

Secondary Income Account

A. Overview of the Secondary Income Account

Reference:

2008 SNA, Chapter 8, The Redistribution of Income Accounts.

12.1 *The secondary income account shows current transfers between residents and nonresidents.* Various types of current transfers are recorded in this account to show their role in the process of income distribution between the economies. Transfers may be made in cash or in kind. Capital transfers are shown in the capital account (see paragraphs 13.19–13.34).

12.2 Whereas primary income affects national income (see paragraph 11.4 for the definition of gross national income), secondary income, together with primary income, affects gross national disposable income. Capital transfers do not affect disposable income and, hence, are recorded in the capital account.

12.3 The balance on the secondary income account presents total credits less total debits, and is called balance on secondary income. In addition, the balance of the sum of all current account transactions can also be shown at the end of this account because it is the last account in the sequence of current accounts. The balance on all current accounts is called the current account balance, an important economic aggregate in analyzing external imbalance. The current account balance also links to the national accounts as it is equal to the saving–investment balance for the economy (see paragraphs 14.4–14.5).

12.4 The components and structure of the secondary income account are shown in Table 12.1. Current transfers can be further classified by institutional sectors receiving or providing the transfers. In some cases, compilers may be interested in compiling data classified by sector of provider for credits and sec-

tor of recipient for debits. For economies that are major recipients of assistance, it would be desirable to show current and capital transfers with consistent classifications to allow them to be compared and aggregated.

B. Concepts and Coverage

12.5 In describing the content of the secondary income account, two important distinctions are made: (a) transfers are distinguished from other types of transactions (see paragraphs 12.6–12.11) and (b) current transfers are distinguished from capital transfers (see paragraphs 12.12–12.15).

I. Transactions: exchanges and transfers

12.6 As explained in paragraph 3.13, every transaction is either an exchange or a transfer. An exchange involves a provision of something of economic value in return for a corresponding item of economic value.

12.7 *A transfer is an entry that corresponds to the provision of a good, service, financial asset, or other nonproduced asset by an institutional unit to another institutional unit when there is no corresponding return of an item of economic value.* Transfers can also arise where the value provided in return for an item is not economically significant or is much below its value. The accounting system in the international accounts requires that each party to a transaction record two entries (see paragraphs 3.26–3.31 for the description of the accounting system). When something of economic value (e.g., goods, services, or a financial asset) is provided without a corresponding return of an item of economic value, the corresponding entry is made as a transfer. A cash transfer consists of the payment of currency or transferable deposit by one institutional unit to another without anything supplied in return. A transfer in kind consists of either the transfer of ownership of a

Table 12.1. Overview of the Secondary Income Account

	Credits	Debits
Balance on goods, services, and primary income		
Personal transfers		
Current taxes on income, wealth, etc.		
Social contributions		
Social benefits		
Net premiums on nonlife insurance and standardized guarantees		
Nonlife insurance claims and calls under standardized guarantees		
Current international cooperation		
Miscellaneous current transfers		
Total current transfers credits and debits		
Balance on secondary income		
Adjustment for change in pension entitlements		
Current account balance		
Current account balance (excluding reinvested earnings)		

Note: This table is expository; for Standard Components, see Appendix 9.

good or asset, other than cash, or the provision of a service, again without any corresponding return of an item of economic value. A transfer is classified as a current or capital transfer (see paragraphs 12.12–12.15).

12.8 A unit making a transfer receives no specific quantifiable benefit in return that can be recorded as part of the same transaction. Nevertheless, certain transfers (e.g., net nonlife insurance premiums) may entitle the unit making the payment to some contingent future benefits. Taxes are usually used to provide certain collective services that the taxpayers may be able to consume. Even in the context of taxes payable by residents, such benefits are generally uncertain or not quantifiable, and hence items such as net nonlife insurance premiums and taxes other than those on products and production are treated as transfers. Taxes on products and production are, however, treated as primary income. (See paragraphs 11.91–11.94.)

12.9 The borderline between transfers and exchanges may, in some cases, be unclear. The distinction between taxes and charges for government services is one such case. Paragraphs 12.30 and 10.180–10.181 provide the guidelines for distinguishing taxes from services. Another case is the distinction between personal transfers and compensation of employees when individuals go abroad for employment. The distinction between the recording of one or the other of these transactions is based on the nature of the transaction and how long the individuals stay in the economic territories where they are working, that is, whether they are considered residents of the

economies where they are working. Similarly, a case of distinction between financial transactions and personal transfers is described in paragraph 12.24.

12.10 A nonprofit institution serving households (NPISH, as defined in paragraph 4.100) may be a direct investor in a corporation. However, flows between two NPISHs are generally transfers, rather than investment, because it is considered that flows in these cases are seldom driven by commercial considerations.

12.11 Transfers do not generally arise between commercial entities. For example, provision of goods and services without an explicit charge or at understated value between institutional units in a direct investment relationship does not represent a transfer. In this instance, the corresponding entry is in direct investment equity (see paragraphs 11.101–11.102). However, net nonlife insurance premiums and nonlife insurance claims are transfers that may occur between commercial entities. Likewise, a commercial entity may be involved in the provision of current or capital transfer to another commercial entity as a compensation for damages to properties or other losses.

2. Distinction between current and capital transfers

12.12 Transfers may be either current or capital. To avoid duplication, the distinction between current and capital transfers is discussed primarily in this chapter rather than in Chapter 13, Capital Account. To

distinguish current transfers from capital transfers, it is preferable to focus on the special characteristics of capital transfers.

12.13 *Capital transfers are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or that oblige one or both parties to acquire or dispose of an asset (other than cash or inventories); or where a liability is forgiven by the creditor. Cash transfers involving disposals of noncash assets (other than inventories) or acquisition of noncash assets (other than inventories) are also capital transfers. A capital transfer results in a commensurate change in the stocks of assets of one or both parties to the transaction without affecting the saving of either party.* Capital transfers are typically large and infrequent, but capital transfers cannot be defined in terms of size or frequency. A transfer in kind without a charge is a capital transfer when it consists of (a) the transfer of ownership of a nonfinancial asset (other than inventories, i.e., fixed assets, valuables, or nonproduced assets) or (b) the forgiveness of a liability by a creditor when no corresponding value is received in return. However, capital equipment provided by a direct investor to its direct investment enterprise is not a capital transfer, but involves a transaction in direct investment equity. A transfer of cash is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of a fixed asset by one or both parties to the transaction (e.g., an investment grant).

12.14 *Current transfers consist of all transfers that are not capital transfers.* Current transfers directly affect the level of disposable income and influence the consumption of goods or services. That is, current transfers reduce the income and consumption possibilities of the donor and increase the income and consumption possibilities of the recipient. For example, social benefits and food aid are current transfers.

12.15 It is possible that some cash transfers may be regarded as capital by one party to the transaction and as current by the other party. A large economy that regularly makes investment grants in cash to a number of smaller economies may regard the outlays as current, even though they may be specifically intended to finance the acquisition of assets. So that a donor and a recipient do not treat the same transaction differently, a transfer should be classified as capital for both parties even if it involves the acquisition or disposal of an asset, or assets, by only one of the parties. When there is doubt about whether a transfer should be treated as current or capital, it should be treated as a current transfer.

The treatment of nonlife insurance claims as current or capital is discussed in paragraphs 12.44–12.45.

3. Recording and valuation of transfers

12.16 Although no good, service, or asset is received in return from the counterpart, the recording of a transfer nevertheless must give rise to two entries for each party to the transaction. For a transfer in cash, the donor records a decrease in currency or deposits and a transfer payable; the recipient records an increase in currency or deposits and a transfer receivable. For a provision of goods or services in kind without a charge, the donor records an export of goods or services and a transfer payable; the recipient records an import of goods or services and a transfer receivable. When a liability is forgiven, the creditor and debtor extinguish the financial asset and liability, respectively, with the corresponding entries recorded as transfers.

12.17 In general, the time of recording of transfers is determined by the time of the change of economic ownership of the resources (such as goods, services, financial assets) that are corresponding entries to transfers. Determining the time of recording for grants and other voluntary transfers can be complex because there is a wide variety of eligibility conditions that have various legal powers. In some cases, a potential transfer recipient has a legal claim when certain conditions have been satisfied, such as the prior incurrence of expenses for a specific purpose or the passage of legislation. These transfers are recorded when all requirements and conditions are satisfied. In cases where the transfer recipient never has a claim on the donor, the transfer should be attributed to the time at which the cash payment is made, the asset conveyed, or liability forgiven.

12.18 Taxes and other compulsory transfers should be recorded when the activities, transactions, or other events occur that create the government's claim to the taxes or other payments. The time of recording of taxes is the time at which tax liability arises. Accordingly, the amount of taxes is determined by the amount due for payment as evidenced by tax assessments, declarations, or other instruments, such as sales invoices or customs declarations, that create liabilities in the form of obligations to pay on the part of taxpayers. Some compulsory transfers, such as fines, penalties, and property forfeitures, are determined at a specific time. These transfers are recorded when a legal claim to the funds is established, which may be when a court renders judgment or an administrative ruling is published. If data on taxes are on a cash basis, adjustments

should be made for large differences to approximate the accrual basis of recording.

12.19 Because a transfer is the corresponding entry to an actual resource flow or a forgiven liability, the value of the transfer equals the value of the corresponding flow. Generally, transfers in kind give rise to valuation difficulties for the actual resource flow and, accordingly, also the corresponding transfer entries. The principles for the valuation of in-kind transactions are described in paragraph 3.72.

C. Types of Current Transfers

12.20 The international accounts classify the following types of current transfers:

Personal transfers

Other current transfers

- (a) current taxes on income, wealth, etc.,
- (b) social contributions,
- (c) social benefits,
- (d) net nonlife insurance premiums,
- (e) nonlife insurance claims,
- (f) current international cooperation, and
- (g) miscellaneous current transfers.

These categories of current transfers are described in paragraphs 12.21–12.58 in the context of international accounts.

I. Personal transfers

Reference:

IMF, 2009, *International Transactions in Remittances: Guide for Compilers and Users*.

12.21 *Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households.* Personal transfers thus include all current transfers between resident and nonresident individuals, independent of:

- (a) the source of income of the sender (irrespective of whether the sender receives income from labor, entrepreneurial or property income, social benefits, and any other types of transfers; or disposes assets); and

- (b) the relationship between the households (irrespective of whether they are related or unrelated individuals).

By convention, current transfers between households with regard to lotteries and other gambling are included under personal transfers (discussed in paragraph 12.26).

12.22 *Workers' remittances are current transfers made by employees to residents of another economy.* They are included as a supplementary item.

12.23 The connection to the residence status of the person concerned is important in determining whether a personal transfer is involved. For example, in the case of workers, personal transfers include only those transfers abroad made by workers who are residents of the economy in which they are employed. Resources may be sent abroad by residents of an economy for the purpose of financing other residents of the same economy who are staying abroad (such as those sent by parents to children who are studying in other territories). These transactions should not be recorded as current transfers in the balance of payments because the parties are residents of the same economy. The expenses abroad constitute a purchase of education services in the case of students. Expenditures incurred abroad by residents staying for less than one year in foreign economic territories are generally recorded as travel (see paragraphs 10.86–10.100).

12.24 Funds sent abroad by individuals who are resident in the economy in which they are employed, self-employed, or operating a business, for the purpose of making a deposit in his or her own account with a bank located abroad, represent a financial investment, which is recorded in the financial account, rather than as a personal transfer. But any withdrawals to provide resources to a relative or another person (without a quid pro quo) should be recorded as a personal transfer. The situation of joint accounts can arise with workers resident abroad who have joint bank accounts with relatives in their home countries. The treatment of such joint accounts is discussed in paragraph 4.145. If the joint account emigrant workers hold in their home country is freely usable by its holders in the home country, the account may be considered to be held by residents in the home economy (liability to residents). In such a case, the deposits made to the account by the nonresident should be shown as funded by a transfer from abroad and withdrawals by residents from the account would be domestic transactions.

Lotteries and other gambling

12.25 The amounts paid for lottery tickets or placed in bets consist of:

- (a) a service charge to the unit organizing the lottery or gambling (discussed in paragraph 10.171); and
- (b) current transfers that are payable from the gamblers to the winners and, in some cases, to charities.

The transfers are regarded as taking place directly from those participating in the lottery or gambling to the winners and charities. That is, they are not recorded as transfers to or by the unit operating the gambling. Some of the service charge at purchasers' prices may include gambling taxes, which are shown as payable by the operator, not the customers.

12.26 When nonresident households take part in gambling there may be net transfers between residents and nonresidents. In some cases the winner of a lottery does not receive a lump sum immediately but a stream of payments over future periods. This arrangement should be recorded as the receipt of the lump sum as a current transfer equal to the present value of the payment stream and the immediate purchase of an annuity. The recording of annuities is described in paragraphs A6c.29–A6c.35.

Remittances

12.27 Appendix 5 describes the concept of remittances for measuring and analyzing international remittances and resource flows to households and NPISHs. Three categories of remittances are defined, which may be included as supplementary items, as follows:

- (a) **Personal remittances.** From the perspective of the recipient economy, personal remittances are defined as:

Personal transfers receivable;

- + Compensation of employees receivable;
- Taxes and social contributions payable (related to compensation of employees);
- Transport and travel expenditures payable by residents employed by nonresidents (as defined under business travel in paragraphs 10.91–10.93);
- + Capital transfers receivable from households.

- (b) **Total remittances.** From the perspective of the recipient economy, total remittances are defined as

Personal remittances receivable;

+ Social benefits receivable.

Although conceptually, total remittances include nonlife insurance transactions (net nonlife insurance premiums and nonlife insurance claims), these transactions are excluded on practical grounds.

- (c) Total remittances and transfers to NPISHs. From the perspective of the recipient economy, this category is defined as:

Total remittances receivable;

- + Current transfers receivable by NPISHs;
- + Capital transfers receivable by NPISHs.

Current and capital transfers to NPISHs are generally recorded under miscellaneous current transfers or other capital transfers (discussed in paragraphs 12.53 and 13.31).

2. Other current transfers**a. Current taxes on income, wealth, etc.**

Reference:

2008 SNA, Chapter 8, The Redistribution of Income Accounts; Section C, Current Taxes on Income, Wealth, etc.

12.28 Current taxes on income, wealth, etc., in the international accounts consist mainly of taxes levied on the income earned by nonresidents from the provision of their labor or financial assets. Taxes on capital gains arising from assets of nonresidents are also included. Taxes on wages and salaries earned by nonresident employees are recorded as payable by the nonresident employees. Taxes on income and capital gains from financial assets can be payable by individuals, corporations, nonprofit institutions, governments, and international organizations. Taxes on interest and dividends are recorded as payable by the recipients of the interest or dividends. Taxes on financial transactions (such as taxes on issue, purchase, and sale of securities) payable by nonresidents are also current transfers. (However, if such taxes have been classified as other taxes on products and production in the national accounts, by convention, they may be treated in the same way in the international accounts for consistency.) Taxes on income and wealth may be imposed by and payable directly to international organizations, such as the agencies of an economic union. Taxes on rent and ownership of land are treated as payable by the resident producers or resident notional

institutional units; hence, they generally should not be recorded in the balance of payments. Inheritance taxes are treated as capital transfers (see paragraph 13.28 for the treatment of inheritance taxes). Refunds of taxes to taxpayers are treated as negative taxes; that is, the amount of taxes is reduced by tax refunds.

12.29 Any other current taxes (other than taxes on income and wealth, as explained in the preceding paragraph, and taxes on products and production that are recorded in the primary income account as explained in paragraph 11.91) are also included in the secondary income account.

12.30 Specific permission is granted by governments through issuing a license or other certificate for which a fee is demanded. A “fee” that is a tax should be distinguished from a “fee” that is a payment in return for services provided by governments (see also paragraphs 10.180–10.181 for distinction between taxes and services). If the issue of such licenses involves little or no work on the part of government or the fee charged is clearly out of all proportion to the costs associated with the issuance of licenses, it is likely that the licenses being granted automatically on payment of the amounts due are simply a device to raise taxes, even though the government may provide some kind of certificate, or authorization, in return. However, if the government uses the issue of licenses to exercise some proper regulatory function—for example, checking the competence, or qualifications, of the person concerned, checking the efficient and safe functioning of the equipment in question, or carrying out some other form of control that it would otherwise not be obliged to do—the payments made should be treated as purchases of services from government rather than payments of taxes, unless the payments are not broadly proportional to the costs of providing the services.

12.31 Any fines or penalties on the late payment of taxes are included in the amount of associated taxes.

b. Social contributions

Reference:

2008 SNA, Chapter 8, The Redistribution of Income Accounts; Section D, Social Insurance Schemes and Section E, Net Social Contributions.

12.32 *Social contributions are the actual or imputed contributions made by households to social insurance schemes to make provision for social benefits to be paid.* Social insurance schemes include social security schemes (which cover the entire community or large sections of

it and are imposed, controlled, and financed by government) and employment-related schemes (including funded and unfunded pension schemes). Social contributions in the international accounts are recorded when a resident makes contributions to social security and pension schemes in another economy for his or her employment in that economy, or an employer makes actual or imputed contributions on behalf of the employee. (Social contributions by an employer on behalf of its employees are included in compensation of employees; see paragraphs 11.22–11.23.) Similarly, social contributions are recorded when a nonresident makes social contributions to the resident social security and pension schemes.

12.33 The calculation of the amount of social contributions varies for social security and pension schemes. For social contributions to social security schemes, the amount of social contributions recorded in the secondary income account includes the actual contributions payable by the employers and employees. Because the amount payable by employers is included in the compensation of employees, the total of social contributions payable to social security schemes is recorded as a transfer payable by the employees.

12.34 The calculation of social contributions to pension schemes involves contribution supplements and service charges. Contribution supplements, which represent investment income payable on pension entitlements, are described in paragraph A6c.41 and charges for pension fund services are explained in paragraph 10.118. Furthermore, the treatment of social contributions is designed to treat social insurance transactions simultaneously as income distribution and financial transactions.

12.35 Social contributions to pension schemes are determined as follows:

- Employers’ actual contributions;
- + Employers’ imputed contributions;
- + Employees’ actual contributions;
- + Contribution supplements corresponding to investment income payable by pension schemes on pension entitlements;
- Service charges payable to pension schemes.

12.36 Employers’ actual and imputed contributions are rerouted through employees (for explanation of rerouting, see paragraph 3.16). Contribution supplements represent investment income payable by pension schemes on pension entitlements. All the service charges are treated as charges payable by the employees, because the beneficiaries are the ultimate users.

For determining the contribution supplements and service charges for a group or groups of policyholders, ratios of these items to actual contributions payable from various similar sources may have to be used.

12.37 Pension entitlements represent claims of beneficiaries on the funds. The payments of social contributions into the pension schemes and the receipts of pensions by beneficiaries therefore constitute the acquisition and disposal of financial assets. In addition, they are recorded as current transfers in the secondary income account as social contributions and social benefits, respectively, so that disposable incomes of households reflect these flows. Negotiated changes in pension entitlements are current transfers (if they relate to current periods) or capital transfers (otherwise). In contrast, changes arising from revision to model assumptions are other changes in volume (see paragraph 9.24).

12.38 In order to reconcile the treatment of pensions as current transfers with the treatment of pension entitlements as financial assets, it is necessary to introduce an adjustment item. This adjustment item adds back social contributions to, and subtracts pension receipts from, the balance on secondary income. After the adjustment, the current account balance is the same as what it would have been if social contributions and pension receipts were not recorded as current transfers. This item is called “adjustment for change in pension entitlements” and is equal to:

the total value of the actual social contributions payable into pension schemes;

- + the total value of contribution supplements payable out of the property income attributed to pension fund beneficiaries;
- the value of the associated service charges;
- the total value of the pensions paid out as social benefits by pension schemes (see paragraph 12.40).

(Changes in pension entitlements arising from capital transfers are not included in this item.)

12.39 When cross-border flows of pension contributions and pension receipts are significant, the adjustment item must be recorded in order to reconcile the current and financial accounts. For the economy of the employees, the adjustment item is added to the balance on secondary income (a credit entry) and for the economy of the pension schemes, opposite adjustment is needed; that is, the adjustment item is deducted from the balance on secondary distribution of income (a

debit entry). When cross-border flows are minor, the adjustment item may be omitted.

c. Social benefits

Reference:

2008 SNA, Chapter 8, The Redistribution of Income Accounts; Section F, Social Benefits Other Than Social Transfers in Kind.

12.40 Social benefits include benefits payable under social security and pension schemes. They include pensions and nonpension benefits regarding events or circumstances such as sickness, unemployment, housing, and education, and may be in cash or in kind. Also included are social benefits payable to households by government units or NPISHs to meet the same needs as those under social insurance schemes but that are not made under a social insurance scheme. Cross-border social benefits may be insignificant but can be important in economies where a significant number of residents have or had employment in other economies.

d. Net premiums on nonlife insurance and standardized guarantees

12.41 Net nonlife insurance premiums and net premiums on standardized guarantees are described in paragraphs 12.42 and 12.43, respectively. Net nonlife insurance premiums are derived from total nonlife insurance premiums and premium supplements after deducting the service charges. Only the net nonlife insurance premiums constitute current transfers and are recorded in the secondary income account. The service charges constitute purchases of services by the policyholders and are recorded as insurance services. Net nonlife reinsurance premiums are calculated and recorded in the same way as for the direct nonlife insurance.

12.42 Nonlife insurance premiums consist of both the gross premiums payable by policyholders to obtain insurance during the accounting period (premiums earned) and the premium supplements payable out of the investment income attributable to insurance policyholders. The total of the nonlife insurance premiums payable in this way has to cover payments of service charges to the insurance enterprises for arranging the insurance and payments for the insurance itself. The way in which the service charges are calculated is explained in paragraph 10.111. After the service charges are deducted from total nonlife insurance premiums and premium supplements, the remainder is described as net nonlife insurance

premiums. These are the amounts available to provide cover against various events or accidents resulting in damage to goods or property or harm to persons as a result of natural or human causes—fires, floods, crashes, collisions, sinkings, theft, violence, accidents, sickness, and so forth—or against financial losses resulting from events such as sickness, unemployment, and accidents.

12.43 Some units, especially government units, may provide guarantees against creditors defaulting in conditions that have the same characteristics as nonlife insurance. This happens when many guarantees of the same sort are issued and it is possible to make a realistic estimate of the overall level of claims under current guarantees. In this case, the fees payable (and the investment income earned on the technical provisions for calls) are treated in the same way as nonlife insurance premiums and the calls under the guarantees are treated in the same way as nonlife insurance claims. Therefore, net premiums on standardized guarantees are derived from total premiums and premium supplements after deducting the service charges.

e. Nonlife insurance claims and calls under standardized guarantees

12.44 Nonlife insurance claims are the amounts payable in settlement of claims that become due during the current accounting period. Claims become due at the moment when the eventuality occurs that gives rise to a valid claim. They are equal to claims paid within the accounting period plus changes in the technical reserves against outstanding claims. Nonlife reinsurance claims are calculated and recorded in the same way as for the direct nonlife insurance.

12.45 The nonlife insurance claim is treated as a transfer to the claimant that accrues at the time that the insured event occurs. Insurance claims have a mix of current and capital elements. As a convention, cross-border nonlife insurance claims are treated as current transfers, except in the cases covered in paragraph 13.24.

12.46 Claims payable under standardized guarantees are recorded under this item in the secondary income account (see also paragraph 12.43).

f. Current international cooperation

12.47 Current international cooperation consists of current transfers in cash or in kind between the govern-

ments of different countries or between governments and international organizations. This includes:

- (a) transfers between governments that are used by the recipients to finance current expenditures, including emergency aid after natural disasters; they include transfers in kind in the form of food, clothing, blankets, medicines, and so forth;
- (b) annual or other regular contributions paid by member governments to international organizations (excluding taxes payable to supranational organizations) and regular transfers made as matter of policy by the international organizations to governments (for the treatment of capital contributions, see paragraph 13.32); and
- (c) payments by governments or international organizations to cover the salaries of those technical assistance staff who are deemed to be resident in the economy in which they are working and who are in an employer-employee relationship with the host government. Also included is technical assistance supplied in kind.

Current international cooperation does not cover transfers intended for purposes of capital formation; such transfers are recorded as capital transfers. Contributions that give rise to equity are acquisitions of shares or other equity (as in paragraph 5.26).

12.48 External aid provided by governments through a nonresident entity created to undertake fiscal functions is also considered to be current international cooperation. These transfers are described in paragraphs 8.24–8.26.

12.49 When goods and services acquired from market producers are provided to governments or other entities by international organizations, other governments, or NPISHs, without charge to the recipient, they should be valued at market prices, that is, the prices paid by the purchasers. When a transfer in kind involves goods and services produced by international organizations, other governments, or NPISHs, the valuation should be based on cost of production, consistent with the general principles for the valuation of services produced by general government and NPISHs.

12.50 Generally, funding of technical assistance has characteristics of current transfers. However, technical assistance that is tied to or part of capital projects is classified as capital transfers because investment grants are capital transfers. (See also paragraphs 13.25–13.26 concerning investment grants, which are capital transfers.)

12.51 Loans with concessional interest rates could be seen as providing a current transfer equal to the difference between the actual interest and the market-equivalent interest. If such a transfer were recognized, it would usually be recorded as current international cooperation, and the interest recorded would be adjusted by the same amount. However, the means of incorporating the impact within the SNA and international accounts have not fully evolved, although various alternatives have been advanced. Accordingly, until the appropriate treatment of concessional debt is agreed, information on concessional debt could be provided through supplementary information. The supplementary information should show the benefits arising from concessional debt as one-off transfers at the point of loan origination equal to the difference between the nominal value of the debt and its present value using a relevant market discount rate. (See paragraphs A2.67–A2.69 for a more detailed description of the calculation.) This option has the advantage of considering all the possible sources of transfers in debt concessionality—maturity period, grace period, and frequency of payments, as well as the interest rate—and is consistent with nominal valuation of loans. Such an approach should be used for official lending involving an intention to convey a benefit and occurrence in a noncommercial setting (usually government-to-government). Commercial situations are different in that concessional interest rates may be used to encourage the purchase of the goods and services, and so should not be treated in the same way.

g. Miscellaneous current transfers

12.52 *Miscellaneous current transfers, in cash or in kind, include all current transfers other than those described in the previous sections of this chapter.* The categories of miscellaneous current transfers between residents and nonresidents are described in paragraphs 12.53–12.58.

Current transfers to NPISHs

12.53 Current transfers to NPISHs are transfers received by resident NPISHs from nonresident institutional units in the form of membership dues, subscriptions, donations, and so forth whether made on a regular or occasional basis. Grants and donations

between NPISHs are generally classified as current transfers (e.g., donations for relief works).

Other miscellaneous current transfers

Fines and penalties

12.54 Fines and penalties imposed on institutional units by courts of law or other government bodies are treated as miscellaneous current transfers. However, early or late repayment penalties agreed as part of the original contract are not included in current transfers; they should be treated along with the associated good, or service, or income, as appropriate.

Payments of compensation

12.55 Payments of compensation consist of current transfers paid by institutional units to other institutional units in compensation for injury to persons or damage to property caused by the former that are not settled as payments of nonlife insurance claims. Payments of compensation could be either compulsory payments awarded by courts of law or settlements agreed out of court. Compensation may cover nonfulfillment of contracts, injuries to persons, damages to property, or other losses that are not covered by insurance policies. This heading covers compensation for injuries or damage caused by other institutional units. It also includes *ex gratia* payments made by government units or NPISHs in compensation for injuries or damages caused by natural disasters.

12.56 Major compensation payments for extensive damages (e.g., oil spillages or side effects of pharmaceutical products) are treated as capital rather than current transfers (see also paragraph 13.29).

Other

12.57 Gifts and donations of a current nature not included elsewhere are regarded as current transfers. However, payments of membership dues or subscriptions to market nonprofit organizations serving businesses, such as chambers of commerce or trade associations, are treated as payments for services rendered and are therefore not transfers. (See also paragraphs 13.29–13.34 on other capital transfers.)

12.58 Payments to international or supranational authorities that are regarded as being compulsory, and for which nothing is provided in return, but which are not taxes, are classified as miscellaneous transfers.