

## Chapter 5 (2025 SNA) / Chapter 4 (BPM7): Residence, institutional units and sectors, economic territory and residence

### (Update to 2008 SNA Chapter 4: Institutional units and sectors / BPM6 Chapter 4: Economic Territory, Units, Institutional Sectors, and Residence)<sup>1</sup>

#### A. Overview

5.1 This chapter is concerned with the definition and description of institutional units and the way in which they are grouped to make up the sectors and subsectors in macroeconomic statistics. This section discusses the key concepts of an institutional unit, its residence and the economic territory. This is followed by the main principles for allocating sectoring institutional units to institutional sectors. In addition, attention is paid to the concept of population. Section B provides further guidance on corporations, while section C deals with non-profit institutions. Sections D – H provides more details on the main institutional sectors, including the subsectors distinguished, as follows: non-financial corporations (D), financial corporations (E), general government (F), households (G) and non-profit institutions serving households (H). The chapter ends with some details about the rest of the world, i.e., the accounts for transactions and positions between residents and non-residents, while section J contains more detailed guidance related to the concepts of economic territory and residence.

#### 1. Institutional units

5.2 An institutional unit is 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. The main attributes of institutional units may be described as follows:

- a. An institutional unit is entitled to own goods or assets in its own right; it is therefore able to exchange the ownership of goods or assets in transactions with other institutional units;
- b. It is able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law;
- c. It is typically able to incur liabilities on its own behalf, to take on other obligations or future commitments and to enter into contracts;
- d. Either a complete set of accounts, including a balance sheet of assets and liabilities, exists for the unit, or it would be possible and meaningful, from an economic viewpoint, to compile a complete set of accounts if they were to be required.

5.3 There are two main types of units in the real world that may qualify as institutional units, namely natural persons or groups of natural persons in the form of households, and legal or social entities.

5.4 For the purpose of macroeconomic statistics, a household consists of a single natural person having a separate living accommodation, or a group of natural persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food. As well as In addition to individual households, there are units described as institutional households that comprise groups of natural persons staying in hospitals, retirement homes, convents, prisons, etc. for long periods of time.

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<sup>1</sup> The chapter is drafted as a joint SNA/BPM chapter following the structure of *2008 SNA* Chapter 4. After global consultation and approval by the AEG/BOPCOM, only those issues that are relevant from the external sector statistics perspective will be included in BPM7; likewise, only those issues that are relevant to national accounts will be included in the 2025 SNA.

- 5.5 The individual members of multiperson households are not treated as separate institutional units. Many assets are owned, or liabilities incurred, jointly by two or more members of the same household while some or all of the income received by individual members of the same household may be pooled for the benefit of all members. Moreover, many expenditure decisions, especially those relating to the consumption of food, or housing, may be made collectively for the household as a whole. It may be impossible, therefore, to draw up meaningful balance sheets or other accounts for members of the household on an individual basis. For these reasons, the household as a whole rather than the individual persons in it must be treated as the institutional unit. Also, members of institutional households are not treated as separate institutional units, if they have little or no autonomy of action or decision in economic matters.
- 5.6 The second type of institutional unit is a legal or social entity that engages in economic activities and transactions in its own right, such as a corporation, non-profit institution (NPI) or government unit. A legal or social entity is one whose existence is recognized by law or society independently of the ~~natural~~ persons, or other entities, that may own or control it. Such units are responsible and accountable for the economic decisions or actions they take, although their autonomy may be constrained to some extent by other institutional units; for example, legally constituted corporations are ultimately controlled by their shareholders. Some unincorporated enterprises belonging to households or government units may behave in much the same way as legally constituted corporations, and such entities enterprises are treated as quasi-corporations when they have complete sets of accounts.
- 5.7 In the legal sense, corporations may be described by different names: corporations, incorporated enterprises, public limited companies, public corporations, private companies, joint-stock companies, limited liability companies, limited liability partnerships, and so on. Conversely, some legal entities that are non-profit institutions may sometimes be described as “corporations”. The status of an institutional unit cannot always be inferred from its name, and it is necessary to examine its objectives and functions. In macroeconomic statistics, the term corporation covers legally constituted corporations and also cooperatives, limited liability partnerships, notional resident units and quasi-corporations. The description of these various institutional units is given in section B.
- 5.8 Non-profit institutions (NPIs) are legal or social entities 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 or finance them. In practice, their productive activities are bound to generate either surpluses or deficits but any surpluses they happen to make cannot be appropriated by other institutional units. The articles of association by which they are established are drawn up in such a way that the institutional units that control or manage them are not entitled to a share in any profits or other income they generate. For this reason, they are frequently exempted from various kinds of taxes. A description of the treatment of NPIs within macroeconomic statistics is given in section C.
- 5.9 Government units are unique kinds of legal entities established by political processes that have legislative, judicial or executive authority over other institutional units within a given area. Viewed as institutional units, the principal functions of government are to assume responsibility for the provision of goods and services to the community or to individual households and to finance their provision out of taxation or other incomes; to redistribute income and wealth by means of transfers; and to engage in non-market production.

**Box x.x Establishments and enterprises**

**Establishments**

*An establishment is an enterprise, or part of an enterprise, that is situated in a single location and in which only a single productive activity is carried out or in which the principal productive activity accounts for most of the value added. The breaking up of enterprises into one or more establishments is useful because some enterprises are large and complex, with different kinds of economic activity undertaken in different locations. The establishment is particularly useful as a unit for production statistics. Because the establishments of a multi establishment enterprise are part of the same legal entity, financial transactions and positions cannot always be attributed to a particular location or activity, so the use of the institutional unit concept is appropriate for statistics covering financial transactions and positions, such as sector's financial balance sheets, the balance of payments and IIP.*

**Commented [ED1]:** This box is based on paragraphs 4.53-4.56, BPM6 and will only be included in BPM7, but not in the 2025 SNA, as the SNA has a complete chapter on enterprises, establishments and industries.

## Enterprises

An enterprise is defined as an institutional unit engaged in production. Investment funds and other corporations or trusts that hold assets and liabilities on behalf of groups of owners are also enterprises, even if they are engaged in little or no production. (As discussed in paragraphs 10.124–10.125, institutional units that hold assets on behalf of their owners are providers of financial services to their owners.) An enterprise may be a corporation (including a quasi-corporation), a nonprofit institution, or an unincorporated enterprise (including a quasi-corporation). Corporate enterprises and nonprofit institutions are complete institutional units. An unincorporated enterprise, however, refers to a part of an institutional unit—a household or government unit—only in its capacity as a producer of goods and services.

### Local and global enterprise groups

Groups of enterprises are sometimes identified in defining and classifying direct investment. Although enterprises are the basic unit of economic statistics, a single owner or group of owners may have control of more than one enterprise, so they may act in a concerted way and the transactions between the enterprises may not be driven by the same concerns as “arm’s-length” transactions, that is, those with unrelated enterprises.

Enterprise groups may be either global or local. A global enterprise group refers to the multinational enterprise (MNE) and the set of legal entities—regardless of their economies of residence—that are under the control of the same ultimate controlling parent (MNE is the ultimate controlling parent—see paragraph 5.38); whereas the local (or territory-specific) enterprise group refers to an investor and the legal entities under that investor that are resident in the reporting economy. Business accounting may cover groups of related corporate entities (consolidated accounts) including entities that are resident in different economies. However, entities in different economies are not aggregated for macroeconomic statistics that have a focus on an economy. The concepts of global enterprise groups and local enterprise groups are used in the *OECD Benchmark Definition of Foreign Direct Investment*. The global enterprise group is also called a multinational enterprise group.

Local enterprise groups may be used for compiling and presenting direct investment statistics. For example, if direct investment is initially channelled to a holding company and then on to a manufacturing subsidiary, then it may shed light to classify the direct investment in manufacturing rather than in a holding company operation, which is just the initial investment. The implications of combining entities in different institutional sectors need to be carefully considered.

## 2. Population

- 5.10 In the context of national accounts, data on population are important for deriving per capita figures for aggregates such as GDP and NDP. They also constitute the main elements for defining households. **The population of a country is most simply defined as all those natural persons who are resident in the economic territory at a given point in time.** In this definition, the SNA and BPM concept of residence is used, that is natural persons are resident in the country where they have the strongest links thereby establishing a centre of predominant economic interest. Generally, the criterion would be based on their intended country of residence for one year or more. In most cases, the concept of residence is straightforward, being based on the dwelling a person occupies on a permanent basis, although there are some borderline cases.
- 5.11 Generally, natural persons who are resident in a country for one year or more, regardless of their citizenship, should be included in the population measure. An exception is foreign diplomatic personnel and defence personnel, together with their families, who should be included as part of the population of their home country. The “one-year rule” means that usual residents who are living abroad for less than one year are included in the population but foreign visitors (for example, holidaymakers) who are in the country for less than one year are excluded from the measured population. Further elaboration on the application on the residence criterion in special cases is given in section J further below.
- 5.12 Annual population is typically estimated from less frequent population censuses. Censuses usually count the number of people present on a specified night or the number of people who usually live in a dwelling, even if they are not present when the census is enumerated. However, a census is often conducted only every five or ten years and sometimes less frequently. In years between censuses, updated information on the population of a country is provided by sample-based surveys and by drawing on information on births and deaths and on net migration.

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### 3. Residence and economic territory

- 5.13 ***The residence of each institutional unit is the economic territory with which it has the strongest connection, in other words, its centre of predominant economic interest.*** The concept of economic territory is consistent across macroeconomic statistics. Some key features are as follows. In its broadest sense, an economic territory can be any geographic area or jurisdiction for which statistics are required. The connection of entities to a particular economic territory is determined from aspects such as physical presence and being subject to the jurisdiction of the government of the territory. The most commonly used concept of economic territory is the area under the effective economic control of a single government. However, economic territory may be larger or smaller than this, as in a currency or economic union or a part of a country or the world.
- 5.14 The economic territory includes the land area, airspace, territorial waters, including jurisdiction over fishing rights and rights to fuels or minerals. In a maritime territory, the economic territory includes islands that belong to the territory. The economic territory also includes territorial enclaves in the rest of the world. These are clearly demarcated land areas (such as embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, central bank representative offices with diplomatic immunity, etc.) located in other territories and used by governments that own or rent them for diplomatic, military, scientific, or other purposes with the formal agreement of governments of the territories where the land areas are physically located. More detailed guidance on economic territory is provided [in section J](#).
- 5.15 Economic territory has the dimensions of physical location as well as legal jurisdiction. The concepts of economic territory and residence are designed to ensure that each institutional unit is a resident of a single economic territory. The use of an economic territory as the scope of economic statistics means that each member of a group of affiliated enterprises is resident in the economy in which it is located, rather than being attributed to the economy of location of the head office.
- 5.16 In general, an institutional unit is resident in one and only one economic territory determined by the unit's centre of predominant economic interest. Exceptions may be made for multiterritory enterprises that operate a seamless operation over more than one economic territory. Although the enterprise has substantial activity in more than one economic territory, it cannot be broken up into separate branches or a parent and branch(es) because it is run as an indivisible operation with no separate accounts or decisions. Such enterprises are typically involved in cross-border activities and include shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels and undersea cables. If it is not possible to identify a parent or separate branches, it is necessary to prorate the total operations of the enterprise into the individual economic territories. For more information on these special cases, [reference is made to BPM7](#)[refer to paragraphs 5.72-5.75](#).
- 5.17 An institutional unit has a centre of predominant economic interest in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. The location need not be fixed so long as it remains within the economic territory. [The A](#)actual or intended location for one year or more is used as an operational definition; while the choice of one year as a specific period is somewhat arbitrary, it is adopted to avoid uncertainty and facilitate international consistency.
- 5.18 The concept of residence is consistent across macroeconomic statistics. Some key consequences follow:
- The residence of individual ~~natural~~ persons is determined by that of the household of which they form part and not by their place of work. All members of the same household have the same residence as the household itself, even though they may cross borders to work or otherwise spend periods of time abroad. If they work and reside abroad so long (usually taken to be one year or more) that they acquire a centre of economic interest abroad, they cease to be members of their original households;
  - Unincorporated enterprises that are not quasi-corporations are not separate institutional units from their owners and, therefore, have the same residence as their owners;
  - Corporations and NPIs may normally be expected to have a centre of economic interest in the economic territory in which they are legally constituted and registered. Corporations may be resident in economic territories different from their shareholders and subsidiary corporations may

be resident in economic territories different from their parent corporations. When a corporation, or unincorporated enterprise, maintains a branch, office or production site in another economic territory in order to engage in production over a long period of time (usually taken to be one year or more) but without creating a subsidiary corporation for the purpose, the branch, office or site is considered to be a quasi-corporation (that is, a separate institutional unit) resident in the economic territory in which it is located;

- d. Owners of land and other natural resources, buildings and immovable structures in the economic territory of a country, or units holding long leases on either, are deemed always to have a centre of economic interest in that country, even if they do not engage in other economic activities or transactions in the country. All land and other natural resources, buildings and immovable structures are therefore owned by residents. If the legal owner is actually non-resident, an artificial unit, called a notional resident unit, is created for statistical purposes (see paragraphs 5.65-5.71);
- e. Extraction of subsoil resources and exploitation of licenses can only be undertaken by resident institutional units. An enterprise that will undertake extraction is deemed to become resident when the requisite licences or leases are issued, if not before (such as in the case of exploration licenses);
- f. For entities such as many special purpose units/vehicles, that have few if any attributes of location, the location is determined by their place of incorporation (see paragraphs 5.86 and 5.87).

Further elaboration of the concept of residence for a number of borderline cases is given in section J.

#### 4. Sectoring and economic behaviour

- 5.19 The institutional sectors of the SNA/BPM group together similar kinds of institutional units. Corporations, NPIs, government units and households are intrinsically different from each other in that their economic objectives, functions and behaviour are different.
- 5.20 Institutional units are allocated to sector according to the nature of the economic activity they undertake. The three basic economic activities recorded in the SNA are production of goods and services, consumption to satisfy human wants or needs and accumulation of various forms of capital. Corporations, with the exception of the central bank, undertake either production or accumulation (or both) but do not undertake (final) consumption. Government as well as the central bank undertake production (but mainly of a different type from corporations), accumulation and final consumption on behalf of the population. All households undertake consumption on their own behalf and may also engage in production and accumulation. NPIs are diverse in nature. Some behave like corporations, some are effectively part of government and some undertake activities similar to government but independently of it.
- 5.21 Fundamental to the distinction between corporations and government is the basis on which production is undertaken. Corporations, again with the exception of the central bank, produce for the market and aim to sell their products at economically significant prices. Prices are said to be economically significant if they have a significant effect on the amount that producers are willing to supply and the amounts purchasers wish to buy. These prices normally result when the producer has an incentive to adjust supply either with the goal of making a profit in the long run (or at a minimum, covering capital and other costs) and consumers have the freedom to purchase or not purchase and make the choice on the basis of the prices charged. There is more extensive discussion on ~~one~~ of the definition of economically significant prices and the meaning of market and non-market production in chapters 7 and 30.
- 5.22 Corporations are divided between those mainly providing financial services and those mainly providing goods and other services. The two groups are known as financial corporations and non-financial corporations respectively. The distinction is made because of the special role that financial corporations play in the economy.
- 5.23 The economic objectives, functions and behaviour of government units are quite distinct. They organize and finance the provision of goods and services, to individual households and the community at large and

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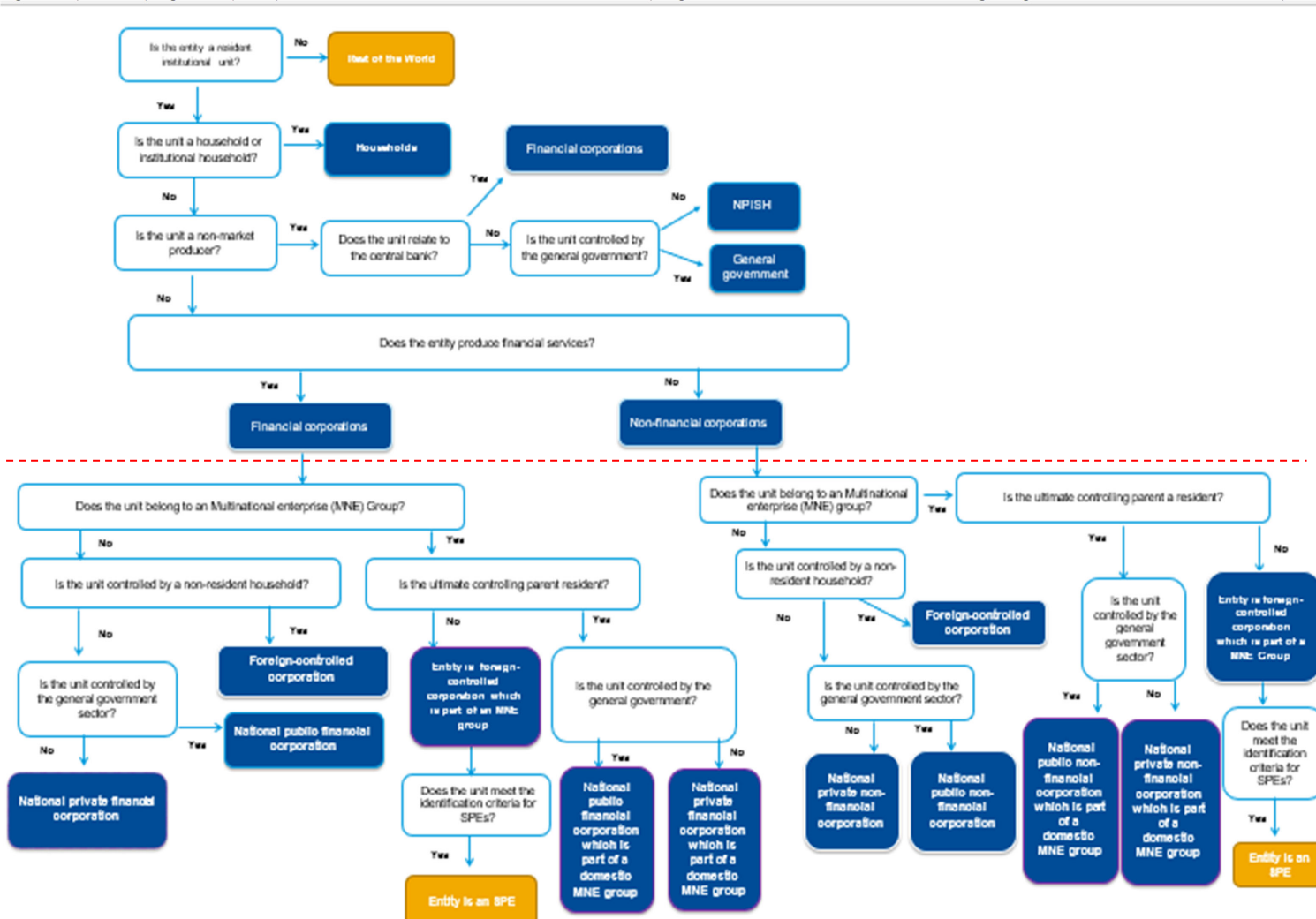
therefore incur expenditures on final consumption. They may produce most of these goods and services themselves but the products are usually either provided free or at prices determined by considerations other than purely market forces. Although classified as a financial corporation, the same holds for the central bank. Government units are also concerned with distribution and redistribution of income and wealth through taxation and other transfers. Government units include social security funds.

- 5.24 The economic objectives, functions and behaviour of households are different again. Although primarily consumer units, they can also engage in production. Often this production activity is relatively small scale and includes informal and subsistence activities. When the production units of households are not legal entities (and cannot be treated as such), they are described as unincorporated enterprises. They remain part of the same institutional unit as the household to which they belong.
- 5.25 NPIs are institutional units created for the purpose of producing or distributing goods or services but not for the purpose of generating any income or profit for the units that control or finance them. Nevertheless, some NPIs deliver goods and services to customers at economically significant prices and, when they do, these NPIs are treated in the same way as corporations in macroeconomic statistics. Other NPIs that produce goods and services but do not sell them at economically significant prices are either government units, if controlled by government, or they are treated as a special group of units called non-profit institutions serving households (NPISHs). The latter units are in effect non-governmental social institutions.
- 5.26 The digitalization of economic activities (e.g., financial/non-financial services) has a significant impact on the way in which these activities are performed. Apart from the emergence of new products, such as [the services of digital intermediation](#) platforms, cloud computing, etc., this phenomenon does not affect the classification of economic activities into institutional (sub)sectors and industries. Relevant units should continue to be classified in line with their economic objectives, functions and behaviour. The same holds for the classification of units involved in economic activities arising from technological innovations in the financial corporations sector, often referred to as Fintech. Chapter 22 SNA/Chapter 16 BPM contains a more extensive discussion on the impact of digitalization for the measurement of the economy.

## 5. The total economy

- 5.27 *The total economy is defined as the entire set of resident institutional units.* The resident institutional units that make up the total economy are grouped into five mutually exclusive institutional sectors. Sectors are groups of institutional units and the whole of each institutional unit must be classified to one or other sector of the SNA. The full sequence of economic accounts of the SNA may be constructed for a single institutional unit or a group of units. The attributes of an institutional unit described in [paragraph 5.2](#) explain why it is not possible to compile a full set of accounts for only part of a unit. However, it is possible, useful and common practice to compile some accounts for sub-divisions of corporations, discriminating on the basis of the type of production the parts undertake. This is the subject of chapter 6. For the present chapter attention focuses on the allocation of complete units to one sector or another.

Figure 5.1 (2025 SNA)/Figure 4.1 (BPM7): Illustrative allocation of units to institutional sectors (= Figure 4 from Guidance Note G.2, also reflecting changes in the treatment of the central bank)



## 6. An overview of institutional sectors

5.28 All resident institutional units are allocated to one and only one of the following five institutional sectors:

- The non-financial corporations sector;
- The financial corporations sector;
- The general government sector;
- The non-profit institutions serving households sector;
- The households sector.

5.29 The conceptual basis for the allocation of a unit to the appropriate sector can be seen in the top half of figure 5.1 (i.e., above the horizontal dotted line). The boxes for the sectors of the total economy, plus the box for the rest of the world, appear with double borders. Once non-resident units and households are set aside, only resident legal and social entities remain. Three questions determine the sectoral allocation of all such units. The first is whether the unit is a market or non-market producer. This depends on whether the majority of the unit's production is offered at economically significant prices or not. Due to its important role in the financial system, an exception to this general rule is made for the central bank. Although predominantly producing non-market services, the central bank is grouped together with market producers of financial services.

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5.30 The second question determining sectoral allocation applies to non-market units other than the central bank, all of which are allocated either to general government or to the NPISH sector. The determining factor is whether the unit is part of, or controlled by, government. The criteria to establish control are discussed in section C below.

5.31 The third question determining sectoral allocation applies to market units, and also the central bank, all of which, including market NPIs, are allocated to either the non-financial corporations sector or the financial corporations sector. In the context of sectors as elsewhere in macroeconomic statistics, the term "corporation" is used to encompass all market producers, including cooperatives, limited liability partnerships, notional resident units and quasi-corporations as well as legally constituted corporations.

5.32 The non-financial corporations sector includes non-profit institutions (NPIs) engaged in the market production of goods and non-financial services: for example, hospitals, schools or colleges that charge fees that enable them to recover their current production costs, or trade associations financed by subscriptions from non-financial corporate or unincorporated enterprises whose role is to promote and serve the interests of those enterprises. The non-financial corporations sector is described further in section D.

5.33 The financial corporations sector includes the central bank and all resident corporations whose principal activity is providing financial services including financial intermediation, insurance and pension fund services, and units that provide activities that facilitate financial intermediation. In addition, the sector includes NPIs engaged in market production of a financial nature such as those financed by subscriptions from financial enterprises whose role is to promote and serve the interests of those enterprises. The financial corporations sector is described further in section E.

5.34 The general government sector consists mainly of central, state and local government units together with social security funds imposed and controlled by those units. In addition, it includes all non-market producers that are controlled by government units or social security funds.

5.35 The non-profit institutions serving households sector consists of all resident NPIs, except those controlled by government, that provide non-market goods or services to households or to the community at large.

5.36 The households sector consists of all resident households. These include institutional households made up of persons staying in hospitals, retirement homes, convents, prisons, etc. for long periods of time. It is noted that the institutions where these persons are staying (e.g., hospitals, retirements homes, prisons) generally constitute separate institutional units, different from the institutional households. Furthermore, as already noted, an unincorporated enterprise owned by a household is treated as an integral part of the latter and not as a separate institutional unit unless the accounts are sufficiently detailed to treat the activity as that of a quasi-corporation.

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## 7. Subsectors

- 5.37 Each of the five institutional sectors listed above may be divided into subsectors. No single method of subsectoring may be optimal for all purposes or all countries, so that alternative methods of subsectoring are recommended for certain sectors. Dividing the total economy into sectors enhances the usefulness of the accounts for purposes of economic analysis by grouping together institutional units with similar objectives and types of behaviour. Sectors and subsectors are also needed in order to be able to target or monitor particular groups of institutional units for policy purposes. For example, the household sector has to be divided into subsectors in order to be able to show/observe how different sections of the community are affected by, or benefit from, the process of economic development or government economic and social policy measures. Similarly, it may be important to treat corporations subject to control by non-residents as subsectors of the financial and non-financial corporate sectors not only because they are liable to behave differently from domestically controlled corporations but because policymakers may wish to be able to identify and observe those parts of the economy that are subject to influence from abroad. It would also enhance the possibilities of analysing the impact of foreign-controlled corporations on the generation and distribution of income, and capital formation. The division of sectors into subsectors depends upon the type of analysis to be undertaken, the needs of policymakers, the availability of data and the economic circumstances and institutional arrangements within a country.

### Breakdowns of non-financial and financial corporations based on control

- 5.38 One common subsectoring, as shown in the bottom half of figure 5.1 (i.e., below the horizontal dotted line), is to identify those non-financial corporations and financial corporations that are controlled domestically and those that are foreign controlled (for the definition of control, [see paragraphs 5.112 – 126](#) below). Domestically controlled corporations are further split into public corporations (those controlled by government) and others, which are known as national private corporations. In addition, “of which” items are included for domestically controlled public and private corporations that are part of a domestic multinational enterprise (MNE), i.e., those corporations whose ultimate controlling parent is resident in the same economy. An MNE is a legal entity that has at least one non-resident affiliate or branch, and exercises control over its affiliate(s) or branch(es) either directly—by owning over 50 percent of the voting power in the entity—or by indirect transmission of control. The MNE is the ultimate controlling parent—the direct investor at the top of the control chain. The MNE group consists of the MNE and the set of entities—regardless of their economies of residence—that are under the control of the same ultimate controlling parent (see section C, chapter 23, 2025 SNA/chapter 15, BPM7 for additional details on MNEs). For countries where the presence of special purpose entities (SPEs; see [paragraphs 5.86 – 5.87](#) below) is significant, a separate identification of SPEs, as an “of which” item, is recommended as supplementary information.

### Breakdowns of households

- 5.39 Distributional information on household income, consumption, saving and wealth is considered highly relevant to the analysis of well-being. Therefore, ~~it is recommended to have, as a standard,~~ additional breakdowns of the households’ sector are recommended as a standard. As a minimum, compilers should aim to provide breakdowns according to income and wealth deciles, and, if possible, also for the top 5 per cent and the top 1 per cent. Alternative breakdowns, for example by main source of income, household type, housing status and by age of the reference person are also recommended, as supplementary items. Further details are provided in paragraphs 5.221 – 231 as well as chapter 32.

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### Non-profit institutions

- 5.40 As described above, the SNA assigns NPIs to different sectors according to whether they produce for the market or not, regardless of motivation, status of employees or the activity they are engaged in. However, there is increasing interest in considering the full set of NPIs as evidence of “civil society” so it is recommended that NPIs within the corporate and government sectors be identified in distinct subsectors so that supplementary tables summarizing all NPI activities can be derived in a straightforward manner as and

when required.

### **Other subsectoring**

- 5.41 The question of subsectoring is included in the more extensive consideration of each institutional sector in following sections. Particular subsectors are suggested for general government, non-financial corporations, financial corporations and households. An overview of the standard breakdowns in the system of national accounts is given in [table 5.1 \(2025 SNA\)](#)/[Table 4.1 \(BPM7\)](#).

**Table 5.1 (2025 SNA)/Table 4.1 (BPM7): Standard classification of institutional sectors in the system of national accounts (= updated version of Table 4.1 of BPM6)**

**S1 Total economy**

S11 Non-financial corporations

Classification based on control

S1101 Public non-financial corporations

Of which: Part of domestic multinational enterprise ([MNEs](#))

S1102 National private non-financial corporations

Of which: Part of domestic multinational enterprise ([MNEs](#))

S1103 Foreign-controlled non-financial corporations<sup>1</sup>

Of which: Special purpose entities (SPEs)

S12 Financial corporations

Classification based on control

S1201 Public financial corporations

Of which: Part of domestic multinational enterprise ([MNEs](#))

S1202 National private financial corporations

Of which: Part of domestic multinational enterprise ([MNEs](#))

S1203 Foreign-controlled financial corporations<sup>1</sup>

Of which: Special purpose entities (SPEs)

Classification based on type of financial services

S121 Central bank<sup>2</sup>

S122 Deposit-taking corporations, except the central bank

S123 Money market funds (MMFs)

S124 Non-MMF investment funds

S125 Other financial intermediaries, except insurance corporations and pension funds

S126 Financial auxiliaries

S127 Captive financial institutions and money lenders

S128 Insurance corporations

S129 Pension funds

S13 General government

General government classification—alternative A

S1311 Central government

S1312 State government

S1313 Local government

S1314 Social security funds

General government classification—alternative B

S1321 Central government<sup>3</sup>

S1322 State government<sup>3</sup>

S1323 Local government<sup>3</sup>

S14 Households<sup>4</sup>

S15 Nonprofit institutions serving households

**S2 Rest of the world**

May be classified in the same way as resident institutional sectors, with the addition of:

International organizations

International financial organizations

Central bank of currency union<sup>5</sup>

Other

International nonfinancial organizations

1 While all foreign controlled corporations are foreign direct investment enterprises, the reverse is not true (see [paragraph 5.126](#)).

2 Additional subsector may be identified for monetary authorities, where needed (see [paragraph 5.154](#)).

3 Including social security funds of this level of government.

4 Subsectors of the household sector will be based on income and wealth deciles.

5 If the reporting economy is a member state of a currency union.

5.42 The institutional sector classification in the external accounts is shown in table 4.2. It follows the same sectors and subsectors as the SNA institutional sector classification shown in table 4.1, but with order and groupings to allow greater backward compatibility with the **BPM6/BPM7** classification and a shorter list of sectors for economies in which it is not practical to implement the full classification. The full institutional sector detail is required for external accounts to be fully integrated with monetary, flow of funds, and other financial data. Domestic and foreign controlled corporations may be identified separately on a supplementary basis.

**Table 4.2 (BPM7): Classification of institutional sectors in external accounts (= updated version of Table 4.2 of BPM6)**

**Central bank**

*Monetary authorities<sup>1</sup>*

**Deposit-taking corporations except the central bank<sup>2</sup>**

*Of which SPEs<sup>1</sup>*

**General government**

**Other financial corporations (OFCs)<sup>2</sup>**

*Money market funds (MMFs)<sup>1,2</sup>*

*Non-MMF investment funds<sup>1,2</sup>*

*Insurance corporations<sup>1,2</sup>*

*Pension funds<sup>1,2</sup>*

*Other financial intermediaries except insurance corporations and pension funds<sup>1,2</sup>*

*Of which Central clearing counterparties<sup>1,2</sup>*

*Captive financial institutions and money lenders, and financial auxiliaries<sup>1,2</sup>*

*Of which SPEs<sup>1</sup>*

**Nonfinancial corporations (NFCs)<sup>2</sup>**

*Of which SPEs<sup>1</sup>*

**Households and nonprofit institutions serving households**

*Additional sectors for counterpart data:*

*International organizations*

*International financial organizations*

*Central bank of currency union*

*Other international organizations*

<sup>1</sup> These items are supplementary (i.e., countries are encouraged to compile these breakdowns when they are relevant to their countries).

<sup>2</sup> Supplementary "of which" items may be provided for public corporations.

Note: Captive financial institutions and money lenders as well as financial auxiliaries are combined to reduce the compilation burden (they are not regarded being involved in financial intermediation). However, they can be separately identified in the countries where they have large cross-border transactions and positions. Households and non-profit institutions serving households can also be compiled separately in the countries where compilers see its merit. Data for central clearing counterparties (CCPs) could be compiled as an "of-which" item for countries that have large cross-border transactions and positions related to CCPs. Data for SPEs are "of which" items for deposit-taking corporations, OFCs and NFCs, but they could also be compiled for other institutional sectors if they play an important role in the country.

5.43 Transactions in financial instruments between residents and non-residents raise particular issues concerning attribution of institutional sector. The economic owner of the asset, the creditor, is invariably one party to any change of economic ownership of the asset. Therefore, for assets, sector attribution by creditor and by transactor coincide. A claim on a resident debtor, however, may change ownership between a resident creditor and a non-resident creditor so that the domestic sector of the debtor may not coincide with that of the transactor. For instance, the issuer may be a resident in one institutional sector, the seller a resident in another institutional sector, and the buyer a non-resident.

5.44 Although the sector classification for liabilities is clearly according to the issuer, for the sector data in the

financial account, there are both practical and analytical considerations over whether the sector allocation should be determined according to the issuer or the seller. By convention, the sector of the debtor is the one that determines the classification of the change of ownership that has occurred, because the original nature of the liability is generally considered more significant than the identity of the resident seller of the claim. The same issues apply for financial instruments issued by a resident that are sold by a non-resident holder to a resident buyer.

**Commented [ED7]:** These are based on paragraphs 4.60-4.61 BPM6

**Commented [ED8]:** This part probably will not be included in the 2025 SNA.

## 8. The rest of the world

5.45 On occasion it is convenient to refer to non-resident households or corporations as units that are resident in the rest of the world. Whenever accounts are drawn up for institutional sectors, as well as an account for the total economy, a further account is presented showing the relationship with the rest of the world. In effect, therefore transactions and positions with the rest of the world are recorded as if the rest of the world is a de facto sixth sector.

5.46 For the purpose of reporting external sector statistics data, more disaggregated institutional sector breakdowns for the transactions and positions with non-residents will be followed (see table 4.2)

**Commented [ED9]:** This paragraph will not be included in the 2025 SNA.

## B. Corporations in macroeconomic statistics

### 1. Types of corporations

5.47 In macroeconomic statistics, the term corporation is used more broadly than in just the legal sense. In general, all entities that are:

- a. capable of generating a profit or other financial gain for their owners,
- b. recognized at law as separate legal entities from their owners who enjoy limited liability,
- c. set up for purposes of engaging in market production, through the selling of all or most of their goods and/or services at economically significant prices,

are treated as corporations, however they may describe themselves or whatever they may be called. As well as legally constituted corporations the term corporations is used to include cooperatives, limited liability partnerships, notional resident units and quasi-corporations. Whenever the term corporation is used, the broader coverage rather than the narrow legal definition is intended unless otherwise stated. Each of the main components of the broader coverage is discussed in turn below.

### Legally constituted corporations

5.48 Legally constituted corporations may be described by different names: corporations, incorporated enterprises, public limited companies, public corporations, private companies, joint-stock companies, limited liability companies, limited liability partnerships, and so on. *A legally constituted corporation is a legal entity, created for the purpose of producing goods or services for the market, that may be a source of profit or other financial gain to its owner(s); it is collectively owned by shareholders who have the authority to appoint directors responsible for its general management.*

5.49 The laws governing the creation, management and operations of legally constituted corporations may vary from country to country—so that, therefore, it is not feasible to provide a precise, legal definition of a corporation that would be universally valid. It is possible, however, to indicate in more detail the typical features of corporations that are most relevant from the point of view of macroeconomic statistics. They may be summarized as follows:

- a. A corporation is an entity created by process of law whose existence is recognized independently of the other institutional units that may own shares in its equity. The existence, name and address of a corporation are usually recorded in a special register kept for this purpose. A corporation may normally be expected to have a centre of predominant economic interest (that is, to be resident) in

the country in which it is created and registered.

- b. A corporation that is created for the purpose of producing goods or services for sale on the market does so at prices that are economically significant. This implies that it is a market producer. (A description of economically significant prices and the difference between market and non-market production is given in chapters 7 and 30.)
- c. A corporation is fully responsible and accountable at law for its own actions, obligations and contracts, this being an essential attribute of an institutional unit in macroeconomic statistics. A corporation is subject to the tax regime of the country where it is resident in respect of its productive activities, income or assets.
- d. Ownership of a corporation is vested in the shareholders collectively. The amount of income actually distributed to shareholders as dividends in any single accounting period is decided by the directors of the corporation. Income is usually distributed to shareholders in proportion to the value, or amounts, of the shares or other capital participations they own. There may be different kinds of shares in the same corporation carrying different entitlements.
- e. In the event of a corporation being wound up, or liquidated, the shareholders are similarly entitled to a share in the net worth of the corporation remaining after all assets have been sold and all liabilities in debt instruments paid. If a corporation is declared bankrupt because its debt-related liabilities exceed the value of its assets, the shareholders are usually not liable to repay the excess liabilities. However, in cases of implicit guarantees or significant reputational risks, the owner may experience to have a negative equity (see paragraphs 14.xx – 14.xx (SNA 2025) / paragraphs xx.xx – xx.xx (BPM7)).
- f. Control of a corporation is ultimately exercised by the shareholders collectively. A corporation has a board of directors that is responsible for the corporation's policy and appoints the senior management of the corporation. The board of directors is usually appointed by the collective vote of the shareholders.
- g. In practice, however, some shareholders may exert much more influence or control over the policies and operations of a corporation than others.
- h. The voting rights of shareholders may not be equal. Some types of shares may carry no voting rights, while others may carry exceptional rights, such as the right to make specific appointments to the board of directors or the right to veto other appointments made on a majority vote. Such exceptional rights may be held by the government when it is a shareholder in a corporation.
- i. Many shareholders with voting rights do not choose to exercise them, so that a small, organized minority of active shareholders may be in a position to control the policy and operations of a corporation.

### **Cooperatives, limited liability partnerships, etc.**

- 5.50 Cooperatives are set up by producers for purposes of marketing their collective output. The profits of such cooperatives are distributed in accordance with their agreed rules and not necessarily in proportion to shares held, but effectively they operate like corporations. Similarly, partnerships whose members enjoy limited liability are separate legal entities that behave like corporations. In effect, the partners are at the same time both shareholders and managers.

### **Quasi-corporations**

- 5.51 Some unincorporated enterprises function in all (or almost all) respects as if they were incorporated. These are termed quasi-corporations in macroeconomic statistics and are included with corporations in the non-financial and financial corporations sectors. A quasi-corporation is:
- a. either an unincorporated enterprise owned by a resident institutional unit that has sufficient information to compile a complete set of accounts and is operated as if it were a separate corporation

and whose de facto relationship to its owner is that of a corporation to its shareholders, or

- b. an unincorporated enterprise owned by a non-resident institutional unit that is deemed to be a resident institutional unit because it engages in a significant amount of production in the economic territory over a long or indefinite period of time.

5.52 Three main kinds of quasi-corporations are recognized in macroeconomic statistics:

- a. Unincorporated enterprises owned by government units that are engaged in market production and that are operated in a similar way to publicly owned corporations;
- b. Unincorporated enterprises, including unincorporated partnerships or trusts, owned by households that are operated as if they were privately owned corporations;
- c. Unincorporated enterprises that belong to institutional units resident abroad, referred to as "branches".

5.53 The intent behind the concept of a quasi-corporation is clear: namely, 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 of 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.

5.54 As a quasi-corporation is treated as a separate institutional unit from its owner, it must have its own value added, saving, assets, liabilities, etc. It must be possible to identify and record any flows of income and capital that are deemed to take place between the quasi-corporation and its owner. The amount of income withdrawn from a quasi-corporation during a given accounting period is decided by the owner, such a withdrawal being equivalent to the payment of a dividend by a corporation to its shareholder(s). Given the amount of the income withdrawn, the saving of the quasi-corporation (that is, the amount of earnings retained within the quasi-corporation) is determined. A balance sheet is also needed for the quasi-corporation showing the values of its non-financial assets used in production and also the financial assets and liabilities owned or incurred in the name of the enterprise.

5.55 Experience has shown that countries have difficulty treating unincorporated enterprises owned by households as quasi-corporations. However, it is not useful to introduce additional criteria, such as size, into the definition of quasi-corporations owned by households. If an enterprise is not in fact operated like a corporation and does not have a complete set of accounts of its own, it cannot and should not be treated as a quasi-corporation however large it may be.

5.56 A quasi-corporation is also identified when preliminary expenses, including for mining rights, license fees, site preparation, building permits, purchase taxes, local office expenses, and lawyers' fees, are incurred by a non-resident unit, prior to establishing a legal entity. As a result of identifying a quasi-corporation in those cases, the preparatory expenses are recorded in the economy of the future operations as being resident-to-resident transactions that are funded by a (foreign) direct investment inflow. Because of the limited scale of these activities, assembly of acceptable data for these enterprises is often feasible, despite the lack of incorporation. If the project does not subsequently go into operation, the value of the direct investment is eliminated by an entry for other changes in the volume of assets or liabilities.

Commented [ED10]: This is from paragraph 4.47, BPM6

## Institutional units with cross-border elements

### *Branches*

5.57 When a non-resident unit has substantial operations over a significant period in an economic territory, but no separate legal entity, a branch may be identified as an institutional unit. This unit is identified for statistical purposes because the operations have a strong connection to the location of operations in all ways other than incorporation.



5.58 An unincorporated enterprise abroad should be treated as a quasi-corporation when indications of substantial operations can be identified separately from the rest of the entity. As with other quasi-corporations, either a complete set of accounts, including a balance sheet of assets and liabilities, for the unit exists or it would be meaningful from an economic point of view to compile them. The availability of separate records indicates that an actual unit exists and makes it practical to prepare statistics. In addition, all or most of the following factors tend to be present for a branch to be recognized:

- a. Production based in the territory is undertaken or intended for one year or more in a territory other than that of its head office:
  - If the production process involves physical presence, then the operations should be physically located in that territory. Some indicators of an intention to locate in the territory include purchasing or renting business premises, acquiring capital equipment, and recruiting local staff.
  - If the production does not involve physical presence, such as activities related to the ownership of patents, “virtual manufacturing”, some cases of banking, insurance, or other financial services, the operations should be recognized as being in the territory by virtue of the registration or legal domicile of those operations in that territory.
- b. The operations are recognized as being subject to the income tax system, if any, of the economy in which it is located even if it may have a tax-exempt status.

5.59 The identification of branches has implications for the statistical reporting of both the parent and branch. The operations of the branch should be excluded from the institutional unit of its head office in its home territory and the delineation of parent and branch should be made consistently in both of the affected economies. Each branch, as described in the above paragraphs, is a (foreign) direct investment enterprise. Branches most commonly arise for financial and non-financial corporations, but it is also possible that households, non-profit institutions serving households (NPISHs), or governments (when government operations do not have diplomatic immunity) have branches.

Commented [ED11]: This is paragraph 4.28, BPM6

#### *Construction projects*

5.60 Some construction projects undertaken by a non-resident contractor may give rise to a branch, (known as direct investment enterprise in external accounts). Construction may be carried out or managed by a non-resident enterprise, without the creation of a local legal entity:

Commented [ED12]: Based on paragraph 4.29, BPM6

- a. For major projects (such as bridges, dams, power stations) that take a year or more to complete and that are managed through a local site office, the operations would usually satisfy the criteria for identification of a branch in paragraphs 5.57 – 5.58, and so would not be classified as international trade in services;
- b. In other cases, the construction operations may not satisfy the conditions for recognition as a branch, for example, for a short-term project or one undertaken from the home territory rather than from a local office. In those cases, the work provided to customers resident in the territory of those operations is classified as international trade in construction and included in services (i.e., an export of services by the home base and an import of services by the territory of operations).

#### *Production delivered from a base*

5.61 Activities such as consulting, maintenance, training, technical assistance, and health care may be provided by a branch or from a home base. If operations are substantial enough to satisfy the criteria given in paragraphs 5.57 – 5.58, a branch would be recognized as a (foreign) direct investment enterprise. On the other hand, if a branch is not recognized in the territory, the operations will give rise to international trade in services. The residence of units providing services in this way is discussed in paragraph 5.273.

Commented [ED13]: Based on paragraphs 4.30-33, BPM6

5.62 Mobile equipment, such as ships, aircraft, drilling platforms, and railway rolling stock, may operate across more than one economic territory. The criteria for recognition of a branch also apply in these cases. That is,

if the operations in a territory outside the home base are substantial enough, they meet the definition of a branch. For example, a secondary base for servicing the fleet with long-term presence and its own accounts may satisfy the definition of a branch. If they do not satisfy the definition of a branch, the activities of the ship-operating enterprise are included in the economy where the operator is resident.

- 5.63 Similarly to mobile equipment, a multiterritory pipeline that passes through a territory, but is not operated by a separate legal entity in that territory, would be recognized as constituting a branch if there is a substantial presence, availability of separate accounts, and so on. In cases in which such operations are not separate institutional units (a) there may be payment of rent to a notional unit owning the land or a long-term lease of land, of the kind discussed in paragraphs 5.65 – 5.66; or (b) there may be a multiterritory enterprise of the type discussed in paragraphs 5.72 – 5.75.
- 5.64 When a branch is identified, there are (foreign) direct investment inflows to the territory, but the provision of goods or services to customers in that territory is a resident-to-resident transaction. In contrast, if the operations are not substantial enough to qualify as a branch, the provision of goods or services to customers in that territory are imports of that territory.

*Notional resident units for land and other natural resources, and buildings and structures owned by non-residents*

- 5.65 Immovable assets such as land and other natural resources, and buildings and structures are treated as being owned by resident units except in one particular circumstance. If the legal owner is actually non-resident, an artificial unit, called a notional resident unit, is created for statistical purposes. The notional resident unit is recorded as owning the asset and receiving the rent or rentals that accrue to the asset. The legal owner owns the equity in the notional resident unit and then receives income from the notional resident unit in the form of property income paid abroad. This treatment is designed so that the relevant non-financial assets are always assets of the economy in whose territory they are located. Otherwise, the land would appear in another economy's national balance sheet. The only exception is made for land and buildings in extraterritorial enclaves of foreign governments (such as embassies, consulates and military bases) that are subject to the laws of the home territory and not those of the territory where they are physically situated. On the other hand, if an embassy is renting a building from a resident of the economy where it is physically located, a notional unit resident in the economic territory of the embassy is created for statistical purposes (see paragraph 5.14 for the treatment of territorial enclaves).
- 5.66 A non-resident with a resource lease is classified as incurring rent and no notional unit is automatically created. However, it is usually the case that ownership of land and other natural resources such as subsoil assets, non-cultivated biological resources, water, and rights to use these assets through a lease or other permit over long periods are associated with a branch. In addition, preliminary expenses for an entity to be incorporated in the future are to be regarded as a notional (foreign) direct investment enterprise.
- 5.67 The operations of notional resident units include holding the asset, paying any associated expenses (such as insurance, repairs, and taxes), collecting rent or rental on the asset, and any other transactions associated with those functions. If the non-resident owner uses the property, the notional resident unit generates rent (in the case of unimproved land, mineral rights, and so on, see paragraph 11.85) or rental included in travel or operating leasing services (for land with buildings or other improvements, see paragraphs 10.99, 10.100, and 10.157) in kind to its owner. The corresponding entry to the rent or rental would be income payable in kind to the owner by the notional resident unit. The notional resident unit should also be treated as incurring expenses and taxes; payments by the non-resident owner to meet a loss arising from these costs therefore would be recorded as direct investment flows from the owner to the notional resident unit. Other transactions of the owner would not be attributed to the notional resident unit, for example, any borrowing or debt service. As a result of the limited nature of notional resident units, making acceptable estimates for their operations is generally feasible when they are significant.
- 5.68 When the ownership of land and other natural resources is associated with substantial operations, so that the requirements in paragraphs 5.57 – 5.58 are met, a branch is identified. In such cases, a notional resident unit is not identified because the branch already exists as a resident owner.
- 5.69 The notional resident unit that owns land or other natural resources may be contrasted with a branch, which

Commented [ED14]: Paragraphs 5.66-5.71 are based on paragraphs 4.35-4.40, BPM6

has a full set of accounts. An example is a non-resident fishing operator having a 10-year fishing license for the waters of a territory. If the operator has a base in the territory, keeps separate records, and so on, then a branch is identified, and its accounts will show sales of fish and other transactions. Another example could be a commercial farm owned by a non-resident entity. In contrast, the only activity of a notional unit will be the supply of rent or rental services arising from the ownership of property.

- 5.70 When several partners own land, there may be a quasi-corporation, by virtue of the management of the land being separate from that of its individual owners. In that case, for statistical purposes, the non-resident partners would own a share in the quasi-corporation, so there would be no need to identify an additional notional resident unit. The notional resident unit for ownership of land is almost always a (foreign) direct investment enterprise (the exception being for land where an individual non-resident's voting power is below 10 percent which is included under other investment/other equity in balance of payments—see paragraph 6.xx, *BPM7*).
- 5.71 Some kinds of time-share accommodation arrangements may also give rise to a notional resident unit. For example, the acquisition of deeded ownership, or a similar arrangement, is equivalent to the establishment of a notional resident unit. (See paragraph 11.xx and Table 11.3 for a discussion of alternative time-share arrangements).

**Commented [ED15]:** This sentence will not be included in the 2025 SNA.

### Multiterritory enterprises

**Commented [ED16]:** Based on paragraphs 4.41-4.44, BPM6

- 5.72 Some enterprises may operate as a seamless operation over more than one economic territory. Although the enterprise has substantial activity in more than one economic territory, it is run as an indivisible operation with no separate accounts or decisions, so that no separate branches can be identified. Such enterprises may have operations including shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables. Some NPISHs also may operate in this way.
- 5.73 Governments usually require separate entities or branches to be identified in each economic territory for more convenient regulation and taxation. Multiterritory enterprises may be exempted from such requirements, but there may be arrangements, such as a formula for payment of taxation to the respective authorities.
- 5.74 In the case of a multiterritory enterprise, it is preferable that separate institutional units be identified for each economy. If that is not feasible because the operation is so seamless that separate accounts cannot be developed, it is necessary to prorate the total operations of the enterprise into the individual economic territories. The factor used for prorating should be based on available information that reflects the contributions to actual operations. For example, equity shares, equal splits, or splits based on operational factors such as tonnages or wages could be considered. Where taxation authorities have accepted the multiterritory arrangements, a prorating formula may have been determined, which should be the starting point for statistical purposes. Although the situation is somewhat different from the case of joint administration or sovereignty zones, the solution of prorating may be the same.
- 5.75 The proration of the enterprise means that all transactions need to be split into each component economic territory. The treatment may be quite complex to implement. This treatment has implications for other statistics and its implementation should always be coordinated for consistency. Compilers in each of the territories involved are encouraged to cooperate to develop consistent data, avoid gaps, and minimize respondent and compilation burden, as well as assist counterparties to report bilateral data on a consistent basis.

## 2. Special cases

### Groups of corporations

- 5.76 Large groups of corporations, or conglomerates, may be created whereby a parent corporation controls several subsidiaries, some of which may control subsidiaries of their own, and so on. For certain purposes, it may be desirable to have information relating to a group of corporations as a whole. However, each individual

corporation should be treated as a separate institutional unit, whether or not it forms part of a group. Even subsidiaries that are wholly owned by other corporations are separate legal entities that are required by law and the tax authorities to produce complete sets of accounts, including balance sheets. Although the management of a subsidiary corporation may be subject to the control of another corporation, it remains responsible and accountable for the conduct of its own production activities.

- 5.77 Another reason for not treating groups of corporations as single institutional units is that groups are not always well defined, stable or easily identified in practice. It may be difficult to obtain data for groups whose activities are not closely integrated. Moreover, many conglomerates are much too large and heterogeneous for them to be treated as single units, and their size and composition may be continually shifting over time as a result of mergers and takeovers.

### Joint Ventures

- 5.78 A joint venture involves the establishment of a corporation, partnership or other institutional unit in which each party legally has 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. Joint ventures are typically established for the purpose of executing a business undertaking in which the parties agree to share in the profits and losses of the enterprise as well as the capital formation and contribution of operating inputs or costs. Generally, there is no intention of a continuing relationship beyond the original purpose.

- 5.79 Whether a quasi-corporation is identified for the joint venture without a separate legal status depends on the arrangements of the parties and legal requirements. The joint venture is a quasi-corporation if it meets the requirements for an institutional unit, particularly by having its own records. Otherwise, if each of the operations are effectively undertaken by the partners individually, then the joint venture is not an institutional unit and the operations would be seen as being undertaken by the joint venture partners separately. If foreign investment is involved in such cases, there would usually be direct investment enterprises that undertake the joint venture operations of each of the partners.

- 5.80 Because of the ambiguous status of joint ventures, there is a risk that they could be omitted or double-counted, so particular attention needs to be paid to them.

Commented [ED17]: Based on paragraphs 4.45-4.46, BPM6

Commented [ED18]: This paragraph will not be included in the 2025 SNA.

### Head offices and holding companies

- 5.81 Two quite different types of units exist that are both often referred to as holding companies. The first is the head office that exercises some aspects of managerial control over its subsidiaries. These may sometimes have noticeably fewer employees, and more at a senior level, than its subsidiaries but it is actively engaged in production. These types of activities are described in ISIC Rev. 4 in section M class 7010 as follows:

*This class includes the overseeing and managing of other units of the company or enterprise; undertaking the strategic or organizational planning and decision making role of the company or enterprise; exercising operational control and manage the day-to-day operations of their related units.*

Such units are allocated to the non-financial corporations sector unless all or most of their subsidiaries are financial corporations, in which case they are treated by convention as financial auxiliaries in the financial corporations sector.

- 5.82 The type of unit properly called a holding company is a unit that holds the assets of subsidiary corporations but does not undertake any management activities. They are described in ISIC Rev. 4 in section K class 6420 as follows:

*This class includes the activities of holding companies, i.e. units that hold the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is owning the group. The holding companies in this class do not provide any other service to the enterprises in which the equity is held, i.e. they do not administer or manage other units.*

Such units are always allocated to the financial corporations sector and treated as captive financial institutions even if all the subsidiary corporations are non-financial corporations.

5.83 To distinguish head offices and holding companies from other institutional units, information on the structure of the balance sheets could be used practically to identify head offices and holding companies as entities having at least 50 per cent of their assets consisting of equity vis-à-vis their subsidiaries.

5.84 A strict definition of holding companies (in the sense that holding companies do not provide any management services) should be used when classifying institutional units as holding companies. For units where information on variables like management control is not available, or only available at great cost in practice, it is recommended to base the distinction between head offices and holding companies on an employment criterion, as follows:

- Head offices are actively engaged in production, although they may have noticeably fewer employees, and more at a senior level, than its subsidiaries. However, having zero employment is a clear indication that a unit is not a head office.
- On the other hand, holding companies simply holding assets may do this with very few or without any employed personnel.
- Employment thresholds for the delineation between head offices and holding companies should be determined taking into account national circumstances. In particular, national legislative requirements for the number of employees of holding companies should be taken into account. As a general indication, employment of three or more persons, or employment exceeding the national legal minimum employment, is a first indicator for a unit being a head office.

5.85 To determine the institutional independence of head offices and holding companies, the following principles apply:

- The standard criteria for an institutional unit should always be applied – thus also for head offices and holding companies.
- Head offices are always to be considered as separate institutional units.
- Holding companies owned by non-residents are always to be considered institutional units.
- Holding companies that have multiple parents or shareholders is a sufficient qualification for a unit being an institutional unit.
- For holding companies wholly owned by a single resident unit, “no employees and no remuneration of employees” is not a sufficient criterion to conclude that there is a lack of institutional independence; however, it can be used as an indicator to consider units for further investigation to consider their lack of independence.

### Other special cases

#### *Special purpose entities*

5.86 A number of institutional units may be described as special purpose entities (SPEs). In macroeconomic statistics, the term SPEs is used exclusively for institutional units which align to the following definition:

- a. An SPE, resident in an economy, is a formally registered and/or incorporated legal entity recognized as an institutional unit, with no or little employment up to maximum of five employees, no or little physical presence, and no or little physical production in the host economy.
- b. SPEs are directly or indirectly controlled by non-residents.

**Commented [ED19]:** These paragraphs will probably not be included in BPM7, but reference to these paragraphs from SNA chapter will be added in BPM on the following lines.

"For additional details on head offices and holding companies, refer to paragraphs xx, 2025 SNA"

- c. SPEs are established to obtain specific advantages provided by the host jurisdiction with an objective to (i) grant its owner(s) access to capital markets or sophisticated financial services; and/or (ii) isolate owner(s) from financial risks; and/or (iii) reduce regulatory and tax burden; and/or (iv) safeguard confidentiality of their transactions and owner(s).
- d. SPEs transact almost entirely with non-residents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities.

5.87 Some institutional units incorporated in the same economic territory as their parents may satisfy all the above criteria, with the exception that they are not directly or indirectly controlled by non-resident parents. Such “special purpose units” or “special purpose vehicles” are sometimes referred to as special purpose entities as well. These units are typically consolidated with their resident parents, because they lack autonomy of decision. In the case that they operate autonomously and can be considered as separate institutional units (e.g., some securitization vehicles), they should not be consolidated with their resident parents. However, these latter units are not considered as part of SPEs. The term special purpose units/vehicles is used to denote all such units, those owned by non-resident parents as well as those owned by resident parents.

5.88 For countries where the presence of SPEs is significant, a separate identification of SPEs, as an of which item, is recommended as supplementary information.

5.89 In external sector statistics, the identification of SPEs as supplementary (“of which”) items for deposit-taking corporations, other financial corporations, and nonfinancial corporations sectors is strongly recommended in countries where the economic activity of such units is significant.

5.90 Whether a unit has all or none of the characteristics described in paragraph 5.86 (a-d), and whether it is described as an SPE or some similar designation or not, it is treated in macroeconomic statistics in the same way as any other institutional unit by being allocated to sector and industry according to its principal activity unless it falls into one of the three following categories:

- a. Captive financial institutions,
- b. Artificial subsidiaries of corporations,
- c. Special purpose units of general government.

Each of these is described below. A list of the most common types of SPEs, including their (sub)sector classification, is presented in table x.x in chapter 23 SNA/chapter 15 BPM.

#### *Captive financial institutions*

5.91 A holding company that simply owns the assets of subsidiaries is one example of a captive financial institution. Other units that are also treated as captive financial institutions are units with the characteristics of SPEs as described above (not necessarily controlled by a non-resident parent), including some units used for holding and managing wealth for individuals or families, holding assets for securitization, raising or borrowing funds on behalf of related companies (such a company may be called a conduit), intra group lending companies, captive factoring and invoicing companies, captive financial leasing companies, etc..

5.92 The degree of independence from its parent may be demonstrated by exercising some substantive control over its assets and liabilities to the extent of carrying the risks and reaping the rewards associated with the assets and liabilities. Such units are classified in the financial corporations sector.

5.93 An entity of this type that cannot act independently of its parent and is simply a passive holder of assets and liabilities (sometimes described as being on auto-pilot) is not treated as a separate institutional unit unless it is resident in an economy different from that of its parent. If it is resident in the same economy as its parent, it is treated as an “artificial subsidiary” as described immediately below.

5.94 More guidance on the treatment of trusts and similar types of funds which hold and manage financial and non-financial assets on behalf of individuals or families is provided in paragraphs 5.103 – 5.111.

Commented [ED20]: This paragraph will probably not be included in the 2025 SNA.

### *Artificial subsidiaries of corporations*

- 5.95 Within macroeconomic statistics, the term corporation is used to denote both those institutions legally recognized as corporations and other units treated in macroeconomic statistics as corporations, specifically quasi-corporations, branches and notional units. For the following four paragraphs, however, the term corporation is used in the sense of a corporation as a legal entity.
- 5.96 A subsidiary corporation, wholly owned by a parent corporation, may be created to provide services to the parent corporation, or other corporations in the same group, in order to avoid taxes, to minimize liabilities in the event of bankruptcy, or to secure other technical advantages under the tax or corporation legislation in force in a particular country. For example, the parent may create a subsidiary to which ownership of its land, buildings or equipment is transferred and whose sole function is to lease them back again to the parent corporation; the subsidiary may be the nominal employer of all the staff who are then contracted to other corporations in the group, the subsidiary may keep the accounts and records of the parent on a separate computer installation; the role of the subsidiary may be established to take advantage of favourable funding or regulatory treatments and so on. In some cases, corporations may create “dormant” subsidiaries that are not actually engaged in any production but which may be activated at the convenience of the parent corporation.
- 5.97 In general, these sorts of corporations do not satisfy the definition of an institutional unit because they lack the ability to act independently from their parent corporation and may be subject to restrictions on their ability to hold or transact assets held on their balance sheets. Their level of output and the price they receive for it are determined by the parent that (possibly with other corporations in the same group) is their sole client. They are thus not treated as separate institutional units but are treated as an integral part of the parent and their accounts are consolidated with those of the parent. As noted above, the accounts for those entities on auto-pilot are also consolidated with their parent corporation unless they are resident in an economy different from that where the parent is resident.
- 5.98 Quasi-corporations such as a partnership or trust may also be set up by a parent corporation for similar reasons to the subsidiary corporations just described. Within the SNA, these are also treated as an integral part of the parent and their accounts are consolidated with the parent, unless they are resident in another country.
- 5.99 A distinction must be made between artificial subsidiaries as just described and a unit undertaking only ancillary activities. As described in more detail in section D of chapter 6, ancillary activities are limited in scope to the type of service functions that virtually all enterprises need to some extent or another such as cleaning premises, running the staff payroll or providing the information technology infrastructure for the enterprise. Units undertaking only ancillary activities will in general not satisfy the conditions of being an institutional unit (for the same sort of reason as artificial subsidiaries do not) but they may sometimes be treated as a separate establishment of the enterprise if this is analytically useful.

### *Special purpose units of general government*

- 5.100 Governments may set up special purpose units, such as special purpose vehicles (SPVs) for financial convenience (special purpose units/vehicles are discussed in paragraph 5.87). For example, the special purpose unit may be involved in fiscal or quasi-fiscal activities (including securitization of assets, borrowing, etc.). Resident special purpose units that function only in a passive manner relative to general government and that carry out fiscal and quasi-fiscal activities do not satisfy the criteria to be institutional units and are therefore not treated as separate institutional units in macroeconomic statistics; they are treated as part of general government regardless of their legal status. Resident special purpose units acting independently, acquiring assets and incurring liabilities on their own behalf, accepting the associated risk, are treated as separate institutional units and are classified to a sector according to their principal activity.
- 5.101 Special purpose units that are resident in a different country (called SPEs following [paragraph 5.86](#)) than their controlling government are always classified as separate institutional units in the economy where they are established. When such entities exist, care must be taken to reflect the fiscal activities of government accurately. All flows and stock positions between the general government unit and the SPEs should be

recorded in the accounts for general government and the rest of the world when they occur.

- 5.102 A government may create a SPE to undertake government borrowing, or incur government outlays, or collect revenue abroad for fiscal policy purposes. Even if there are no actual economic flows recorded between the government and the SPE related to these fiscal activities, flows and stock positions should be imputed in the accounts of both the government and the rest of the world to reflect the fiscal activities of the government undertaken by the SPE. (More detailed guidance is provided in chapter 30/BPM7 chapter 8.)

### Trusts and similar types of funds

- 5.103 Trusts are arrangements whereby an economic agent (a trustee) holds property (but not economic ownership) as its nominal owner for the good of one or more beneficiaries. Their job is to hold, manage and administer the funds in the trust on behalf of the settlor (the creator of the trust). Their fiduciary duty as a trustee requires them to act in the best interest of the beneficiaries of the trust. The duties of a trustee are laid out upon the creation of the trust, and while they may differ depending on the situation, some tasks are common. The trustee oversees the distribution of the trust's funds to the beneficiaries. While the assets remain a part of the trust, the trustee is responsible for any investments that are made, ensuring any assets included in the trust, taking care of the administration, and overseeing the payment of taxes.
- 5.104 Several kinds of trustees, and accordingly trusts, can be distinguished:
- Charitable trustees manage funds left in a charitable trust and follow the instructions left by the creator of the trust;
  - Investment trustees manage the day-to-day operations of an investment account, helping it to grow over time;
  - Successor trustees are people who step in to manage a trust when the person who created the trust is unable to do so (through death or incapacitation);
  - Corporate trustees work with large firms that manage trusts for clients that pay them (other types of trustees are not always paid for their services like corporate trustees are); and
  - Bankruptcy trustees step in when a person or business declares bankruptcy and their assets need to be administered.
- 5.105 Looking more specifically at these trusts set up by households, the trustee is not the economic owner of the assets. The trustee may be the legal owner of the assets, but the accumulated assets in the trust constitute a separate fund and are not a part of the trustee's own assets, indicating that economic ownership is different from nominal/legal ownership. The main responsibilities of the trustee are to manage and administer the assets of the trust for the benefit of the beneficiaries. As such, they are typically not exposed to the risks and the rewards of the accumulated assets. On the other hand, the trust itself does not constitute a legal unit per se, although it is often considered as a separate unit.
- 5.106 The standard criteria for an institutional unit should be applied for treating a trust, or a similar type of fund, which is resident in the same economy as its beneficiaries. However, in cases where the family trust, or a similar type of fund, is resident in another economy than its beneficiaries, it would always be treated as a separate institutional unit. However, in practice, it may not be that easy and straightforward to apply the standard criteria to trusts which are resident in the same economy as their beneficiaries. Especially in relation to the concept of autonomy of decision, one may need to look for more pragmatic criteria to approximate this concept. One of these criteria is the allocation of risks and rewards. In the case the risks and rewards are run, for example, by the trustee, or fund manager, one may assume that the trust does not have any autonomy of decision and that the fund manager is actually a financial intermediary. If the risks and rewards are instead allocated to the beneficiary/investor or beneficiaries/investors, one may also assume that the trust or fund does not have any autonomy of decision in the case of a single beneficiary who takes all the risks and rewards of the investment strategy. On the other hand, in the case of a trust or fund with multiple beneficiaries, the decision making process will be more complex. Decisions may be made by the trustee, as an auxiliary service to the ultimate beneficiaries/investors.

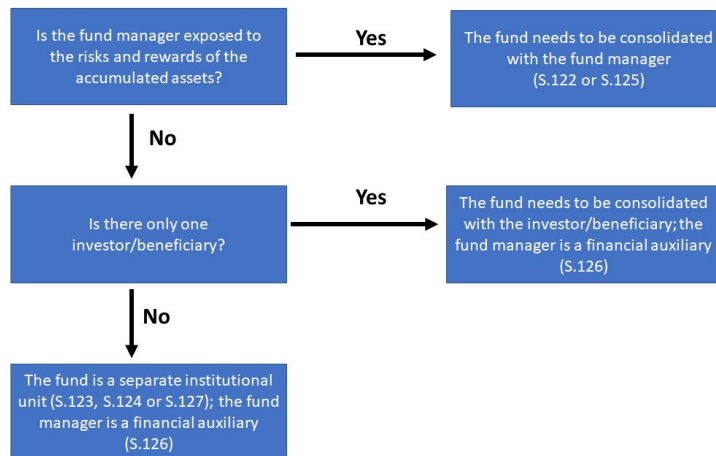


5.107 All in all, trusts and similar types of funds, should only be treated as separate institutional unit in the case that the trustee, or fund manager, is not exposed to the risks and the rewards, and instead the risks and rewards are assumed by multiple beneficiaries/investors. In the case of a single beneficiary/investor assuming the risks and rewards, the accumulated assets should be assigned to the sector of the beneficiary/investor. Trusts, or similar types of funds, with multiple beneficiaries/investors would generally be classified as S.127 Captive financial institutions and moneylenders, if the beneficiaries/investors are restricted to a particular group of entities, and not open to the public at large. If they would be open to other beneficiaries/investors as well, the trust, or fund, can be considered as part of S.123 Money market funds or S.124 Non-MMF investment funds. Non-resident trusts, or funds, with single beneficiaries/investors would always qualify as captive financial institutions (S.127). A decision tree for the treatment of trusts and similar types of funds is presented in figure 5.2 (2025 SNA).

**Commented [ED21]:** These paragraphs will probably not be included in BPM7, but reference to these paragraphs from SNA chapter will be added in BPM on the following lines.

"For additional details on trusts including the decision tree for the treatment of trusts and similar types of funds, refer to paragraphs xx, 2025 SNA"

**Figure 5.2 (2025 SNA): Illustrative allocation of trusts and similar types of funds (= Figure in paragraph 20 of the issue note on action point A.6 on the treatment of trusts and other funds as separate institutional units)**



- 5.108 Government and public sector units may also create trusts. In such cases, government or public sector units may designate trustees which can be part, or not, of the public sector. Additionally, depending on the country legal framework, the trust might be created with a private nature, even when the risks and rewards remain with a government or public sector unit, then the trust should be classified within the public sector regardless of its legal form. Care should therefore be taken to analyse whether the government, directly or indirectly, is exposed to the risks and is the beneficiary of the rewards. This should be analysed with care, on a case-by-case basis. In addition to the above decision tree in Figure 5.2, if the fund manager is not exposed to the risks and rewards of the accumulated assets of the fund and the investors/beneficiaries are all public sector entities then it may be most appropriate to consider government as the ultimate investor/beneficiary and consolidate the fund within the government sector rather than treat it as a public financial corporation for trusts and similar type of funds for the institutional unit test, the market/non-market test may need to be applied to determine the sector classification.
- 5.109 The term trust is also often used to designate other kinds of corporate arrangements that are established following similar legal provisions. For example, family trusts are established to own corporations or to undertake business activities such as farms. Such trusts may qualify as a quasi-corporation, to be classified as a holding company in sub-sector S.127 Captive financial institutions and money lenders, or as part of the non-financial corporations sector. Regarding the question whether or not they constitute separate institutional units, the same criteria as the ones for establishing a quasi-corporation in the case of large unincorporated family enterprises can be applied, i.e., the availability of sufficient information to compile a complete set of accounts, and the point that it is operated as if it were a separate corporation, whose de facto relationship to its owner is that of a corporation to its shareholders; see paragraph 5.51.
- 5.110 The term trust is also used in the context of unit trusts or investment trusts. In this context, it refers to a type of investment fund where a trust structure is being used. The treatment of these trusts is similar to other types of investment funds.
- 5.111 Finally, pension schemes may be set up as collective trusts. An example relates to funded employee pension schemes. The treatment of these trust-type arrangements is similar to those of other pension schemes. (More guidance on the treatment of pension schemes is provided in chapter 24.)

**Commented [ED22]:** These paragraphs may not be included in BPM7

### 3. Ownership and control of corporations

- 5.112 Control and ownership are different concepts. The ownership of a listed corporation is diffused among the institutional units that own its shares in proportion to the shareholdings. It is possible for one single institutional unit, whether another corporation, a household or a government unit, to own all the equity or shares in a corporation but, in general, ownership of a listed corporation is diffused among several, possibly very many, institutional units. By contrast, 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.
- 5.113 A single institutional unit owning more than a half of the shares, or equity, of a corporation is able to control its policy and operations by outvoting all other shareholders, if necessary. Similarly, a small, organized group of shareholders whose combined ownership of shares exceeds 50 per cent of the total is able to control the corporation by acting in concert. There may be exceptional cases in which certain shareholders enjoy privileged voting rights, such as a “golden share” giving a right of veto, but in general an individual institutional unit or group of units owning more than half the voting shares of a corporation can exercise complete control by appointing directors of its own choice. The degree of autonomy exercised by the directors and managers of a corporation is, therefore, likely to vary considerably, depending upon the extent to which the ownership of its shares is concentrated in the hands of a small number of other institutional units, whether these are other corporations, households or government units. In general, institutional units do not have to be autonomous but they do have to be responsible, and accountable, for the decisions and actions they take.
- 5.114 Because many shareholders do not exercise their voting rights, a single shareholder, or small number of shareholders acting together, may be able to secure control over a corporation, even though they may hold considerably less than half of the total shares. When ownership of shares is widely diffused among a large number of shareholders, control may be secured by owning considerably less than half of the total shares.
- 5.115 However, it is not possible to stipulate a minimum shareholding below 50 per cent that will guarantee control in all cases. The minimum must vary depending upon the total number of shareholders, the distribution of shares among them, and the extent to which small shareholders take an active interest, etc. Therefore, in practice, private control (i.e., control by institutional units other than government units and public sector units) ~~control~~ is determined to exist if an investor owns more than 50 percent of the voting power (i.e., more than half of equity) in a corporation. The control may be direct (through ownership of 50 percent or more voting power) or indirect (through ownership of corporations that in turn have control, since control can be passed down a chain of ownership as long as control exists at each stage of the chain voting power). In the case of governments controlling corporations, a broader set of indicators for control may need to be taken into consideration; see paragraphs 5.121 – 5.124 below.

#### Subsidiary and associate corporations

- 5.116 It is common for corporations to own shares in other corporations, and certain interrelationships between corporations need to be specified for purposes of the SNA/BPM.

#### *Subsidiary corporations*

- 5.117 Corporation B is said to be a subsidiary of corporation A when corporation A controls more than half of the shareholders’ voting power (i.e., more than half of equity) in corporation B.
- 5.118 Corporation A may be described as the parent corporation in this situation. As the relationship of a parent corporation to a subsidiary is defined in terms of control rather than ownership, the relationship must be transitive: that is, if C is a subsidiary of B and B is a subsidiary of A, then C must also be a subsidiary of A. If A has a majority shareholding in B while B has a majority shareholding in C, A cannot also have a majority shareholding in C. Nevertheless, A must be able to control C if it controls B. By analogy with families of

natural persons, corporation B can be described as a first generation subsidiary of corporation A, and corporation C as a second generation subsidiary of A. Evidently, large families of corporations may be built up with any number of subsidiaries at each level or generation and also any number of generations. Very large families of corporations, described as conglomerates, are encountered in some countries. Conglomerates that include corporations resident in different countries are usually described as multinational enterprise groups.

#### *Associate corporations*

- 5.119 Corporation B is said to be an associate of corporation A when corporation A and its subsidiaries control between 10 per cent and 50 per cent of the shareholders' voting power in B so that A has some influence over the corporate policy and management of B.
- 5.120 By definition, a corporation is able to exert less influence over an associate corporation than over a subsidiary. Although some corporations may be able to exert considerable influence over their associates, this cannot be guaranteed. The relationship between associates is weaker than that between parent and subsidiary corporations, and groups of associates may not be well defined.

#### **Government control of corporations**

- 5.121 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.
- 5.122 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.
- 5.123 The ability to determine general corporate policy does not necessarily include 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. Nor does the ability to determine the general corporate policy of a corporation include the direct control over any professional, technical or scientific judgments, as these would normally be viewed as part of the core competence 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 controlled in respect of individual approvals and disapprovals, 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.
- 5.124 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:
- a. *Ownership of the majority of the voting interest.* Owning a majority of shares will normally constitute control when decisions are made on a one-share one-vote basis. 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 voice.
  - b. *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, the body would then be part of the public sector until the initial appointments had expired.

- c. *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.
- d. *Control of key committees of the entity.* Subcommittees of the board or other governing body could determine the key operating and financial policies of the entity. Majority public sector membership on these subcommittees could constitute control. Such membership can be established under the constitution or other enabling instrument of the corporation.
- e. *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 selling off 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, then the entity should be in the public sector from the date of existence of such circumstances. The existence of a share purchase option available to a government unit or a public corporation in certain circumstances may also be similar in concept to the golden share arrangement discussed above. It is necessary to consider whether, if the circumstance in which the option may be exercised exists, the volume of shares that may be purchased under the option and the consequences of such exercise means that the government has “the ability to determine the general corporate policy of the entity” by exercising that 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.
- f. *Regulation and control.* The borderline between regulation that applies to all entities within 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 continue to operate in a highly regulated environment suggests that the entity is not subject to control. 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 as to whether it will take funding from, interact commercially with, or otherwise deal with a public sector entity, the entity has the ultimate ability to determine its own corporate policy and is not controlled by the public sector entity.
- g. *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 so that 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.
- h. *Control attached to borrowing from the government.* Lenders often impose controls as conditions of making loans. If the government imposed 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.

5.125 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 but clearly similar judgements must be made in similar cases.

### Control by a non-resident unit

- 5.126 In general, control is determined to exist through (i) an immediate (foreign) direct investment relationship where the direct investor owns more than 50 per cent of the voting power in the (foreign) direct investment corporation; or (ii) an indirect (foreign) direct investment relationship arising from the ownership of voting power in one direct investment corporation that owns voting power in another corporation(s) – indirectly through a chain of control.
- 5.127 It is important to distinguish between control and influence. In this respect, a distinction is made between corporations where over 50 per cent of the equity is held by ~~non-residents~~ a direct investor (and thus controlled) versus those corporations where between 10 and 50 per cent of the equity is held abroad (i.e., significant degree of influence). All corporations with foreign holdings of 10 per cent or more are described as foreign direct investment enterprises and special treatment of their earnings is applied. Further details on this are given in chapters 8 and 33, 2025 SNA/chapter 12, BPM7. It is important to note, however, that while all foreign controlled corporations are foreign direct investment enterprises, the reverse is not true, for example even a publicly controlled corporation may be a foreign direct investment enterprise if, in addition to government controlling half of the equity, a further 10 per cent is owned by a non-resident.

## C. Non-profit institutions in macroeconomic statistics

- 5.128 *Non-profit institutions are legal or social entities, created for the purpose of producing goods and services, whose status does not permit them to be a source of income, profit or other financial gain for the units that establish, control or finance them.* In practice, their productive activities are bound to generate either surpluses or deficits but any surpluses they happen to make cannot be appropriated by other institutional units. The articles of association by which they are established are drawn up in such a way that the institutional units that control or manage them are not entitled to a share in any profits or other income they receive. For this reason, they are frequently exempted from various kinds of taxes.
- 5.129 NPIs may be created by households, corporations, or government but the motives leading to their creation are varied. For example, NPIs may be created to provide services for the benefit of the households or corporations who control or finance them; or they may be created for charitable, philanthropic or welfare reasons to provide goods or services to other persons in need; or they may be intended to provide health or education services for a fee, but not for profit; or they may be intended to promote the interests of pressure groups in business or politics; etc.

### 1. The characteristics of NPIs

- 5.130 The main features of NPIs may be summarized as follows:
- Most NPIs are legal entities created by process of law whose existence is recognized independently of the ~~natural~~ persons, corporations or government units that establish, finance, control or manage them. The purpose of the NPI is usually stated in the articles of association or similar document drawn up at the time of its establishment. In some countries, especially developing countries, an NPI may be an informal entity whose existence is recognized by society but does not have any formal legal status; such NPIs may be created for the purpose of producing non-market goods or services for the benefit of individual households or groups of households.
  - Many NPIs are controlled by associations whose members have equal rights, including equal votes on all major decisions affecting the affairs of the NPI. Members enjoy limited liability with respect

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to the NPI's operations.

- c. There are no shareholders with a claim on the profits or equity of the NPI. The members are not entitled to a share in any profits, or surplus, generated by the productive activities of the NPI, such profits being retained within the NPI.
- d. The direction of an NPI is usually vested in a group of officers, executive committee or similar body elected by a simple majority vote of all the members. These officers are the counterpart of the board of directors of a corporation and are responsible for appointing any paid managers.
- e. The term "non-profit institution" derives from the fact that the members of the association controlling the NPI are not permitted to gain financially from its operations and cannot appropriate any surplus that it may make. It does not imply that an NPI cannot make an operating surplus on its production.

- 5.131 In some countries NPIs are subject to preferential tax treatment, possibly to exemption from income tax, but this is not necessarily so and is not a determining factor in the identification of an NPI.
- 5.132 As in the case of producer units owned by government units, it is important to distinguish between NPIs engaged in market and non-market production as this affects the sector of the economy to which an NPI is allocated. NPIs do not necessarily engage in non-market production.

## **2. NPIs engaged in market production**

- 5.133 Market producers are producers that sell most or all of their output at prices that are economically significant, that is, at prices that have a significant influence on the amounts the producers are willing to supply and on the amounts purchasers wish to buy. Schools, colleges, universities, clinics, hospitals, etc. constituted as NPIs are market producers when they charge fees that are based on their production costs and that are sufficiently high to have a significant influence on the demand for their services. Their production activities must generate an operating surplus or loss. Any surpluses they make must be retained within the institutions as their status prevents them from distributing them to others. On the other hand, because of their status as "non-profit institutions" they are also able to raise additional funds by appealing for donations from ~~natural~~ persons, corporations or government. In this way, they may be able to acquire assets that generate significant property income in addition to their revenues from fees, thereby enabling them to charge fees below average costs. However, they must continue to be treated as market producers so long as their fees are determined mainly by their costs of production and are high enough to have a significant impact on demand. Such NPIs are not charities, their real objective often being to provide educational, health or other services of a very high quality using their incomes from endowments merely to keep down somewhat the high fees they have to charge.

### **Market NPIs serving enterprises**

- 5.134 Some market NPIs restrict their activities to serving a particular subset of other market producers. Most market NPIs serving enterprises are created by associations of the enterprises whose interests they are designed to promote. They consist of chambers of commerce, agricultural, manufacturing or trade associations, employers' organizations, research or testing laboratories or other organizations or institutes that engage in activities that are of common interest or benefit to the group of enterprises that control and finance them. The NPIs often engage in publicity on behalf of the group, lobby politicians or provide advice or assistance to individual members in difficulty for one reason or another. The NPIs are usually financed by contributions or subscriptions from the group of enterprises concerned. The subscriptions are treated not as transfers but as payments for services rendered and these NPIs are, therefore, classified as market producers. However, as explained below, when chambers of commerce or similar organizations intended for the benefit of enterprises are controlled by government units, they are classified as non-market NPIs and allocated to the general government sector.

### 3. NPIs engaged in non-market production

- 5.135 The majority of NPIs in most countries are non-market rather than market producers. Non-market producers are producers that provide most of their output to others free or at prices that are not economically significant. Thus, NPIs engaged mainly in non-market production may be distinguished not only by the fact that they are incapable of providing financial gain to the units that control or manage them, but also by the fact that they must rely principally on funds other than receipts from sales to cover their costs of production or other activities. Their principal source of finance may be regular subscriptions paid by the members of the association that controls them or transfers or donations from third parties, including government or from property income.
- 5.136 NPIs engaged mainly in non-market production are divided into two groups: those NPIs controlled by government and those that are not. The former are included in the general government sector. The latter are described as “non-profit institutions serving households” (NPISHs) and constitute a separate sector in macroeconomic statistics.

#### Government control of non-profit institutions

- 5.137 Control of an NPI is defined as the ability to determine the general policy or programme of the NPI. 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 an NPI is controlled by the government, the following five indicators of control should be considered:
- a. *The appointment of officers.* The government may have the right to appoint the officers managing the NPI either under the NPI’s constitution, its articles of association or other enabling instrument.
  - b. *Other provisions of enabling instrument.* The enabling instrument may contain provisions other than the appointment of officers that effectively allow the government to determine significant aspects of the general policy or programme of the NPI. For example, the enabling instrument may specify or limit the functions, objectives and other operating aspects of the NPI, thus making the issue of managerial appointments less critical or even irrelevant. The enabling instrument may also give the government the right to remove key personnel or veto proposed appointments, require prior approval of budgets or financial arrangements by the government, or prevent the NPI from changing its constitution, dissolving itself, or terminating its relationship with government without government approval.
  - c. *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 programme. As long as the NPI is ultimately able to determine its policy or programme to a significant extent, such as by being able to renege on the contractual agreement and accept the consequences, by being able to change its constitution or dissolve itself without requiring government approval other than that required under the general regulations, then it would not be considered controlled by government.
  - d. *Degree of financing.* An NPI that is mainly financed by government may be controlled by that government. Generally, if the NPI remains able to determine its policy or programme to a significant extent along the lines mentioned in the previous indicator, then it would not be considered controlled by government.
  - e. *Risk exposure.* If a government openly allows itself to be exposed to all, or a large proportion of, the financial risks associated with an NPI’s activities, then the arrangement constitutes control. The criteria are the same as in the previous two indicators.
- 5.138 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.



### NPIs serving households (NPISHs)

- 5.139 *Non-profit institutions serving households (NPISHs) consist of non-market NPIs that are not controlled by government.* They provide goods and services to households free or at prices that are not economically significant. Most of these goods and services represent individual consumption but it is possible for NPISHs to provide collective services.

### D. The non-financial corporations sector and its subsectors

- 5.140 *Non-financial corporations are corporations whose principal activity is the production of market goods or non-financial services.* The non-financial corporations sector is composed of the following set of resident institutional units:

- a. All resident non-financial corporations (as understood in macroeconomic statistics and not just restricted to legally constituted corporations), regardless of the residence of their shareholders;
- b. The branches of non-resident enterprises that are engaged in non-financial production on the economic territory on a long-term basis;
- c. All resident NPIs that are market producers of goods or non-financial services.

- 5.141 *Sectors are groups of institutional units, and the whole of each institutional unit must be classified to one or another sector even though that unit may be engaged in more than one type of economic activity.* Some non-financial corporations or quasi-corporations may have secondary financial activities: for example, producers or retailers of goods may provide consumer credit directly to their own customers. As explained more fully below, such corporations or quasi-corporations are nevertheless classified as belonging in their entirety to the non-financial corporate sector provided their principal activity is non-financial. *Sectors are groups of institutional units, and the whole of each institutional unit must be classified to one or other sector even though that unit may be engaged in more than one type of economic activity.*

- 5.142 Two classification criteria are used to subsector the non-financial corporations sector. One criterion is to show NPIs separately from other units in the sector. These units other than NPIs may be described as for profit institutions (FPIs). The second criterion is that of control to show:

- a. Public non-financial corporations,  
Of which: public corporations which are part of a domestic multinational enterprise
- b. National private non-financial corporations,  
Of which: national private corporations which are part of a domestic multinational enterprise,  
and
- c. Foreign controlled non-financial corporations.

- 5.143 The criteria for control of corporations and NPIs by government and non-resident units are described in detail in section B. Corporations controlled by non-resident units are described as being foreign controlled.

- 5.144 The full subsectoring of the non-financial corporations sector can be seen as a two-way table as shown in [table 5.2](#). The exact form of presentation of the subsectors will depend on both analytical and statistical considerations. It may be that the number of NPIs is such that some control categories are empty or sufficiently sparse that the detail cannot be shown for reasons of confidentiality. At the least, it is recommended to compile data for the left-most column based on control, to monitor the impact of globalization on the generation and distribution of income, and on the accumulation of assets and liabilities. It is also considered useful to distinguish the entries for [the](#) bottom row of [table 5.2](#).

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**Table 5.2 (2025 SNA): Subsectors of the non-financial corporations sector (= Updated version of Table 4.1 in the 2008 SNA)**

Non-financial corporations	FPIs	NPIs
Public non-financial corporations Of which: Part of a domestic multinational enterprise	Public non-financial FPIs	Public non-financial NPIs
Private non-financial corporations Of which: Part of a domestic multinational enterprise	Private non-financial FPIs	Private non-financial NPIs
Foreign-controlled non-financial corporations Of which: Special Purpose Entities (SPEs)	Foreign-controlled non-financial FPIs	Foreign-controlled non-financial NPIs
Total non-financial corporations	Total non-financial FPIs	Total non-financial NPIs

## E. The financial corporations sector and its subsectors

- 5.145 *Financial corporations consist of all resident corporations that are principally engaged in providing financial services, including insurance and pension funding services, to other institutional units.* In addition, due to its important role in the financial system, the central bank, although predominantly producing non-market services for the society as a whole, is also treated as a financial corporation. The financial corporations sector is composed of the following set of resident institutional units:
- a. All resident financial corporations (as understood in macroeconomic statistics and not just restricted to legally constituted corporations), regardless of the residence of their shareholders;
  - b. The branches of non-resident corporations that are engaged in financial activity on the economic territory on a long-term basis;
  - c. All resident NPIs that are market producers of financial services.
- 5.146 Apart from the collective non-market services produced by the central bank, the production of financial services is the result of financial intermediation, financial risk management, liquidity transformation or auxiliary financial activities. Because the provision of financial services is typically subject to strict regulation, it is usually the case that units providing financial services do not produce other goods and services and financial services are not provided as secondary production.
- 5.147 One form of financial innovation has seen a substantial growth in activity of a kind traditionally carried out by, or through, financial corporations but that may also be done directly by non-financial enterprises themselves. For example, there is a tendency in some countries for producers or retailers of goods to provide consumer credit directly to their customers. Another example is the tendency for non-financial enterprises in some countries to raise funds themselves by selling their own obligations directly on the money or capital markets. However, the enterprise as a whole must continue to be classified as non-financial provided that:
- a. A non-financial enterprise does not create a new institutional unit, such as a subsidiary corporation, to carry out the financial activity; and

b. The financial activity remains secondary to the principal activity of the enterprise.

5.148 The same principle applies to the subsectoring of financial corporations. For example, many deposit-taking corporations also engage in financial auxiliary services. However, as a single institutional unit, the commercial bank as a whole, including its financial auxiliary type of activities, is classified in the subsector “deposit-taking corporations except the central bank”. For the same reason, central bank or monetary authority-type functions carried out by agencies within the central government that are not separate institutional units from government are not allocated to the central bank subsector. This is discussed further in the following section F and in chapter 30.

5.149 The financial corporations sector is divided into nine subsectors in the system of national accounts and external sector statistics, according to its activity in the market and the liquidity of its liabilities. These nine subsectors are shown in table 5.1 (2025 SNA)/table 4.1 (BPM7) and each is described later in this section.

5.150 The nine subsectors of financial corporations are arranged in the following ways in external accounts:

- a. The standard components use three subsectors (shown in table 4.2, BPM7): the central bank, deposit-taking corporations except the central bank, and the other seven subsectors combined as “other financial corporations.” Additional details can be compiled according to circumstances.
- b. The functional category classification of debt positions between affiliated financial intermediaries is defined in terms of the first five subsectors of the financial sector—that is, the central bank, deposit-taking corporations except the central bank, money market funds (MMFs), non-MMF investment funds, and other financial intermediaries (except insurance corporations and pension funds). Such debt is excluded from direct investment, as discussed in paragraph 6.28.

5.151 Although the financial corporations sector and its subsectors are defined in terms of economic function, data sources may tend to follow regulatory definitions. Differences between regulatory and statistical definitions should be monitored, and adjustments made, where necessary.

5.152 As well as being subsectored according to the nature of the financial activity being undertaken, the financial corporations sector can also be subsectored in the same manner as the non-financial corporations sector to show which units are subject to public control (including, as an of which item, those which are part of a domestic multinational enterprise), which are national private corporations (including, as an of which items, those which are part of a domestic multinational enterprise), and which are foreign controlled. In addition, each of these subsectors could be broken down further, to show the difference between NPIs and FPIs. Thus in principle each of the rows in table 5.2 may be further disaggregated in the manner of table 5.1 though it is unlikely that all possible cross-classifications exist and a compressed subsectoring based on local circumstance and particular analytical interest may be sufficient. In this respect, it is recommended, however, to have a breakdown of the financial corporations sector as a whole into the subsectors based on control.

5.153 The recommended breakdown according to the nature of financial activity may not be sufficient to capture new developments in the financial world, in particular the expansion of financial institutions involved in non-bank financial intermediation. For this reason, further breakdowns of the subsectors of the financial corporations sector, as well as further details for a number of financial instruments, are encouraged as supplementary items. This is discussed further in chapter 29.

5.154 “Fintech” refers to technology-enabled innovation in financial services that could result in new business models, applications, processes, or products with an associated material effect on the provision of financial services. Countries where these activities are significant are encouraged to compile further breakdowns of relevant subsectors, as supplementary items. This is discussed further in chapter 22. In external accounts, identification of “of which” category for fintech companies within the subsector classification is recommended.

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## 1. Central bank

5.155 ***The central bank is the financial institution (or institutions) that exercises control over key aspects of the financial system. Their principal functions generally include conducting monetary policy, including by issuing currency and regulating money supply and credit; managing international reserves and the payments system; promoting financial stability, including regulation and macroprudential supervision; and acting as banker to government.*** In general, the following financial institutions are classified in this subsector:

- a. The national central bank, including where it is part of a system of central banks, which in most economies are separately identifiable institutions that are subject to varying degrees of government control, engage in differing sets of activities, and are designated by various names (e.g., central bank, reserve bank, national bank, or state bank).
- b. Currency boards or independent currency authorities that issue national currency that is fully backed by foreign exchange reserves.
- c. Central monetary agencies of essentially public origin (for example, agencies managing foreign exchange or issuing bank notes and coin) that keep a complete set of accounts but are not classified as part of central government.
- d. National agencies, including notional resident units, of centralized currency unions. (More details on the recording of transactions and positions of these units are provided in section I.)

As long as the central bank is a separate institutional unit, it is always allocated to the financial corporations sector even if it is primarily a non-market producer.

5.156 If an institutional unit is mainly engaged in central banking activities, the entire unit is classified in the central bank subsector. Many central banks regulate and/or supervise other deposit-taking corporations and sometimes also other financial corporations, and these central bank activities also are included in the central bank subsector. However, if such activities are performed by a separate institutional unit, or units, that are affiliated with the government or with other sectors and if they are mainly engaged in regulating or supervising financial units, they are classified as financial auxiliaries rather than as units in the central bank subsector.

5.157 A few economies do not have central banks. Typical central banking activities that are performed by general government and cannot be separated into specific institutional units are treated as part of general government and are not allocated to the central bank subsector.

5.158 In economies in which some central banking functions are performed wholly or partly outside the central bank, particularly holding reserve assets, consideration should be given to compiling supplementary data for the monetary authorities.

## **2. Deposit-taking corporations except the central bank**

5.159 ***Deposit-taking corporations except the central bank have financial intermediation as their principal activity. To this end, they have liabilities in the form of deposits or financial instruments (such as short-term certificates of deposit) that are close substitutes for deposits.*** The liabilities of deposit-taking corporations are typically included in measures of money broadly defined.

5.160 In general, the following financial intermediaries are classified in this subsector:

- a. Commercial banks, “universal” banks, “all-purpose” banks;
- b. Savings banks (including trustee savings banks and savings and loan associations);
- c. Post office giro institutions, post banks, giro banks;
- d. Rural credit banks, agricultural credit banks;
- e. Cooperative credit banks, credit unions;
- f. Electronic money institutions with liabilities part of broad money;

- g. Specialized banks or other financial corporations if they take deposits or issue close substitutes for deposits; and
- h. Traveler's check companies that mainly engage in financial intermediation; and
- i. Offshore banks which are incorporated or registered in the country.

5.161 The liabilities of deposit-taking corporations to residents are typically included in measures of broad money, even though the SNA/BPM does not provide a definition of broad money, which may differ across constituencies (see paragraph ...). The money-issuing sector may be identified on a supplementary basis to assist in reconciliation with monetary data. It consists of the central bank plus deposit-taking corporations plus other institutions that issue liabilities included in the definition of broad money (e.g., money market funds).

5-1615.162 Electronic money institutions are entities authorized to issue electronic money, which is a payment instrument whereby monetary value is electronically stored on a physical device or remotely at a server. They should be classified as depository corporations, if they are a financial corporation and if the electronic money issued is included in broad money. Electronic money can usually be used for payments to third parties and is, therefore, a close substitute for transferable deposits. Monetary value stored on specific prepaid instruments does not represent electronic money if the instruments are designed to address specific needs only and can be used only in a limited way.

### 3. Money market funds (MMFs)

5-1625.163 *Money market funds (MMFs) are collective investment schemes that raise funds by issuing shares or units to the public. The proceeds are invested primarily in money market instruments, MMF shares or units, transferable debt instruments with a residual maturity of not more than one year, bank deposits and instruments that pursue a rate of return that approaches the interest rates of money market instruments. MMF shares can often be transferred by cheque or other means of direct third-party payment.* Because of the nature of the instruments the schemes invest in, their shares or units may be regarded as close substitutes for deposits.

5-1635.164 Unit trusts or investment trusts primarily investing in similar instruments as the ones referred to in the above paragraph are also classified as money market funds, unless the investors are restricted to a particular group of entities. Corporations taking care of the management and administration of MMFs are generally classified as financial auxiliaries.

### 4. Non-MMF investment funds

5-1645.165 *Non-MMF investment funds are collective investment schemes that raise funds by issuing share or units to the public, and investing predominantly in longer-term financial assets, such as equity shares, bonds, mortgage loans, and non-financial assets.* Investment fund shares or units are generally not close substitutes for deposits. They are not transferable by means of cheque or direct third-party payments. Investment funds can be open or closed ended. Open-ended funds or open funds are those whose shares or units are, at the request of the holders, repurchased or redeemed directly or indirectly out of the undertaking's assets. Closed-ended funds or closed funds are open for subscription only during a specified period at the launch of the scheme; thereafter investors can acquire shares only by buying them on a secondary market (directly or sometimes even on an exchange) from other investors. Closed-ended investment funds issue a limited number of shares or units. New shares or units are rarely issued once the fund has been launched. Closed-ended, closed, or exchange-traded funds are those with a fixed share capital, where investors entering or leaving the fund must buy or sell existing shares. Investment funds may be constituted as follows: (a) under the law of contract (as common funds managed by management companies), (b) under trust law (as unit trusts), (c) under a statute (as investment companies), or (d) otherwise with similar effect. Fund managers of investment funds are generally classified as financial auxiliaries (see paragraphs 5.171 – 5.173).

[5-1655.166](#) Hedge funds are a kind of investment fund. Hedge fund is a term that covers a heterogeneous range of collective investment schemes, typically involving high minimum investments, light regulation, and a wide range of investment strategies, via leverage.

[5-1665.167](#) Special purpose government funds, usually called sovereign wealth funds, are more likely to be classified as captive financial institutions (see [paragraphs 5.174 – 5.175](#)). The same holds for trusts set up to manage wealth of a limited group of beneficiaries (see [paragraph 5.107](#)).

[5-1675.168](#) Unit trusts or investment trusts primarily investing in similar instruments as the ones referred to in [paragraph 5.160](#) are also classified as non-MMF investment funds, unless the investors are restricted to a particular group of entities. [Corporations taking care of the management and administration of MMFs are generally classified as financial auxiliaries.](#)

[5-1685.169](#) Funds [that](#)~~which~~ own, and rent out, dwellings and/or commercial property, are classified as providers of rental and other types of real estate services, and not as providers of financial services. As providers of non-financial services, they are classified in the non-financial corporations sector, and not as financial corporations. On the other hand, investment funds [that](#)~~who~~ primarily invest in debt and equity instruments in companies [that](#)~~which~~ own, and rent out, dwellings and/or commercial property would qualify as non-MMF investment funds. This also holds for investment funds [that](#)~~who~~ directly invest in real estate in other economies, in which case the investments are recorded as investments in equity of notional non-resident units. In the case of hybrid real estate investment funds, the units would need to be classified according to their principal activity, i.e., the activity which accounts for most of the value added. As value added from real estate activities is typically much larger than the fees related to investments in financial instruments, even though most administration and maintenance services may be outsourced to specialized entities, these hybrid funds will typically end up in the non-financial corporations sector.

[5-1695.170](#) Investment funds [that](#)~~who~~ directly invest in other non-financial assets, such as [some](#) crypto assets, gold and other valuable metals, or high-end wines and whiskies, are classified as non-MMF investment funds, because the main part of their returns on the invested assets will relate to holding gains, and does not consist of the production of non-financial services.

[5-1705.171](#) In the case of fund-of-funds, i.e., investment funds only investing in other funds, a distinction should be made between “fettered” fund-of-funds, which only invest in funds that are managed and administered by the same management company, versus “non-fettered” funds, which invest in any fund, even those managed by competing companies. In the latter case, the relevant funds should be treated as separate institutional units. In the former case, the fund-of-funds and the individual funds would typically share the same management company, which is to be classified in subsector S.126 Financial auxiliaries. However, this would not necessarily call for a consolidation of the fund-of-funds and the individual funds, because the latter may also have shareholders other than the fund-of-funds. A particular case, where a consolidation could be analytically useful, is one in which a fettered fund-of-funds invests in individual funds with no participation, as shareholders, by third parties.

[5-1715.172](#) In the case of asset management provided by commercial banks, regarding which the risks and rewards of the assets managed are with the investor(s), the assets should be consolidated with the accounts of the investor, if it concerns a single institutional unit (e.g., if the asset management is customised to the client, like in “managed accounts” of private banking services to wealthy clients), or a separate institutional unit, to be classified as either money-market funds or non-MMF investment funds, should be distinguished, assuming that the relevant assets (and liabilities) can be separated out of the accounts of the relevant banks. See also the decision tree in [Figure 5.2](#).

[5-1725.173](#) Also in line with the decision tree in [Figure 5.2](#), investment funds which are set up and/or owned by another institutional investor, such as a pension scheme, should be consolidated with the investor, if the investment fund only serves a single investor, unless the fund clearly has autonomy of decision. In the case it concerns a non-resident fund, then it should be classified in subsector S.127 Captive financial institutions and money lenders. Autonomy of decision would primarily concern the degree of autonomy in making decisions on the investment policy, either or not restricted by more general policy guidance.

## 5. Other financial intermediaries, except insurance corporations and pension funds

## (ICPFs)

5.1735.174 *Other financial intermediaries except insurance corporations and pension funds consist of financial corporations that are engaged in providing financial services by incurring liabilities, in forms other than currency, deposits or close substitutes for deposits, on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market.* It is a feature of a financial intermediary that transactions on both sides of the balance sheet are carried out in open markets.

5.1745.175 In general, the following financial intermediaries are classified in this subsector:

- a. Financial corporations engaged in the securitization of assets. Securitization involves raising funds by selling a security backed by specific assets or income streams. For example, an originating mortgage lender could sell a portfolio of loans to a securitization vehicle that issues securities sold to investors. The originator may continue to provide administrative services, but the vehicle is the legal owner of the portfolio. Such vehicles are included in “other financial intermediaries, except insurance corporations and pension funds” if the entity is the legal owner of a portfolio of assets, sells a new financial asset that represents an interest in the portfolio, and has or potentially has a full set of accounts. However, in cases in which the originator issues asset-backed securities on its own books, then securitization may take place without the creation of a separate entity. When the portfolio is not transformed, or the vehicle does not bear market or credit risks, then it can be combined with its parent (if resident in the same economy) or treated as a captive financial institution (if in a different economy to that of its parent).
- b. Underwriters, security and derivative dealers (operating on own account). In contrast, security brokers and other units that arrange trades between buyers and sellers but do not purchase and hold securities on their own account are classified as financial auxiliaries (see [paragraph 5.173 \(b\)](#));
- c. Financial corporations engaged in lending, including the finance associates of retailers, who may be responsible for financial leasing and both personal or commercial finance;
- d. Central clearing counterparties. These organizations provide clearing and settlement transactions in securities and derivatives. Clearing refers to the process of offsetting obligations and entitlements vis-à-vis counterparties to transactions so that settlement – which involves the actual exchange of securities, derivatives, and funds – can occur more efficiently on a net basis. The central clearing counterparties involve themselves in the transaction and mitigate counterparty risk;
- e. Specialized financial corporations that assist other corporations in raising funds in equity and debt markets and provide strategic advisory services for mergers, acquisitions, and other types of financial transactions. (These corporations are sometimes called “investment banks.”) In addition to assisting with the raising of funds for their corporate clients, such corporations invest their own funds, including in private equity, in hedge funds dedicated to venture capital, and in collateralized lending. However, if such corporations take deposits or close substitutes for deposits, they are classified as deposit-taking corporations;
- f. Bank restructuring agencies; and
- g. Specialized financial corporations that provide:
  - Short-term financing for corporate mergers and takeovers;
  - Export/import finance;
  - Factoring services;
  - Venture capital and development capital firms.

Commented [ED28]: Paragraph 4.78, BPM6

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## 6. Financial auxiliaries

5.1755.176 *Financial auxiliaries consist of financial corporations that are principally engaged in activities associated with transactions in financial assets and liabilities or with providing the regulatory context for these transactions but in circumstances that do not involve the auxiliary taking ownership of the financial*

*assets and liabilities being transacted.*

5.1765.177 Corporations facilitating financial transactions, such as central clearing counterparties, stock exchanges, derivative exchanges, and repurchase agreement settlement institutions are classified as financial auxiliaries intermediaries, if they do not generally act as principals to the counterparties to the underlying transactions; if they act as principals to the counterparties, otherwise they are classified as financial intermediaries auxiliaries.

5.1775.178 In general, the following financial entities are classified in this subsector:

- a. Insurance brokers, salvage and claims adjusters (whether employed by the insurance company, an independent adjuster or a public adjuster employed by the policyholder), insurance and pension consultants;
- b. Loan brokers, securities brokers that arrange trades between security buyers and sellers but that do not purchase and hold securities on their own account, investment advisers, and so on (securities dealers that trade in securities on their own account are other financial intermediaries);
- c. Flotation corporations that manage the issue of securities;
- d. Corporations whose principal function is to guarantee, by endorsement, bills and similar instruments;
- e. Corporations that arrange derivative and hedging instruments, such as swaps, options and futures (without issuing them);
- f. Corporations providing infrastructure for financial markets such as securities depository companies, custodians, clearing offices facilitating transactions without acting as the counterparty (in contrast, central clearing counterparties, as discussed in paragraph 5.170 (d), are counterparties and thus classified as intermediaries rather than auxiliaries), and nominee companies;
- g. Managers of pension funds, investment funds including mutual funds and other ~~mutual~~ funds, etc. (but not the funds they manage);
- h. Stock exchanges, insurance exchanges, and commodity and derivative exchanges; crypto exchanges that facilitate in buying and selling of different crypto assets;
- i. Foreign exchange bureaus;
- j. Crowd funding platforms;
- k. Non-profit institutions recognized as independent legal entities serving financial corporations;
- l. Head offices of financial corporations that are principally engaged in controlling financial corporations or groups of financial corporations but that do not themselves conduct the business of financial corporations;
- m. Central supervisory authorities of financial intermediaries and financial markets when they are separate institutional units.
- n. ~~Corporations~~ Financial digital platforms primarily involved in ~~operation of electronic intermediating payment transactions mechanisms that do not incur liabilities against the instruments (if they do incur liabilities against the instruments, then they are other financial intermediaries except insurance corporations and pension funds) (see paragraph 22.80, Chapter 22, 2025 SNA/Chapter 16, BPM7); and~~
- o. ~~Resident offices of foreign financial institutions~~ banks that do not accept deposits or extend credit on their own account; and
- p. Credit rating agencies.

## 7. Captive financial institutions and money lenders

5.1785.179 *Captive financial institutions and money lenders consist of institutional units providing financial*



services, where most of either their assets or liabilities are not transacted on open financial markets. It includes entities transacting within only a limited group of units (such as with subsidiaries) or subsidiaries of the same holding corporation or entities that provide loans from own funds provided by only one sponsor. Other financial intermediaries, except insurance corporations and pension funds (discussed in paragraphs 5.169 – 5.170) are distinguished from captive financial institutions and money lenders in that the latter serve a limited group only for at least one side of their balance sheet.

5.175.180 In general, the following financial corporations are classified in this subsector:

~~a. Entities such as trusts, estates, or agencies accounts, where a restricted group of beneficiaries assumes the risks and rewards, or where the single beneficiary assuming the risks and rewards is resident in another country.~~

b.a. Holding corporations that hold only the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is owning the group without providing any other service to the enterprises in which the equity is held, that is, they do not administer or manage other units.

e.b. Special purpose units or conduits that qualify as institutional units and raise funds in open markets to be used by their parent corporation.

d.c. Units which provide financial services exclusively with own funds, or funds provided by a sponsor to a range of clients and incur the financial risk of the debtor defaulting, including

- Moneylenders.
- Corporations engaged in lending (for example providing student loans, import/export loans) from funds received from a sponsor such as a government unit or non-profit institution.
- Pawnshops that predominantly engage in lending.

e.d. eConduits, intragroup financiers, and treasury functions when these functions are undertaken by a separate institutional unit. Conduits typically refer to entities that raise funds, which could be debt securities, shares or partnership interest, on open financial markets for passing on to other affiliated corporations. Often, the conduit's liabilities are guaranteed by a parent company.

f.c. ~~Entities such as~~ trusts and similar wealth-holding entities, ~~estates, or agencies accounts~~ that solely hold assets and liabilities, along with the associated property income, for a restricted group of investors or beneficiaries. In the case of a single ~~investor or~~ beneficiary/~~investor~~ assuming the risks and rewards, the accumulated assets should be assigned to the sector of the ~~investor or~~ beneficiary/~~investor~~, unless the unit is resident in another economy than its beneficiary/investor.

## 8. Insurance corporations (ICs)

5.180.181 *Insurance corporations consist of incorporated, mutual and other entities whose principal function is to provide life, accident, sickness, fire or other forms of insurance to individual institutional units or groups of units or reinsurance services to other insurance corporations.* Captive insurance is included, that is, an insurance company that serves only its owners. Deposit insurers, issuers of deposit guarantees and other issuers of standardized guarantees that are separate entities and act like insurers by charging premiums and have reserves, are classified as insurance corporations. More details on the recording of insurance are provided in chapter 24, 2025 SNA/Annex 8, BPM7.

## 9. Pension funds (PFs)

5.181.182 Pension liabilities arise when an employer or government obliges or encourages members of households to participate in a social insurance scheme that will provide income in retirement. They may also arise from collective employer-independent schemes, such as schemes for self-employed persons. The social insurance schemes may be organized by employers or by government, they may be organized by insurance corporations on behalf of employees or separate institutional units may be established to hold and manage

the assets to be used to meet the pensions and to distribute the pensions. *The pension fund subsector consists of only those social insurance pension funds that are institutional units separate from the units that create them.* More details on the institutional unit test as well as the classification and recording of pension schemes are provided in chapter 24.

## F. The general government sector and its subsectors

### 1. Government units as institutional units

[5-1825.183](#) Government units are unique kinds of legal entities established by political processes that have legislative, judicial or executive authority over other institutional units within a given area. Viewed as institutional units, the principal functions of government are to assume responsibility for the provision of goods and services to the community or to individual households and to finance their provision out of taxation or other incomes, to redistribute income and wealth by means of transfers, and to engage in non-market production. In general terms:

- a. A government unit usually has the authority to raise funds by collecting taxes or compulsory transfers from other institutional units. In order to satisfy one of the basic requirements of an institutional unit in macroeconomic statistics, a government unit, whether at the level of the total economy, a region or a locality, must have funds of its own either raised by taxing other units or received as transfers from other government units and the authority to disburse some, or all, of such funds in the pursuit of its policy objectives. ~~It must also be able to borrow funds on its own account;~~
- b. Government units typically make three different kinds of final outlays:
  - The first group consists of actual or imputed expenditures on the free provision to the community of collective services such as public administration, defence, law enforcement, etc. that are organized collectively by government and financed out of general taxation or other income;
  - The second group consists of expenditures on the provision of goods or services free, or at prices that are not economically significant, to individual households. These expenditures related to, for example, education and health, are deliberately incurred and financed out of taxation or other income by government in the pursuit of its social or political objectives, even though individuals could be charged according to their usage;
  - The third group consists of transfers paid to other institutional units, mostly households, in order to redistribute income or wealth.

[5-1835.184](#) Within a single territory there may be many separate government units when there are different levels of government, specifically central, state or local governments. In addition, social security funds also constitute government units. These different kinds of government units are described later when the subsectoring of the general government sector is explained.

### Government units as producers

[5-1845.185](#) The fact that governments choose to supply not only collective services but also many goods and individual services free, or at prices that are not economically significant, to households or other units does not necessitate that they produce them themselves. Even in the case of most collective services, or so-called “public goods”, governments are obliged only to assume responsibility for organizing and financing their production. They are not obliged to produce them. However, government units do usually engage in a wide range of productive activities in practice, covering not only collective services but also many other goods and individual services. Because it is largely a matter of political choice, the range of goods and services produced by government units varies greatly from one country to another. Apart from some collective services such as public administration and defence, it is therefore difficult to categorize certain types of production, such as the production of education or health services, as intrinsically governmental, even though

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they are often produced by government units.

5-1855.186 When a government unit wishes to intervene through the production of goods and services it has ~~four~~three options:

- a. it may create a public corporation whose corporate policy, including pricing and investment, it is able to control;
- b. it may create an NPI that it controls;
- c. it may produce the goods or services itself in an establishment that it owns but that does not exist as a separate legal entity from the government unit itself;
- e-d. it may create or enter into a public private partnership (PPP); see chapter 30 for more details.

5-1865.187 However, 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 the following three criteria hold:

- a. the unit charges prices for its outputs that are economically significant;
- b. the unit is operated and managed in a similar way to a corporation; and
- c. the unit has a complete set of accounts that enable its operating surpluses, savings, assets and liabilities to be separately identified and measured.

5-1875.188 Such quasi-corporations are market producers that are treated as separate institutional units from the government units that own them. They are classified, sectored and subsectored in the same way as public corporations.

5-1885.189 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. The ability to distinguish flows of income and capital between quasi-corporations and government implies that their operating and financing activities are not fully integrated with government revenue or finance statistics in practice, despite the fact that they are not separate legal entities.

5-1895.190 Producer units of government that cannot be treated as quasi-corporations, like all unincorporated enterprises that cannot be separated from their owners, remain in the same institutional unit as the owner, in this case within the general government sector. They are likely to consist largely, or entirely, of non-market producers: that is, producers most or all of whose output is supplied to other units free, or at prices that are not economically significant. In addition to providing non-market goods or services to the general public, such units may include government producers supplying non-market goods or services to other government units for purposes of intermediate consumption or gross fixed capital formation: for example, munitions factories, government printing offices, transport agencies, computer or communications agencies, etc. However, it is possible for an unincorporated enterprise within a government to be a market producer. The example often quoted is that of a bookshop within a museum.

### **Social security schemes and social security funds**

5-1905.191 Social security schemes are social insurance schemes that cover the community as a whole or large sections of the community and are imposed and controlled by government units. The schemes cover a wide variety of programmes, providing benefits in cash or in kind for old age, invalidity or death, survivors, sickness and maternity, work injury, unemployment, family allowance, health care, etc. There is not necessarily a direct link between the amount of the contribution paid by an individual and the benefits he or she may receive.

~~5.1915.192~~ When social security schemes are separately organized from the other activities of government units and hold their assets and liabilities separately from the latter and engage in financial transactions on their own account, they qualify as institutional units that are described as social security funds. However, institutional arrangements in respect of social security schemes differ from country to country and in some countries they may become so closely integrated with the other finances of government as to bring into question whether they should be treated as separate institutional units.

~~5.1925.193~~ The amounts raised, and paid out, in social security contributions and benefits may be deliberately varied in order to achieve objectives of government policy that have no direct connection with the concept of social security as a scheme to provide social benefits to members of the community. They may be raised or lowered in order to influence the level of aggregate demand in the economy, for example. Nevertheless, so long as they remain separately constituted funds, they must be treated as separate institutional units in macroeconomic statistics.

## 2. The general government sector

~~5.1935.194~~ The general government sector consists of the following groups of resident institutional units:

- a. All units of central, state or local government (as described immediately below);
- b. All non-market producers that are controlled by government units.

~~5.1945.195~~ The sector also includes social security funds, either as separate institutional units or as part of any or all of central, state or local government. The sector does not include public corporations, even when all the equity of such corporations is owned by government units. Nor does it include quasi-corporations that are owned and controlled by government units. However, unincorporated enterprises owned by government units that are not quasi-corporations remain integral parts of those units and, therefore, must be included in the general government sector.

~~5.1955.196~~ If a government uses an entity that is resident in the economic territory of another government to carry out general government activities (i.e., fiscal activities, rather than for a public corporation), that entity is not included as part of the general government in either its economy of residence or the economy of the government that uses the entity. Such entities are not treated in the same way as embassies and other territorial enclaves if they are created and operate under the laws of the host economy. These entities are treated as direct investment enterprises of the government that owns them and classified as separate institutional units in the economy where they are established. See also paragraphs 5.100 – 5.102. and paragraph 6.xx, *BPM7*, Non-resident international joint ventures between governments, where neither party has control of the entity, are apportioned to governments as notional resident units.

Commented [ED31]: Based on paragraph 4.93, BPM6

## 3. Subsectors of the general government sector

~~5.1965.197~~ A full subsectoring of the general government would allow for all government units, including social security funds, to be distinguished for each of central, state and local government. In practice, though, it is usual to show all social security funds together as one subsector or to merge them all with their appropriate level of government and not show social security funds by level of government separately. Further, NPIs may be shown as an “of which” item for general government as a whole or for central, state and local government individually.

~~5.1975.198~~ The first method of subsectoring general government is as follows:

- a. Central government;
- b. State government;
- c. Local government;

- d. Social security funds;<sup>2</sup>

where it is understood that each of the subsectors a, b and c include government controlled non-market producers but exclude social security funds at that level of government.

5-1985.199 The second method of subsectoring general government is as follows:

- a. Central government;
- b. State government;
- c. Local government;<sup>2</sup>

where it is understood that each of the subsectors a, b and c include both government controlled non-market producers and social security funds at that level of government.

5-1995.200 Under either method of subsectoring, NPIs should be shown as an “of which” heading under the appropriate level of government.

5-2005.201 The choice between the two methods of subsectoring depends mainly on the size, or importance, of social security funds within a country and on the way in which they are managed.

5-2015.202 In some countries there may not exist a proper intermediate level of government between central and local government, in which case the subsector “state government” is not distinguished. In others there may be more than two levels of government below the central government. In that case, the lower levels should be aggregated with state or local government as appropriate.

### **Central government**

5-2025.203 The central government subsector consists of the institutional unit or units making up the central government plus those non-market producers that are controlled by central government.

5-2035.204 The political authority of central government extends over the entire territory of the country. Central government has therefore the authority to impose taxes on all resident and non-resident units engaged in economic activities within the country. Its political responsibilities include national defence, the maintenance of law and order and relations with foreign governments. It also seeks to ensure the efficient working of the social and economic system by means of appropriate legislation and regulation. It is responsible for providing collective services for the benefit of the community as a whole, and for this purpose incurs expenditures on defence and public administration. In addition it may incur expenditures on the provision of services, such as education or health, primarily for the benefit of individual households. Finally, it may make transfers to other institutional units, namely to households, NPIs, corporations and other levels of government.

5-2045.205 Central government 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, other institutional units. The departments may be responsible for considerable amounts of expenditure within the framework of the government’s overall budget, but often they are not separate institutional units capable of owning assets, incurring liabilities, engaging in transactions, etc., independently of central government as a whole.

5-2055.206 The departments of central government are often deliberately dispersed geographically and located in different parts of the country, but they nevertheless remain parts of a single institutional unit. Similarly, if the central government maintains branch offices or agencies in different parts of the country to meet local needs, including military bases or installations that serve national defence purposes, these must also be counted as parts of a single institutional unit for central government.

[5-2065.207](#) In addition to government departments and ministries, there may be agencies of central government with separate legal identity and substantial autonomy; they may have discretion over the volume and composition of their expenditures and may have a direct source of revenue such as earmarked (“hypothecated”) taxes. Such agencies are often established to carry out specific functions such as road construction or the non-market production of health or education services. These should be treated as separate institutional units if they maintain full sets of accounts but are part of the central government subsector if the services they produce are non-market and if they are controlled by central government.

[5-2075.208](#) In some countries, the central government may include units that engage in financial transactions that in other countries would be performed by central banks. In particular, units of central government may be responsible for the issue of currency, the maintenance of international reserves and the operation of exchange stabilization funds, and also transactions with the International Monetary Fund (IMF). When the units in question remain financially integrated with central government and under the direct control and supervision of central government, they cannot be treated as separate institutional units. Moreover, whatever monetary authority functions are carried out by central government are recorded in the government sector and not the financial corporations sector. However, because of the analytical importance that is attached to obtaining accounts covering the monetary authorities as a whole, and in order to provide links with other statistical systems, such as the BPM, the GFSM and the Monetary and Financial Statistics Manual and Compilation Guide (MSFMCG), it is recommended that the transactions of central government agencies carrying out monetary authority and deposit-taking functions should be separately identified, so that they can be combined with those of the central bank and other deposit-taking corporations in special tabulations if desired.

## **State government**

[5-2085.209](#) The state government subsector consists of state governments that are separate institutional units plus those non-market producers that are controlled by state governments.

[5-2095.210](#) State governments are institutional units exercising some of the functions of government at a level below that of central government and above that of the governmental institutional units existing at a local level. They are institutional units whose fiscal, legislative and executive authority extends only over the individual “states” into which the country as a whole may be divided. Such “states” may be described by different terms in different countries. In some countries, especially small countries, individual states and state governments may not exist. However, in large countries, especially those that have federal constitutions, considerable powers and responsibilities may be assigned to state governments.

[5-2105.211](#) A state government usually has the fiscal authority to levy taxes on institutional units that are resident in, or engage in economic activities or transactions within, its area of competence (but not other areas). In order to be recognized as an institutional unit it must be able to own assets, raise funds and incur liabilities on its own account. It must also be entitled to spend or allocate some, or possibly all, of the taxes or other income that it receives according to its own policies, within the general rules of law of the country, although some of the transfers it receives from central government may be tied to certain specified purposes. It should also be able to appoint its own officers, independently of external administrative control. On the other hand, if a regional unit is entirely dependent on funds from central government, and if the central government also dictates the ways in which those funds are to be spent at the regional level, it should be treated as an agency of central government rather than as a separate institutional unit.

[5-2115.212](#) State governments, when they exist, are distinguished by the fact that their fiscal authority extends over the largest geographical areas into which the country as a whole may be divided for political or administrative purposes. In a few countries more than one level of government exists between the central government and the smallest governmental institutional units at a local level; in such cases, for purposes of sectoring within macroeconomic statistics, these intermediate levels of government are grouped together with the level of government, either state or local, with which they are most closely associated.

[5-2125.213](#) State governments may own, or control, corporations in the same way as central government. Similarly, they may have units that engage in market production, in which case the relevant producer units should be treated as quasi-corporations whenever their operations and accounting records justify this.

## Local government

[5.2135.214](#) The local government subsector consists of local governments that are separate institutional units plus those non-market producers that are controlled by local governments. In principle, local government units are institutional units whose fiscal, legislative and executive authority extends over the smallest geographical areas distinguished for administrative and political purposes. The scope of their authority is generally much less than that of central government or state governments, and they may, or may not, be entitled to levy taxes on institutional units resident in their areas. They are often heavily dependent on grants or transfers from higher levels of government, and they may also act as agents of central or regional governments to some extent. However, in order to be treated as institutional units they must be entitled to own assets, raise funds and incur liabilities by borrowing on their own account; similarly, they must have some discretion over how such funds are spent. They should also be able to appoint their own officers, independently of external administrative control. The fact that they may also act as agents of central or state governments to some extent does not prevent them from being treated as separate institutional units provided they are also able to raise and spend some funds on their own initiative and own responsibility.

[5.2145.215](#) As they are the government units that are in closest contact with the institutional units resident in their localities, they typically provide a wide range of services to local residents, some of which may be financed out of transfers from higher levels of government. The same rules govern the treatment of the production of goods and services by local government units as are applied to central and state governments. Units such as municipal theatres, museums, swimming pools, etc., that supply goods or services on a market basis should be treated as quasi-corporations whenever the appropriate accounting information is available and classified to the non-financial corporations sector. Other units supplying goods and services on a market basis are treated as unincorporated enterprises within local government. Units supplying services such as education or health on a non-market basis remain an integral part of the local government unit to which they belong.

## Social security funds

[5.2155.216](#) The social security funds subsector consists of the social security funds operating at all levels of government.

## 4. The alternative method of subsectoring

[5.2165.217](#) The alternative method of subsectoring the general government sector is to group the social security funds operating at each level of government with the corresponding government units and government controlled non-market producers at that level of government. The two alternative methods of subsectoring are designed to accommodate different analytical needs. The decision as to which method is more appropriate in a given country cannot be made a priori. It depends on how important social security funds are and on the extent to which they are managed independently of the government units with which they are associated. If the management of social security funds is 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, 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. Alternatively, in some countries, social security funds may exist in only a very rudimentary form. In either of these circumstances it is difficult to justify treating social security funds as a separate subsector on a par with central, state and local government, and it is more appropriate to use the alternative method of subsectoring in which they are grouped with the corresponding government units at each level of government.

## G. The households sector and its subsectors

Commented [ED32]: Only limited details of this section will be included in BPM7.

## 1. Households as institutional units

[5.2175.218](#) For the purposes of macroeconomic statistics, a household is defined in [paragraph 5.4](#) as a [single person having a separate living accommodation, or](#) a group of ~~natural~~ persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food. In general, each member of a household should have some claim upon the collective resources of the household. At least some decisions affecting consumption or other economic activities must be taken for the household as a whole.

[5.2185.219](#) Households often coincide with families, but members of the same household do not necessarily have to belong to the same family so long as there is some sharing of resources and consumption. Households may be of any size and take a wide variety of different forms in different societies or cultures depending on tradition, religion, education, climate, geography, history and other socio-economic factors. The definition of a household that is adopted by survey statisticians familiar with the socio-economic conditions within a given country is likely to approximate closely to the concept of a household as defined in macroeconomic statistics, although survey statisticians may add more precise, or operational, criteria within a particular country.

[5.2195.220](#) Domestic staff who live on the same premises as their employer do not form part of their employer's household even though they may be provided with accommodation and meals as remuneration in kind. Paid domestic employees have no claim upon the collective resources of their employers' households and the accommodation and food they consume are not included with their employer's consumption. They should therefore be treated as belonging to separate households from their employers.

[5.2205.221](#) Persons living permanently in an institution, or who may be expected to reside in an institution for a very long, or indefinite, period of time are treated as belonging to a single institutional household when they have little or no autonomy of action or decision in economic matters. Some examples of persons belonging to institutional households are the following:

- a. Members of religious orders living in monasteries, convents or similar institutions;
- b. Long-term patients in hospitals, including mental hospitals;
- c. Prisoners serving long sentences;
- d. Persons living permanently in retirement homes;
- e. Persons living in labour camps.

[5.2215.222](#) On the other hand, persons who enter hospitals, clinics, convalescent homes, religious retreats, or similar institutions for short periods, who attend residential schools, colleges or universities, or who serve short prison sentences should be treated as members of the individual households to which they normally belong.

[5.2225.223](#) The residence of individual ~~natural~~ persons is determined by that of the household of which they form part and not by their place of work. All members of the same household have the same residence as the household itself, even though they may cross borders to work or otherwise spend periods of time abroad. If they work and reside abroad so long that they acquire a centre of economic interest abroad, they cease to be members of their original households. More details on the residence of households are provided in [paragraphs 5.253 – 5.267](#).

## 2. Unincorporated enterprises within households

[5.2235.224](#) As noted in the introduction, households are unlike corporations in that they undertake final consumption. However, like corporations, they may also engage in production. Household unincorporated market enterprises are created for the purpose of producing goods or services for sale or barter on the market. They can be engaged in virtually any kind of productive activity: agriculture, mining, manufacturing, construction, retail distribution or the production of other kinds of services. They can range from single persons working as street traders or shoe cleaners with virtually no capital or premises of their own ~~through~~



to large manufacturing, construction or service enterprises with many employees.

[5.2245.225](#) Household unincorporated market enterprises also include unincorporated partnerships that are engaged in producing goods or services for sale or barter on the market. The partners may belong to different households. When the liability of the partners for the debts of the enterprises is unlimited, the partnerships must be treated as unincorporated enterprises and remain within the household sector since all the assets of the household, including the dwelling itself, are at risk if the enterprise goes bankrupt. However, unincorporated partnerships with many partners, such as some large legal, accounting or architectural firms, are likely to behave like corporations and should be treated as quasi-corporations assuming complete sets of accounts are available for the partnerships. Partnerships whose partners enjoy limited liability are effectively separate legal entities and, as already noted, are treated as corporations.

[5.2255.226](#) An unincorporated enterprise can only be treated as a corporation if it is possible to separate all assets, including financial assets down to the level of cash, into those that belong to the household in its capacity as a consumer from those belonging to the household in its capacity as a producer.

### 3. Family trusts

[5.2265.227](#) Households may create trusts for a variety of reasons. Disregarding the issue of a family trust being resident in another country than its beneficiaries, as a consequence of which it would automatically be treated as a separate institutional unit, the standard criteria for an institutional unit should be applied for treating trusts which are resident in the same economy as its beneficiaries. In practice, the trust should be consolidated with the household, if there is a single beneficiary assuming the risks and rewards, while in the case of a trust with multiple beneficiaries, the trust is to be treated as a separate institutional unit, to be classified in subsector S.127 Captive financial institutions and money lenders assuming that the group of beneficiaries is restricted. More details on the treatment of trusts are provided in [paragraphs 5.103 – 5.111](#).

### 4. Subsectors of the household sector

[5.2275.228](#) The household sector consists of all resident households. There are many useful ways in which the household sector may be subsectored and statistical agencies are advised to give due consideration to the various possibilities. More than one method may be adopted if there is a demand for different breakdowns of the household sector from different users, analysts or policymakers.

[5.2285.229](#) The SNA has to be applied flexibly, not rigidly. In order to implement any of the possible methods of subsectoring the household sector suggested below, individual countries should make their own decisions about what they consider to be the most relevant classification. Thus, the fact that a specific, detailed classification according to a criterion of interest is proposed here should not be interpreted as implying that the characteristics proposed are necessarily or always the most important for purposes of economic analysis and policymaking. Having said that, in view of the importance of having internationally comparable data on the distribution of income, consumption, saving and wealth across household groups, below a subsectoring according to income and wealth deciles is put forward as a standard breakdown, while other breakdowns are considered to be supplementary items, which could be more or less relevant depending on country circumstances.

[5.2295.230](#) More generally, when breaking down the household sector into various groups of households, institutional households are typically excluded from the analysis, because [The main reason for excluding these types of households is that they](#) may comprise large groups of individuals with very different socio-demographic backgrounds, who are not related, and who may have very different income and consumption patterns. As a consequence, they are not really comparable with private households, which is why it is recommended to analyze and present them separately.

#### Subsectoring according to levels of income and wealth

[5.2305.231](#) Households may be grouped into subsectors according to their level of income or their level of

wealth. As the size and composition of households differ significantly, ranging from one-person households to households with multiple adults with or without children, the levels of income, consumption and wealth are not directly comparable. Therefore, it is recommended to focus on 'equivalized' results, using equivalence scales that take into account the differences in size and composition of households. In doing so, results for income and consumption are typically recalculated according to the number of consumption units in each household, whereby a value is assigned to each household type in proportion to its needs. As a default, the "modified OECD scale" could be used, which assigns a value of 1 to the household head~~first adult household member (14 and above)~~, of 0.5 to each additional household member of 14 and above, and of 0.3 to each additional household member up to 13. However, as the most appropriate scale may depend on specific circumstances, countries may look for other equivalence scales which may be more representative of their national circumstances.

5.2315.232 In relation to the analysis of wealth, the use of equivalence scales depends on the purpose of the analysis. They should be avoided when analysing the characteristics of individual components of wealth and the distribution of net wealth. To control for different household structures, complementary analysis can be done on per capita basis. However, for the joint analysis of income, consumption and wealth, it is practical to use the same equivalence scales to adjust wealth as those used to adjust income and consumption. In doing so, wealth is treated as a source of income streams that can be used to finance current consumption and contribute to current economic well-being in the household.

5.2325.233 As a standard, breakdowns by standard of living based on (current) disposable income and based on wealth should be targeted, showing income and wealth decile groups, and, if possible, results for the top 5% and the top 1%. Depending on analytical needs, alternative breakdowns as presented below could be compiled, as supplementary items. More details on compiling distributional results are provided in chapter 32.

### **Subsectoring according to other criteria**

5.2335.234 Households may also be grouped into subsectors according to the nature of their largest source of income. For this purpose, the following types of household income need to be distinguished:

- a. Income from self-employment;
- b. ~~Income from~~ (Nctnet) property income;
- c. Remuneration of employees;
- d. (Net) current transfers received, to be broken down into pension benefits and other (net) current transfers.

5.2345.235 Households are allocated to subsectors according to which of the four categories of income listed above is the largest for the household as a whole, even if it does not always account for more than half of total household income. When more than one income of a given category is received within the same household, for example, because more than one member of the household earns remuneration of employees or because more than one property or transfer income is received, the classification should be based on the total household income within each category.

5.2355.236 Another way of grouping households into subsectors is to look at the number and age of the members of the household, as follows:

- a. Single less than 65 years old;
- b. Single 65 and older;
- c. Single with children living at home;
- d. Two adults less than 65 without children living at home;
- e. Two adults at least one 65 or older without children living at home;

- f. Two adults with less than 3 children living at home;
- g. Two adults with at least 3 children living at home; and
- h. Other households.

[5-2365.237](#) Within the above household compositions, children are generally classified as up to 16 years and up to 24 years if they are the offspring of one of the household members and are still living at home. The classification of children may vary between countries dependent on national legislation.

[5-2375.238](#) Alternative classifications could also be considered:

- a. By geographic region;
- b. By housing status (e.g., rental, owner-occupied with mortgage, and owner-occupied without mortgage);
- c. By the age of the reference person (e.g., 0-24, 25-34, 35-44, 45-54, 55-64, 65- 74, and 75+);
- d. By labour market status of the reference person (e.g., unemployed, employee, employer, own account worker, unpaid family worker, member of producer's cooperative, student, retired and not classified by status);
- e. By highest level of educational attainment of the reference person (e.g., low, middle and high);
- f. By disability status of the reference person;
- g. By migratory status of the reference person;
- h. By ethnicity of the reference person;
- i. By degree of urbanisation; and
- j. By sex or gender of the reference person.

[5-2385.239](#) Cross-sections of the groupings as listed above with the subsectors according to the level of income and wealth may also be possible, such as further breaking down labour market status groups by income decile, or by looking at the income distribution within regions. This may provide more detailed insights in inequalities within specific subgroups. However, it is important to assess the quality of the results at these more granular levels of detail. In this respect, more detailed insights in household groups may also be obtained by combining the distributional results based on the level of income and wealth with socio-demographic information, focusing on specific socio-demographic characteristics of households or individuals belonging to the various household groups.

## H. The non-profit institutions serving households sector

[5-2395.240](#) Previous sections have explained that NPIs are allocated to the corporations sectors when they are engaged in market production and to the general government sector if they are engaged in non-market production but subject to government control. The remaining NPIs are termed non-profit institutions serving households (NPISHs). All provide goods and services free or at prices that are not economically significant.

[5-2405.241](#) One type of NPISHs consists of those that are created by associations of natural persons to provide goods or, more often, services primarily for the benefit of the members themselves. The services are usually provided free, being financed by regular membership subscriptions or dues. They include NPISHs such as professional or learned societies, political parties, trades unions, consumers' associations, churches or religious societies, and social, cultural, recreational or sports clubs. They do not include bodies serving similar functions that are controlled by government units. Religious institutions are treated as NPISHs even when mainly financed by government units if this majority financing is not seen as empowering control by

**Commented [ED33]:** Only limited details of this section will be included in BPM7.

government. Political parties in countries with one-party political systems that are controlled by government units by means of providing the necessary finance are included in the general government sector.

[5.2415.242](#) In some communities, NPISHs may be found that do not possess any legal status or formal articles of association. They should be treated as NPISHs when they perform the same kinds of functions as the societies, political parties, trades unions, etc., described above, even if they are not legally constituted as NPISHs. However, when groups of households collaborate on communal construction projects (such as construction of buildings, roads, bridges, ditches, dykes, etc.), they should be treated as informal partnerships engaged on own-account construction rather than NPISHs. NPISHs should normally have a continuing role to play and not be deemed to be created for single projects of limited duration.

[5.2425.243](#) A second type of NPISH consists of charities, relief or aid agencies that are created for philanthropic purposes and not to serve the interests of the members of the association controlling the NPISH. Such NPISHs provide goods or services on a non-market basis to households in need, including households affected by natural disasters or war. The resources of such NPISHs are provided mainly by donations in cash or in kind from the general public, corporations or governments. They may also be provided by transfers from non-residents, including similar kinds of NPISHs resident in other countries.

[5.2435.244](#) The third type of NPISHs consist of those that provide collective services, such as research institutions that make their results freely available, environmental groups, etc. These are less common than the first two types of NPISHs and may not always be significantly represented in a country.

[5.2445.245](#) If the number or size of NPISHs funded from abroad is significant, it may be useful to disaggregate NPISHs into those that are mainly funded domestically and those that are mainly funded from abroad.

## I. The rest of the world

[5.2455.246](#) For purposes of macroeconomic statistics, the rest of the world consists of all non-resident institutional units that enter into transactions with resident units, or have other economic links with resident units. It is not a sector for which complete sets of accounts have to be compiled, although it is often convenient to describe the rest of the world as if it were a sector. The accounts, or tables, for the rest of the world are confined to those that record transactions between residents and non-residents or other economic relationships, such as claims by residents on non-residents, and vice versa. The rest of the world includes certain institutional units that may be physically located within the geographic boundary of a country; for example, foreign enclaves such as embassies, consulates or military bases, and also international organizations.

### 1. International organizations

[5.2465.247](#) Certain international organizations have all the essential attributes of institutional units. The special characteristics of an "international organization" as this term is used in macroeconomic statistics may be summarized as follows:

- a. The members of an international organization are either national states or other international organizations whose members are national states; they thus derive their authority either directly from the national states that are their members or indirectly from them through other international organizations;
- b. They are entities established by formal political agreements between their members that have the status of international treaties; their existence is recognized by law in their member countries;
- c. International organizations are created for various purposes:
  - International financial organizations – these entities conduct financial intermediation at an international level (i.e., channelling funds between lenders and borrowers in different economies). A central bank to a group of economies (including currency union central banks) is an example of an international financial organization. Other examples are the IMF, World Bank Group, BIS, and regional development banks; and

- Other international organizations – these entities provide non-market services of a collective nature for the benefit of their member states, such as peacekeeping, education, science, policy issues, and other research.

[5-2475.248](#) International organizations may be global or regional. An international agency responsible for functions normally undertaken by general government, such as administration and policing, is classified as an international organization, but it may be useful to identify such agencies separately in statistics.

[5-2485.249](#) International organizations are treated as not being resident of the territories in which they are located. This treatment is because they are generally exempted from, or are only partially subject to, national laws or regulations, and so they are not considered to be part of the national economy of the territory, or territories, in which they are located.

[5-2495.250](#) International organizations may be presented as an institutional sector in some cases. First, they may appear in data for a currency union or economic union, in which case, international organizations of the union are residents of the union as a whole. Second, they may be of relevance when data by sector of counterparty are prepared, for example, for sources of current transfers. Such data would be of particular interest in economies in which international organizations have a substantial presence.

[5-2505.251](#) In contrast to international organizations, enterprises owned jointly by two or more governments are not treated as international organizations but like other enterprises. [In the case of joint zones under the control of two or more governments, the enterprises in the zone are split between governments based on some operational indicator or equal proportions \(see paragraph 5.253\).](#) The distinction is based on whether the organization produces for the market and is important because of the different treatments for the residence of international organizations and enterprises. Separate pension funds for the staff of international organizations are treated as pension funds, rather than as international organizations. Therefore, the residence of these pension funds is determined according to the general principle for determining residency.

## 2. Currency unions and currency union central banks

[5-2515.252](#) A currency union is defined as a union to which two or more economies belong and that has a regional central decision-making body, commonly a currency union central bank (CUCB), endowed with the legal authority to conduct a single monetary policy and issue the single currency of the union.

[5-2525.253](#) A distinction can be made between centralized currency unions and decentralized currency unions. In the former model, the currency union has a CUCB owned by the governments of the member economies with the common currency issued by the CUCB and central bank operations in each economy carried out by branches or agencies of the CUCB. In the latter model, the currency union comprises a CUCB and currency union national central banks (CUNCBs) of the member economies with the CUCB being owned by the CUNCBs. The monetary policy decisions are taken by the decision-making body of the CUCB, which also coordinates the implementation of the decisions, a primary responsibility of the CUNCBs.

[5-2535.254](#) The central bank of a currency union is treated as a special kind of international organization. The members of the international organization of which the central bank is part are the governments or the national central banks of the countries in the currency union. The central bank is treated as being non-resident in any of the member countries of the currency union but is resident in the currency area as a whole. More on the treatment of currency and economic unions can be found in appendix 3 of *BPM7*.

[5-2545.255](#) In relation to the treatment of centralized currency unions, national agencies, including the notional resident units, are treated as residents of the economies of their location. Transactions between the national agency and resident units of the same member economy settled through accounts at the currency union central bank will thus be recorded/imputed in the balance sheets of the national agency for statistical purposes, and treated as transactions and positions between residents. This ensures that in each economy, monetary activities with residents of the currency union are carried out by national agencies (which resemble in its operations a national central bank) having their own assets and liabilities.

## J. Special issues associated with economic territory and residence

5-2555.256 This section starts with providing slightly more detailed guidance on the concept of economic territory. Subsequently, the concept of residence is further elaborated for households and individuals, for enterprises and various types of production arrangements, and for government units, (regional) international organizations and NPISHs. The section ends with a discussion of the treatment of assets and liabilities held by groups of residents and non-residents, the treatment of changes in residence of institutional units, and finally, alternatives to the residence concept.

### 1. More details on the economic territory

#### International organizations

5-2565.257 The economic territory of an international organization (defined in paragraphs 5.239 – 5.243) consists of territorial enclave(s) over which the organization has jurisdiction. These enclaves are clearly demarcated land areas or structures that the international organization owns or rents and uses, and that are formally agreed on with the government of the territory, or territories, in which the enclave(s) are physically located. Each international organization is an economic territory in its own right, covering operations from all its locations. As a consequence, the economic territory of international organizations is not included in the scope of a country's macroeconomic statistics.

Commented [ED34]: Paragraph 4.7, BPM6

#### Special zones

5-2575.258 Sometimes a government has a separate physical or legal zone that is under its control, but to which, to some degree, separate laws are applied. For example, a free trade zone or offshore financial centre (i.e., a jurisdiction in which financial corporations located there predominantly have financial transactions and positions with clients outside that jurisdiction) may be exempt from certain taxation or other laws. Because of the need to view the whole economy, to have comprehensive global data, and to be compatible with partner data, these special zones always should be included in the economic statistics of that economy. While national totals showing all economic activities in the economy are required for international purposes, separate data may be prepared for different subsets of the economy. To the extent that different laws and policies may apply, and natural persons, goods, and finance do not flow completely freely between a zone and the rest of the economy, a government may wish to have data to support separate analysis of either or both the special zone and the remainder of the economy.

Commented [ED35]: Paragraph 4.8, BPM6

#### Changes in economic territory

5-2585.259 The scope of an economic territory may change under several circumstances:

- a. The passing of control of a geographic area from one government to another by mutual agreement or under a decision of an international court or arbitrator. These exchanges satisfy the definition of a transaction. Accordingly, assets conveyed from one government to the other are recorded as an acquisition of land (in the external accounts recorded in the capital account) or equipment and buildings (in the external accounts recorded as transactions in goods and services, respectively, if they can be separated). If the exchange is made in exchange for payment or extinguishing of a prior liability, the corresponding entry is a financial account entry for the agreed amount. If there is no amount payable, the corresponding entry is a capital transfer. If there is a mutual exchange of land or buildings, both entries in the exchange are shown on a gross basis. In addition to these cases involving the two governments, the exchange of territory could change the territory of residence of other institutional units. As with other changes in residence, these would result in other changes in the volume of assets and liabilities.
- b. Change in the status of a particular area by seizure. Because this change in status is not by mutual agreement, it is not a transaction, but would instead be reflected by entries in the other changes in volume account.

Commented [ED36]: Paragraph 4.9, BPM6

- c. The merger of two or more economic territories to have a single national government may be seen as an absorption of one territory by another or the elimination of two territories and the creation of another. These arrangements result in entries in the other changes in volume account (namely, elimination of cross-border liabilities between the two previous constituent territories and possible reclassifications for economies having asset or liability positions with either territory).
- d. The split of a single economic territory into two or more territories is not in itself a transaction. However, there may be associated flows between the parties, for example, compensation for assuming liabilities that would qualify as transactions and be classified according to usual definitions. There also would be entries in the other changes in volume account for the appearance of cross-border liabilities between the two separating economies.

5-2595.260 When such events occur, it is essential that metadata are provided to assist users in understanding how the territorial changes affect the data.

### Joint zones

5-2605.261 In some cases, areas are under joint administration or sovereignty, that is, an area is under the effective economic control of two or more governments. These areas can be called joint administration or sovereignty zones. Because, typically, they have laws that differ from the primary territories of the individual governments, the zone could be considered an economic territory in its own right. Because the number of enterprises in these zones typically is small, however, it may be preferred to split the enterprises in the zone between the primary territories rather than publish separate data for the zone. The method of splitting should be to prorate on the basis of a relevant factor according to the circumstances, such as some operational indicator or equal proportions for each of the primary territories. This general guidance needs to be applied appropriately to the economic circumstances faced. For instance, when the enterprises that account for the vast majority, or all, of the economic activity in the zone are effectively operated from the economy of just one of the sovereign authorities, it may be preferred to treat those enterprises as residents of that economy, showing the other economy as recipient of its share of property income, taxes, and so on, and avoiding most of the complexities of prorating for those enterprises. The statistical compilers of each primary territory involved should consult with each other to adopt consistent methods with no gaps or overlaps. Through metadata and consultations, they may also assist compilers in counterpart economies to ensure consistency of bilateral data.

Commented [ED37]: Paragraph 4.10, BPM6

## 2. More details on residence

### Residence of households

5-2615.262 Although many people are clearly strongly connected to only one economy, others have substantial economic interests in two or more economic territories. Factors such as location of dwellings, employment, asset holdings, citizenship, migration status, income tax status, income received, expenditure, business interests, and location of dependent family members may point to different economies. To identify the economy of residence when there are connections to two or more economies, the following definition is used to identify the centre of predominant economic interest.

5-2625.263 A household is resident in the economic territory in which household members maintain or intend to maintain a dwelling or succession of dwellings treated and used by members of the household as their principal dwelling. Any unincorporated enterprise of such a household is also resident in this economic territory. Being present for one year or more in a territory or intending to do so is sufficient to qualify as having a principal dwelling there. If there is uncertainty about which dwelling is the principal dwelling, it is identified from the length of time spent there, rather than other factors such as presence of other family members, cost, size, or length of tenure.

5-2635.264 Individuals who belong to the same household must be residents of the same territory. If a member of an existing household ceases to reside in the territory where his or her household is resident, the individual

Commented [ED38]: Paragraphs 5.253-267 are based on paragraphs 4.116-4.130, BPM6

ceases to be a member of that household. As a result of this definition, the use of households as the institutional unit is compatible with residence being determined on an individual basis.

[5.2645.265](#) Further to the general principles, some other factors are used to determine residence of particular categories. These categories are students, medical patients, ship's crew, as well as national diplomats, military personnel, staff of scientific stations, and other civil servants employed abroad in government enclaves (these enclaves are discussed in [paragraph 5.14](#)). In these cases, some other connections are considered to be more important in determining residence. In the case of significant population movements between two particular territories, compilers in each territory should cooperate to ensure consistent definitions and measurement.

### Students

[5.2655.266](#) People who go abroad for full-time study generally continue to be resident in the territory in which they were resident prior to studying abroad. This treatment is adopted even though their course of study may exceed a year. However, students change to being residents of the territory in which they are studying when they develop an intention to continue their presence in the territory of study after the completion of the studies. For students, the rationale for not changing the territory of residence is that the movement to ~~the~~ a different territory is considered to have a temporary motivation, that is, their centre of predominant economic interest remains with the home territory. The residence of accompanying dependents of students is determined in the same manner as the persons they accompany. From the perspective of their resident economy, the tuition and other expenditure of students and accompanying persons in their host economies are included in import of services (in BPM classified under travel—[see paragraph 11.xx, BPM7 for specific details](#)).

### Patients

[5.2665.267](#) People who go abroad for the purpose of medical treatment maintain their predominant centre of interest in the territory in which they were resident before they received the treatment, even in the rare cases in which complex treatments take a year or more. As with students, the movement is considered to have a temporary motivation. The residence of accompanying dependents of patients is determined in the same manner as the persons they accompany. From the perspective of their resident economy, the expenditures of patients and accompanying persons in their host economies are included in import of services (in BPM classified under travel—[see paragraph 11.xx, BPM7 for specific details](#)).

### Crew of ships and so on

[5.2675.268](#) Crew of ships, aircraft, oil rigs, space stations, or other similar equipment that operate outside a territory or across several territories are treated as being resident in their home base territory. The home base is determined from where they spend most time other than undertaking their duties. The home base is regarded as a stronger connection than the location of the mobile equipment or its operator, even though most of the time may be spent at the latter location. From the perspective of their resident economy, the expenditures of the crew members in their host economies are included in import of services (in BPM classified under travel).

### Diplomats, military personnel, and so on

[5.2685.269](#) National diplomats, peacekeeping and other military personnel, and other civil servants employed abroad in government enclaves, as well as members of their households are considered to be residents of the economic territory of the employing government. Those enclaves – military bases, embassies, and the like, as discussed in [paragraph 5.14](#) – form part of the economic territory of the employing government. They continue to be residents in their home economies even if they live in dwellings outside the enclaves. The expenditure of diplomats and so on, [including that of their households](#), in their host economies is included in imports of goods and services (in BPM classified under government goods and services n.i.e.). Other



employees, such as locally recruited staff, are resident in the location of their principal dwelling.

### International organization staff

~~5.269~~5.270 Staff of international organizations, including those with diplomatic status and military personnel, are resident in the territory of their principal dwelling. The treatment of international organization staff is different from national diplomats and others discussed in the previous paragraph because the latter continue to be paid from and directed by their home government and tend to have shorter postings and rotate back to their economy of origin.

### Cross-border workers

~~5.270~~5.271 Border workers, seasonal workers, and other short-term workers cross borders for a certain period to undertake a job. No special treatment is adopted, so their residence is determined according to the criteria in [paragraph 5.254](#). Border workers are employed persons who cross from one territory to another to attend their place of employment. Seasonal workers cross the border for particular periods, such as the harvest or tourist seasons to attend a place of employment. Other short-term employment may occur for a particular task, such as a construction project, repairs, delivery of advice, and so on. In each case, the residence of the persons concerned is based on the principal dwelling, rather than the territory of employment.

### Highly mobile individuals

Some individuals have close connections with two or more territories, for example, they have dwellings in more than one territory in which they spend significant amounts of time. For individuals who do not have continuous actual or intended presence in any one territory for one year, the territory of the principal dwelling they maintain is the key consideration. In cases of no principal dwelling, or two or more principal dwellings in different economies, the territory of residence is determined on the basis of the territory in which the predominant amount of time is spent in the year. Although these individuals need to be classified as residents of a single economy for statistical purposes, additional information may be needed in recognition of strong ties to another economy. The statistical result of classifying long-term guest workers as residents of the host economy is appropriate, however, in that their income and consumption in the host territory are not treated as international transactions, only the amounts actually sent to the home economy are. ~~The alternative would involve artificial rerouting—their income and travel expenses would be attributed to the home territory.~~

~~5.271~~5.272 Nevertheless, it may be desirable for compilers to provide supplementary data on groups of non-residents that have significant links with the economy, for example, by remitting funds to family members remaining there or by intending to return there with savings or pension entitlements. Similarly, it may be desirable to have supplementary data on those who are classified as residents of the economy, but maintain significant links to other economies. [Appendix Annex 5-4](#) discusses some supplementary presentations for flows primarily associated with some of these mobile individuals.

**Commented [ED39]:** This paragraph will not be included in the 2025 SNA.

### Refugees

~~5.272~~5.273 No special treatment is adopted for refugees and they are recorded according to the same principles as migrants, although their motivation is usually different. Their residence will change from their home territory to the territory of refuge, if they have stayed or intend to stay in their place of refuge for one year or more, even if that residence is involuntary or transient, and its future status is unclear. The awarding of special rights and protection to refugees for at least one year could be taken into account to assess their intended duration of stay in the territory of refuge.

### Application of residence principles

5-2735.274 In practice, residence principles are generally not applied to specific individuals, but to broad groups of people. As a result, factors such as intention to stay for one year or more are typically inferred from patterns of similar groups in the past. Some administrative data sources may vary somewhat from statistical definitions of residence. If the variations are significant, some adjustment may be made, or the administrative definition may be considered as an acceptable approximation in practice.

5-2745.275 The determination of residence results in how the income, expenditure, and financial positions of the households concerned are treated in macroeconomic statistics. Table 4.3 provides a brief summary of some of the implications for the external accounts of whether a household is classified as resident or non-resident of the reporting economy for different types of flows. For example, a non-resident student studying in a territory is shown as being a source of service credits for education, housing, food, other goods and services, and possibly transfer debits, if the student is receiving a scholarship from the host economy. For a resident student, these transactions would be out of scope of the external accounts. The effect of changes of residence of natural persons is discussed in paragraph 5.284.

**Table 4.3 (BPM7): Selected effects of a household's residence status on the statistics of the host economy (BPM7) (= Table 4.3 of BPM6)**

Economic flow or position	Resident (e.g., long-term guest worker)	Nonresident (e.g., short-term guest worker)
Remuneration of employees received from enterprises in the reporting economy	Not external transaction	Earned income
Social contributions and taxes on wages and salaries paid by employees in the reporting economy	Not external transaction	Transfer income
Personal expenditure in the reporting economy	Not external transaction	Services, mainly travel
Transfers to relatives in home economy	Current or capital transfers	Resident-resident transfer within home economy, so outside balance of payments (however, possible financial account transactions if made from bank in host economy)
A resident institutional unit's financial claims on or	Not in external accounts	Included in external accounts

**Commented [ED40]:** These paragraphs, including the table, will not be included in the 2025 SNA.

liabilities to the household		
Land and buildings in host economy	Not included in international investment position	Direct investment liability of the reporting economy in notional resident unit
Land and buildings in home economy	Direct investment asset in notional resident unit	Not included in international investment position

### Residence of enterprises

[5-275.276](#) As a general principle, an enterprise is resident in an economic territory when the enterprise is engaged in a significant amount of production of goods or services from a location in the territory. Additional principles are spelled out in [paragraphs 5.271 – 5.273](#). As stated in [paragraph 6.1](#), an enterprise is an institutional unit engaged in production and may be a corporation or quasi-corporation, a non-profit institution, or an unincorporated enterprise (part of household sector).

[5-276.277](#) In contrast to individuals and households, which may have connections to two or more economies, enterprises are almost always connected to a single economy. Taxation and other legal requirements tend to result in the use of a separate legal entity for operations in each legal jurisdiction. In addition, a separate institutional unit is identified for statistical purposes in cases in which a single legal entity has substantial operations in two or more territories (e.g., for branches, land ownership, and multiterritory enterprises, as further elaborated in [paragraphs 5.72 – 5.75](#)). As a result of splitting such legal entities, the residence of each of the subsequently identified enterprises is clear. The introduction of the terminology “centre of predominant economic interest” does not mean that entities with substantial operations in two or more territories no longer need to be split.

[5-277.278](#) It is generally required that production take place or is planned to take place in the territory over a period of a year or more for a quasi-corporation to be identified. All enterprises must be resident somewhere, however, so if an actual institutional unit’s only activity is a production process that is undertaken over a shorter period, the unit is resident in the territory of location of the production.

### Corporations with little or no physical presence

[5-278.279](#) A legal entity is resident in the economic territory under whose laws the entity is incorporated or registered. If it is a resident artificial subsidiary, it is combined with a parent resident in the same economy to form an institutional unit or, for some purposes, combined into a local enterprise group. However, it must not be combined with entities resident in other economies. If it has substantial operations in another economy, a branch may be identified there (see [paragraph 5.18 \(c\)](#)). In some cases, a corporation has little or no physical presence, for example, its administration is entirely contracted out to other entities. Banking, insurance, investment funds (as distinct from their managers), securitization vehicles, and some other institutional units with similar designations often operate this way. Similarly, with virtual manufacturing, all the physical processes are outsourced to other units.

[5-279.280](#) A single corporation might be registered in several jurisdictions, for example, incorporation, income tax, value added tax, and particular regulations, and a jurisdiction may have been agreed on for settling disputes involving the enterprise. In such cases, the jurisdiction of the laws that govern the creation and continued existence of the entity should be used as the criterion for determining residence. If there is no incorporation or registration, legal domicile is used as a criterion. The incorporation and registration represents a substantial degree of connection to the economy, associated with jurisdiction over the enterprise’s existence and operations. In contrast, other connections such as ownership, location of assets, or location of managers or administration may be less clear-cut.

### Production delivered from a base

[5-280.281](#) In some cases, an enterprise has a location that is used as a base to deliver services to other locations. For example, this mode is used for transport and also may be used for delivery of many kinds of services,

**Commented [ED41]:** Paragraphs 5.268-274 are based on BPM6 paragraphs 4.131-4.137

such as on-site repairs, short-term construction, and many types of business services. In such cases, the residence of the enterprise is determined from its base of operations, rather than the point of delivery or location of mobile equipment, unless the activities at the point of delivery are sufficiently substantial to amount to a branch, as discussed in paragraphs 5.57 – 5.59. For example, an institutional unit that operates ships on the high seas and various territorial waters has its residence determined according to the criteria in paragraphs 5.267 – 5.272, and the economy of residence is not necessarily the same as the location where the ships spend the most time or the territory of registration of the ships. Additionally, the enterprise that operates the ships is not necessarily the same as the enterprise that owns the ships, such as where the ship operator has an operating lease from the ship owner, who is resident in another economy. The residence of the enterprise that owns the ship is also determined according to the criteria in paragraphs 5.268 – 5.272. Flags of convenience used by enterprises do not determine the residence of the operator, and indeed a single shipping operator may have ships registered in several economies. Similarly, the residence of enterprises that charter ships is determined by the location of its own base of operations, rather than the flags or locations of particular ships. The base of operations does not necessarily equate to the location from which the enterprise is managed. A company operating mobile equipment may be legally domiciled in one economy but managed from another economy.

~~5.281~~5.282 Table 4.4 provides a brief summary of some of the implications for the external accounts of whether an enterprise is treated as a resident enterprise or as a nonresident for different types of flows and positions. The possibility of change of residence by enterprises is discussed in paragraph 4.167.

**Table 4.4 (BPM7): Selected effects of the residence status of an enterprise owned by a nonresident on the statistics of the host economy (BPM7) (= Table 4.4 of BPM6)**

**Commented [ED42]:** This paragraph, including the table, will not be included in the 2025 SNA.

Economic flow or position	Resident enterprise (e.g., long-term construction project)	Nonresident enterprise (e.g., short-term construction project)
Sales by enterprise to residents	Not external transaction	Imports of goods and services
Purchases by enterprise from residents	Not external transaction	Exports of goods and services
Remuneration of employees payable to residents of host economy	Not external transaction if receivable	Remuneration of employees
Remuneration of employees payable to residents of home economy	Remuneration of employees	Not transaction of host economy
Net operating surplus	Dividends payable or reinvested earnings (enterprise is a direct investment enterprise)	Not external transaction
Injections of funds by owners	Direct investment liabilities of the reporting economy (enterprise is a direct investment enterprise)	Not external transaction
A resident institutional unit's financial claims on or liabilities to the enterprise	Not included in external accounts	Included in external accounts

### Residence of other institutional units

#### *General government*

[5.2825.283](#) General government includes operations outside the home territory, such as embassies, consulates, military bases, and other enclaves of foreign governments, including those providing training and other forms of assistance. Usually, these operations are not separate institutional units, but even if they were, they are residents of their home territory, rather than the host territory in which they are physically located. This treatment is adopted because they usually have some degree of immunity from the host territory's laws and are deemed under international law to be extensions of the home government's territory. However, an entity created by a government under the laws of the host jurisdiction is an enterprise resident in the host economy and not part of the general government sector in either economy. The residence of the employees of these operations is discussed in [paragraph 5.259](#).

#### *International organizations*

[5.2835.284](#) International organizations are defined in [paragraphs 5.239 – 5.243](#). International organizations are resident in an economic territory of their own, and not of the economy in which they are physically located. This treatment applies to both international organizations located in only one territory and those located in two or more territories. The residence of the employees of these operations is discussed in [paragraph 5.261](#).

[5.2845.285](#) An international organization that operates peacekeeping and other military forces or that acts as the interim administration in a territory remains classified as an international organization and is non-resident in that territory, even if it undertakes general government functions. In cases in which these organizations are significant, it may be desirable to identify them separately.

[5.2855.286](#) A separately constituted pension fund of an international organization is not treated as an international organization, but it is regarded as a financial corporation. Its residence is determined according to the general principles in [paragraphs 5.268 – 5.272](#) – that is, it is a resident of the territory in which it is located, and if it lacks a physical presence, it is a resident of the economy in which it is incorporated or registered.

#### *Regional international organizations*

**Commented [ED43]:** Paragraphs 5.275-281 are based on BPM6 paragraphs 4.138-4.144

[5-2865.287](#) Some international organizations cover a group of economies in a particular region, such as with economic or currency unions. If statistics are prepared for that region as a whole, these regional organizations are residents of the region as a whole, even though they are not residents of any member economy.

[5-2875.288](#) When producing global or regional totals, international organizations are combined with national data.

### *NPISHs*

[5-2885.289](#) An NPISH has a centre of economic interest in the economy in which the institution was legally created and is officially recognized and recorded as a legal or social entity. In practice, residence of the vast majority of NPISHs may be determined without ambiguity. When an NPISH is engaged in charity or relief work on an international scale, it may maintain substantial operations for individual territories that may amount to branches (see discussion in [paragraph 5.57 – 5.59](#)). Such a branch is usually financed largely or entirely by current or capital transfers from abroad. NPISHs are not international organizations, which are limited to those created by governments.

## 3. **Assets and liabilities held by groups that include both residents and non-residents**

[5-2895.290](#) Some financial assets have owners who are residents of different economic territories. Examples include joint bank accounts or other cases in which an account holder authorizes relatives to withdraw funds from the account. In these cases, the allocation between the owners may be unclear:

- In the case of deposits of emigrant workers in their home economies that are freely usable by family members resident in the home economies, a convention can be adopted to treat these assets as being held by residents of the home economy.
- Similarly, for deposits of emigrant workers in the host economy that are freely usable by family members, a convention can be adopted to treat these as being held by a resident of the host economy.

[5-2905.291](#) Compilers may adopt another treatment if better information is available. Because these accounts may be used to make transfers, it is important that such transactions are recognized at either the time of deposit or time of withdrawal (depending on the convention adopted). It is also important that compilers discuss methods with the compilers of monetary and financial statistics and compilers in the counterpart economy with a view to adopting consistent and realistic treatments in cases in which the values are significant.

## 4. **Changes in residence of institutional units**

### **Change in residence of individuals**

[5-2915.292](#) Households or their individual members can change their territory of residence. Because all members of a household are residents of the same territory, the movement of an individual may require that the person leave one household and become a member of another household. The change in the residence by an owner of an asset or by someone who has a liability requires a reclassification, because no exchange is made between two parties and, accordingly, no transaction occurs. (The entries are discussed in paragraphs 9.21–9.22.)

### **Assets moved between entities**

[5-2925.293](#) For what are called “corporate migrations”, two situations can occur: one in which assets are moved between entities and another in which the corporation itself changes residence. When a company is said to relocate to another jurisdiction, it usually involves transactions to move assets from a corporation in one

**Commented [ED44]:** Based on paragraph 4.145, BPM6

economy to a related corporation in a different economy (see paragraphs 8.19 – 8.22, “corporate inversion and other restructuring”). That is, the ownership of assets is moved, rather than the entity changing residence.

### **Change in residence of entities other than ~~natural~~ persons**

~~5.293~~<sup>5.294</sup> In contrast, in some rare cases, an entity changes its residence (i.e., without moving assets to ownership by another entity). These cases could arise from exchanges of territory between governments. Additionally, corporation or trust law in some cases allows entity emigration or immigration (e.g., it could be permitted within an economic union, but is not generally the case for most jurisdictions). The effects on the IIP would be treated as other changes in volume in the same way as for the change in residence of an individual, recorded in the other changes in financial assets and liabilities account. (These cases are discussed in paragraph 9.23.)

## **5. Alternatives to the residence concept**

~~5.294~~<sup>5.295</sup> With globalization, an increasing number of entities have connections to two or more economies. Some additional data sets provide alternatives to the residence concept, such as those based on ownership (as in data on the activities of multinational enterprise groups, as discussed in Appendix 4, and consolidated banking statistics) and provide additional information, such as on resident workers who send remittances abroad (as discussed in Appendix 5). In consolidated banking statistics, banking groups and their global operations are reported as a single entity (i.e., all the controlled affiliates of an enterprise are allocated to the economy of the head office).

**Commented [ED45]:** These paragraphs are based on BPM6 paragraphs 4.165-4.168 and will not be included in this chapter of the 2025 SNA. However, some elements may feature in the relevant chapters describing transactions and other flows.