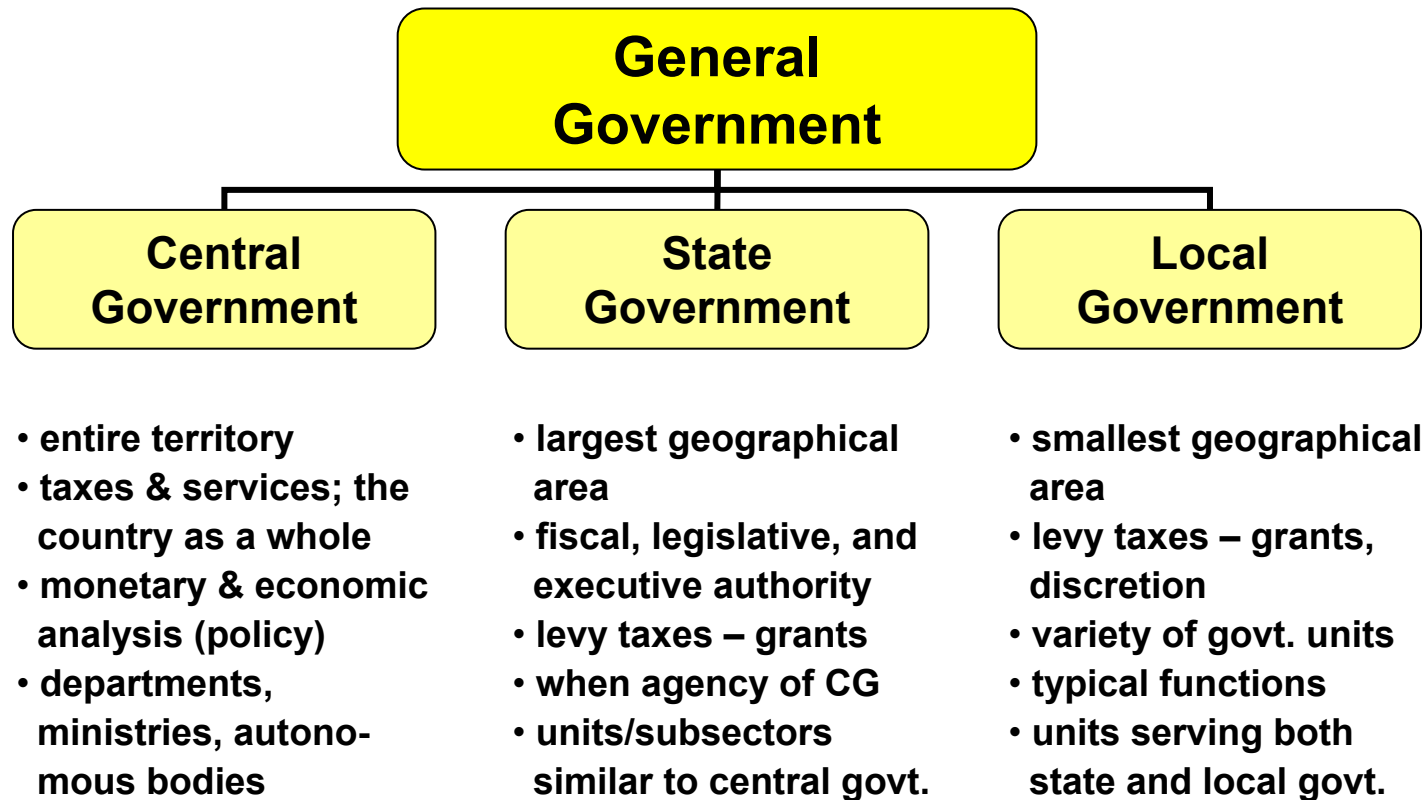
- **Consequence of compiling statistics on institutional units basis**
  - Monetary authority **may** be included in general government sector
    - Only if central bank is not separate institutional unit (public corporation) and government units are responsible for issue of currency, etc.
- **Decision tree**
  - See lecture handout

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# General Government Subsectors

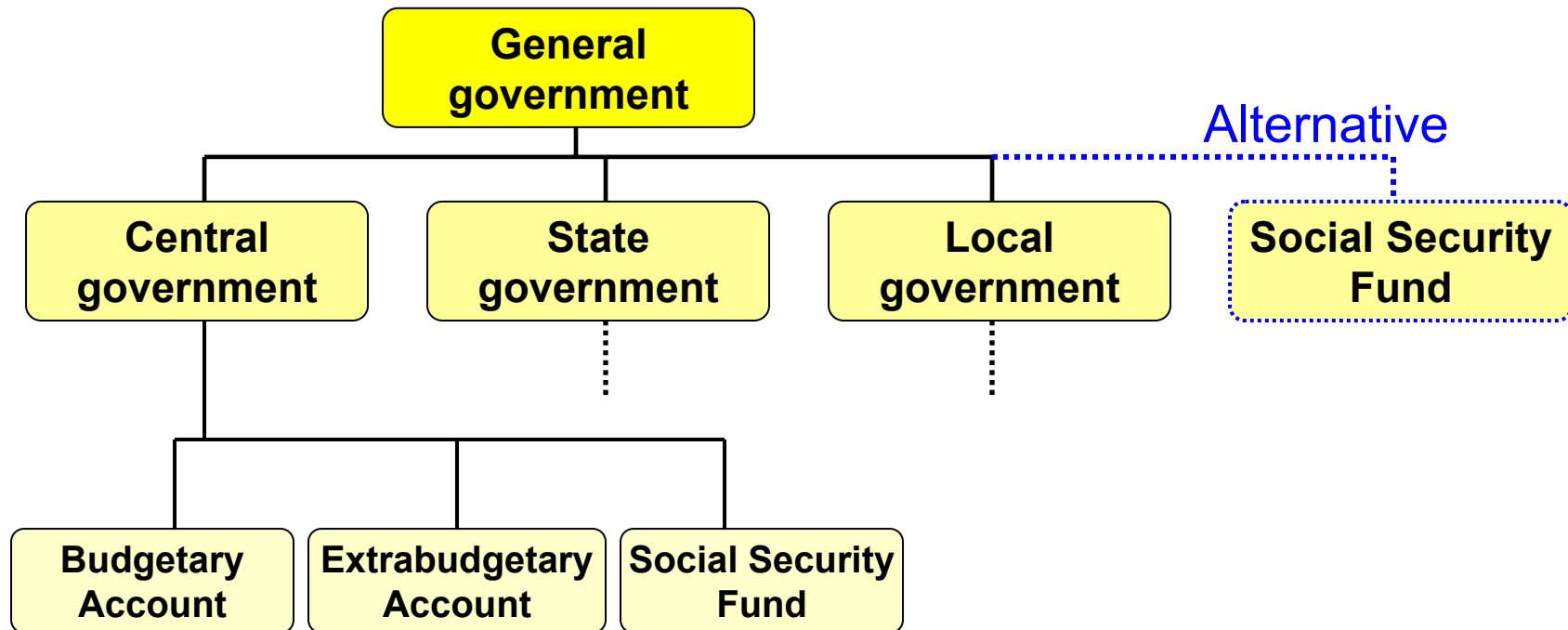
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# General Government Subsectors

(2/4)



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# General Government Subsectors

(3/4)

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- **Social security fund(s)**
  - **Subsector within level of government**
  - **Separate subsector of general government (alternative)**
  - **For social security fund to exist, it must be**
    - **separately organized, and**
    - **an institutional unit**
  - **Social security fund is closely integrated with government general economic policy**

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# General Government Subsectors

(4/4)

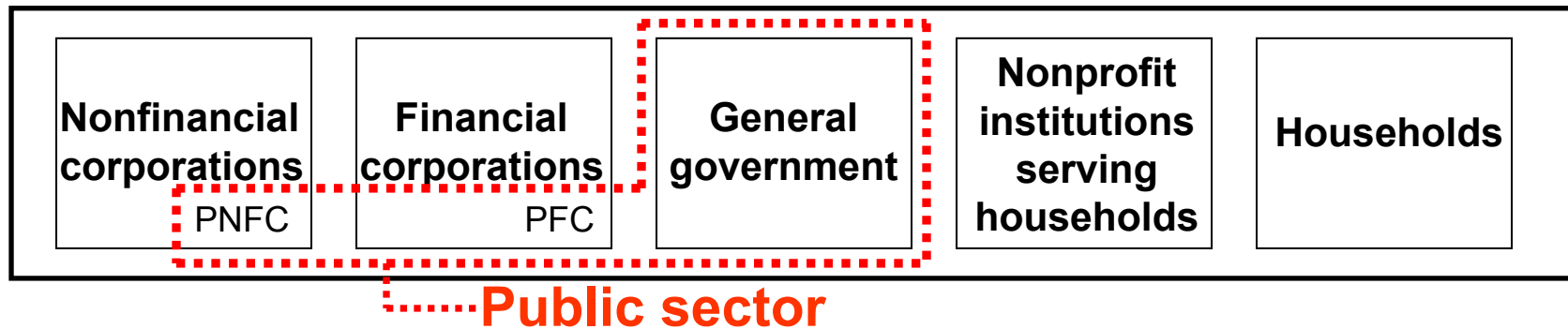
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- **Extrabudgetary account(s) are**
  - Separately organized
  - Institutional units
  - Under control of central, state, or local government
  - Own sources of revenue / financing, and from budgetary accounts
- **Jointly responsible to two levels of government**
  - Classified to the level of government that predominates in financing, or controlling its operations

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# Why Statistics for Public Sector?

(1/2)



- **Fiscal statistics incomplete without statistics on public corporations and quasi-corporations**
- **Transactions between government units and public corporations are significant**
  - **Subsidies, capital transfers, or equity**

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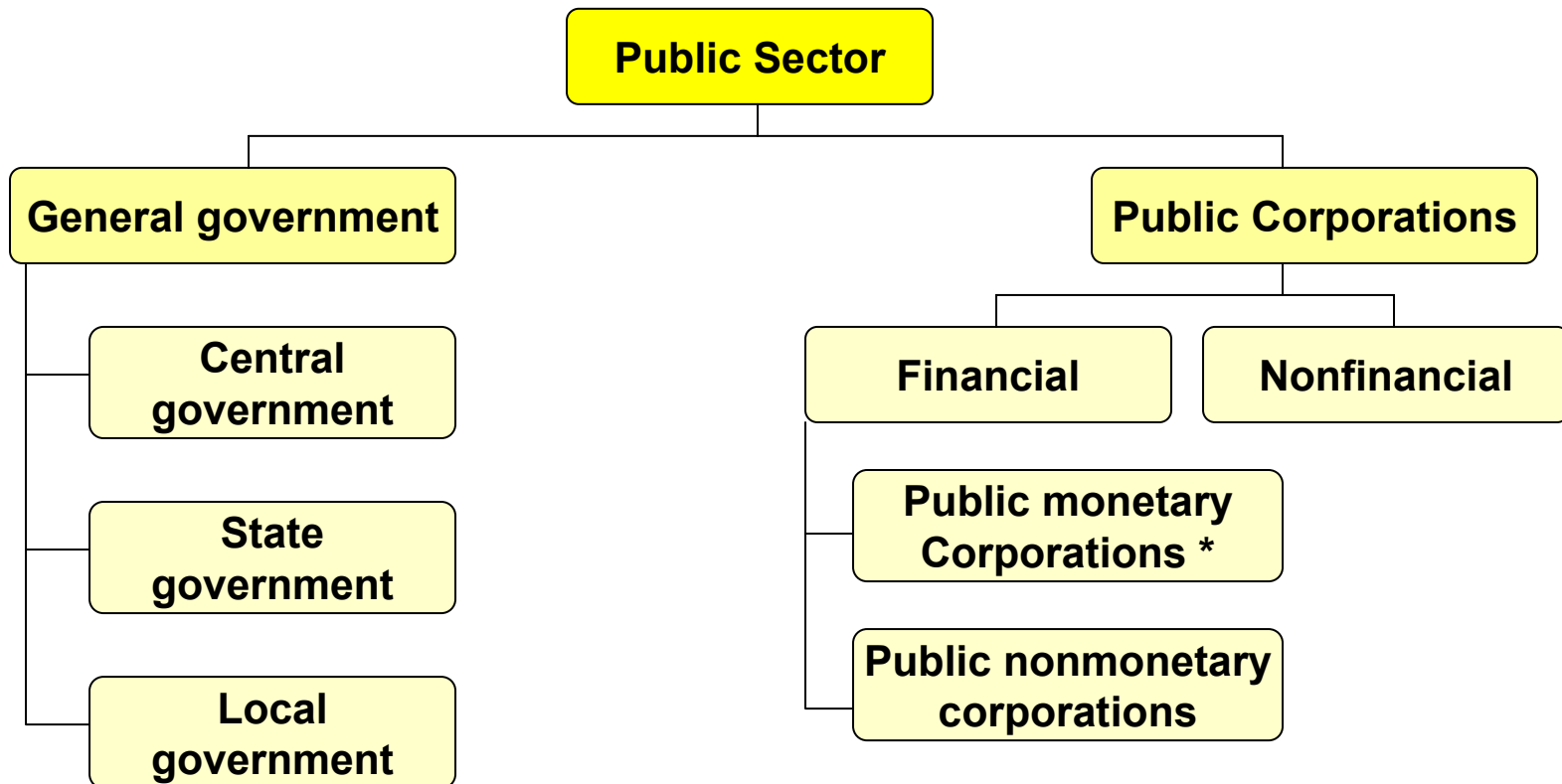
# Why Statistics for Public Sector?

(2/2)

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- **Changes in net worth of public corporation – value of the equity – indicator of sustainability of autonomous bodies**
- **When compiling statistics for public corporations, various groupings may be desirable for analytic purposes**
- **Quasi-fiscal activities**
  - **Government engaging in fiscal activities through its enterprises**

# The Public Sector



*\* Including central bank*