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Economic statistics: government finance statistics**Report of the International Monetary Fund on the
Relationship between government finance statistics
and the *System of National Accounts, 1993*, and
Methods of Implementing the *Government Finance
Statistics Manual 2001*****Note by the Secretary-General**

In accordance with a request of the Statistical Commission at its thirty-second session,** the Secretary-General has the honour to transmit to the Commission the report of the International Monetary Fund on the relationship between government finance statistics and the *System of National Accounts, 1993* (1993 SNA), and methods of implementing the *Government Finance Statistics Manual 2001*. The Commission may wish to review the relationship between government finance statistics and the 1993 SNA, and the implementation process for the *Manual*.

* E/CN.3/2002/1.

** *Official Records of the Economic and Social Council, 2001, Supplement No. 4* (E/2001/24), chap. I, sect. A.



Report of the International Monetary Fund on the Relationship between government finance statistics and the *System of National Accounts, 1993*, and Methods of Implementing the *Government Finance Statistics Manual 2001*

I. Introduction

1. As anticipated by the Task Force on National Accounts (see E/CN.3/2001/7), the second edition of the *Government Finance Statistics Manual* was published in December 2001 by the International Monetary Fund (IMF). The first edition, published in 1986, established internationally recognized standards for fiscal statistics. After the publication of the *System of National Accounts, 1993* (1993 SNA), IMF decided to update those standards and harmonize them with the new national accounting standards. The purpose of the present report is to provide the Statistical Commission with information about the new *Manual*, the harmonization of the government finance statistics (GFS) system with the 1993 SNA, and plans for the implementation of the new standards.

II. The revision process

2. After a period of internal consultation and discussion, an annotated outline of the revised *Manual* was published in 1996 and distributed widely for review and comment. Based on the comments received and additional research, a draft of the *Manual* was distributed in four stages throughout 1999. Drafts of the chapters were both posted on the IMF Internet site and mailed to international organizations and national statistical offices, ministries of finance and central banks of member countries.

3. Additional revisions were made throughout 2000 based on the comments received on the first draft and further internal discussions. The second draft of the *Manual* was again posted on the Internet site and letters were sent to recipients of the first draft, notifying them of the availability of the second draft and offering to mail copies. A final round of consultation was taken in February 2001, when a group of government finance statistics experts was convened to discuss the second draft.

4. Additional revisions were introduced following the expert group meeting and, following final editing, the *Manual* was published in December 2001. An electronic copy of the manual is

available on the IMF Internet site at <http://www.imf.org/external/pubs/ft/gfs/manual/index.htm>, and paper copies can be purchased from publication services at IMF.

III. Major changes in the GFS system

5. Recent financial events have underscored the need for government fiscal policies to take a wide variety of circumstances into account. For example, public finance analysts use fiscal statistics to analyse the size of the public sector; its contribution to aggregate demand, investment and saving; the impact of fiscal policy on resource use, monetary conditions and national indebtedness; the tax burden; tariff protection; and the social safety net. In addition, analysts have become increasingly interested in assessing the effectiveness of government spending on poverty alleviation, the sustainability of fiscal policies, net debt, net worth and contingent claims, including the contingent liabilities of social security schemes.

6. The revision was guided by harmonization of the new system with the 1993 SNA, while taking account of the expanding needs of fiscal analysts. Some differences remain between the 1993 SNA and the revised GFS system, as noted in section IV below.

7. Perhaps the most important change is the adoption of the accrual basis for recording transactions and other flows rather than the cash basis of the previous edition. Governments have become adept at separating the time of a cash payment from the associated resource flow. By focusing on resource flows, the new *Manual* highlights government commitments for future cash flows and failures to meet previously scheduled cash flows.

8. The new *Manual* includes balance sheets and records flows other than transactions, such as the effects of exchange rate changes and natural disasters, both changes that were also introduced in the 1993 SNA. The inclusion of balance sheets reflects the growing awareness that information on assets and liabilities is necessary for aspects of modern fiscal analysis. By including all economic events rather than

just transactions with other units, an integrated system that explains all changes in the balance sheet can be produced.

9. Another major change in the GFS system is the use of several balancing items rather than just the overall deficit/surplus that was emphasized in the first edition of the *Manual*. The *net operating balance* is the change in net worth resulting from transactions, a measure of the sustainability of current government operations. It is closely related to *net saving* in the 1993 SNA, but differs primarily by the amount of net capital transfers receivable. From the viewpoint of fiscal analysis, the impact of most capital transfers is indistinguishable from current transfers.

10. *Net lending/borrowing* is a second major balancing item in the GFS system and one that also appears in the 1993 SNA. It corresponds roughly to the *overall deficit/surplus* in the first edition of the *Manual*, in that it indicates the extent to which government is either putting financial resources at the disposal of other sectors in the economy or utilizing the financial resources generated by other sectors, but it is calculated on the accrual basis rather than the cash basis.

11. The GFS system also includes balancing items that are not in the 1993 SNA but are needed for fiscal analysis. The *cash surplus/deficit* is a measure of the cash required to finance a government's operations, including its acquisition of non-financial assets. The *overall fiscal balance* is net lending/borrowing adjusted for alternative treatments of selected transactions in assets (mainly financial assets), because many Governments engage in such transactions as a means to carry out public policy rather than to manage their liquidity.

IV. Relationships with the SNA

12. Appendix 3 of the *Government Finance Statistics Manual* describes the relationships between the GFS system and the 1993 SNA in considerable detail. Only the major points of the appendix will be recapitulated here.

13. Production-related transactions are recorded quite differently in the two systems. The GFS system does not include output or intermediate consumption, although they are included in the 1993 SNA. If the output of non-market goods and services, such as

public safety and education, were to be recorded in the GFS system, it would have to be as government revenue, which would severely distort the common notion of revenue. Because that output is not recorded in the GFS system, corresponding changes in expense categories also have to be made.

14. The GFS expense category, "Use of goods and services", is the closest equivalent to intermediate consumption in the 1993 SNA, but there are substantial differences relating to the treatment of inventories and the consumption of financial and insurance services. In addition, the treatment of own-account capital formation in the GFS system affects the comparison of several entries. Expenses incurred in own-account capital formation that would be recorded in the 1993 SNA as intermediate consumption, consumption of fixed capital and compensation of employees are recorded in the GFS system as the acquisition of fixed assets.

15. Another major difference between the two systems relates to social insurance. In the 1993 SNA, all receipts of social contributions by social insurance schemes are treated as current inflows (resources), and all payments of social benefits by the schemes are treated as current outflows (uses) even though the receipts and payments of schemes providing retirement benefits represent changes in liabilities of the scheme. In the GFS system, contributions to schemes providing retirement benefits and benefits paid by those schemes are treated as changes in liabilities and not as revenue and expense. In addition, unfunded schemes providing retirement benefits to government employees are treated in the same manner as funded schemes in the GFS system, in that liabilities for the future provision of benefits are recognized. Those liabilities are not recognized in the 1993 SNA.

16. Statistics are to be compiled on an unconsolidated basis in the 1993 SNA but on a consolidated basis in the GFS system. Thus, when statistics are compiled for the general government sector, all debtor-creditor positions between two institutional units of the sector and all transactions taking place between two institutional units of the sector are eliminated in the GFS system, so that the statistics appear as if the sector consisted of a single institutional unit. Thus, total revenue, expense, assets and liabilities could be substantially less in the GFS system than in the 1993 SNA even if there were no other differences between the two systems.

17. It was noted above that *net lending/borrowing* is one of the key balancing items in both the GFS system and the 1993 SNA. Because of the different treatments of some transactions, most notably social insurance contributions and benefits related to retirement schemes, the value of that balancing item in the GFS system may differ from the balancing item with the same name in the 1993 SNA. To avoid confusion, the indicator “[GFS]” is attached to balancing items or classification categories in the *Manual* to indicate that the item has the same name but different coverage in the GFS system than in the 1993 SNA.

18. Additional details on the differences between the two statistical systems will be made available on the IMF Internet site devoted to the *Manual* (see para. 4 above).

V. Implementation of the *Manual*

19. Just as the implementation of the 1993 SNA has been a multi-year process, it is recognized that many countries will require a long transition period to convert their fiscal statistics fully to the new GFS standards. Priorities for implementation are best established by national authorities that are familiar with the situation, needs and problems of the individual countries in question. In particular, many countries will need to revise their underlying accounting systems to reflect the accrual accounting principles and revised classifications of the GFS system.

20. Nonetheless, it is likely that many countries will follow a similar path as they implement the system. For example, a possible first step on the migration path could be that countries would adopt the revised classification structure of the Statement of Government Operations or Statement of Sources and Uses of Cash and adjust their existing cash-based statistics to allow for known deficiencies, such as by incorporating information on revenue or expense arrears. Another step might be the assembly of balance sheet information on financial assets and liabilities that would enable estimates to be made of the other economic flows of the system as they relate to those financial items. A more difficult step is likely to be the collection of a complete set of information about the stocks of non-financial assets held at a given time and their valuation at current market prices. Finally, a fully developed accrual accounting system could be

introduced that provides for complete balance sheets to be prepared.

21. It is not currently possible to specify more detailed implementation guidance. At a minimum, however, countries can compile their GFS statistics using the classifications of the new *Manual*. Moreover, beginning with the 2002 edition of the *Government Finance Statistics Yearbook*, the IMF database will be converted to the new classifications.

22. The IMF Internet site will be used to develop specific implementation guidance as experience is gained with particular countries. Compilers are encouraged to submit questions about their specific conditions or summaries of how they solved specific problems.