THE GOVERNMENT SECTOR

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Glossary*
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The government sector is part of the public sector and comprehends all government units the primary role of which is the execution of government functions (executive, legislative and judicial). It covers all national and sub-national units of government, including the extra-budgetary funds and non-profit institutions that provide non-market services that the government finances and controls. In IMF terminology defining government finance concepts (*Government Finance Statistics Manual*), the government sector is called the general government sector. In this glossary the specialised term general government will be used to signify the concept of the government sector, or simply government. The government sector, or government, is much more frequently used colloquially to signify the concept that is called in the discipline general government.

The public sector consists of: 1) general government (central government, regional and local administrative bodies); 2) non-financial public corporations; 3) public finance institutions. Public non-financial corporations are corporations owned and/or controlled by the government (public corporations), while financial corporations owned and/or controlled by the government are called public financial institutions (such as the central bank). The general government sector, then, is an integral part of the public sector.

Government functions entail the implementation of public policy by the provision of non-market services and the redistribution of income and assets, primarily financed through taxes and other dues that are paid by the non-government sector. All government functions are of a fiscal character. But some fiscal activities are carried out by agencies outside the general government sector, their primary activity being of a monetary or commercial type. These activities are called quasi-fiscal in order to highlight the fact that the primary activity of these agencies does not have fiscal characteristics. For the sake of meeting criteria of fiscal transparency, it is important to present all fiscal activities, irrespective of where they are carried out. This is why it is important to distinguish general government from central bank, public financial institutions and non-financial public corporations. These agencies sometimes deal with fiscal activities that are not part of their primary function, and that is why they are called quasi-fiscal.

The relationship between general government and the rest of the public sector (i.e., the central bank, public finance insti-

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tutions and non-financial public corporations) needs clearly marking demarcating.

• *The relationship between general government and central bank.* The basic function of the central bank is to give effect to monetary objectives. Trends towards allowing the central bank ever greater autonomy are becoming increasingly strong. In many countries the independence of the central bank is statutorily defined and it is prohibited from directly financing any fiscal deficit[1]. But in some countries the central bank carries out certain quasi-fiscal functions such as subsidised lending, making direct loans or running multi-tiered exchange rates. The government makes use of these operations in place of direct fiscal activity, and each of them needs to be involved in the consideration of the overall fiscal position of the country.

• *General government and public finance institutions.* Although in all countries the privatisation of banks has assumed major proportions, public financial institutions, such as the government banks, still exist in many emerging market countries. Public financial institutions are often founded in order to provide certain quasi-fiscal services. Thus, usually, government development banks will make loans to certain selected sectors or firms on non-commercial terms (for example at rates of interest lower than market) From the point of view of transparency, it is important that in the annual financial reports of the public financial institutions, their non-commercial activities are clearly stated.

• *General government and non-financial public corporations*. In many countries non-financial public corporations provide services on a non-commercial basis, usually in the form of prices lower than those needed to cover costs (for example, charging for electricity below market price for rural households). In some countries these corporations, at the request of government, also provide certain social services. These non-commercial activities can be financed via cross-subsidising among various consumer groups (some consumers pay a higher and some a lower price for the same service) or perhaps the losses of the non-financial public corporations will be covered from the budget. Such activities cloud transparency in the relationship between non-financial public corporations and general government and should be taken into account when consideration of the fiscal position of a country.

General government affects the private sector in various ways. State effects on the private sector can be seen for example via the regulation of the non-banking private sector, in interventions in the banking sector or by direct investment in the equity of private companies or commercial banks. Government influence on the rest of the economy, i.e., on the private sector, must be put into practice in a transparent manner founded on clear rules and procedures that are applied on a non-discriminatory basis.

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[1] But a central bank is allowed to buy bonds on the open market or by other measures to affect the demand for these bonds (via the mandatory reserves).