

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS
BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

ISSUES PAPER (BOPTTEG) # 7

INSTITUTIONAL SECTOR CLASSIFICATION

Prepared by Robert Dippelsman, IMF Statistics Department

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I. Current international standards for the statistical treatment of the issue

As stated in *1993 SNA* para. 4.21, “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 behavior.” The institutional sector breakdown in *BPM5* has four sectors:

- Monetary authorities;
- General government;
- Banks; and
- Other sectors (combines other financial corporations, nonfinancial corporations, households, and nonprofit institutions serving households);

(paras. 512-517, also standard components tables). In some cases, the standard components include a two-sector sector classification, mostly where particular sectors are considered to be not applicable or minor.¹

Financial intermediaries do not appear as a sector in the *BPM5*, but a subset of the concept is used in defining an exclusion from the scope of direct investment (*BPM5* para. 372, *External Debt Statistics*, para. 3.18).

II. Concerns/shortcomings of the current treatment

The *BPM5* sector classification is considerably less detailed than the *1993 SNA* and *Monetary and Financial Statistics Manual (MFSM) 2000* classification. The *BPM5* sectoral classification does not line up with the other manuals, in that the *BPM5* “other sectors” item combines financial and nonfinancial corporations. In cases where the monetary authorities do not coincide with the central bank, *BPM5* differs in using “monetary authorities” rather than the “central bank.” (Consequently, the scope of “general government” will also differ in those countries.) The term “banks” is used in *BPM5*, rather than “other depository corporations” as in the other manuals; the newer terminology is designed to emphasize function rather than label.

¹ However, when values occur for an omitted sector, it means that either (i) there is no relevant heading they can be included under; or (ii) they would be included under “other sectors” which means that the coverage of the “other sectors” varies.

As noted in papers by the ECB (see references, below) the use of different classifications hinders reconciliation with other datasets and *BPM5* does not fully support some kinds of analysis, such as the monetary approach to the balance of payments. For statistical compilers, working with different classifications adds to complexity.

III. Possible alternative treatments

AO para. 4.28 offers two alternative proposals for the institutional sector classification. Both use the same components, with Table 4.1A following the order of *1993 SNA/MFSM 2000*, and Table 4.1B following the *BPM5* classification. This former has the advantage that the aggregates coincide with other manuals, while the latter has the advantage that the aggregates are compatible with the *BPM5* headings.

Table 4.1A. Institutional Sector Classification based on *1993 SNA/MFSM 2000*

Financial corporations Central bank ^{*a} Other depository corporations Other financial corporations Insurance corporations and pension funds <i>Mutual funds, unit trusts, and other collective investment schemes other than ins. corps or pens funds</i> Other financial corporations, except insurance corporations and pension funds, <i>and mutual funds etc.</i> Financial auxiliaries <i>Holding companies</i> <i>Entities for holding and managing wealth, not elsewhere classified</i>
Nonfinancial corporations
General government
Households
Nonprofit institutions serving households ^{*b}
<i>Supplementary sectors for (i) counterpart data; and(ii) (possibly) economic and monetary union totals:</i> <i>International organizations</i> <i>International financial organizations</i> <i>Other international organizations</i>

^{*a} In cases where certain central banking functions are performed wholly or partly outside the central bank, consistent with *MFSM 2000* para. 403, it will be suggested that, if parts of general government undertake central bank functions, consideration be given to compiling accounts for “monetary authorities” that combine the central bank functions or that the monetary authorities’ activities outside the central bank be shown as a memorandum item accompanying central bank data.

^{*b} May be combined with households.

Possible additional classes in the sector breakdown discussed in AO para. 4.31 are shown in italics in Table 4.1.A.

This classification is from the three-digit level of the *Classification of Institutional Sectors (1993 SNA Annex V)*. The version in *MFSM* Box 3.1 includes an additional breakdown of

nonfinancial corporations and general government, which may be useful for reconciliation with financial and government finance statistics:

Nonfinancial corporations:

Public nonfinancial corporations

Other nonfinancial corporations

General government:

Central government

State government

Local government

Social security funds (alternatively, social security funds can be allocated to other levels of general government)

International organizations appear in the above list, but not in the *1993 SNA* list which includes them in rest of the world. International organizations arise as a sector in national data when preparing data on the sector of the nonresident counterpart. In addition, international institutions of an economic or currency union become a domestic sector in consolidated data for economic or currency unions.²

Table 4.1B. Institutional Sector Classification based on the *1993 SNA/MFSM 2000* classification, rearranged to be compatible with the *BPM5* classification

General government
Central bank
Other depository corporations
Other sectors
Other financial corporations
Insurance corporations and pension funds
Other financial corporations, except insurance corporations and pension funds
Financial auxiliaries
Nonfinancial corporations
Households
Nonprofit institutions serving households

A possibility raised in *AO* para. 4.29 is to use the *1993 SNA* classification for compilation but to use a lesser degree of detail in the standard components. Such a proposal would allow generally insignificant components to be omitted from the standard presentation, while allowing other presentations to be prepared as needed and reconciliation with other datasets to be achieved. For example, it will be recognized that, in practice, households and nonprofit institutions serving households are often combined.

IV. Points for discussion

² The sectorization of such institutions in an economic or currency union will be discussed by CUTEG.

1. *Should the BPM5 four-way institutional sector split be continued or should the sector classification used in the other manuals be adopted? If so, with what level of detail?*
2. *If a more detailed classification is adopted, should it be arranged along the lines of Table 4.1.A or 4.1.B?*
3. *If a more detailed classification is adopted, is the MFSM 2000 guideline that gives the option to identify a monetary authorities sector in certain circumstances suitable?*
4. *If a more detailed classification is adopted, should the additional MFSM 2000 breakdowns of general government and other financial corporations be included?*
5. *Should an additional subsector be created for any of: (a) mutual funds, unit trusts, and other collective investment schemes? (b) holding corporations? (c) Entities for holding and managing wealth, not elsewhere classified? (d) international organizations? and (e) international financial organizations?*

References

1993 SNA, Chapter IV and Annex V.

BPM5, Appendix II.

Annotated Outline for the Revision of BPM5, Chapter 4, Section D.

Monetary and Financial Statistics Manual 2000, paras. 80-115, especially Box 3.1

European Central Bank, *Updating BPM5: Possible Expansion of the Sector Breakdown*, (BOPCOM-02/64) (Not available on the IMF website.)

European Central Bank, *The Forthcoming Review of International Statistical Standards: Towards Updating BPM5* (This is an update of a paper that was presented to the Committee at its 2003 meeting, available on the IMF website.)