EUROPEAN CENTRAL BANK

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GOVERNMENT FINANCE STATISTICS GUIDE

JANUARY 2007

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Address
Kaiserstrasse 29
60311 Frankfurt am Main
Germany

Postal address
Postfach 16 03 19
60066 Frankfurt am Main
Germany

Telephone
+49 69 1344 0

Website
http://www.ecb.int

Fax
+49 69 1344 6000

Telex
411 144 ecb d

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GOVERNMENT FINANCE STATISTICS GUIDE

1 INTRODUCTION

This chapter introduces the context and purpose of the Guide as well as its structure and the terminology used. It summarises the methodological framework for annual Government Finance Statistics (GFS) and the European Central Bank (ECB) reporting tables. The ECB requires two submissions each year of annual GFS, and interim updates and revisions. The April submission provides data for the European System of Central Banks (ESCB) Annual Public Finance Report while the October submission is used for macroeconomic projections. This Guide is a companion to the GFS Guideline in which the ECB's requirements are set out. While the GFS Guideline is legally binding for the National Central Banks (NCBs) of the Member States participating in the euro area, NCBs of the ESCB also transmit fiscal statistics required for the ESCB Annual Public Finance Report and the Convergence Report in accordance with the provisions of the Guideline.

1.1 CONTEXT AND PURPOSE

This Guide explains how to compile the annual data on Government Finance Statistics (GFS) sent by NCBs to the European Central Bank (ECB). The Guide is for use by staff in NCBs, national statistical institutes (NSIs) and other institutions engaged in preparing data for GFS returns, and for users requiring a better understanding of GFS data. The ECB will revise the Guide periodically.

The Guide complements the "Guideline on the statistical reporting requirements of the European Central Bank and the procedures for exchanging statistical information within the European System of Central Banks in the field of Government Finance Statistics" (here referred to as "the GFS Guideline") adopted by the Governing Council of the ECB on 17 February 2005 and amended on 3 February 2006.[1] An ECB Guideline is a legal instrument internal to the Eurosystem (comprising the ECB and the participating NCBs). Once adopted by the Governing Council of the ECB, a Guideline imposes obligations on the Eurosystem, but has no legally binding effect upon third parties including central banks of non-participating Member States. However, the information in this Guide is relevant to the ESCB (including NCBs from all EU Member States).

This GFS Guideline lays down when and how the GFS data should be delivered to the ECB. It describes, inter alia, NCBs' reporting obligations, which include two major data transmissions in spring and autumn and interim updates. The spring submission is carried out within the framework of the Annual Public Finance Report (APFR) of the ESCB, while the autumn submission relates to the ECB's macroeconomic projections exercise. These data deliveries, as well as data deliveries at other times of the year, are used to update Tables 6.1 to 6.3 on the general government fiscal position in the euro area as a whole and in euro area countries in the "Euro area statistics" section of the ECB's Monthly Bulletin.[2]

The annual GFS data transmitted by the NCBs to the ECB follow the same methodology as those supplied to the European Commission for the Excessive Deficit Procedure (EDP) notification, where applicable. Nevertheless, the two datasets are not identical. The differences between them are described in Sections 1.3 and 10.3 of this Guide. There are further differences from the International Monetary Fund's GFS system, explained in Section 10.4 of this Guide.

1 The original GFS Guideline (ECB/2005/5) and the amending GFS Guideline (ECB/2006/2) are available from the Secretary of the ECB Working Group on Government Finance Statistics. The amendment concerns only the postponement of the autumn transmission from "before 15 September" to "before 15 October".

2 The pdf files of the ECB's Monthly Bulletin including the tables of the "Euro area statistics" section can be found on the ECB's website or at www.ecb.int under "Publications", for example at http://www.ecb.int/pub/mb/html/index.en.html.

GFS data are defined by reference to the European System of Accounts 1995 (ESA 95).[3] ESA 95 is consistent with the System of National Accounts 1993 (SNA 93).[4] The statistics contained in the GFS tables reflect decisions taken by Eurostat on the interpretation of ESA 95 for specific cases involving the general government sector.

This Guide makes many references to the ESA 95,[5] but does not attempt to repeat everything in ESA 95 related to the government sector in national accounts. Nor does it give a thorough explanation of national accounts definitions and methods. It is assumed that the GFS compiler will have a copy of ESA 95 and will extract relevant GFS data from an existing set of national accounts data. However, the Guide does give detailed explanations of classifications and concepts where:

a) they are not in the original ESA 95 text, or ESA 95 is not detailed enough for GFS;

b) GFS extend the boundary of government to include the EU institutions;

c) the demands of GFS require more explanation than is given in ESA 95, such as for the reconciliation of the deficit and change in debt, or more detailed breakdowns, e.g. to identify privatisation receipts or to analyse debt by maturity;

d) ESA 95 has been amended by more recent Community legislation, for example with regard to the treatment of swaps and forward rate agreements (FRAs);

e) subsequent Community legislation has defined concepts which are not in the original text of ESA 95, such as total government revenue and expenditure; and

f) Eurostat has made decisions on how to apply ESA 95 to certain types of difficult methodological issue, such as the recording of interest.

In a number of instances in recent years, the guidance in ESA 95 has been expanded to deal with complicated or borderline cases where there have been differing views on how to record the case in national accounts under ESA 95. Eurostat takes decisions on such cases following the procedures in the Regulation 2103/2005 on the compilation and reporting of data in the context of the Excessive Deficit Procedure.[6] This involves consulting the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB),[7] after discussion in expert Eurostat working parties and task forces. The current procedure for the consultation of the CMFB[8] about the statistics underlying the EDP, which consists of four steps (submission, investigation, consultation and decision), was unanimously adopted at the CMFB on 15 June 2004.[9]

Many of the decisions have been taken into account in Eurostat's "ESA 95 Manual on government deficit and debt",[10] which explains in more detail some of the methodology concerning the compilation of data for the government deficit and debt. In this document

3 Including amendments to ESA 95 made by Commission Regulation (EC) No 1500/2000 on government revenue and expenditure; Regulation (EC) No 2516/2000 of the European Parliament and Council; Commission Regulation (EC) No 995/2001 on taxes and social contributions; and Regulation (EC) No 2558/2001 of the European Parliament and Council on the reclassification of settlements under swap arrangements and FRAs.

4 The text of SNA 93 can be found at http://unstats.un.org/unsd/sna1993/introduction.asp.

5 The ESA 95 was adopted by Council Regulation (EC) No 2223/96. The ESA 95 is available from Eurostat at http://forum.europa.eu.int/irc/dsis/nfaccount/info/data/esa95/en/titelen.htm. ESA 95 replaced ESA 79, which was the basis for EDP statistics up to 2000.

6 Regulation (EC) 2103/2005 amending Regulation (EC) 3605/93.

7 Details about the CMFB can be found on its website at www.cmfb.org. CMFB decisions on EDP topics are at http://www.cmfb.org/main-topics/excessive.htm.

8 http://www.cmfb.org/pdf/CMFB_Consultation_EDP-15.06.2004.pdf.

9 Fuller explanations and press notices can be found on the Eurostat website (http://epp.eurostat.cec.eu.int/portal/page?_pageid=0,1136107&_dad=portal&_schema=PORTAL).

10 ISBN 92-894-3231-4. Details can be found at http://epp.eurostat.cec.eu.int/portal/page?_pageid=1073,46587259&_dad=portal&_schema=PORTAL&p_product_code=KS-42-02-585. The second edition was published in 2002.

it is referred to simply as the *Deficit and Debt Manual*.

1.2 STRUCTURE OF THE GUIDE AND CONVENTIONS FOR REFERENCES

There is a chapter for each GFS table (seven tables in total). The "item numbers" in these chapters refer to the numbers used in Annex II of the GFS Guideline. These item numbers may slightly differ from those used in the reporting tables sent to NCBs to collect the GFS data. To avoid confusion, the item numbers in the reporting tables are called "line numbers" in this Guide.

Within each chapter there is a table showing the correspondence between the GFS Guideline item numbers and the reporting table line numbers. The tables are presented with the same content as the reporting tables used by the ECB to collect the GFS data.

ESA 95 codes and paragraph numbers are in italics to distinguish them from codes in the GFS tables and section numbers in this Guide.

The GFS reporting tables used to collect data from NCBs are referred to using a lower case letter (e.g. Table 1a, Table 1b, etc.), whilst the tables in the GFS Guideline take upper case letters (e.g. Table 1A, Table 1B, etc.).

1.3 METHODOLOGICAL FRAMEWORK

As stated in Section 1.1, the GFS data collected at the ECB are similar to data provided by Member States to the European Commission under the Excessive Deficit Procedure (EDP), which in turn are similar to statistics relating to the general government sector in the ESA 95. The ESA 95 comprises a complete set of interrelated economic and financial accounts. The ECB is interested in data on both the ESA 95 and the EDP basis because the ESA data are widely used in economic and financial analysis, while the related but slightly different EDP data are used in assessing convergence under Article 121 of the Treaty and for Stability and Growth Pact (SGP) purposes.

This introductory section places general government data in the ESA 95 framework, and then explains the few but important differences between the ESA 95 and the EDP data, and between them and the GFS data requirements covered by the ECB's GFS Guideline. It includes cross-references to the more detailed and technical sections of this Guide, which may be more easily understood against this background.

GOVERNMENT TRANSACTIONS AND BALANCE SHEETS IN THE ESA 95

Sectors and sub-sectors

The ESA divides the economy into five sectors: non-financial corporations, financial corporations, general government, households, and non-profit institutions serving households. Every resident entity belongs to one of these sectors; no entity is in more than one sector. "Resident" means having a centre of economic interest in the country. All non-resident entities are in a single sector (Rest of the World – RoW). In ESA 95 national accounts compiled by a Member State, European Union Institutions (EUIs) and governments of other Member States are classified in the Rest of the World sector.

The general government sector (*S.13* in the ESA 95 coding) comprises four sub-sectors: central government (*S.1311*); state government (*S.1312*); local government (*S.1313*); and social security funds (*S.1314*). State government refers to a layer of government in countries with a federal structure. Social security funds are (briefly) entities under the management and responsibility of general government, membership of which is compulsory for the whole population or for specified groups, and whose principal function is to provide social benefits. Social benefits comprise sickness and unemployment benefit, family allowances, pensions and the like. Where units of general government sell their output, they do so predominantly at non-market prices, such that sales receipts cover less than 50% of production costs; publicly-owned market producers (public corporations) are in the financial or non-financial corporations sectors, not in the general government sector. These corporations meet the 50% criterion (more than 50% of production costs are covered by sales over a range of years).

The GFS Guideline mainly relates to statistics on national general government sectors as defined in the ESA 95. To gain a fuller picture of governmental activity in the economy (revenue, expenditure, fiscal burden), the ECB seeks to include also data on the operations of EUIs relating to the Member State concerned, rather as if such operations were conducted by a fifth sub-sector of general government. This extended general government sector is not a feature of the ESA 95 or EDP data. The ECB also seeks to aggregate GFS across the euro area, as if one general government sector covered the whole area, including all related business of EUIs.[11] This is not in the ESA 95 or in the EDP data.

The treatment of EUIs and aggregation across the euro area is described in Chapter 3 and in Section 9.3 of this Guide.

The general government sector in the sequence of accounts in the ESA 95

The ESA 95 contains a sequence of accounts in which the bottom line (or balancing item) of one account provides the starting point for the next account. The *production account* records the use of labour, productive assets and bought-in supplies (intermediate consumption) to produce goods and services. The general government sector contributes to this activity, producing some output for sale in the market, and much more output for sale at well below cost or for distribution without charge for use by individuals (e.g. medical or educational services) or collectively by the community (e.g. defence or administration). The balancing item is value added – the value of output at market prices, or in some cases by necessity at cost, minus intermediate consumption. Value added comprises compensation of employees, including social welfare contributions paid on their behalf by employers, gross operating surplus, a mixture of the two relevant to unincorporated enterprises in the household sector called mixed income, and taxes on production less subsidies. Much of the compensation of employees and social contributions on their behalf will accrue to the workforce of units of general government, which may also share in gross operating surplus and receives the taxes on production (less subsidies). This is all recorded in the *generation of income account* and the *allocation of primary income account*, which also shows receipts and payment of property income (interest, dividends and rents). The *secondary distribution of income account* and the *redistribution of income in kind account* show how these incomes arising from production and ownership of property are then reduced or augmented by current taxes on income and wealth, social contributions (meaning here the payment of the contributions, notionally by employees and others, to government), social benefits (the return flow, mainly from general government to the household sector – the benefits may be in cash, like unemployment pay or pensions, or in kind in the form of, for example, free schooling or medical treatment), and many other current transfers.

Taxes are covered in Section 2.1.6, social contributions and benefits in Section 2.1.7 and interest in Section 2.1.8.

The balancing item at the foot of these accounts is adjusted disposable income ("adjusted" to show that it is after distribution of benefits in kind). A large part of general government current revenue and current expenditure will be recorded in the secondary distribution and redistribution of income in kind accounts. Nevertheless, they include only "individual" benefits, meaning items with an identifiable beneficiary or group of beneficiaries and which cannot then be used by others. General

11 It might be noted that the ECB and the European Investment Bank are not EUIs. The ECB is treated statistically as a financial corporation resident in the euro area but not in any individual Member State. The EIB is classified in both euro area and national statistics as a non-resident financial corporation.

government will probably be left with a large "adjusted" disposable income. The *use of income account* shows how "adjusted" disposable income is spent on what is called actual collective consumption or saved, saving being the balancing item. This last part of general government current expenditure, namely collective consumption – spending on goods and services for the benefit of the community as a whole, or large parts of it – is entered here. Collective consumption, or actual government consumption as it is called, comprises current expenditure on administration, justice, defence, policing, street lighting and cleaning, and the like.

Individual and collective consumption of the general government sector are described in Chapter 4.

The accounts described so far are the current accounts. The *capital account* is the first of the accumulation accounts. The capital account shows how far saving is used up (or more than used up) by spending on non-financial assets or in making capital transfers. Non-financial assets include fixed capital (produced items, like buildings, equipment, software, that are themselves used in the production process), inventories, valuables (works of art, jewellery – produced items which are not used in production[12]), and non-produced assets, such as land and mineral reserves, and also intangible things with a market value like patents. General government spends on many of these things which form an important part of the country's infrastructure.[13] General government will also receive the proceeds of capital taxes (e.g. inheritance and gift taxes, death duties, betterment levies – though not capital gains taxes, which are regarded in the ESA as a current tax) and will probably also make and may receive capital transfers (something-for-nothing transactions involving the transfer of an asset, or a transfer of money tied to the acquisition of an asset or the liquidation of a liability). Table 1A attached to the GFS Guideline includes capital account transactions of general government.

For government investment, see Section 2.3.26; for capital transfers, see Section 2.3.28.

The ESA 95 as originally adopted did not bring together revenue and expenditure items. An amending Commission Regulation (No 1500/2000) defines total revenue and expenditure (current and capital). Different presentations of revenue and expenditure are set out in Chapter 2. The components of general government revenue and expenditure are summarized in the table on the next page.

The bottom line in the capital account is net borrowing/net lending, or the ESA 95 deficit/surplus (this balancing item may be adjusted to exclude interest expenditure to obtain the so-called primary deficit/surplus). The *financial account* then records transactions in financial assets and liabilities, showing how net lending/borrowing is deployed. General government transacts in most types of financial instrument, and may have both asset and liability positions in many of them. Financial account transactions are covered in Tables 2 and 3 of the GFS Guideline.

The ESA 95 also provides for *balance sheets* showing each sector's non-financial and financial assets and liabilities. Transactions in non-financial and financial assets and in liabilities in the intervening period will usually account for much of the change from one balance sheet to the next, but – as will be evident from the next section – other factors affect balance sheets too. These are recorded in two reconciliation accounts, the *other* (meaning other than transactions) *changes in the volume of assets* [and liabilities] *account*, and the *revaluation account*. These reconciliation accounts close the system.

12 Works of art for display are regarded as being used in production.
13 A distinction might be made here between maintenance of roads, etc., which is intermediate consumption, and new or substantially improved roads, which is fixed capital formation entered in the capital account; the distinction may sometimes not be clear in practice.

Table 1 Government expenditure and revenue and their components

Component	Description
Total revenue	Current revenue and capital revenue
Current revenue	Direct taxes, indirect taxes, social contributions, sales, and receipts of other current transfers
Direct taxes	Current taxes on income, wealth, etc.
of which payable by enterprises of which payable by households	Taxes on profits and capital gains Taxes on personal income, property, and capital gains
Indirect taxes	Taxes on production and imports, and on certain types of expenditure
Social contributions of which employers' social contributions of which employees' social contributions	Actual social contributions, and imputed employers' social contributions recorded in respect of unfunded pay-as-you-go pension schemes and other unfunded social insurance schemes operated by employers
Sales	Output for own final use and actual receipts from the sale of goods and services
Other current transfers	Receipts of interest, dividends, and fines
Capital revenue of which capital taxes	Capital transfers receivable: capital taxes, investment grants, and other capital transfers Taxes such as inheritance taxes
Fiscal burden	Direct taxes, indirect taxes, social contributions and capital taxes
Total expenditure	Current and capital expenditure
Current expenditure	Compensation of employees, intermediate consumption, interest and current transfers
Compensation of employees	Wages of government employees and non-wage costs such as employers' social contributions
Intermediate consumption	Use of goods and services
Interest expenditure	Consolidated within and between government sub-sectors; excludes settlements under swaps and forward rate agreements, treated as financial transactions in ESA 95
Current transfers	Social payments and subsidies; current transfers paid, and taxes paid by government units on production
Social payments	Social benefits and pensions paid in money, and services funded by government that are produced and delivered to households by market units such as private hospitals, and by non-profit institutions outside government serving households such as educational charities
Subsidies	
Capital expenditure	Investment, capital transfers, and the acquisition of inventories, valuables and land, less disposals of such assets
Investment	Acquisition of fixed capital assets such as buildings, computers and vehicles, less sales of such assets
Capital transfers	Investment grants, debt cancellations by agreement, etc.
Primary expenditure	Total expenditure minus interest expenditure

It might be noted here that the ECB has recently begun to publish a complete sequence of *ESA 95 institutional sector accounts for the euro area*, including accounts for the general government sector.[14] The first annual results for 1999-2004 were published in May 2006; quarterly results will follow in spring 2007. The results for the government sector within the non-financial euro area accounts can easily be reconciled with the GFS data described in this document. As presented in table 3.1.1 (Chapter 3), the methodological difference refers to the EUIs. They are classified as non-resident in the euro area accounts. By contrast, EUI transactions with euro area residents outside the general government sector are recorded in the GFS as if (in respect of these transactions) the EUIs were a fifth sub-sector of general government.

Some features of the ESA 95

In the ESA 95, a transaction is an economic flow representing interaction between two institutional units by agreement; it can also be a flow within one institutional unit operating in

14 This is part of a major project undertaken in close cooperation with Eurostat, who publish annual aggregates for the whole European Union covering the non-financial accounts.

two capacities. Transactions are recorded in the ESA 95 at transaction values which means that they are valued at the prices of the time: balance sheet items are valued at market prices on the balance sheet date, or at the closest approximation to them. It will be evident from this that many factors other than transactions will affect balance sheets. Discovery of mineral reserves, destruction of capital assets through accident or natural disaster, confiscation of assets, unexpected obsolescence, write-offs of loans because the creditor regards them as irrecoverable, are a few instances of events which are not "transactions" in the ESA 95 but which will affect the balance sheet. Moreover, given the ESA 95 rules for valuing transactions and balance sheets, price developments will drive a wedge between the change in balance sheets and cumulative transactions in the intervening period, and call for entries in the revaluation account in the form of what the ESA 95 calls holding gains and losses. These considerations, which apply to the general government accounts as much as to the accounts of other sectors, explain why the reconciliation accounts are needed to close the system.

Other important features of the ESA 95 are the requirement that a transaction be recorded at the same time and in a consistent way by the parties to it. The time should coincide with the economic flow – that means (for example) when ownership of the item changes hands or when the service is delivered, not when payment is made. Advanced or delayed payment should be recorded by entries in the financial account, to be reversed when the transaction is settled. Taxes and social contributions, to be recorded when they fall due, are treated this way. For a similar reason – to ensure that the accounts best represent economic flows – interest is recorded as it accrues, not when it is paid. Accrued but unpaid interest is entered under property income, with imputed entries in the financial account as if the interest were reinvested in the financial instrument concerned; when interest is eventually paid, the imputed reinvestment is reversed and the payment is reflected (normally) in deposits.

The ESA 95 is mostly not consolidated. That means that, with exceptions, transactions and asset/liability positions between institutional units within a sector or sub-sector are shown on both sides, and are not cancelled out. Netting refers to the practice of offsetting purchases against sales of the same item or similar items by the same institutional unit, sector or sub-sector. Although the ESA 95 expresses a preference for gross recording, netting is widely used (for example, transactions in inventories, valuables and financial instruments are recorded net on this definition).

Chapters 6, 7 and 8 cover consolidation and netting.

A brief explanation of the treatment in the ESA 95 of settlements under financial derivatives contracts is necessary. The key point is that the ESA 95 regards financial derivatives contracts as separate financial instruments from the underlying item. Take as an example an interest rate swap, under which a government, having issued fixed interest paper, in effect exchanges the obligation to pay fixed interest for an obligation to pay variable interest. It does so by entering into a derivatives contract to pay variable interest and receive fixed interest in exchange on a notional amount of principal. The ESA regards the payments and receipts under the derivatives contract as successive settlements of a debtor or a creditor position, and not as payments or receipts of interest. Under the ESA such settlements are recorded in the financial account and not in property income in the primary income account; they accordingly do not affect net borrowing/net lending.

THE ESA 95 AND EDP DATA

In most respects the EDP data, sometimes called Maastricht deficit and debt, conform to the ESA 95. There are however certain differences. In the EDP, settlements under interest rate swaps and forward rate agreements are recorded as property income and affect the government's current revenue and expenditure (as indeed they originally were in the ESA 95). So the general government surplus or deficit in the EDP is not necessarily the same as general government net lending/net borrowing in the ESA 95 accounts. Recognizing this, the GFS Guideline requests information on settlements under swaps and FRAs. Moreover, although this treatment does not affect the deficit/surplus, interest on general government debt is consolidated in the EDP data, meaning that interest flows within the general government sector (*S.13*) are excluded.

The difference between ESA 95 and EDP definitions of the government deficit is elaborated in Section 10.3.

There are more substantial differences between general government liabilities in the ESA 95 balance sheet and government debt for EDP purposes. Mainly for practical reasons – the initial difficulty of obtaining fully comparable figures from all Member States on some debt items – Maastricht debt comprises general government liabilities in the form of currency (coins), deposits, debt securities (securities other than shares and other equity) and loans only. Any general government liabilities in the form of shares and other equity, insurance technical reserves, other accounts receivable/payable (trade credit and timing differences – category *F.7* in the ESA 95) and financial derivatives, are ignored for the purpose. The second difference arises from valuation. In the ESA 95, general government liabilities are valued at market prices; in the EDP, they are entered at nominal value. This can make quite a difference for low or zero coupon debt, or for long-term coupon securities issued when interest rates were different. It might also be noted that the market price will reflect accrued interest on the instrument, whereas EDP debt at nominal value does not increase with the accruing of interest (except for index-linked bonds). Finally, the EDP values certain debt denominated in foreign currency in a different way. The ESA 95 requires foreign currency debt to be converted into domestic currency at the spot market exchange rate on the balance sheet date; if the foreign currency liability is covered forward, the current market value of the foreign currency derivatives contract is entered in the balance sheet as a separate asset or liability of general government under derivatives. In the EDP, by contrast, the foreign currency liability is valued at the rate in the forward contract, not at the current spot market rate. A similar valuation procedure applies in the less likely case that debt denominated in domestic currency is turned into foreign currency debt. There is a parallel between these cases and the different treatments of interest rate swaps and FRAs in the ESA 95 and the EDP.

Finally it might be noted that Maastricht debt is consolidated, meaning that general government debt for EDP purposes excludes all holdings of general government debt within the *S.13* sector itself.

It should also be noted that the EDP data pay no regard to financial assets held by the general government sector.

Reconciliation between ESA 95 debt and EDP debt

ESA 95 debt (not consolidated)

- Move from market to nominal valuation
- Exclude accrued interest
- Remove ESA 95 debt components not included in EDP debt

= EDP debt, not consolidated

- Add "consolidating elements"

= EDP debt, consolidated (as required)

It follows that the reconciliation between EDP deficit/surplus and EDP government debt departs considerably from the reconciliation accounts (the other changes in the volume of assets [and liabilities] account and the revaluation account) in the ESA 95. The ECB's GFS Guideline requires information to enable this reconciliation (called the deficit-debt adjustment in the EDP context) to be carried out. The GFS Guideline also requires information on what it calls consolidating elements, to form a bridge between the consolidated EDP data and the mainly unconsolidated ESA 95 accounts. The deficit-debt adjustment is set out in the table below.

The deficit-debt adjustment

EDP deficit (from current and capital accounts)

- Add statistical discrepancy (between capital account and financial account)
- Deduct net acquisition by government units of claims on other government units
- Add net acquisition by government units of claims on other sectors
- Deduct net incurrence of liabilities that are not part of EDP debt
- Add net increase in value of EDP debt instruments arising from exchange rate and other "volume" changes
- Adjust from market to face value

= net increase, at face value, in government liabilities that are EDP debt instruments (that is, change in EDP debt)

Section 5.1 contains a much fuller treatment of the deficit-debt adjustment.

Another point concerns sales of universal mobile telecommunication system (UMTS) licences. Both the ESA 95 and the EDP data record these sales as general government disposals of a non-financial asset, directly affecting net borrowing/net lending and the EDP deficit/surplus. Since these transactions, which were very large in 2000 and 2001, make it harder to discern the underlying fiscal position in those years, the GFS Guideline requires data on the amounts and GFS presents the EDP deficit/surplus with and without UMTS receipts.

TREATMENT OF OPERATIONS OF EU INSTITUTIONS (EUIs), AND EURO AREA AGGREGATES

The ECB Guideline requires further information for two other purposes. Both the ESA 95 and the EDP are concerned with national data relating to the general government sector. The ESA 95 treats transactions between the EUIs and non-governmental institutional units in the Member States, whether direct or through national governments acting as agents, as transactions between resident sectors and the Rest of the World; the EDP data, which are concerned only with national general government accounts, include the transactions of the general government with the EUIs on its own account, but omit all transactions in which general government acts as an agent for the EUIs. While the ESA 95 and EDP approaches are clearly correct within their own terms of reference, they may be thought to understate the role of government in the EU economies. Indeed, in economic terms, and in the perception of taxpayers, taxes that are resources of the European Union are similar to those paid to general government, and EU subsidies and grants will be viewed by recipients much like similar disbursements of the national government. The ECB accordingly seeks data to enable the transactions between resident sectors and the EUIs (excluding the ECB and the EIB) to be included in the transactions of what may be considered to be an extended general government sector. The ECB also wants to aggregate GFS across the euro area, including the relevant transactions of the EUIs, as if there were one single general government sector.

In effect, though not in form, the ECB makes the EUIs an extra sub-sector of general government in each Member State, taking account of their operations with institutional units resident in that Member State. The effect is to increase both general government revenue and expenditure in each Member State. Since taxes or levies paid to EUIs will be included, the measured fiscal burden will also increase. The effect would be to increase general government net borrowing, or the EDP deficit, in Member States which are net recipients from the EUIs (because including the EUIs will add more to "government" expenditure than to revenue), and to reduce them in Member States which are net contributors. Whether it is appropriate, and of any analytical value, to allow the EUI operations to feed through to the bottom line in individual countries is arguable; the result is not under the direct control of the national government and has no direct implications for its own financing needs. Indeed, the ECB insulates general government net lending/net borrowing and the EDP deficit from EUI operations by inserting a notional entry in the accounts to reverse their effect. This point is explained further in Chapter 3.

The ECB then takes the further step of aggregating general government accounts across the euro area, including relevant operations of EUIs. The detailed notes (refer to Chapter 9 below) explain how this was done for the years before the euro area was established, using a measure of real exchange rates for the currency conversion. Since the national general government accounts in the ESA 95 are very largely unconsolidated, adding them up does not weaken the conceptual basis. EUI operations not attributable to individual Member States (administration, grants and other assistance outside the European Union, etc.) may be attributed to the euro area as a whole on the basis of its share in EU GDP. Since the euro area is large in relation to the European Union as a whole, and clearly can influence EUI operations in total, it is useful to see how EUI operations affect net borrowing/net lending in the euro area.

1.4 TERMINOLOGY

This section describes some terms not defined explicitly in ESA 95.

"Maastricht debt" refers to consolidated general government gross debt as reported for the excessive deficit procedure.

"Establishment" is the ESA 95 concept of a local kind-of-activity unit. An institutional unit can be either a market unit or a non-market unit and comprises one or more establishments. Non-market units can have both market establishments and non-market establishments. "Market" in this sense means that the unit/establishment receives more than half its income from sales of goods and services rather than from direct government payments.

"Face value" and "nominal value" are equivalent terms used to describe the valuation of Maastricht debt.[15]

"GFS" refers to the ECB's system for compiling Government Finance Statistics. It differs from the International Monetary Fund's system described in the IMF Government Finance Statistics Manual 2001 (GFSM 2001). These differences are explained in Section 10.4 of this Guide.

"Government deficit" refers to general government net lending (+)/net borrowing (-) (*B.9*) in ESA 95 national accounts. Although in principle the two are the same, in practice there are differences between *B.9* measured from the capital account and *B.9f* measured from the financial account. The government deficit is usually understood to be the balancing item of the capital account. Often the "deficit" is expressed as minus *B.9*, such that a positive figure implies that revenue exceeds expenditure.

"Government expenditure" is a set of payments by the general government sectors and the EU budget as defined in ESA 95 (as amended by Commission Regulation (EC) No 1500/2000).

"Government revenue" is a set of receipts of the general government and the EU budget as defined in ESA 95 (as amended by Commission Regulation (EC) No 1500/2000).

"Receivable", when applied to transactions (such as "interest receivable"), means the amount accrued as recorded in ESA 95 national accounts. "Receivable" is used instead of "received" to make clear that it is the accruals figure, not the actual cash received. In the same vein, "payable" means the amount of expenditure accrued as in ESA 95.

1.5 WORKED EXAMPLE SPREADSHEET

The ECB has a spreadsheet containing a worked example of the GFS reporting tables. The example uses invented data, based mainly on the example in Annex IV (pages 331 to 339) of the ESA 95 manual. To obtain this spreadsheet,

15 The Council Regulation 3605/93 states "government debt means total gross debt at nominal value outstanding at the end of the year" and "the nominal value of a liability outstanding at the end of the year is the face value". The nominal value may therefore be considered equivalent to the face value of liabilities.

send an email to ecb_gst1@ecb.int asking for the "GFS worked example spreadsheet".

1.6 OVERVIEW OF GFS REPORTING TABLES

The tables shown individually in each corresponding chapter and all tables together (from Table 1A to Table 3B) in Chapter 12 are the reporting tables used to collect GFS data and may differ slightly from the tables defined in the GFS Guideline. For instance, most of the memorandum items requested under GFS Guideline Table 1A are shown in the reporting tables relating to the Guideline Table 1C. This correspondence is shown via the item numbers that appear on the second (GFS Guideline) and third columns (reporting tables). The third column shows how items in the GFS reporting tables relate to each other. The fourth column shows the corresponding codes in ESA 95.

2 GOVERNMENT REVENUE AND EXPENDITURE (TABLE 1A)

2.1 INTRODUCTION TO TABLE 1A

Government revenue and expenditure are concepts used to analyse fiscal policy. They appear often in international comparisons. The national non-financial and financial accounts of general government are compiled in the EU Member States with reference to ESA 95, but ESA 95 did not initially define government revenue and expenditure. However, Commission Regulation (EC) No 1500/2000[16] extended ESA 95 in relation to these concepts, ensuring that a common definition is used in the European Union. In this Regulation, revenue and expenditure are defined with reference to ESA 95 categories, and thus follow the principles laid down in ESA 95 regarding the delimitation of general government, as well as the valuation and time of recording principles for transactions. The ESCB uses the definition of revenue and expenditure as laid down in the Regulation.[17]

Total revenue and total expenditure are defined such that the ESA 95 government net lending (+)/net borrowing (-) (*B.9*) is equal to the difference between the two totals. They are broken down into current and capital revenue and expenditure. The difference between current revenue and current expenditure is equal to gross saving.[18]

Government revenue and expenditure are broken down into a number of other categories to improve presentation and analysis. Typically these categories are aggregations of components in ESA 95 but in most cases are not specifically defined in ESA 95. In some cases GFS specify a broader breakdown than ESA 95.

The components of government revenue and expenditure include the resources and uses of both the general government sector (*S.13*) and the sub-sector for institutions of the European Union (*S.212*), as recorded in the national accounts of the Member States. EU budget transactions are included because GFS record total governmental activity in a Member State. The transactions of the EU budget have similar characteristics to those of general government units. It will be recalled that the ECB and the European Investment Bank are not EU institutions, and their transactions do not form part of the EU budget.

The following two tables show how government revenue and expenditure relate to ESA 95. The table in Section 2.1.2 shows, for each component of government revenue and expenditure, the corresponding ESA 95 transactions. The table in Section 2.1.3 gives the full non-financial sector accounts from ESA 95 for general government and the EU budget. It shows which components of those accounts fall within the GFS definitions of revenue and expenditure.

16 Commission Regulation (EC) No 1500/2000 implementing Council Regulation (EC) No 2223/96 with respect to general government revenue and expenditure (OJ L172, 12.7.2000) can be found at http://europa.eu.int/servlet/portail/RenderServlet?search=DocNumber&lg=en&nb_docs=25&domain=Legislation&coll=&in_force=NO&an_doc=2000&nu_doc=1500&type_doc=Regulation.

17 The OECD also uses the same definitions for international comparisons of government revenue and expenditure.

18 See Section 2.3.24 on how this GFS definition of gross saving relates to gross saving (*B.8*) in ESA 95.

2.1.1 GOVERNMENT REVENUE AND EXPENDITURE: ESA 95 COMPONENTS

Categories in GFS	ESA 95 categories, transactions of general government unless otherwise stated (R = resources, U = uses)	GFS Guideline item number in Table 1A
Total revenue		7 = 9+31
Current revenue		9 = 10+13+15+18+20
Direct taxes	*D.5* R, current taxes on income, wealth, etc.	10
Indirect taxes	*D.2* R, taxes on production and imports *D.2* R of *S.212*, taxes paid to the EU budget	13
Social contributions	*D.61* R, social contributions	15
Other current revenue	*D.39* U, other subsidies on production (+) *D.41* R, interest, consolidated (+) *D.42* R, distributed income of corporations (+) *D.43* R, reinvested foreign earnings (+) *D.45* R, rent (+) *D.72* R, non-life insurance claims (+) *D.74* R, current international co-operation (excludes receipts from the EU budget) (+) *D.75* R, miscellaneous current transfers (+) net receipts from the EU budget (for consistency with expenditure side), if Member State is a net recipient	18
Sales	*P.11* R, market output (+) *P.12* R, output for own final use (+) *P.131* R, payments for other non-market output	20
Capital revenue	*D.9* capital transfers receivable, consolidated (excludes capital grants from the EU budget)	31
Total expenditure		8 = 21+33
Current expenditure		21 = 23+24+25+26+27+29
Social payments	*D.62* U, social benefits other than social transfers in kind (+) *D.75* U, transfers to NPISHs (+) *D.6311* + *D.63121* + *D.63131* U (social transfers in kind via market producers)	23
Subsidies	*D.3* R, subsidies (+) *D.3* R of *S.212*, subsidies from the EU budget to resident non-government units	24
Other current transfers	*D.29* U, other taxes on production (+) *D.45* U, rent (+) *D.5* U, current taxes on income, wealth, etc. (+) *D.71* U, non-life insurance premiums (+) *D.74* U, current international co-operation, except to the EU budget (+) *D.75* U, miscellaneous current transfers, except to the EU budget (+) net payments to the EU budget if Member State is a net payer	25
Interest	*D.41* U, interest, consolidated	26
Compensation of employees	*D.1* U, compensation of employees	27
Intermediate consumption	*P.2* U, intermediate consumption	29
Capital expenditure		33 = 34+35+36
Government investment	*P.51*, gross fixed capital formation	34
Net acquisition of other non-financial assets	*P.52*, change in inventories (+) *P.53*, net acquisition of valuables (+) *K.2*, net acquisition of non-financial non-produced assets	35
Capital transfers	*D.9*, capital transfers payable, consolidated (excludes capital transfers paid to the EU budget) *D.9*, of *S.212*, capital grants to non-government units from EU budget	36
Surplus (+) or deficit (-)	*B.9*, net lending (+)/net borrowing (-)	1 = 7-8

2.1.2 TABLE SHOWING HOW ESA 95 TRANSACTIONS RELATE TO GFS

Transactions of general government		Resources[1)]	Uses[2)]	Comments (relate to boxes with *)
ESA 95 code		GFS treatment		
P.2	Intermediate consumption		Expenditure	
P.11	Market output	Revenue		
P.12	Output for own final use	Revenue		Also included in *P.51*
P.131	Other non-market output: sales	Revenue		
P.132	Other non-market output	*		A residual, no actual receipt
D.1	Compensation of employees		Expenditure	Includes imputed social contributions (*D.122*)
D.21	Taxes on products	Revenue	In *P.2*	
D.29	Other taxes on production	Revenue	Expenditure	Not consolidated
D.31	Subsidies on products	Expenditure	In *P.2*	
D.39	Other subsidies on production	Expenditure	Revenue	
D.4	Property income	Revenue*	Expenditure*	Intra-gov. interest is consolidated
D.5	Current taxes on income and wealth	Revenue	Expenditure	
D.61	Social contributions	Revenue		Includes imputed social contributions (*D.612*)
D.62	Social benefits other than in kind		Expenditure	
D.6311	Social security benefits, reimbursements		Expenditure	
D.63121	Social security in kind via market producers		Expenditure	
D.63122	Social security in kind via non-market producers		*	In P2, D1, …part of government non-market output
D.63131	Social assistance in kind via market producers		Expenditure	
D.63132	Social assistance in kind via non-market producers		*	In P2, D1, …part of government non-market output
D.632	Transfers of individual non-market services		*	In P2, D1, …part of government non-market output
D.71	Net non-life insurance premiums		Expenditure	
D.72	Non-life insurance claims	Revenue		
D.73	Current transfers within government	*	*	Removed in consolidation
D.74	Current international co-operation: to/from EU Budget other	 * Revenue	 * Expenditure	Removed in consolidation
D.75	Miscellaneous current transfers fourth resource other	 * Revenue	 * Expenditure	Removed in consolidation
D.8	Adjustment for household pension equity		Expenditure	
D.91	Capital taxes	Revenue	Expenditure	
D.92, D.99	Investment and other capital grants: to/from EC or within government other	 * Revenue	 * Expenditure	Removed in consolidation
P.31	Final consumption: individual		*	In P2, D1, … non-market output
P.32	Final consumption: collective		*	In P2, D1, … non-market output
P.4	Actual final consumption		*	In P2, D1, … non-market output
P.51	Gross fixed capital formation		Expenditure	
P.52	Increase in inventories		Expenditure	
P.53	Acquisition of valuables		Expenditure	

1) "Resources" include *D.9* capital transfers receivable.
2) "Uses" include increases in assets in the case of *P.5* capital transactions and *D.9* capital transfers paid.

Transactions of EU Budget with counterpart in the Member State		Resources	Uses	Comments
D.21	Taxes on products paid to EU Budget	Revenue		
D.31	Subsidies on products paid by EU Budget	Expenditure		
D.74	Current international co-operation: to/from this Government paid to other units in this Member State		* Expenditure	Removed in consolidation
D.75	Miscellaneous current transfers fourth resource paid to other units in this Member State		* Expenditure	Removed in consolidation
D.9	Capital transfers to this Government paid to other units in this Member State		* Expenditure	Removed in consolidation

2.1.3 CRITERION FOR INCLUSION IN GOVERNMENT REVENUE AND EXPENDITURE

In general, in GFS, government revenue and expenditure are respectively the sums of general government resources and uses that are transactions between units, plus the resources and uses of the EU budget in the Member State. ESA 95 *1.34* divides transactions into those between units and those within units. Intra-unit transactions (transactions within units) are excluded from the definitions of government revenue and expenditure since they do not change net lending/net borrowing. The purpose of recording them in ESA 95 is to give a more analytically useful picture of costs, output, transfers and final uses. Most intra-unit transactions are transactions in products, typically recorded when institutional units consume some of the output they have produced themselves. In contrast, inter-unit transactions (transactions between units) generally have a counterpart transaction in the financial account and so affect net lending/net borrowing. The practical application of this principle means that some ESA 95 transactions, like other non-market output and final consumption expenditure, are not explicitly recorded in government revenue and expenditure, whereas others, like intermediate consumption and compensation of employees, are part of them.

The ESA 95 sequence of accounts comprises main and auxiliary accounts that are not mutually exclusive. In GFS, each transaction is only considered once, even if it appears several times in ESA 95 government accounts.

2.1.4 CONSOLIDATION RULES: NON-FINANCIAL TRANSACTIONS

The term "consolidated" means that the resources and uses of the consolidated transaction are not shown where the counterparts are both in the group of units (perhaps a sector or sub-sector) being consolidated. Transactions within general government are consolidated only if the expenditure and revenue are in the same transaction line and same account in ESA 95. So current transfers within general government (*D.73*), interest (*D.41*) and capital transfers (*D.9*) are consolidated, but transactions in goods and services, taxes and subsidies are not.

In general, government revenue and expenditure are almost never recorded net, e.g. government interest receipts are not netted off government interest payments. The one exception to this "no netting rule" is that capital formation is net of sales of capital assets, in accordance with ESA 95.

2.1.5 WAYS TO DEFINE THE BALANCE OF REVENUE AND EXPENDITURE

There are many ways to define the balance of government revenue and expenditure, which is usually named "the deficit". In many countries there are cash-based measures of the balance. Even within the framework of ESA 95 there are a number of balances to choose from and various ways to define government revenue and expenditure.

The Table 2 below shows how balances are defined in the ECB's GFS, with reference to components based on ESA 95 national accounts. The succeeding tables show different ways to present balances and to define revenue and expenditure. Some of them are used for the national presentation of government finance in certain countries.

Chapter 10 compares GFS presentations of balances and revenue and expenditure with certain alternative presentations including those used in the IMF GFS.

2.1.5.1 Table showing balances in GFS

The terms used in this table (such as "direct taxes") are defined in the table in Section 2.1.1. The table includes transactions of the EU budget within Member States such as import levies and agricultural subsidies. The table in Section 3.1.1 shows the EU budget items in more detail. It explains why GFS gross saving differs from ESA 95 gross saving (*B.8*).

2.1.5.2 Treatment of swaps, FRAs[19] and UMTS receipts

A swap is, for example, an agreement to exchange a floating rate of interest (e.g. EURIBOR) for a fixed rate of interest on a

19 Forward rate agreements (FRAs) are a type of financial derivative whereby one party undertakes to pay another party a certain interest rate on a certain principal amount for a certain period of time beginning at some point in the future.

Table 2 GFS balancing items

GFS revenue	GFS expenditure	GFS balancing item
+ Direct taxes + Indirect taxes + Social contributions + Other current revenue[2)] + Sales + Net receipts from the EU budget[3)]	+ Social payments + Subsidies + Other current transfers[1)] + Interest paid + Intermediate consumption + Employees' compensation + Taxes paid + Net payment to the EU budget[4)]	
		GFS gross saving = revenue - expenditure in all rows above
- EU budget capital grants paid to GG[5)]	+ Capital grants paid by the EU budget to non-government bodies	
		GG gross saving (*B.8g*)[6)] = revenue - expenditure in all rows above
+ Capital grants received by GG		
	+ Capital grants paid by GG + Government investment + Net acquisition of other non-financial assets	
Total revenue = sum of rows above in this column	Total expenditure = sum of rows above in this column - interest paid[7)]	GG net lending (+)/net borrowing (-) (*B.9*) = revenue - expenditure in all rows above
		Primary deficit/surplus = expenditure - revenue in all rows above, excluding interest payable

1) Excludes net payments to the EU budget, if Member State is a net payer, since this item is shown separately.
2) Excludes net receipts from the EU budget, if Member State is a net contributor, since this item is shown separately.
3) If the Member State is a net contributor. If not, this item is excluded.
4) If the Member State is a net payer. If not, this item is excluded.
5) The item "Capital grants from the EU budget paid to GG" is where GG is the final recipient in national accounts, and not just acting as an agent.
6) This is the national accounts version of gross saving.
7) This has the effect of removing interest payments from the total of the expenditure column.

notional amount of principal. When the contract is agreed, there is no exchange of cash since the two parties are content that the net present values of the expected payment streams are equal. The market price of the contract at that point is zero. The market price of the swap contract can subsequently vary from zero if perceptions of future market rates change; the contract is then an asset for one party and a liability of the other. The asset/liability position may switch between the parties during the life of the contract. Payments may be made to reduce or extinguish the position during the life of the contract, and will certainly be made when it expires.

When first published, ESA 95 and SNA 93 advised that net settlement flows on interest swaps and FRAs should be treated as interest. This approach was subsequently seen as inconsistent with the nature of derivatives contracts, which are properly seen as financial instruments separate from the underlying instrument and which can be traded in their own right. Since the derivatives contract involves no advance of principal, subsequent settlements cannot be viewed as property income. Furthermore, since the swap may be traded on the secondary market, it is necessary to record the payments as financial transactions to ensure consistency of recording by the buyer and the seller. SNA 93 was accordingly revised to treat the settlement flows as financial transactions in derivatives.

Steps were taken to amend ESA 95 in the same way. However, debt managers regarded swap contracts as an integral part of debt management. Decisions on what sort of debt to issue (to reduce total debt servicing costs) take account of the opportunity for swaps. Debt managers argued that the settlement flows should be recorded as interest so that the total impact of the debt servicing strategy would be reflected in the government deficit. ESA 95 was accordingly amended so that settlements under swaps and FRAs would be treated as financial transactions in line with the SNA 93 revision, but a second version of *B.9*, to be called *EDP B.9*, was introduced to allow such settlements to affect the deficit. This is the headline version of *B.9* for EDP purposes. It was defined in Council Regulation No 2558/2001.[20]

Recording net settlements as financial transactions requires the prior recording of holding gains/losses in financial derivatives (*AF.34*) in the other flow accounts (*K.11*). This ensures that the balance sheet is not affected by the payment when it eventually occurs. The obligation to make a payment thus appears as a financial liability in the account of the payer, and as a financial asset in the account of the recipient, in each case in financial derivatives (*AF.34*), with a corresponding entry in the other flow accounts (*K.11*). Actual settlement is likely to be recorded as an exchange of deposits (*AF.2*) accompanied by the extinction of the asset/liability positions in *AF.34*.

In 1999-2001 several EU Member States sold Universal Mobile Telecommunications System (UMTS) licences to private operators for very large sums. These transactions were recorded as sales/purchases of non-financial assets in the capital account, and therefore affect the amount recorded under the ESA 95 deficit/surplus (*B.9*).

GFS Table 1A (see Section 2.2) shows net lending/net borrowing (*B.9*) from national accounts, and another version of net lending/net borrowing in which settlements under interest rate swaps and FRAs affect it. The EDP version of the deficit/surplus (*EDP B.9*) is equal to the ESA 95 *B.9* plus the net settlements paid under swaps and FRAs. This is the version used for EDP and for Stability and Growth Pact purposes. For the GFS another version is also presented, i.e. *EDP B.9* without the impact of UMTS receipts. This is mainly due to the large receipts in 2000 and 2001 which obscured the underlying fiscal position.

20 This Regulation can be found at http://europa.eu.int/servlet/portail/RenderServlet?search=DocNumber&lg=en&nb_docs=25&domain=Legislation&coll=&in_force=NO&an_doc=2001&nu_doc=2558&type_doc=Regulation.

The relationships in the ESA 95, EDP and GFS when calculating deficit/surplus are as follows:

ESA95 deficit (-)/surplus (+) (B.9) (net lending (-)/net borrowing (+) taken from the capital account)
+ net receipts from settlements under swaps and FRAs
= EDP deficit (-)/surplus (-) (EDP B.9)
– proceeds from the sale of UMTS licences
= GFS deficit (-)/surplus (-) **(EDP B.9 excluding UMTS proceeds)**

2.1.6 RECORDING TAXES

2.1.6.1 Treatment of tax credits

Tax credits are amounts deductible from tax that would otherwise be payable.

Various types of tax credit exist in Member States. Some have the effect of assuming that the taxpayer has already paid a certain amount of tax, and this amount is taken into account when determining the tax due. Tax credits for individuals may be based on the needs and income of households. Tax credits for corporations typically require the corporation to make certain types of expenditure with positive externalities (for example spending on research and development or charitable donations).

For some types of tax credit ("non-wasteable" tax credits), if the tax credit is larger than the tax due, the government makes a payment to the taxpayer (this may happen, for example, where child benefits take the form of a tax credit). For wasteable tax credits, the credit cannot exceed the tax due.

Tax credits are different from tax allowances: the latter are amounts used to calculate the income or profit that is to be taxed. Thus tax allowances are always wasteable in the sense that they reduce the income or profit to be taxed, but are lost once the income is reduced to zero as they never result in payments to the taxpayer.

The statistical question[21] for tax credits is whether to treat them as reductions in tax or as government expenditure (perhaps as social benefits or subsidies). This is addressed in neither ESA 95 nor the *Deficit and Debt Manual* since it does not affect the deficit or debt but rather the levels of revenue and expenditure. Wasteable tax credits will mostly meet the criteria to be treated as reductions in tax, but non-wasteable tax credits will need to be assessed carefully before being treated this way. The Organisation for Economic Co-operation and Development (OECD) and the Eurostat National Accounts Working Party (NAWP)[22] considered the question and recommended the following approach.

a) First, determine whether the tax credit really is an integrated part of the tax system rather than government expenditure labelled as a tax credit. The latter would include tax credits for which the unit assessed, definition of income, and relevant time periods, were not the same as for the tax to which it was linked.

b) Second, if the tax credit is an integrated part of the tax system, the amounts paid to units in excess of their tax liabilities should be treated as expenditure and the rest should be treated as reductions in tax revenue.

A consultation in May 2005 provides the most recent ruling on the issue. The FAWP concluded that: a) non-wasteable tax credit should be recorded on a "split" basis (instead of "gross" basis). Under split recording, the derived tax allowance should be deducted from tax revenues and the rest should be considered as expenditure;

21 These tax credit issues differ from the 2002 Italian central bank bond conversion case in which the question was when to record the tax credit (with consequences for the government deficit), not whether it was expenditure or negative revenue.

22 More details can be found in the Eurostat paper B1/CN458e for the Eurostat NAWP meeting of 12 October 2000.

and b) TFHPSA recommendations (not yet formally adopted), in particular Recommendation 12 ("gross recording"), provide appropriate treatment for most wasteable tax credits.

2.1.6.2 Tax accruals

Taxes and social contributions are recorded on an accrual basis. Council Regulation No 2516/2000 says how they are to be recorded in this respect for ESA 95.

The key point of this Regulation is that taxes should be recorded when they accrue, not when the cash is received, but the amount recorded should not include amounts unlikely to be collected. In cases where the accrual is higher than the cash collected, or higher than the cash forecast to be collected based on previous experience, the payment of a capital transfer from government to taxpayers (*D.99*, debt write-off) should be recorded, as if taxpayers had a liability to pay the taxes which is subsequently cancelled. It should be recorded at the point of the accrual for an amount equal to the uncollected (or unlikely to be collected) taxes, such that the deficit reflects only the amounts actually collected (in the case of back years) or amounts that are likely to be collected.

In determining the timing of tax accruals, the Regulation says that due for payment dates are acceptable for direct taxes. It also allows for methods that time-adjust cash receipts according to rules based on previously observed time lags between the activity giving rise to the tax and cash receipts.

2.1.7 RECORDING SOCIAL CONTRIBUTIONS AND BENEFITS

2.1.7.1 Definition of social insurance

Social insurance schemes are schemes in which contributions are paid by employees or others, or by employers on behalf of their employees, in order to secure entitlement to benefits, in the current or subsequent periods, for the employees or other contributors, their dependents or survivors. Governments are involved because many schemes are run by social security funds (*S.1314*) and because general government as an employer contributes to these and other schemes on behalf of its employees.

A social insurance scheme differs from personal insurance in that the scheme covers the whole population or specific groups (typically related to employment). Usually there is a basic scheme that, in general, individuals are required or encouraged to join, perhaps with options to pay higher contributions in return for better benefits. The scheme is usually managed by government or by a group (perhaps a "Trust") whose role is to act in the best interest of the scheme members. The scheme may also include an element of redistribution in that an individual's contributions are not set directly in relation to the risks faced by that individual.

Personal insurance is more in the nature of a legal contract between the insured person and a financial corporation. The individual takes the initiative to join the scheme run by the financial corporation and pays contributions into the scheme that the corporation judges necessary to cover, for that individual, the risks insured.

2.1.7.2 Autonomous and non-autonomous social insurance

Financial corporations provide autonomous private social insurance to their customers, often employees of other enterprises. Such corporations hold assets to cover the risks they insure. These assets are sometimes called "reserves". The financial liabilities to policyholders are recorded under *AF.6* (insurance technical reserves). Other corporations may also set up autonomous funds.

Non-autonomous funds are not regarded as separate from the entity which set them up to provide cover. Non-autonomous social insurance is typically provided by employers for their employees. If the employer holds specific assets to cover the risks, and manages them separately from the enterprise's other assets, the scheme is "funded". In that case the employer records transactions in financial liabilities under insurance technical reserves (*F.6*), which are assets of the employees and pensioners.

If there are no specific assets, the scheme is "unfunded" and no financial assets or liabilities are recorded for the financial obligations of the employer to its employees. The employer funds the social benefits out of general income. Unfunded schemes are sometimes called "pay-as-you-go".

2.1.7.3 Social insurance classified under general government

If government controls the rates of contributions and benefits, or if it routinely makes up any shortfall in scheme funds, then the scheme would be classified under the general government sector. But there can be other circumstances in which schemes would be classified under general government. The precise rules for determining whether a social insurance scheme should be classified under general government are explained in the new Chapter 1.3 in the *Deficit and Debt Manual* ("Classification of funded pension schemes and impact on government finance").

2.1.7.4 Social security funds sub-sector

If a social security fund is classified under general government and can be classified as a separate institutional unit (ESA 95 *2.12*), then it should be classified under the social security funds sector.

2.1.7.5 Unfunded social insurance schemes operated by government

Unfunded social insurance schemes operated by government can include schemes for the whole population and those for its own employees. In both cases, contributions and benefits are recorded in ESA 95 as non-financial transactions in *D.6*, and no financial transactions are recorded in *F.6* because there is no fund in which beneficiaries hold a stake.

Schemes covering the whole population are divided into:

- "social security" schemes, where entitlement to benefits depends on the contributions made to the scheme (payment of social contributions); and

- "social assistance" schemes, where entitlement to benefits does not depend on the contributions made to the scheme.

2.1.7.6 Funded social insurance schemes operated by government

Contributions to unfunded social insurance schemes, and benefits drawn from them, are recorded as transfers (non-financial transactions - *D.61*). By contrast, contributions to funded schemes (including government schemes), which hold financial assets which are attributed to policy-holders in the household sector, are recorded in the financial account as an increase in net equity of households in pension funds reserves (*F.61*). Symmetrically, benefits received from such schemes are recorded in the financial account as a reduction in net equity. Because the recording of payments to and receipts from different types of scheme would

Table 3 Social insurance schemes organised by government

For the population in general	For government employees	
Social security schemes	Unfunded social insurance schemes operated by government employers	Funded social insurance schemes operated by government employers
Funded	**Unfunded**	**Funded**
Assets belong to government which records liabilities to participants in *F.6*	No assets held and no liability recorded	Assets belong to employers who record liabilities to households in *F.6*

otherwise look anomalous, the ESA 95 also imputes transfers (non-financial transactions, *D.61*) in respect of contributions to and benefits from funded pension schemes; in other words, such transactions are deliberately double-counted for the sake of comparison with contributions to and benefits from unfunded schemes. To prevent an inconsistency within the accounts (and also to avoid any effect on saving), the ESA 95 then imputes a transaction in the category "Adjustment for the change in the net equity of households in pension funds reserves" (*D.8*).

2.1.7.7 Imputed social contributions

Employers (including government) may provide social benefits directly out of their own resources and without involving a social security fund, insurance enterprise or autonomous pension fund, and without creating a separate fund for the purpose. In such cases imputed social contributions are recorded between government and households. They represent the current accruing cost of paying future pensions as a result of current employment. Their inclusion in government revenue (imputed social contributions) and expenditure (as an imputed component of compensation of employees) permits a harmonised recording of benefits provided to employees, irrespective of whether they are paid directly by government, on a pay-as-you-go basis, or via a third party. ESA 95 recommends that the value of imputed contributions should be based on actuarial considerations; it will thus, in general, differ from the value of associated social benefits paid out during the same accounting period. In practice, a lack of actuarial data may mean that the amount of benefits paid is used as an approximation for the imputed social contributions.

In some countries, the internal bookkeeping and budgeting of government departments require them to make payments in respect of the accruing pensions of their employees to the government agencies that actually pay the pensions. Since these payments are generally made within the same institutional unit, they should be classified as imputed contributions. As with other imputed contributions, these contributions should be treated both as the compensation of employees and as social contributions, and therefore recorded in both government revenue and expenditure.

2.1.7.8 Note on the breakdown of social transfers in kind

In ESA 95 general government final consumption (*P.3*) is split into individual consumption expenditure (*P.31*) and collective consumption expenditure (*P.32*). Individual consumption expenditure covers items with an identifiable beneficiary or group of beneficiaries; collective consumption expenditure means expenditure for the benefit of the community as a whole, or a large part of it. ESA 95 offers an alternative presentation of government expenditure in which individual consumption expenditure is recorded as a distributive transaction to households, which record the amount as their own consumption rather than the government's. This distributive transaction is classified under social transfers in kind (*D.63*). It is sub-divided as follows.

2.1.7.8.1 Social security reimbursements (D.6311)

This is where households make purchases and are reimbursed by a social security scheme.

2.1.7.8.2 Other social security benefits in kind via market producers (D.63121)

This is where social security schemes buy goods and services from market units and provide them to households. For example, contributions to a social security scheme might entitle the contributor to treatment by self-employed dentists with payment of the latter by the social security scheme.

It might be that a government institutional unit has a market establishment selling services to a social security scheme (or other government unit in the case of *D.63131*). The cost of producing the services would be recorded in *D.1*, *D.2* and *P.2* in government expenditure in the usual way, and *P.11* sales would be included in government revenue. In addition, *D.63* would record the expenditure of the government unit buying the service. In theory, *D.63* would also include partial payments by government units for the non-market output of other government units supplying services directly to households.

2.1.7.8.3 Other social security benefits in kind via non-market producers (D.63122)

This is where social security schemes provide goods and services produced by general government units to households. For example, contributions to a social security scheme might entitle the contributor to treatment by dentists employed by the government.

2.1.7.8.4 Social assistance benefits in kind via market producers (D.63131)

This is where government buys goods and services from market units and provides them to households to meet their social needs, but outside the context of a social security scheme. For example, government might provide healthcare to all citizens, irrespective of contributions to social security schemes, and purchase some of this healthcare from non-government units such as hospitals classified as public corporations.

2.1.7.8.5 Social assistance benefits in kind via non-market producers (D.63132)

This is where government provides goods and services to households to meet their social needs, but outside the context of a social security scheme, and the goods and services are produced by general government units. For example, most governments provide free education to children in schools classified under the general government sector.

2.1.7.8.6 Transfers of individual non-market goods or services (D.632)

These are goods and services produced by government and supplied to households, other than those goods and services judged to meet social needs (see list in ESA 95 *4.84*). For example, government might provide free libraries and museums. In these cases the distinction between the collective and individual final consumption of government can be difficult to determine.

Note that grants to NPISHs to help them provide goods and services to households are classified under *D.75* and are not part of government final consumption.

2.1.8 RECORDING INTEREST

2.1.8.1 Debtor principle

In ESA 95 the accrual recording of interest follows the “debtor principle” rather than the “marked-to-market principle” (also called the “creditor principle”).

Under the debtor principle, the future interest to be recorded is determined for the whole life of the instrument when it is issued. It corresponds to what the debtor must pay. This is calculated on the basis of the yield at issue and the issue price of the instrument. (Index-linked bonds are an exception to this since the future values of the index are obviously not known at issue, but the debtor principle still applies for recording the interest in respect of any discount at issue relative to the indexed face value.)

Under the creditor principle, interest is calculated as the market yield times the market value of the instrument at each recording point in the life of the instrument. The interest recorded changes in line with changes in market yields and market values. Since the market rate of interest and the market price of fixed-rate tradable instruments tend to move in opposite directions, creditor principle interest will not in practice deviate much from the debtor principle interest for bonds with a long period to run, but for bonds close to maturity the two methods could give significantly different results.

The debtor principle is attractive because, for any movements in market price, the delineation between the interest and holding gains/losses is predetermined and so allows the volume of debt to be the mere accumulation of transactions (the accruing of interest less actual payments of interest). Differences between this accumulation and changes in market price are recorded as holding gains and losses. Therefore, under the debtor principle, over the whole life of the bond, the holding gains/losses net to zero. This need not be the case with the creditor approach.

The creditor principle is attractive because it follows an opportunity cost approach: it is as if all the debts were repurchased and reissued all the time. Another advantage is that the asset holder can measure accruing interest receipts directly using market information. This ensures consistency between the recording of interest payments and receipts by creditors and debtors. Under the debtor principle, the creditor needs information on the issue price of the bond to record interest consistently with the debtor. In some cases, for example where bonds are issued in fungible tranches, it may not be possible to identify the issue price.

2.1.8.2 Recording accrued interest on an instrument

Accruing unpaid interest should be recorded under the instrument that generates the interest rather than under other accounts receivable/payable (*F.7*).

ESA 95 adopts accrual recording (ESA 95 *1.57*, first indent). Transactions are recorded when they take place rather than when cash is paid. Interest (*D.41*) is the income received from holding certain types of financial asset: *F.2*, *F.33*, *F.4* and possibly *F.7*. The accrual recording implies that the interest accruing in each period is recorded in *D.41* and, if not paid, is viewed as being reinvested in the instrument generating the interest through an entry in the financial account. At the time of the actual cash payment of the interest, a reimbursement of the instrument is recorded.

In ESA 95, the accruing of interest does not create difficulties in reconciling transactions and balance sheet stocks because, assuming no other events, the market value of the instrument increases in step with the accruing of interest (*D.41*). No entry in the revaluation account (*K.11*) is necessary. By contrast, because of the face valuation of Maastricht debt, a reconciliation item is needed in GFS Table 2a because Maastricht debt does not increase in step with the accruing of interest (except for index-linked bonds). The reconciliation adjustment is entered in the item "Market-to-face-value adjustment".

In this example a long-term bond accrues interest of 100 but no coupon is actually paid. In national accounts the interest is recorded as being reinvested in the bond which, all other things being equal, increases the market price of the bond. The face value of the bond is unchanged. The alternative recording in ESA 95 and the GFS tables would be:

Table 4 Example of recording accrual interest on a long-term bond

	ESA 95	GFS Table 2a
Interest (*D.41*)	+100	+100
Net lending (*B.9*)	-100	-100
Long-term securities (*F.332*)	+100	+100 (GGBR,[1] Table 2a, item 19)
Market-to-face-value adjustment	0	-100 (Table 2a, item 31)
Change in debt	+100	0

1) The general government borrowing requirement is defined as transactions in EDP debt instruments as recorded in ESA 95 financial accounts.

Section 5.3.9 of this Guide explains the market-to-face-value adjustment in more detail.

2.1.8.3 Stripped coupons

"Stripping" a bond means separating the entitlements to a stream of interest payments over the life of the bond from each other and from the entitlement to receive the principal amount on redemption. The original security becomes a basket of zero coupon instruments representing the coupons and the final payment. Each element of the basket generates accrued interest (*D.41*).

2.1.8.4 Instruments issued at a discount

This rule on accruing interest applies to all instruments, even long-term securities issued with a small discount. Eurostat does not allow the flexibility suggested in ESA 95 *5.138.d*. The discount at issue is recorded as interest spread over the life of the bond. Premia are treated similarly as reductions in interest spread over the life of the bond.

2.2 TABLE 1A: FORMAT AND CONTENTS

This is the format and contents of the reporting table used by the ECB to collect GFS data from NCBs. The table shows the item numbers used in Table 1A of the GFS Guideline and the corresponding line numbers in the reporting table, as well as the relationships between the line and item numbers.

Table 1a Government revenue and expenditure

Description	Guideline item number	Reporting table line number and relationships	ESA 95 codes (U = uses, R = resources)
Deficit (-) or surplus (+)	1	1 = 2-5	*B.9*
Total government revenue	7	2 = 3+4	
Total current revenue	9	3 = 11	
Total capital revenue	31	4 = 36	
Total government expenditure	8	5 = 6+7	
Total current expenditure	21	6 = 24	
Total capital expenditure	33	7 = 38	
Primary deficit (-) or surplus (+)	6	8 = 9+10	*B.9 + D.41U*
Deficit (-) or surplus (+)	1	9 = 1	
Interest payable	26	10 = 31	*D.41 U (consolidated)*
Total current revenue	9	11 = 12+15+18+21+23	
Direct taxes	10	12	*D.5 R*
payable by enterprises (*S.11+S.12*)	11	13	
payable by households (*S.14+S.15*)	12	14	
Indirect taxes	13	15	*D.2 R + D.2 received by EU budget (item 2 of Table 1B)*
VAT	14	16	*D.211 R + D.211 received by EU budget (item 3 of table 1B)*
taxes on energy	-	17	
Social contributions	15	18	*D.61 R*
employers' actual social contributions	16	19	*D.6111 R*
employees' social contributions	17	20	*D.6112 R*
Other current transfers receivable	18	21	*-D.39 U + D.41 R (consolidated) + D.42R + D.43 R + D.45 R + D.72 R + D.74 R – (D.74+D.75) received by GG from EU budget (item 10 of Table 1B) + D.75 R + net receipts from EU budget (item 14 of Table 1B), if positive*
interest receivable	19	22	*D.41 R (consolidated)*
Sales	20	23	*P.11 R + P.12 R + P.131*
Total current expenditure	21	24 = 25+31+32+34	
Current transfers	22	25 = 26+29+30	
Social payments	23	26	*D.62 U + (D.75 U to NPISHs) + D.6311 + D.63121 + D.63131*
old age pensions (COFOG 10.2)	-	27	
unemployment benefits(COFOG 10.5)	-	28	

Table 1a (cont'd)

Description	Guideline item number	Reporting table line number and relationships	ESA 95 codes (U = uses, R = resources)
Subsidies payable	24	29	*-D.3 R - D.3 R paid by EU budget (item 9 of Table 1B)*
Other current transfers payable	25	30	*D.29 U + D.45 U + D.5 U + D.71 U + D.74 U + D.75 U - (D.75 to NPISHs) + D.75 paid by EU budget to non-government (item 11 of Table 1B) - D.74 paid to EU budget by GG (item 4 of Table 1B) – D.75 paid to EU budget (item 5 of table 1B) – net receipts from the EU budget (item 14 of table 1B, if negative)*
Interest payable	26	31 = 10	*D.41 U (consolidated)*
Compensation of employees	27	32	*D.1 U*
employers' actual social contributions	-	33	*D.121 U*
of which wages and salaries	28	34	*D.11*
Intermediate consumption	29	35	*P.2 U*
Gross saving	30	36 = 11-24	
Total capital revenue	31	37	*D.9 receivable (consolidated) - D.9 received by GG from EU budget (item 12 of Table 1B)*
of which capital taxes	32	38	*D.91 R*
Total capital expenditure	33	39 = 40+41+42	
Investment	34	40	*P.51 U*
Other net acquisitions of non-financial assets	35	41	*P.52 U + P.53 U + K.2 U*
Capital transfers payable	36	42	*-D.9 payable (consolidated) - D.9 received by non-government from EU budget (item 13 of Table 1B) + D.9 payable by GG to EU budget (minus item 7 of Table 1B)*
Deficit (-) or surplus (+) by sub-sector	1	43 = 44+45+46+47	
Central government (*S.1311*)	2	44	
State government (*S.1312*)	3	45	
Local government (*S.1313*)	4	46	
Social security funds (*S.1314*)	5	47	
Memorandum items			
EDP deficit (-) or surplus (+) including UMTS proceeds and settlements under swaps and FRAs	37	item 15 of Table 1c [1c.15] = [1c.12] + [1a.13] - [1a.14]	*EDP B.9*
EDP interest payable Interest including net settlements under swaps and FRAs	38	item 14 of Table 1c	*EDP D.41*
Proceeds from the sales of UMTS licences	39	item 16 of Table 1c	
Actual social contributions	40	48	*D.611*
Social benefits other than social transfers in kind	41	49	*D.62*
Gross Domestic Product	42	item 21 of Table 1c	
Gross Domestic Product at constant prices	43	item 22 of Table 1c	
Government investment at constant prices	44	item 23 of Table 1c	*P.51 (volume)*

Subsidies: note that in national accounts subsidies paid by government are treated as a negative resource, and subsidies received are a negative use, which is why subsidies are shown with minus signs in this table.
Capital transfers paid: note that in national accounts capital transfers payable are recorded as a negative number, which is why capital transfers payable are shown with minus signs in this table (or with a positive sign when the capital transfer has to be deducted from the item total).

2.3 LINE-BY-LINE ANALYSIS OF TABLE 1A

The item numbers listed below refer to those as specified in the GFS Guideline. Note that revenue and expenditure include items relating to EU transactions not recorded in the general government sector in national accounts.

2.3.1 DEFICIT (-) OR SURPLUS (+) (ITEM 1)

This refers to the balance net lending (+)/net borrowing (-) (*B.9*) of the general government sector in national accounts. In theory, it is the balance of both the capital account and the financial account. Where those figures differ due to statistical discrepancies, the balance of the capital account should be used.

Item 1 can differ from *EDP B.9* (item 37) because transactions in swaps and FRAs are treated differently.

It should be noted that if a government has a deficit (i.e. if it is spending more than it is receiving), the figure recorded in item 1 will be negative since *B.9* is defined as net lending (+)/ net borrowing (-).

2.3.2 TOTAL GOVERNMENT REVENUE (ITEM 7)

This is mainly the set of ESA 95 non-financial transactions that increase general government net lending (+)/net borrowing (-) (*B.9*).[23] They are transactions that increase general government net worth.

2.3.3 TOTAL GOVERNMENT EXPENDITURE (ITEM 8)

This is mainly the set of all ESA 95 non-financial transactions that reduce general government net lending and net worth, or increase general government net borrowing (*B.9*).

2.3.4 PRIMARY DEFICIT (-) OR SURPLUS (+) (ITEM 6)

This is defined as *B.9* excluding interest paid.

2.3.5 GOVERNMENT REVENUE: CURRENT AND CAPITAL TOTALS (ITEMS 9 AND 31)

Government revenue is composed of *total current revenue* (*item 9*) (receipts of direct taxes *D.5*, indirect taxes *D.2*, social contributions *D.6*, property income *D.4*, and sales and other current revenue) and *total capital revenue (item 31*) (receipts of capital transfers such as capital taxes *D.91*, investment grants *D.92*, and other capital transfers *D.99*).

The breakdown of revenue into current and capital is based on the distinction made in ESA 95 between current and capital transfers, as follows.

A capital transfer in cash consists of the transfer of cash that the first party has raised by disposing of an asset, or assets (other than inventories), or that the second party is expected, or required, to use for the acquisition of an asset, or assets (other than inventories). The second party, the recipient, is often obliged to use the cash to acquire an asset, or assets, or to repay a liability, as a condition of the transfer. A capital transfer in kind consists of the transfer of ownership of an asset (other than inventories and cash) or the cancellation of a liability by a creditor, without any counterpart being received in return.

Thus, whether the transfer is made in cash or in kind, it should result in a commensurate change in the financial, or non-financial, assets shown in the balance sheets of one or both parties to the transaction. A capital transfer in cash serves a similar purpose to the actual transfer of an asset in so far as it should lead either to a decrease in the first party's assets or an increase in the second party's assets, or both. Capital transfers may also be distinguished by the fact that they tend to be large and infrequent, but they cannot be defined in terms of size or frequency. Their essential characteristic is that they should involve the disposal or acquisition

23 Strictly speaking, we should refer to the ESA 95 balance *B.9* = net lending (+)/net borrowing (-). When we say net borrowing is reduced, we mean that *B.9* is less negative. Note that revenue and expenditure also include items relating to EU transactions not recorded in the general government sector in national accounts.

of assets other than cash by one or both parties to the transaction.

A current transfer reduces the income and consumption possibilities of the first party and increases the income and consumption possibilities of the second party. Current transfers are therefore not linked to, or conditional on, the acquisition or disposal of assets by one or both parties to the transaction.

Sales of capital assets are not recorded as capital revenue but as negative capital expenditure.

2.3.6 DIRECT TAXES (ITEMS 10, 11 AND 12)

Direct taxes are defined as current taxes on income and wealth and some other periodic taxes (*D.5*), which constitute resources of government. They are compulsory and unrequited payments, in cash or in kind, levied by general government on the income and wealth of institutional units, and some other taxes (ESA 95 *4.77-4.82*). Direct taxes are not consolidated, so any direct taxes paid by one part of government to another are included as both revenue and expenditure. For example, some non-profit institutions, or extra-budgetary funds, classified to the government sector may be liable for tax on their interest income.

Within direct taxes, GFS identify separate categories for those *paid by enterprises (item 11*) and those *paid by households* (*item 12*). Direct taxes paid by enterprises include that part of taxes on income (*D.51*) paid by units in the financial or non-financial corporations sectors in national accounts. Typically these are taxes on company profits, including taxes on capital gains as well as on operating income. Direct taxes paid by households include that part of taxes on income (*D.51*) paid by households and non-profit institutions serving households (NPISHs), and other current taxes (*D.59*). The former includes taxes on income and capital gains, and the latter includes, for example, motor vehicle licence fees paid by households. Property taxes and capital gains taxes are also treated as current taxes.

2.3.7 INDIRECT TAXES (ITEMS 13 AND 14)

Taxes on production and imports (*D.2*) appear among the resources of both government and the rest of the world (in this case the institutions of the EU, *S.212*). Indirect taxes are compulsory, unrequited payments, in cash or in kind, levied by general government in respect of the production and import of goods and services, the employment of labour, the ownership or use of land, buildings or other assets used in production (ESA 95 *4.14-4.29*). Indirect taxes are not consolidated in compliance with the SNA 93 principle that transactions appearing in different accounts are never consolidated (SNA 93 paragraph 2.82).[24] For example, taxes on the use of buildings that are levied on government buildings (*D.29*) should be included in both revenue and expenditure because the expenditure appears in the production account and final consumption, and the revenue appears in the generation of income account.

Within indirect taxes, the data request includes lines to show *VAT* (*item 14*) (*D.211*) and the reporting table asks for *taxes on energy* (not identified separately in ESA 95). These are taxes levied specifically on energy products, such as petrol, that are additional to general taxes on products such as VAT.[25]

2.3.8 SOCIAL CONTRIBUTIONS (ITEMS 15, 16 AND 17)

Social contributions are recorded among the resources of government (*D.61*). They are composed of both actual social contributions (*D.611*) and imputed social contributions (*D.612*). Actual social contributions are payments received by general government under social security schemes, or insurance and pension schemes, including schemes organised for its own employees (ESA 95 *4.92-4.97*). Imputed social contributions include estimates of accruing pension obligations to currently

24 ESA 95 does not give specific guidance as to which transactions should be consolidated when deriving measures of total government revenue and expenditure.

25 A detailed definition of taxes on energy can be found in *Environmental Taxes – a statistical guide* published by Eurostat (cat. no. KS 39 01 077 EN N, ISBN 92-894-1358-1).

employed staff; in practice, the imputation is usually based on amounts currently contributed by general government units under pay-as-you-go unfunded insurance schemes (ESA 95 *4.98-4.102*). The imputed social contributions are included as part of the compensation of employees (*D.1*) – a use of the employer and resource of households – to reflect the true economic cost of employing staff in an unfunded pay-as-you-go pension scheme. The amounts are then recorded as imputed payments to government from households in *D.612*. The actual pensions paid are recorded in *D.623*.

Within social contributions, there are separate lines to show actual (i.e. not imputed) contributions paid by employers (item 16) (*D.6111*) (which are routed through the household sector in national accounts) and those paid by employees (item 17) (*D.6112*).

2.3.9 SALES (ITEM 20)

Sales consist of the following resources of government in ESA 95: market output (*P.11*), output for own final use (*P.12*), and payments for other non-market output (*P.131*).

The first component of sales, market output (*P.11*), is equal to charges for goods and services by market establishments (of which there may be some within the general government sector), plus sales at economically significant prices by non-market establishments (sometimes called "incidental sales"). Economically significant prices (normally covering at least half of production costs) affect supply and demand. For example:

– a government museum might charge economically significant prices for some of its services such as refreshments and car parking for visitors, but the entrance fee might not be economically significant; or

– a government department or local authority might levy charges for the use of certain roads at certain times. The prices would be considered economically significant if they were designed to reduce congestion on the roads.

The second component, output for own final use (*P.12*), consists of capital goods produced by government for its own use. For example, a government department might employ its own staff to construct specialised capital equipment for security purposes. The finished capital goods are regarded as having been sold by government to itself and are included in gross fixed capital formation (*P.51*). This component is not strictly a sale since it is not a transaction with another unit. The inclusion of this transaction in revenue, and of the corresponding transaction in expenditure (gross fixed capital formation), constitutes an exception to the general principle that intra-unit transactions are eliminated in GFS. The reason is to ensure that expenditure is recorded fully on items such as pay and capital formation to give a fuller picture of government activity. The production of output for own final use is economically analogous to the case when general government produces investment goods and sells them on the market, and then buys similar goods from another producer.

The third component of sales is non-market output sold at prices that are not economically significant (*P.131*). They are sometimes called "partial payments". This component consists of sales at prices that cover only part of the production cost. This is the case, for instance, when a government health department charges patients for the provision of medicines, but at a standard price usually below the cost of the medicines. The prices are not considered to be economically significant if they are not intended to restrain demand in order to ration the distribution of the goods and services supplied, but rather to make a contribution to the cost.

Note that government final consumption (*P.3*) equals the sum of its output (*P.1*), plus the expenditure on products supplied to households via market producers (part of social transfers in kind, *D.63*), minus sales of market output (*P.11*), sales of non-market output (*P.131*), and output for own final use (*P.12*).

The categories *sales* and *intermediate consumption* are not consolidated, in line with the SNA 93 principle that output and intermediate consumption should not be consolidated (SNA 93 paragraph 2.82). In other words, the sale of a service by one government unit to another would add to the figures for sales and intermediate consumption in the GFS tables.

The table in Section 4.1.1 shows how sales relate to government output and consumption.

2.3.10 OTHER CURRENT TRANSFERS RECEIVABLE (ITEM 18)

This consists of transactions that are part of current revenue and that are not included in any other category. It comprises the following items, which are general government resources unless otherwise stated:

Table 5 Transactions included in other current transfers receivable

ESA 95 code	Description of revenue
D.39 U	Other subsidies on production
D.41 R	Interest
D.42 R	Dividends
D.43 R	Reinvested earnings on direct foreign investment
D.45 R	Rent
D.72 R	Insurance claims
D.74 R	Current grants from the rest of the world, excluding any current grants received from the EU budget
D.75 R	Miscellaneous current transfers such as fines and payments of compensation
	An imputed item for net receipts from the EU budget if expenditure by the EU budget in the Member State is more than its receipts from the Member State

This last item is not described in ESA 95, but is included to ensure that *B.9* is not affected by the inclusion of EU budget transactions in government revenue and expenditure. It reverses the effect of including EU budget transactions in the table.

Transfers within the general government (*D.73*) are not part of other current revenue since they are removed in consolidation.

Other subsidies on production (*D.39 U*) are mainly subsidies that are linked to inputs. Government receipts of this type can only be classified as subsidies if they are payable under general regulations covering all units in the economy. If the payments are specific to government, they should be classified as transfers within government and thus consolidated (i.e. not recorded in GFS). (*D.39* is recorded as a negative use, not as a resource, because subsidies are regarded as negative expenditure.)

Other subsidies on production are receipts of subsidies that are not subsidies on products (*D.31*). The latter are subsidies payable in proportion to the volume of output produced. If any government units receive *D.31* subsidies, the amounts would be recorded as an increase in market output (*P.1*) and so would be reflected in sales (item 20) rather than item 18.

Property income (*D.4*) is the income receivable by general government when it places financial assets or non-produced assets (such as land) at the disposal of another institutional unit (ESA 95 *4.41-4.76*).

Apart from interest, the components of property income are not consolidated since the transactions between general government units are not significant and the necessary information is frequently not available. Interest is consolidated, which means that this item excludes interest receipts that are the payments of other general government units.

Non-life insurance claims (*D.72*) are the receipts of general government from insurance corporations following claims made on non-life insurance contracts (ESA 95 paragraphs *4.112-4.116*).

Current international co-operation (*D.74*) relates to current transfers receivable by general government units from foreign governments and international organisations (ESA 95 paragraphs *4.121-4.124*). Receipts from institutions of the EU are excluded under the consolidation rules.

Miscellaneous current transfers (*D.75*) comprise fines, penalties and voluntary transfers receivable by government agencies (perhaps for cultural or environmental projects). Note that miscellaneous current transfers do not include licence fees. These are either classified as sales of services, taxes, rents or sales of intangible capital assets (see Part IV.1 on receipts in the *Deficit and Debt Manual*).

2.3.11 INTEREST RECEIVABLE (ITEM 19)

Interest receivable (*D.41*) is one of the components of property income. Interest is consolidated within government.

2.3.12 TOTAL CAPITAL REVENUE (ITEM 31)

This consists of capital taxes (*D.91*), investment grants (*D.92*), and other capital transfers (*D.99*) that are receipts of government.

Capital transfers (*D.92* and *D.99*) in cash consist of transfers of cash that the first party has raised by disposing of assets (other than inventories), or that the second party is expected, or required, to use for the acquisition of assets (other than inventories). Capital transfers in kind are transfers of ownership of an asset (other than inventories or cash), or the cancellation of a liability by a creditor, without any counterpart being received in return (ESA 95 *4.145-4.167*).

Capital revenue does not include capital transfers within government, for example between central and local government, since these are consolidated.

General government sector accounts record capital grants payable by the EU budget to general government, where general government units are the final recipient and not just acting as an agent passing on the EU funds. These receipts are excluded in GFS because of the consolidation of transactions between the EU budget and government.

In some countries' national accounts, capital transfers (*D.995*) are recorded for writing-off taxes that accrue but are never paid. This ensures that net borrowing reflects only taxes that are actually collected, in cases where the accrued amounts recorded under taxes include amounts that are never collected. Such capital transfers should be recorded as negative figures under capital transfers received, rather than as positive figures under capital transfers paid.

2.3.13 CAPITAL TAXES (ITEM 32)

Capital taxes (*D.91*) are taxes levied at irregular intervals on the value of assets owned or transferred. They include, for example, inheritance tax and taxes on increases in land values due to land use regulations.

2.3.14 GOVERNMENT EXPENDITURE: CURRENT AND CAPITAL TOTALS (ITEMS 8, 21 AND 33)

Government expenditure is composed of current expenditure and capital expenditure. Current expenditure includes compensation of employees, intermediate consumption, payment of production taxes, interest and current transfers such as social benefits, and grants to NPISHs. Capital expenditure is mainly the acquisition of non-financial assets used in production and not consumed within the accounting period, plus the payment of capital grants.

2.3.15 INTERMEDIATE CONSUMPTION (ITEM 29)

This is the value of the goods and services consumed by government to produce its own output (*P.2*). It excludes the consumption of fixed capital (*K.1*, ESA 95 *3.69-3.73*), which is not included in the GFS definition of government expenditure since it does not affect the deficit (*B.9*).

2.3.16 CURRENT TRANSFERS (ITEM 22)

This is the sum of *social payments* (*item 23*), *subsidies* (*item 24*) and *other current transfers payable* (*item 25*). Current grants exclude transfers made for the specific purpose of financing capital expenditure or one-off transfers of wealth (ESA 95 *4.126*); these are capital grants.

Note that this definition of current transfers includes social transfers in kind made by government using output of non-government producers; these transfers are part of general government final consumption expenditure. In some definitions of government expenditure these items are not explicitly recorded as transfers, but are part of government consumption.

2.3.17 INTEREST PAYABLE (ITEM 26)

This is the amount that government, as a debtor, becomes liable to pay to the creditor over a given period of time, without reducing the amount of principal outstanding (*D.41*, paragraphs *4.42-4.52*). The recording of interest is explained in Part III.3 of the *Deficit and Debt Manual*. Some of the main points are discussed in Section 2.1.8.

2.3.18 SOCIAL PAYMENTS (ITEM 23)

These include: social benefits (*D.62*); social transfers in kind related to expenditure on products supplied to households via market producers[26] (*D.6311 + D.63121 + D.63131*); and current transfers to NPISHs (part of *D.75*). For GFS, social transfers in kind and social benefits are grouped under the same category of expenditure because both have the nature of direct distributive transactions between government and households.

Social benefits (*D.62*) are transfers to households, other than transfers in kind, intended to relieve them from the financial burden of a number of risks and needs. They include payments under occupational pension schemes for government employees and under state old age pension schemes, as well as social security and social assistance benefits in cash.

Social transfers in kind via market producers (*D.6311 + D.63121 + D.63131*) are goods and services produced by market producers and purchased by government, which supplies them to households without any transformation (ESA 95 *3.79.b*). Note that for GFS it is necessary to distinguish between goods and services bought by government to produce government output (included in intermediate consumption (*P.2*)) and those bought by government from market producers and supplied directly to households without any processing by government (included in social benefits in kind (*D.63*)). Both are included in government final consumption expenditure (*P.3*).

Social payments are further broken down into categories identified in ESA 95 through the definitions used to classify the functions of government (COFOG).[27] These categories are *old age pensions* (COFOG 10.2.0) and *unemployment benefits* (COFOG 10.5.0). Note that these are "of which" items and so do not sum to the total since there are other types of social benefits.

Section 2.1.7 gives further information on the classification of social insurance transactions.

Note that social payments include any tax credits paid to households that are treated as government expenditure in national accounts and hence classified under *D.62*.

Current transfers to NPISHs (part of *D.75*) are current grants from general government to NPISHs. They are included in this category since they represent government grants designed to support social benefits in kind delivered through NPISHs. Institutions providing education could be an example of this.

2.3.19 SUBSIDIES PAYABLE (ITEM 24)

These are subsidies payable by general government units. ESA 95 treats this item (*D.3*) as a negative resource of the payer, rather than

26 See Commission Regulation No 1500/2000.
27 See http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4.

as a use, to keep it in the same part of the accounts as tax receipts. It is the only government "resource" included in government expenditure. Note that in the tables, subsidies are shown with sign reversed to be consistent with national accounts. For example, "*- D.3 R*" means that a positive figure should be recorded for subsidies paid by government.

It includes subsidies paid both by government and by institutions of the EU (*S.212*) to residents of the Member State. Subsidies are current unrequited payments to resident producers with the objective of influencing their levels of production, their prices, or the remuneration of the factors of production (ESA 95 *4.30-4.40*). Subsidies are not consolidated in line with the SNA 93 principle that transactions appearing in different accounts should not be consolidated.

Note that subsidies include any tax credits paid to corporations that are treated as government expenditure in national accounts and hence classified in *D.3*.

2.3.20 OTHER CURRENT TRANSFERS PAYABLE (ITEM 25)

These are current expenditures not included in any other category of current expenditure.

Current taxes on income and wealth (*D.5*) and *other taxes on production* (*D.29*) include all those types of tax paid by government units, even if paid to the same level of government, since these transactions are not consolidated.

Property income, excluding interest (*D.4* except *D.41*) includes rents on land, and payments by government of royalties for sub-soil assets (normally government revenue rather than an expense, but payments are not impossible). It would also include any payments of dividends by government. Note that rental of buildings is recorded as intermediate consumption, and not as rent in this item, because renting a building, which is a produced asset, unlike renting land, is regarded as a purchase of services in ESA 95.

Non-life insurance premiums (*D.71*) are a component of the premiums payable under insurance policies taken out by government units (ESA 95 *4.109-4.111*), excluding parts of the premium that go to buy insurance services or acquire financial assets. In the absence of data identifying this component, it can be assumed to equal the amounts received in claims. An offsetting adjustment is made in intermediate consumption (*P.2*) to ensure that total expenditure is correct.

Current international co-operation (*D.74*) covers current transfers paid by government to foreign governments and international organisations, excluding the GNP-based fourth resource of the EU budget which is in *D.75* (ESA 95 *4.121-4.124*). Typically this item relates to development aid. Payments from the EU budget to general government are excluded in the consolidation process.

Table 6 Transactions included in other current transfers payable

ESA 95 code	Description
D.5 U	Taxes on income and wealth
D.29 U	Other taxes on production
D.45 U	Rent
D.71 U	Non-life insurance premiums
D.74 U	Current international co-operation, excluding grants to the EU budget
D.75 U	Miscellaneous current transfers, excluding grants to the EU budget (fourth resource) and grants to NPISHs
D.8 U	Adjustment for the change in net equity of households in pension funds reserves
	An imputed item for net receipts from the EU budget if expenditure by the EU budget in the Member State is more than its receipts from the Member State

Miscellaneous current transfers, excluding transfers to NPISHs (*D.75*) are defined in ESA 95 *4.125-4.140*. The general government accounts include the EU fourth resource in this category, and payments in respect of the UK abatement (which should not be treated as adjustments to VAT), but in GFS both of these are removed in the consolidation of general government and the EU budget. Transfers to NPISHs are included in social payments (item 23).

The *adjustment for the change in net equity of households in pension funds reserves* (*D.8*). Such an adjustment is necessary only in the rare case where government operates a funded pension scheme.

An imputed item for net payments to EU budget if EU budget expenditure is less than EU budget receipts in the Member State. This last item is not part of ESA 95. It ensures that *B.9* is not affected by the inclusion of EU budget transactions in government revenue and expenditure. It reverses the net effect of including EU budget transactions in the table.

Current transfers within general government (*D.73*) are not part of other current transfers since they are consolidated.

2.3.21 COMPENSATION OF EMPLOYEES (ITEM 27)

This is the total remuneration, in cash or in kind, paid by government to its employees in return for work done by the latter during the accounting period (*D.1*, ESA 95 *4.02-4.13*). It includes employers' actual and imputed social contributions (*D.12*).

2.3.22 EMPLOYERS' ACTUAL SOCIAL CONTRIBUTIONS (PART OF ITEM 27)

Employers' actual social contributions (*D.121*) are actual payments into social security schemes and into funded autonomous pension schemes by government on behalf of its employees. They are part of the compensation of employees (item 27). The payments into social security schemes and government-run non-autonomous pension schemes are also shown as government revenue in item 16 (part of *D.61*).

2.3.23 WAGES AND SALARIES (ITEM 28)

This is *D.11*. It is the compensation of employees (*D.1*) less employers' social contributions (*D.12*).

2.3.24 GROSS SAVING (ITEM 30)

This is current revenue minus current expenditure, before capital consumption. It represents the resources at government's disposal to fund the replacement of worn-out capital assets, net additions to the stock of capital assets, and net payments of capital transfers, without the need for borrowing. It is general government gross saving (*B.8*) in ESA 95, plus an adjustment for capital spending from the EU budget in the Member State less government receipts of capital grants from the EU budget. Capital spending also includes some transactions from the EU budget in that Member State. It will be recalled that these current and capital transactions are reversed by a single adjustment in current revenue or current expenditure, to prevent the EU budget transactions affecting the net lending/net borrowing. The single adjustment in current revenue/expenditure implies that gross saving *B.8* in national accounts is not affected by this expenditure because the net EU budget receipt/contribution recorded in GFS in current revenue/expenditure includes the impact of EU budget capital expenditure in Member States.

2.3.25 TOTAL CAPITAL EXPENDITURE (ITEM 33)

This includes government investment, net acquisition of other non-financial assets, and capital transfers. Note that, contrary to some other definitions of capital expenditure and investment, it does not include the acquisition of financial assets such as equity shares.

Netting off sales of assets from acquisitions in categories *P.5* and *K.2* is standard ESA 95 practice. In order to adhere to ESA 95 nomenclature, sales of capital assets are also netted off in GFS total government expenditure.

This constitutes an exception to the general principle of not netting.

2.3.26 INVESTMENT (ITEM 34)

Government investment is gross fixed capital formation (*P.51*) recorded among changes in the assets of government. It equals the acquisition less disposal of fixed assets, plus certain improvements to the value of non-produced assets like land (e.g. by spending on sea defences or drainage) (ESA 95 *3.102-3.116*). "Gross" here means before depreciation is deducted, but after the deduction of sales of capital assets. Note that "investment" in this sense excludes the acquisition of financial assets.

2.3.27 OTHER NET ACQUISITION OF OTHER NON-FINANCIAL ASSETS (ITEM 35)

This comprises changes in inventories (*P.52*), net acquisition of valuables (*P.53*) and net acquisition of non-financial non-produced assets (*K.2*). Note that "net" means net of the sale of assets.

2.3.27.1 Changes in inventories (*P.52*)

This category includes the acquisition of commodities to be held in stock for subsequent use as intermediate consumption, less the sale or consumption of commodities that had been held in stock, and changes in inventories of work-in-progress and finished goods (ESA 95 *3.117-3.124*). Note that when stock is purchased or sold (*P.52*), there is an impact on net lending (+)/net borrowing (-), but when stocks are produced or consumed there is no impact since output (*P.1*) offsets the positive stock-building when stocks are produced and intermediate consumption (*P.2*) offsets the negative stock-building when stocks are consumed.

2.3.27.2 Net acquisition of valuables (*P.53*)

This is the acquisition of non-financial goods that are not used primarily for production or consumption, but are held primarily as stores of value, such as precious metals and art objects (ESA 95 *3.125-3.127*). It is unlikely that governments would hold such items as a store of value;[28] works of art acquired for display are regarded as producing cultural outputs and so should be included in fixed assets (*P.51*).

2.3.27.3 Net acquisition of non-financial non-produced assets (*K.2*)

This consists of the net acquisition of non-produced assets that may be used in the production of goods and services, like land, sub-soil assets, and non-cultivated biological resources (ESA 95 *6.06-6.13*). It also includes intangible non-produced assets, such as contracts for the use of non-financial assets (for example property leases) that are subsequently traded, and UMTS licence receipts that have been classified as sales of assets.

2.3.28 CAPITAL TRANSFERS PAYABLE (ITEM 36)

This consists of investment grants (*D.92*) paid by government and other capital transfers (*D.99*) such as those recorded as the counterpart to an assumption of debt by mutual consent. A longer list is given in ESA 95 *4.165*.

In national accounts, capital transfers payable are shown with a negative sign. In the reporting tables in this guide, capital transfers payable are shown with sign reversed to be consistent with national accounts. For example "- *D.9* payable" means that capital transfers paid by government are added to the item total.

Note that there are special rules to distinguish between capital transfers and financial transactions in the case of payments between government and public corporations (see Part IV of the *Deficit and Debt Manual*). For example, a capital injection from government to a public corporation might be described in legal terms as the acquisition of equity. In national accounts it would be classified as a capital transfer, not as a financial transaction, if government were not acting like a rational investor in expecting a commercial return from its investment.

In some countries' national accounts, capital transfers (*D.995*) are recorded for cancelling

28 Monetary gold is treated as a financial asset (*F.11*), not as a valuable (*P.53*).

taxes that accrue but are never paid. This ensures that net lending/net borrowing reflects only taxes that are actually collected, in cases where the accrued amounts recorded under taxes include amounts that are never collected. Such capital transfers should be recorded as negative figures under capital transfers received, rather than as positive figures under capital transfers paid.

2.3.29 DEFICIT (-) OR SURPLUS (+) BY SUB-SECTOR (ITEMS 2 TO 5)

This refers to net lending (+)/net borrowing (-) (*B.9*) by the sub-sectors of general government. Note that this may not be the same as the sub-sector breakdown of *B.9* in the EDP notification tables (*EDP B.9*).

State government is sometimes misunderstood. It is confined to those countries that are a federation of regional governments, such as Germany and Spain. State government is the regional level of government. It lies between central government and local government. It does not refer to that part of central government sometimes called "the state" as in "the state budget".

2.3.30 EDP DEFICIT (+) OR SURPLUS (+) (ITEM 37)

This is general government net lending/net borrowing (*B.9*) including the impact of UMTS proceeds as negative capital expenditure as in national accounts, and treating net settlements under swaps and FRAs as property income rather than as financial transactions. It is called *EDP B.9* in European Parliament and Council Regulation No 2558/2001 amending ESA 95.

2.3.31 EDP INTEREST PAYABLE (ITEM 38)

This is interest expenditure in national accounts (government uses of *D.41*), plus net payments under swaps and FRAs. This is the treatment used for *EDP B.9*.

2.3.32 UMTS PROCEEDS (ITEM 39)

This represents the actual government revenue from the sale of Universal Mobile Telecommunications System (UMTS) licences, also known as third-generation (3G) mobile phone licences. They are generally recorded in national accounts as the sale of a capital asset in *K.2*.[29] This item should show the amounts included each year in the calculation of the deficit (item 1), whether treated as the sale of a capital asset or in some other way. The purpose is to identify these large and exceptional transactions which might otherwise obscure the underlying fiscal position.

2.4 MEMORANDUM ITEMS

2.4.1 ACTUAL SOCIAL CONTRIBUTIONS (ITEM 40)

This is government resources of *D.611*, and so excludes imputed social contributions.

2.4.2 SOCIAL BENEFITS OTHER THAN SOCIAL TRANSFERS IN KIND (ITEM 41)

This is government uses of *D.62*.

2.4.3 ESA 95 GDP (ITEM 42)

This is GDP at current market prices, as used as a denominator in calculating the deficit and debt percentages for the EDP. It is *B.1*g* in ESA 95. The "*" indicates that it is the balance *B.1g* (gross value added) for the whole economy and not just one sector. Gross domestic product at market prices is defined in ESA 95 *8.89*.

2.4.4 ESA 95 GDP AT CONSTANT PRICES (ITEM 43)

This is GDP at 2000 prices when the revision of the National Accounts has been undertaken (some Member States may still report GDP at 1995 prices for a transitional period).

2.4.5 GOVERNMENT INVESTMENT AT CONSTANT PRICES (ITEM 44)

This is government investment (item 34) at 2000 prices when the revision of the National Accounts has been undertaken (some Member States may still report GDP at 1995 prices for a transitional period).

29 See http://www.cmfb.org/main-topics/includes/edp6.pdf, which describes the Eurostat decision on UMTS licences.

3 IMPACT OF EU BUDGET TRANSACTIONS ON REVENUE AND EXPENDITURE (TABLE 1B)

3.1 INTRODUCTION TO TABLE 1B

In GFS, unlike in the ESA 95 national accounts, total government revenue and expenditure are defined as groups of non-financial transactions of the general government sector of a Member State, plus the revenue and expenditure of the institutions of the European Union (except the ECB and EIB) in respect of that Member State. For example, in ESA 95 national accounts, Common Agricultural Policy (CAP) subsidies paid to farmers are treated as payments direct from the rest of the world to resident businesses, even though they are normally paid by a national government agency managing the policy on behalf of the European Union, which is subsequently reimbursed by the EU budget. So, in national accounts, the subsidies are not treated as government expenditure and the receipts from the EU budget are not treated as government revenue. But in GFS, government expenditure does include CAP farm subsidies, funded by the EU budget, that are paid in the Member State.

EU budget transactions are included in GFS to reflect better the extent of government activity in the Member State. In economic terms, and in the perception of taxpayers, taxes that are resources of the EU budget are similar to those paid to (national) general government. Likewise, EU budget subsidies and other grants received by residents are similar in their impact to those recorded as uses of general government units. In effect, and for the purposes of GFS, EU institutions form a fifth sub-sector in the general government sector (*S.13*).

To complete this consolidation of EU budget activity within the Member State's GFS data, it is necessary to remove transactions between government and the EU budget, such as the fourth resource payment.

The inclusion of EU budget transactions with non-government residents, and the consolidation of transactions between government and the EU budget, increases government revenue and expenditure compared with the levels compiled from general government transactions in national accounts. To ensure that government expenditure minus government revenue still equals general government net lending/net borrowing (*B.9*), it is necessary to reverse the impact of EU transactions through an adjustment item. This is recorded as a single figure in either current revenue or current expenditure. Thus if, as a result of including EU budget transactions, the extra government expenditure exceeds the extra government revenue, the net impact is recorded as an additional component in other current transfers received. In effect, an extra receipt is imputed to ensure that *B.9* is unchanged. Similarly, if the extra government current expenditure is less than the extra government current revenue, the net impact is recorded in other current transfers paid. EU transactions include capital as well as current transactions. Although *B.9* is thereby insulated from the impact of EU transactions, gross saving is not, and will not be the same as the gross saving of general government in national accounts (*B.8g*), because EU transactions include capital as well as current transactions and only one adjustment is made in current revenue or expenditure.

When aggregating the Member States' data to produce EU or euro area totals, the practice is to reverse the imputed items described in the previous paragraphs. The aggregate of the imputed items for net receipts from the EU budget, where this is included in revenue, is deducted from the aggregate of government revenue. This ensures that total EU government revenue equals the aggregate of the actual[30] amounts reported in the Member States' GFS data. A similar adjustment may be made to the aggregate of Member States' government expenditure. This ensures that total EU government net lending/net borrowing (*B.9*) is the sum of the figures reported by Member States. However it does not mean that total

30 "Actual" in the sense of excluding the imputed component needed to keep B.9 constant.

government expenditure in the European Union, including expenditure by the EUIs, is the same as the sum of the actual amounts reported in the GFS data, because some types of expenditure from the EU budget cannot be assigned to an individual Member State, and so are not included in the GFS tables of any Member State. This is either because there is no counterpart in a Member State (e.g. in the case of EU budget aid to developing countries) or because it is EU budget administrative expenditure.

Adding the EU budget transactions to revenue and expenditure is relatively straightforward where a government department manages the transactions since the data are likely to be available within public accounts. It is more difficult to collect data for transactions that take place directly between the EU budget and non-government units, but these should not be overlooked.

Chapter 9 contains a detailed description of the compilation of euro area and European Union aggregates.

3.1.1 TABLE SHOWING THE RELATIONSHIP BETWEEN EU BUDGET ITEMS IN TABLE 1B

The arithmetic in the table operates vertically down the columns for revenue and expenditure, and horizontally for the three balances.

Table 7 Relationship between EU budget items

GFS revenue	GFS expenditure	Balancing items = revenue − expenditure
GG current revenue (ESA 95)	GG current expenditure (ESA 95)	Gross saving (ESA 95 *B.8g*)
+ EU current receipts from non-GG units[1]	+ EU current grants paid to non-GG units	
- GG current grants from the EU	− GG current payments to the EU[2]	
+ Net contribution from the EU[3]		
This item equals:		
EU current grants paid to non-GG units		
− GG current payments to the EU budget		
− EU current receipts from non-GG units		
+ GG current grants from the EU budget		
+ EU capital grants paid to GG units		
+ EU capital grants paid to non-GG units		
− GG capital grants paid to the EU budget		
= Government current revenue (GFS)	= Government current expenditure (GFS)	Gross saving (GFS)
+ Capital transfers received by GG (ESA95)	+ Capital transfers paid by GG (ESA 95)	
	+ Capital expenditure by GG (ESA 95)	
− EU capital grants paid to GG units[4]	+ EU capital grants paid to non-GG units	
	− GG capital grants paid to the EU	
= Total revenue (GFS)	= Total expenditure (GFS)	Net borrowing (ESA 95 and GFS)[5]

1) Typically taxes on production (*D.2*).
2) Typically the GNP-based fourth resource.
3) Assumes the Member State is a net beneficiary in terms of transactions with EU budget. This item can be included on the expenditure side, with an opposite sign, if the Member State is a net payer to the EU budget.
4) This is where government is the final recipient and not just acting as an agent of the EU.
5) Note that all the items in the table relating to EU transactions cancel out in the calculation of net borrowing.

3.2 TABLE 1B: FORMAT AND CONTENTS

This is the format and contents of the reporting table used by the ECB to collect GFS data from NCBs. The table shows the item numbers used in Table 1B of the GFS Guideline and the corresponding line numbers in the reporting table, as well as the relationships between the line numbers and item numbers.

Table 1b Impact of EU transactions on revenue and expenditure

Description	Guideline item number Table 1B	Reporting table line number and relationships	ESA 95 codes
Payments by Member State to EU budget	1	1 = 2+4+5+7	
Indirect taxes received by EU budget	2	2	*D.2*
of which VAT received by EU budget	3	3	*D.211*
Current international co-operation paid by government to EU budget	4	4	*D.74*
Miscellaneous current transfers paid by government to EU budget	5	5	*D.75*
of which EU fourth own resource	6	6	
Capital transfers paid by government to EU budget	7	7	*D.9*
EU expenditure in Member State	8	8 = 9+10+11+12+13	
Subsidies paid by EU budget	9	9	*D.3*
Current transfers paid by EU budget to government	10	10	*D.74+D.75*
Current transfers paid by EU budget to non-government	11	11	*D.75*
Capital transfers paid by EU budget to government	12	12	*D.9*
Capital transfers paid by EU budget to non-government	13	13	*D.9*
Net receipts from EU budget (net receiver +, net payer -)	14	14 = 8-1	
Memo: *Own resources collections costs*	15	15	*P.11*
Memo: *Net receipts from pre-acceding programmes*	16	16	
Memo: *Net receipts from pre-acceding programmes paid by government*	17	17	

3.3 LINE-BY-LINE ANALYSIS OF TABLE 1B

3.3.1 PAYMENTS BY MEMBER STATE TO EU BUDGET (ITEM 1)

This is the total of the production taxes (*D.2*) received by the EU budget plus current transfers (*D.7*) and capital grants (*D.9*) paid by general government to the EU budget as recorded in national accounts.

3.3.2 INDIRECT TAXES ON PRODUCTION RECEIVED BY EU BUDGET (ITEM 2)

These comprise EU own resources such as the part of VAT that is paid into the EU budget, and several types of customs duties[31] and indirect taxes.[32] The national accounts of Member States classify them as indirect taxes (*D.2*) paid by national residents to the institutions of the EU (*S.212*).

Note that the full amount of these taxes collected is included, not just the net amount paid after deduction of collection costs. The collection costs are treated as a sale of a service by government to the rest of the world.

3.3.3 VAT RECEIVED BY EU BUDGET (ITEM 3)

This is a component of item 2. It is shown separately to facilitate the checking of short-term trends in taxes received by general government. Such checks are needed because VAT paid to the European Union can be volatile, because of the nature of the methods used to calculate the amount payable, and can therefore distort the residual amount recorded as a resource of the national government.

3.3.4 CURRENT INTERNATIONAL CO-OPERATION PAID BY GOVERNMENT TO EU BUDGET (ITEM 4)

Current international cooperation (*D.74*) includes current grants paid by general government to the EU budget other than the fourth resource. These could include grants to finance particular projects, or one-off grants to support the EU budget.

31 For example, those levied on the basis of the Integrated Tariff of the European Union and on agricultural goods.
32 For example, the levy on mining and steel-producing enterprises, sugar production levies, the tax on isoglucose and the co-responsibility taxes on milk and cereals.

3.3.5 MISCELLANEOUS CURRENT TRANSFERS PAID BY GOVERNMENT TO EU BUDGET (ITEM 5)

This line is for miscellaneous current grants (*D.75*) paid by government to the EU budget and is mainly, or entirely, the fourth resource (see below).

3.3.6 EU FOURTH OWN RESOURCE (ITEM 6)

This is the GNP-based contribution (the fourth resource) to the EU budget. It includes any transactions relating to retrospective adjustments to amounts paid under the fourth resource. Generally this line is the same as the one above.

3.3.7 CAPITAL GRANTS PAID BY GOVERNMENT TO EU BUDGET (ITEM 7)

This would include, for example, cases where a national government pays an investment grant to the EU budget under one of its regional development policy schemes.

3.3.8 EU EXPENDITURE IN MEMBER STATES (ITEM 8)

This equals payments from the EU budget to government units and non-government resident sectors as recorded in national accounts.

3.3.9 SUBSIDIES PAID BY EU BUDGET (ITEM 9)

Typically this consists of agricultural subsidies paid under the CAP. In national accounts these are transactions between the rest of the world and non-government resident sectors in *D.3*. (In the unlikely event of subsidies being paid by the European Union to government units, these payments would not be deducted in the consolidation, as is the case with other transfers from the European Union to government, in line with the general rules on which types of transaction are consolidated.)

3.3.10 CURRENT TRANSFERS PAID BY EU BUDGET TO GOVERNMENT (ITEM 10)

These are general government resources in current international co-operation (*D.74*) and miscellaneous other current grants (*D.75*). They could include rebates to national governments from the EU budget, and current grants to government units to fund activity in those units (rather than the case of government units acting as agents of the European Union to distribute the funds as grants to non-government units on behalf of the European Union). Government units in receipt of EU grants would, for example, include government scientific institutions undertaking EU-funded research and development programs.

3.3.11 CURRENT TRANSFERS PAID BY EU BUDGET TO NON-GOVERNMENT (ITEM 11)

Non-government here include households (*S.14*) and NPISHs (*S.15*). Typically these are payments under the European Social Fund such as grants for education and training and are classified under *D.75*.

3.3.12 CAPITAL TRANSFERS PAID BY EU BUDGET TO GOVERNMENT (ITEM 12)

There are general government receipts of investment grants (*D.92*). The item could include grants to local government for structural improvements such as road building and other European Regional Development Fund (ERDF) programmes where government units acquire capital assets rather than passing on the grants to non-government units for them to acquire capital assets.

3.3.13 CAPITAL GRANTS PAID BY EU BUDGET TO NON-GOVERNMENT (ITEM 13)

Typically these are investment grants (*D.92*) paid from the EAGGF and ERDF programs.

3.3.14 NET RECEIPTS FROM EU BUDGET (ITEM 14)

This item equals the EU expenditure in the Member State (item 8) less the payments by the Member State to the EU budget (item 1), and so is the net impact of transfers between the Member State and the EU budget. The inclusion of this line in government revenue if the Member State is a net receiver and in government expenditure if the Member State is a net payer ensures that government expenditure minus revenue, as defined in these tables, equals the net borrowing (*-B.9*) of general government in national accounts.

Note that the EU budget payments and receipts include only subsidies, taxes and other transfers; they do not include payments for goods and services or wages in the Member State.

3.3.15 MEMO: OWN RESOURCES COLLECTION COSTS (ITEM 15)

Member State governments collect taxes on behalf of the EU budget, and send amounts to the EUIs net of an agreed amount to cover collection costs. The difference between the amount collected and actual funds passed to the EU budget is recorded as government revenue from the sale of a service (*P.11*). EU tax receipts are recorded gross (i.e. before the deduction of the collection costs).

Finally, it is worth clarifying the accounting treatment of the *pre-accession funds* (PHARE, ISPA, SAPARD, etc.) which should not be recorded as such in transactions between the EU budget and a Member State. This is because these funds represent a relationship between the EU budget and countries which are not Member States, and so should not be recorded in Table 1b as EU budget transactions with Member States even if funds are paid under continuing multi-year programmes. However, it may sometimes be difficult around the time of accession to allocate the relevant funds to the correct programme. This explains the existence of two additional Memo items in Table 1b of the GFS data request (not foreseen in the GFS Guideline). These are *"Net receipts from pre-acceding programmes"* (item 1b/16) and *"Net receipts from pre-acceding programmes paid to government"* (item 1b/17).

4 GOVERNMENT FINAL CONSUMPTION (TABLE 1C)

4.1 INTRODUCTION TO TABLE 1C

Table 1c shows general government final consumption expenditure (*P.3*) in terms of the components of government expenditure shown in Table 1a and some other breakdowns.

General government final expenditure consumption expenditure is the government's use of resources, either for its own direct use (but excluding capital formation) or for distribution to others, mainly in the form of social benefits in kind (health and education in services, etc.).[33] There are different ways to define total government expenditure, depending on whether general government final consumption is included or not. In GFS general government final consumption is not explicitly included. General government expenditure in the form of government transfer payments (mainly social benefits other than in kind (*D.62*)) or in the form of interest expenditure (*D.41*) or other payments of property income in *D.4* (interest, rent, etc.) is not general government final consumption expenditure.

Government final consumption expenditure is the sum of the government's use of labour, goods, services, and fixed capital, including taxes less subsidies on production, to produce non-market output, minus sales by non-market establishments, plus expenditure by the government on goods and services supplied directly to households by non-government units (classified as social transfers in kind) (ESA 95 *3.96*).

Viewed from the production side, general government final consumption expenditure comprises three main elements: (1) goods and services produced by general government units for direct use within the general government sector (other than for capital formation) or for distribution to other institutional units; (2) goods and services produced outside the general government sector for direct use by general government (other than for capital formation); and (3) goods and services produced outside the general government sector for use by institutional units outside the general government sector which are paid for by general government.

4.1.1 RECONCILING GFS EXPENDITURE ITEMS WITH FINAL CONSUMPTION

Some other definitions of government expenditure include final consumption as an explicit component. The GFS expenditure aggregate does not follow those definitions, but it includes some new sub-divisions of ESA 95 categories created in Commission Regulation No 1500/2000 to define government expenditure.

ESA 95 shows the production, distribution, consumption and accumulation of economic resources. This hierarchy of accounts reflects different types of economic concept, such as different ways to define revenue and expenditure. The table below shows how some of these concepts are linked. It also demonstrates how the new sub-divisions of ESA 95 categories relate to output and consumption, which is not always intuitively obvious.

The left-hand column of the table shows some GFS expenditure components expenditure plus some non-GFS expenditure components that contribute to the calculation of government output. The middle column shows the breakdown of government output and various transfers that distribute the output to where it is consumed. The right-hand column shows where it is consumed.

For example, the left-hand side of the table shows that final consumption expenditure is the sum of the costs of producing government output, plus the operating surplus of market establishments, less sales and other receipts for government output, less output for own final use, plus social transfers in kind via market

33 Table 1c (like all GFS Tables) includes the transactions of all government establishments (market and non-market). Market establishments are deducted in the calculation of final consumption through the net operating surplus line.

Table 8 Showing the relationship between GFS expenditure components, government ouput and final consumption

<table>
<tr><th>GFS expenditure items, and other items</th><th colspan="3">Classification of the output and/or classification of the sale/transfer of the output by government</th><th>Sector consuming the output (either as final consumption or capital formation)</th></tr>
<tr><td rowspan="3">Social payments</td><td colspan="3">Social benefits in cash (D.62)</td><td>Part of household consumption (P.3)</td></tr>
<tr><td colspan="3">Current transfers to NPISHs (D.75)</td><td>Part of NPISH final consumption (P.3)</td></tr>
<tr><td colspan="3">Social transfers in kind of goods and services produced by market producers (D.6311 + D.63121 + D.63131)</td><td rowspan="3">Government individual final consumption (P.31)</td></tr>
<tr><td rowspan="6">Government output
= intermediate consumption
+ compensation of employees
+ taxes less subsidies
+ capital consumption
+ net operating surplus of market establishments</td><td rowspan="3">Other government non-market output (P.132)
(net of payments for non-market output P.131)</td><td colspan="2">Social transfers in kind of goods and services produced by non-market producers (D.63122 + D.63132)</td></tr>
<tr><td colspan="2">Other transfers of individual non-market goods or services (D.632)</td></tr>
<tr><td colspan="2">Transaction internal to government</td><td>Government collective final consumption (P.32)</td></tr>
<tr><td colspan="2">Payments for government non-market output (P.131)</td><td rowspan="3">Sales (GFS revenue item)</td><td rowspan="2">Any sector: either final consumption or capital formation</td></tr>
<tr><td colspan="2">Government market output (P.11)</td></tr>
<tr><td colspan="2">Government output for own final use (P.12)</td><td>Part of government fixed capital formation (P.51)</td></tr>
</table>

Note: The highlighted areas show, for each column, the components of final consumption

producers. The table therefore shows that government individual final consumption expenditure includes spending on goods and services that government produces itself, and on goods and services produced by other sectors. The transfer of the output from producers to households occurs through distributive transactions (*D.63*).

4.1.2 NOTE ON PAYMENTS FOR OTHER NON-MARKET OUTPUT (P.131)

Other non-market output (*P.13*) can be subdivided into two items: "Payments for other non-market output" (*P.131*), which consist of various fees and charges (sometimes called "partial payments"); and "Other non-market output, other" (*P.132*), covering output that is provided free of charge. ("Other" here is in the sense that it is not *P.12*). Total other non-market output (*P.13*) is a residual item to ensure that the net operating surplus (*B.2n*) of non-market establishments is zero. Therefore, *P.131* does not affect the balance *B.2* that feeds through into the allocation of primary income account. However, *P.131* consists of actual government revenue and so affects saving (*B.8*) and net borrowing (*B.9*). This happens because, although it is not included in government resources, it is included in government uses because it is netted off final consumption in the use of disposable income account.

Table 9 The relationship between expenditure concepts

General government (GG) transactions in ESA 95 relating to output and final consumption
Part 1: shows separate production accounts for market and non-market establishments

ESA 95 code	Description	GG revenue (GFS)	GG expenditure (GFS)	Not in GFS revenue or expenditure
	Market establishments			
P.11	Market output	25		
P.2	Intermediate consumption		12	
K.1	Capital consumption			3
D.1	Compensation of employees		5	
D.29 U	Other taxes on production paid		2	
D.39 U	Other subsidies on production received	1		
B.2 part	Net operating surplus			4
	Non-market establishments			
P.11	Market output (incidental sales)	1		
P.12	Output for own final use	6		
P.131	Partial payments for non-market output	5		
P.132	Other non-market output less *P.131*			251
P.2	Intermediate consumption		100	
K.1	Capital consumption			20
D.1	Compensation of employees		140	
D.29 U	Other taxes on production paid		5	
D.39 U	Other subsidies on production received	2		
B.2 part	Net operating surplus (= 0 by definition)			0

General government (GG) transactions in ESA 95 relating to output and final consumption
Part 2: includes all government establishments

ESA 95 code	Description	GG revenue (GFS)	GG expenditure (GFS)	Not in GFS revenue or expenditure
P.11	Market output	26		
P.12	Output for own final use	6		
P.131	Partial payments for non-market output	5		
P.132	Other non-market output less *P.131*			251
P.13	Total other non-market output			256
P.1	Total output			288
P.2	Intermediate consumption		112	
K.1	Capital consumption			23
D.1	Compensation of employees		145	
D.29 U	Other taxes on production paid		7	
D.39 U	Other subsidies on production received	3		
B.2 part	Net operating surplus			4
D.6311	Social security benefits, reimbursements		30	
D.63121	Other social security benefits in kind supplied via market producers		17	
D.63122	Other social security benefits in kind supplied via non-market producers			19
D.63131	Social assistance benefits in kind supplied via market producers		13	
D.63132	Social assistance benefits in kind supplied via non-market producers			14
D.623	Transfers of individual non-market goods and services			60
P.51 part	Gross fixed capital formation produced in house		6	
P.3	Final consumption: total			311
P.31	Final consumption: individual			153
P.32	Final consumption: collective			158

Table 9 shows how general government transactions in ESA 95 relate to output and final consumption expenditure with illustrative numbers.

4.2 TABLE 1C: FORMAT AND CONTENTS

This is the format and contents of the reporting table used by the ECB to collect GFS data from NCBs. The table shows the item numbers used in Table 1A, 1C and 3A of the GFS Guideline and the corresponding line numbers in the reporting Table 1c.

Table 1c General government final consumption

Description	Guideline item number Table1C	Reporting table line number and relationships	ESA 95 codes (U = uses, R = resources)
Final consumption expenditure	1	1 = 2+3 = 4+5+6+7+8+9-10	*P.3 = P.31 + P.32*
Individual consumption expenditure of GG	2	2	*P.31*
Collective consumption expenditure of GG	3	3	*P.32*
Compensation of employees	4	4 = item 32 of Table 1a	*D.1*
Intermediate consumption	5	5 = item 35 of Table 1a	*P.2*
Social transfers in kind via market producers	6	6	*D.6311 + D.63121 + D.63131*
Consumption of fixed capital	7	7	*K.1*
Taxes on production paid minus subsidies received	8	8	*D.29 U + D.39 U*
Net operating surplus	9	9	*B.2n*
Sales	10	10 = item 23 of Table 1a	*P.11 + P.12 + P.131*
Memorandum items [1]			
Memo: Final consumption expenditure at constant prices	11	11	*P.3 (volume)*
Memo: ESA 95 deficit (-) or surplus (+)[2]	1A.1	12 = item 1 of Table 1a	
Memo: Interest payable	1A.26	13 = item 10 of Table 1a	
Memo: EDP interest payable (interest including settlements under swaps and FRAs)	1A.38	14	
Memo: EDP deficit (-) or surplus (+) including UMTS proceeds and settlements under swaps and FRAs	1A.37	15 = 12+13-14	*EDP D.41*
Memo: UMTS proceeds	1A.39	16	*EDP B.9*
Memo: Total capital expenditure excluding UMTS proceeds[3]	-	17 = [1a.7]+16	
Memo: ESA 95 deficit (-) or surplus (+) excluding UMTS proceeds and settlements under swaps and FRAs[4]	-	18 = 12-16	
Memo: Government debt[5]	3A.1	19	
Memo: Fiscal burden	-	20 = [1a.12] + [1a.15] + [1a.18] + [1a.38]	
Memo: GDP ESA 95 (Gross Domestic Product)	1A.42	21	
Memo: GDP ESA 95 at constant prices	1A.43	22	
Memo: Government investment at constant prices	1A.44	23	*P.51 (volume)*

Subsidies: note that in national accounts subsidies paid by government are treated as a negative resource, and subsidies received are a negative use. So, when subsidies are shown in this table with a positive sign in this table it means they are deducted.
1) In the GFS Guideline these items are included under Table 1A instead of the reporting Table 1c.
2) This is general government net lending/net borrowing (*B.9*) including the impact of UMTS proceeds as negative capital expenditure as in national accounts, and treating net settlements under swaps and FRAs as financial transactions.
3) This shows government capital expenditure without the large negative distortion of the one-off receipts from the sale of UMTS licences. This item is included in the GFS Guideline, but is requested in the reporting Table 1c.
4) This is general government net lending/net borrowing (*B.9*) excluding the impact of UMTS proceeds, and treating net settlement payments in respect of swaps and FRAs as financial transactions as in national accounts. UMTS proceeds reduce the government deficit in national accounts, so excluding them increases the deficit (and makes net lending more negative or less positive). This item is included in the GFS Guideline, but is requested in the reporting Table 1c.
5) This is general government gross debt as defined in Article 1 (5) of Council Regulation (EC) No 3605/93 of 22 November 1993 for the purpose of the EDP. It is defined as: a) the consolidated liabilities of the ESA 95 general government sector (*S.13*), b) in the ESA 95 categories: currency and deposits (*AF.2*), securities other than shares, excluding financial derivatives (*AF.33*), and loans (*AF.4*); and c) measured at "nominal value", in line with Protocol 5 of the Treaty, further defined in Council Regulation No 3605/93 as "face value". This means, in particular, that the government debt is not affected by changes in market yields, and excludes unpaid accrued interest. A detailed explanation can be found in Chapter 7.

4.3 LINE-BY-LINE ANALYSIS OF TABLE 1C

The item numbers given in the headings refer to those specified in the GFS Guideline.

4.3.1 FINAL CONSUMPTION EXPENDITURE (ITEM 1)

This is *P.3* for the general government sector. Note that it is net of the sales of services to EUIs in respect of the collection of EU taxes (an export of a service). But EUIs' own administrative expenditure in a Member State, for example on employing statisticians in Luxembourg, would not be included in the Luxembourg figure for government expenditure.

4.3.2 INDIVIDUAL CONSUMPTION EXPENDITURE OF GENERAL GOVERNMENT (ITEM 2)

General government final consumption expenditure can be divided into individual consumption expenditure (*P.31*) and collective consumption expenditure (*P.32*).

Individual consumption expenditure has the following characteristics:

a) it satisfies the individual needs of household members;

b) it is possible to observe the consumption of the goods and services by household members;

c) households agree to consume the goods and services and take action to make it possible, for example by attending a school; and

d) the consumption of the goods and services by one household means that there are less goods and services available for other households.

4.3.3 COLLECTIVE CONSUMPTION EXPENDITURE OF GENERAL GOVERNMENT (ITEM 3)

Collective consumption expenditure has the following characteristics:

a) the consumption by government is used to provide services simultaneously to all members of the community;

b) households' use of such services is usually passive and does not require explicit agreement or active participation of all the households concerned; and

c) the provision of the service to one household does not reduce the services available to others.

Components of final consumption by economic category

4.3.4 COMPENSATION OF EMPLOYEES (ITEM 4)

This is the total remuneration, in cash or in kind, paid by government to its employees in return for work done by the latter during the accounting period (*D.1*, ESA 95 *4.02-4.13*). It includes employers' actual and imputed social contributions (*D.12*). This is covered under item 32 of the reporting Table 1a.

4.3.5 INTERMEDIATE CONSUMPTION (ITEM 5)

This is the value of the goods and services consumed by government to produce its own output (*P.2*). It excludes the consumption of fixed capital (*K.1*, ESA 95 *3.69-3.73*), which is not included in the definition of government expenditure since it does not affect the deficit (*B.9*). This is covered under item 35 of the reporting Table 1a.

4.3.6 SOCIAL TRANSFERS IN KIND VIA MARKET PRODUCERS (ITEM 6)

These are goods and services produced by market producers and purchased by government, which supplies them to households without any transformation (*D.6311 + D.63121 + D.63131*, ESA 95 *3.79*). They are part of government final consumption (*P.3*), unlike government current grants to NPISHs (*D.75*) to fund services to households. The latter are government transfers rather than government procurement, and so not relevant for this table. Government purchases of goods and services given directly to households with no government processing comprises:

– reimbursements of expenditure

– services funded by government but provided by other sectors of the economy

In practice, it is sometimes difficult to distinguish such purchases from intermediate consumption.

4.3.7 CONSUMPTION OF FIXED CAPITAL (ITEM 7)

This is the capital consumption (*K.1*) of market and non-market establishments of units classified under general government. For national accounts it is usually computed through a perpetual inventory model rather than collected directly from government units. Depreciation in business accounts is a similar concept to capital consumption, but may follow different valuation rules.

4.3.8 TAXES PAID MINUS SUBSIDIES RECEIVED (ITEM 8)

This item is general government payments of other taxes on production (*D.29 Uses*) minus receipts of other subsidies on production (*D.39 Uses*). These components are included in Table 1A, items 18 and 25. Note that taxes on products (*D.21*) paid, and subsidies on products (*D.31*) received, are reflected in the valuation of market output (*P.1*) and are therefore not included here. Subsidies are shown with a positive sign (national accounts follow a different sign convention). In other words,

- other taxes on production
  - for example taxes on the use of buildings and cars
  - not taxes included in prices of products, already counted in intermediate consumption
- other subsidies on production
  - for example subsidies on labour
  - not subsidies included in prices paid, already counted in intermediate consumption
  - note that subsidies received are a negative use, and those paid are a negative resource

4.3.9 NET OPERATING SURPLUS (ITEM 9)

This is *B.2n* of the general government sector. The net operating surplus of non-market establishments is zero since non-market output is valued at its costs of production including capital consumption. This means that the net operating surplus is the net operating surplus of market establishments only. It equals (in respect of those units):

  Market output (*P.11*)
– Intermediate consumption (*P.2*)
– Compensation of employees (*D.1*)
– Other taxes on production paid (*D.29*)
+ Other subsidies on production received (*D.39*)
– Capital consumption (*K.1*)

Note that "net" operating surplus means net of capital consumption.

In other words,

Non-market establishments: output = operating expenditure[34]

thus, net operating surplus of non-market establishments = 0

Market establishments: output = sales

Operating expenditure of non-market establishments

= total operating expenditure – operating expenditure of market establishments

= total operating expenditure + net operating surplus of market establishments – sales

4.3.10 SALES (ITEM 10)

This is the same as item 23 in Table 1a.

This definition of "sales" includes output for own final use (*P.12*). This entry is needed because production for own use would otherwise

34 Intermediate consumption, wages, taxes on production less subsidies, capital consumption.

be recorded twice in the GFS definition of government expenditure, once within the costs of producing the output (current expenditure on wages, intermediate consumption and other production costs) and again within capital expenditure (*P.51*). Recording it also as revenue ensures that it counts only once in net borrowing (*B.9*).

4.3.11 GOVERNMENT FINAL CONSUMPTION EXPENDITURE AT CONSTANT PRICES (ITEM 11)

This is item 1 divided by an appropriate price index based on the year 2000.

4.3.12 FISCAL BURDEN

This item does not appear in the GFS Guideline but as a memorandum item in the reporting Table 1c. Nevertheless, such a useful indicator for fiscal policy purposes deserves a detailed explanation. Fiscal burden is the sum of taxes and social contributions recorded in Table 1A, that is the sum of direct taxes (*D.5*), indirect taxes (*D.2*), social contributions (*D.61*) and capital taxes (*D.91*) that are the resources of general government and, in the case of payments into the EU budget, the rest of the world, minus the adjustment for the change in net equity of households in pension fund reserves where these are liabilities of general government (*D.8*) (in effect here households gain a financial claim in exchange for their contributions, which to that extent are not part of the fiscal burden). The fiscal burden, sometimes called "compulsory levies", groups together the categories of government revenue that are compulsory and unrequited.

The fiscal burden is not defined in ESA 95 but has been discussed by Eurostat's NAWP.[35] Determining the treatment of certain types of social contributions was the most difficult question. Social contributions may be compulsory or voluntary; this distinction is recognised in ESA 95 *4.91*. The meaning of "unrequitedness" in the context of social contributions is not always clear. Given that many social benefits largely depend on the contributions made, social contributions are rarely transactions that are purely unrequited. However, it is common for contributions under social security schemes to have a much looser relationship with benefits than under schemes operated by private financial corporations. In the context of social contributions, "unrequited" should be taken to mean that contributions do not generate reserves belonging to beneficiaries. Compulsory levies should therefore cover all compulsory contributions paid to government, except those paid in the framework of non-autonomous funded schemes organised by government for employees.

In practice, no such funded schemes have been identified so the definition of the fiscal burden for GFS does not break down *D.61*. If such schemes were to exist, the fiscal burden would be adjusted by deducting government uses of *D.8* (since this would represent contributions to funded schemes recorded in *D.61*).

The remaining categories of revenue (sales, other current revenue and capital revenue) are not included in compulsory levies due to their requited nature. By convention, fines, although unrequited and compulsory, are excluded from compulsory levies.

35 More details can be found in the Eurostat paper B1/CN459e for the Eurostat NAWP meeting of 12 October 2000. This can be viewed in the National Accounts domain of Eurostat's Circa website.

5 GOVERNMENT DEFICIT AND ITS FINANCING (TABLE 2A)

5.1 INTRODUCTION TO TABLE 2A

Table 2a shows how the general government deficit is financed and considers the relationship between the deficit and Maastricht debt. The ability to reconcile the change in Maastricht debt with the deficit, through the analysis in Table 2a, is an important quality check for the annual GFS data.

The deficit is general government net lending (+)/net borrowing (-) (*B.9*) in national accounts, that is government revenue less expenditure measured over a period (one year in the case of GFS data). A negative value for *B.9* indicates a deficit and a positive figure for *B.9* indicates a surplus. It will be recalled that EU institutions' transactions with resident institutional units will have been recorded in GFS, but then in effect reversed, so that (except for own-account transactions of general government with EU institutions) they do not affect *B.9*. Note also that the ESA 95 deficit, *B.9*, is used rather than the EDP measure (*EDP B.9*), the difference being in the treatment of settlements under interest swaps and FRAs undertaken in connection with government debt operations. Either definition of the deficit could be used provided that the deficit-debt adjustment (DDA), which includes allowance for financial transactions not reflected in Maastricht debt and is therefore affected by the treatment of settlements under interest swaps and FRAs, is calculated consistently.

Maastricht debt is general government gross debt as defined in the Maastricht Treaty for purposes of the Excessive Debt Procedure. It is the stock of the government's outstanding debt measured at a point in time (at the end of the calendar year in the case of GFS data). Maastricht debt is mainly the result of the accumulation of deficits over time, but the relationship is not exact for reasons discussed in the next section. The annual deficit, plus the DDA, equals the change in debt over the year. In other words:

Maastricht debt at the start of the year
\+ Deficit (minus *B.9*)
\+ DDA
= Maastricht debt at the end of the year

5.1.1 THE DEFICIT-DEBT ADJUSTMENT (DDA)

As noted above, Maastricht debt is mainly the result of the accumulation of deficits over time, but the relationship is not exact. The DDA reconciles the deficit over some period – in GFS, a calendar year – and the change in Maastricht debt between the beginning and the end of the year. In calculating the deficit, revenue and expenditure are measured by transactions, not by settlements or payments. Notably, the deficit includes accrued interest. Maastricht debt is measured at nominal or face value, with no allowance for accrued interest. It excludes some categories of debt, and takes no account of financial assets held by the general government. Thus, for example, to the extent that a general government deficit is financed by issuing debt at a discount to face value, by taking trade credit, or by drawing down bank deposits held by general government, and to the extent that the deficit includes accrued interest on debt, the measured deficit will not equal the change in Maastricht debt. Apart from these definitional points, in practice there is always a discrepancy because of measurement errors between the current and the capital accounts (the non-financial accounts) and the financial account of the general government sector. The deficit can be derived from either, but they will not give the same result.

The purpose of the DDA is to explain these discrepancies. The DDA is not just a residual; it can be defined in terms of specific components.

A component is the statistical discrepancy between financial and non-financial accounts. When the government has a deficit in the non-financial accounts (its expenditures exceed its revenue), the equivalent amount should be found in the general government financial account where the increase in liabilities should exceed the increase in financial assets by the amount of the deficit. In ESA 95 terminology, *B.9* (net borrowing/net lending based on the non-financial accounts) should be equal to *B.9f* (net acquisition of financial assets minus the net incurrence of liabilities). The equivalence of *B.9* and *B.9f* is in practice never achieved because different sources of data are used to measure the transactions leading to the two balances. The difference between the non-financial balance of government and the balance of its financial transactions, the *statistical discrepancy*, is an element in the DDA.

A further component in the DDA is the *net acquisition of main financial assets* held by general government. Main financial assets comprise deposits held by the Treasury or other governmental units at the central bank and other MFIs, the holdings of non-government securities by social security funds, and equity held by the government in public corporations. Given the deficit, transactions which add to main financial assets increase government debt; conversely a reduction in financial assets will tend to reduce debt. Changes in general government holdings of main financial assets contribute to the DDA because Maastricht debt is measured gross, with no allowance for changes in financial assets.

A third factor behind the difference between the deficit of the government for a given year and the change in Maastricht debt of the government between the end of the previous year and the end of the current year is related to *methodological differences*.

a) The measure of deficit/surplus of government is based on the items defined by ESA 95 as revenue or expenditure of the general government. It has its counterpart in the assets and liabilities defined by ESA 95. But, while Maastricht debt comprises certain financial instruments defined in ESA 95 (currency and deposits, loans, and debt securities), it excludes others (derivatives, insurance technical reserves, and trade credits and other accounts payable). For instance, an increase in government expenditure financed by trade credit will not increase Maastricht debt. Therefore the *difference in instrument coverage in ESA 95 and the EDP* contributes to the DDA.

b) Another difference of methodology lies in valuation: Maastricht debt (and therefore the change in debt) is recorded at face or nominal value, whereas financial transactions in ESA 95 are recorded at market value including accrued interest. In order to compensate for this difference in valuation, the DDA includes the *market-to-face-value adjustment* (covered under item 2A/31, other valuation effects – face value). The adjustment is applied only to transactions – that is, to new borrowings and repayment or buying-in of debt at prices which differ from nominal value – since the practice of valuing outstanding Maastricht debt at nominal or face value avoids one source of difference between the deficit and the change in outstanding Maastricht debt. It may relate to debt denominated in foreign currency (where, for example, government issues a dollar-denominated bill with a face value of \$100 at \$98).

c) Changes in debt not reflecting the deficit or transactions in debt in the intervening period may result from exchange rate changes and from changes in the indexes to which certain bonds issued by government are linked. Maastricht debt denominated in foreign currency, unless covered forward, is valued at current exchange rates on the balance sheet date. The amount outstanding may therefore vary without any counterpart in the general government deficit, or any transactions in foreign currency debt in the intervening period. Thus *foreign exchange holding gains and losses* are another element in the DDA. (Debt covered forward is valued for EDP purposes at the exchange rate in the forward contract.)

Finally, changes in the statistical classification of units from the government to a non-government sector (or the reverse) must also be allowed for. Following the reclassification, liabilities of these units cease to be Maastricht debt, with no counterpart in the general government deficit. In addition, the assumption of debt of non-government units by general government units could also result in an increase in Maastricht debt with no offsetting entry in the government deficit[36]. These changes in the debt related to reclassification or debt assumption are recorded in *"other changes in volume of debt"* and form part of the DDA.

In brief, the DDA is the change in debt that is not accounted for by the deficit/surplus. It comprises: (1) the statistical discrepancy between financial and non-financial accounts, (2) the net acquisition of financial assets minus the net incurrence of liabilities that are not EDP instruments, (3) the market-to-face value adjustment, (4) the foreign exchange holding gains and losses, and (5) other changes in volume of the debt.

The table below illustrates the steps to be taken for the reconciliation between ESA 95 total liabilities and EDP debt:

ESA95 total liabilities
Sub-set of ESA95 debt instruments (coverage: currency and deposits (*AF.2*), securities other than shares, excluding financial derivatives (*AF.33*), and loans (*AF.4*))
Move from market to nominal valuation
Exclusion of accrued interest
EDP debt

The relationships may be expressed more formally.

B.9 (deficit/surplus) = *B.9f* (net lending/net borrowing from the financial account) +statistical discrepancy, where *B.9f* is the net acquisition of financial assets minus the net incurrence of financial liabilities;

The above may be expanded as follows.

  Net incurrence of financial liabilities (financial transactions)
– Net acquisition of financial assets (financial transactions)
= Deficit (-*B.9*)
+ Statistical discrepancy (*B.9* - *B.9f*)

Second, transactions in liabilities in ESA 95 can be divided into those that are Maastricht debt instruments and those that are not. This gives:

  B.9f (net lending/net borrowing from the financial account)
= Net acquisition of financial assets
– Net incurrence of Maastricht debt liabilities
– Net incurrence of other (non-Maastricht debt) liabilities

Third, in ESA 95, the change in the balance sheet stocks of a financial instrument over a year is equal to financial transactions during the year and the other flows (the *K* series of accounts) during the year. Applying this rule to Maastricht debt instruments leads to:

  Maastricht debt instruments at the end of the year, consolidated
– Maastricht debt instruments at the start of the year, consolidated
= Incurrence less redemption of Maastricht debt liabilities, consolidated (transactions valued at face value include uplift on index-linked instruments)
+ Net increase in value of Maastricht debt instruments due to exchange rate changes, consolidated (valued at face value, part of category *K.11* in ESA 95)
+ Increase in value of Maastricht debt instruments due to other volume changes

36 This is explained in more detail in Chapter II.4 of the *Deficit and Debt Manual*.

(valued at face value, categories *K.10* and *K.12* in ESA 95, consolidated)

Fourth, transactions and other flows in Maastricht debt instruments measured at market value, as in ESA 95, will differ from transactions in Maastricht debt instruments measured at face value. The market-to-face-value adjustment can be defined as follows:

Market-to-face-value adjustment (for liabilities that are Maastricht debt instruments)
= Net incurrence of liabilities, through transactions, measured at face value
- Net incurrence of liabilities, through transactions, measured at market value
+ Net increase in liabilities arising from exchange rate changes measured at face value
- Net increase in liabilities arising from exchange rate changes measured at market value
+ Net increase in liabilities arising from other volume changes measured at face value
- Net increase in liabilities arising from other volume changes measured at market value

Bringing these four relationships together gives:

Deficit (negative *B.9*)
+ Statistical discrepancy (*B.9* minus *B.9f*)
+ Net acquisition of financial assets (ESA 95 financial transactions)
- Net acquisition by government units of financial assets that are liabilities of other government units (consolidation of financial transactions)
- Net incurrence of liabilities that are not Maastricht debt instruments (ESA 95 financial transactions)
= Borrowing requirement
+ Net increase in value of Maastricht debt instruments due to exchange rate changes consolidated (part of category *K.11* in ESA 95)
+ Increase in value of Maastricht debt instruments due to other volume changes, consolidated, (categories *K.10* and *K.12* in ESA 95)
+ Market-to-face-value adjustment
= Change in Maastricht debt.

5.1.2 PRESENTATION OF THE DDA IN TABLE 2A

In Table 2a, financial assets are split into those regarded as the most significant financial instruments held by the general government sector (the main financial assets described above) (*F.2*, *F.331*, *F.332*, *F.4* and *F.5*) and the remainder (i.e. transactions in other financial assets: *F.1*, *F.6* and *F.7*).

Table 2a also defines a concept called the general government borrowing requirement (GGBR), which is the consolidated transactions in Maastricht debt instruments at market value (rather than at nominal or face value) as measured in ESA 95. The relationship between the GGBR and the change in Maastricht debt as described above may be shown as:

Incurrence less redemption of Maastricht debt liabilities (consolidated transactions recorded in the financial accounts at market value) (= GGBR)
± Net change in value of outstanding Maastricht debt instruments due to exchange rate changes, (part of category *K.11* in ESA 95)
± Net change in value of Maastricht debt instruments due to 'other volume' changes, (categories *K.10* and *K.12* in ESA 95, consolidated)
± Market-to-face-value adjustment reflecting accrued interest and the difference between transactions in Maastricht debt at market and at nominal or face value
= Net increase, measured at face value, in liabilities that are EDP debt instruments (i.e. change in Maastricht debt)

Chart 1 summarises the relationships.

5.1.3 SIGN CONVENTIONS

It is important to be aware of the sign conventions in Table 2a.

The first line shows the deficit. This is *B.9* from the capital account. A deficit is indicated by a negative figure and a surplus by a positive figure. *B.9* is in principle the same whether measured from the capital account or from the financial account. A positive *B.9* figure therefore means that the net acquisition of financial assets is greater than the net incurrence of liabilities. So item 3 (net transactions in financial assets and liabilities) is the net acquisition of financial assets minus the net incurrence of liabilities. Net acquisition of assets means the acquisition less disposal of assets, and the net incurrence of liabilities is the incurrence less redemption of liabilities.

In Table 2a, the following relationship holds:

Net transactions in financial assets and liabilities (*B.9*, item 3)
= Transactions in financial assets (consolidated) (item 4)
- Transactions in liabilities (consolidated) (item 15)

This means that:

item 4 and its components are the net acquisition of financial assets;

and similarly:

item 15 and its components are the net incurrence of liabilities (the sign convention is different).

For the lines showing other flows (items 28 to 32), a positive number indicates an increase in debt.

5.1.4 DIAGRAM SHOWING THE RECONCILIATION OF THE DEFICIT AND DEBT

Table 2a reconciles the deficit and the change in Maastricht debt in two ways, as shown in the diagram opposite. Item numbers refer to Table 2a.

Chart 1 Reconciliation of the deficit and debt

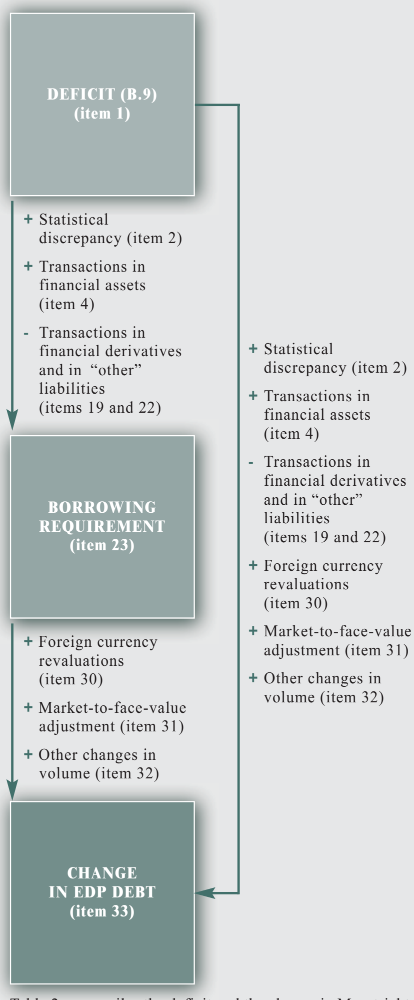


Table 2a reconciles the deficit and the change in Maastricht debt in two ways, as shown in the diagram below. Item numbers refer to Table 2a.

5.1.5 TABLE: ROUTE FROM TRANSACTIONS IN MAASTRICHT DEBT TO THE CHANGE IN DEBT

Table 10 shows the steps needed to move from unconsolidated financial transactions in Maastricht debt to the change in Maastricht debt (the change in outstanding amounts of consolidated debt between the start and end of the period). Within the table, one can move

Table 10 Route from transactions in Maastricht debt to the change in debt

	X **Transactions and other flows: market prices as in ESA 95**	Y **Market-to-face-value adjustment** = face value – market value	X + Y **Transactions and other flows: face value**
A	Financial transactions unconsolidated market value **Table 2b, item 1**	Financial transactions unconsolidated adjustment	Financial transactions unconsolidated face value
B	Consolidating transactions market value **Table 2b, item 7**	Consolidating transactions adjustment	Consolidating transactions face value
C = A + B	Financial transactions market value consolidated (GGBR) **Table 2a, item 23**	Financial transactions consolidated adjustment	Financial transactions consolidated face value
D	Other flows valuation effects due to exchange rate changes (part of *K.11*) market value **Table 2a, item 30**	Other flows valuation effects due to exchange rate changes (part of *K.11*) adjustment	Other flows valuation effects due to exchange rate changes (part of *K.11*) face value
E	Other flows volume changes *K.10*, *K.12* market prices **Table 2a, item 32**	Other flows volume changes *K.10*, *K.12* adjustment	Other flows volume changes *K.10*, *K.12* face value
F = C + D + E	ESA 95: change in balance sheet due to transactions and some other flows	Market-to-face-value adjustment **Table 2a, item 31**	Change in Maastricht debt **Table 2a, item 33**
G	Other flows valuation effects (part of *K.11*) net increase in market prices market value	Other flows valuation effects (part of *K.11*) net decrease in market prices adjustment (the negative of box on left)	No adjustment needed because in this column measurement is at face value, not market value
H = F + G	ESA 95: change in balance sheet	Market-to-face-value adjustment for transactions and all other flows	Change in Maastricht debt **Table 2a, item 33**

either horizontally or vertically, starting from the unconsolidated ESA 95 financial account for Maastricht debt instruments (top left of the table) and finishing with the change in consolidated Maastricht debt (bottom right of the table). The route chosen for the GFS tables is highlighted. In some Member States, it might not be possible to adopt the chosen route because of a lack of data. In such cases, the deviation from that route should be explained in terms of the table below. The table covers transactions in *F.2*, *F.33* and *F.4* liabilities and changes in the corresponding stocks.

5.1.6 RECONCILIATION OF MAASTRICHT DEBT AND ESA 95 TOTAL LIABILITIES

The total of the liabilities recorded in the general government balance sheet under ESA 95[37] differs from Maastricht debt. Both concepts are based on the same delimitation of the government sector (*S.13*), but the range of instruments and the valuation methods differ. To calculate Maastricht debt from ESA 95 total liabilities, the following adjustments are needed.

a) *Remove the financial instrument categories not included in Maastricht debt, despite being ESA 95 liabilities*

These are financial derivatives (*AF.34*), shares and other equity (*AF.5*), insurance technical reserves (*AF.6*) and other accounts receivable/payable (*AF.7*).

37 Balance sheets showing financial assets and liabilities are delivered to Eurostat in the context of Table 7 of the ESA 95 transmission programme.

Liabilities in the form of trade credit and other accounts payable (*AF.7*) can arise through prepayments by non-government entities, often a feature of contracts using the private sector to operate public infrastructure, or when government takes delivery of goods and services and delays payment.

b) Remove the liabilities of government that are assets of government units

This is needed only if the ESA 95 balance sheet is not consolidated.

Consolidation can involve large amounts when direct institutional financial links exist between different government units, for example when central government lends to local government or when social security funds have large holdings of government bonds. In the latter case, consolidation can be sensitive to sudden swings in the composition of investment portfolios.

c) Revalue from market value to face value

The adjustment from market value to face value can also involve large amounts, particularly for recently issued zero coupon bonds.

5.1.7 NET DEBT AND NET WORTH

This section introduces the concepts of net debt and net worth, neither of which is required in GFS (gross debt is reported in Table 3A of the GFS Guideline). Net worth cannot at present be calculated.

The government balance sheet has in principle three elements: on the assets side, stocks of non-financial assets and of financial assets; on the liabilities side, the stock of liabilities. Net debt is the difference between financial assets and liabilities, and may be calculated from a financial balance sheet. The net worth of government is the difference between total assets and liabilities, and requires information on non-financial assets which is not at present available.

Government debt can decrease without changes in net worth. A decline in debt can be accompanied by a reduction in the stock of financial assets or of non-financial assets. A switch in the investments of social security funds from private to government sector instruments would reduce general government gross debt, but not general government net liabilities or net worth. Reductions in gross government debt are not necessarily associated with an improvement in the government budgetary position.

Finally, government net lending/net borrowing (deficit/surplus) equals the difference between (net) transactions in financial assets and in liabilities as reflected in the financial account, or between government saving less net capital transfers and capital formation as reflected in the capital account. Unlike net debt and net worth, it includes only transactions.

5.2 TABLE 2A: FORMAT AND CONTENTS

This is the format and contents of the reporting table used by the ECB to collect GFS data from NCBs. Since the data request is fully aligned to the GFS Guideline, the line numbers in the reporting table coincide with the item numbers used in Table 2A of the GFS Guideline. The logic of the table is to show the transactions split into transactions in financial assets and liabilities, and into items which form part of Maastricht debt and those which do not.

Table 2a General government deficit and its financing

Description	Guideline item number Table2A	Reporting table line number and relationships	ESA 95 codes[1]
Deficit (-) or surplus (+)	1	1	*B.9*
Adjustment between financial and non-financial accounts	2	2 = 1-3	*B.9 - B.9f*
Net transactions in financial assets and liabilities	3	3 = 4-15	*B.9f*
Transactions in financial assets (consolidated)	4	4 = 5+6+7+8+9+13	
Transactions in currency and deposits (including repos)	5	5	*F.2*
Transactions in securities other than shares (short and long-term)	6	6	*F.331 + F.332*
Transactions in financial derivatives	7	7	*F.34*
Transactions in loans	8	8	*F.4*
Transactions in shares and other equity	9	9 = 10+11+12	*F.5*
Privatisation	10	10	*S.13 / F.5 / (S.11001 + S.12x01) / other than (S.11001 + S.12x01)*
Equity injections	11	11	*S.13 / F.5 / (S.11001 + S.12x01) / (S.11001 + S.12x01)*
Other transactions in shares and other equity	12	12	*S.13 / F.5 / other than (S.11001 + S.12x01)*
Transactions in other financial assets (consolidated)	13	13	*F.1 + F.6 + F.7*
of which accrued taxes and social contributions minus tax and social contributions receipts	14	14	
Transactions in liabilities (consolidated)	15	15 = 16+17+18+19+ 20+22	
Transactions in currency and deposits (including repos)	16	16	*F.2*
Transactions in securities other than shares (short -term)	17	17	*F.331 + F.332*
Transactions in securities other than shares (long-term)	18	18	
Transactions in financial derivatives	19	19	*F.34*
Transactions in loans	20	20	*F.4*
of which loans from central bank	21	21	
Transactions in other liabilities (consolidated)	22	22	*F.6 + F.7*
Transactions in debt instruments (consolidated) = General Government Borrowing Requirement (GGBR)	23	23 = 16+17+18+20 23 = 25+26+27 23 = 2-1+4-19-22	*F.2 + F.33 + F.4*
Transactions in long-term debt instruments	24	24	
Transactions in debt instruments denominated in domestic currency	25	25	
Transactions in debt instruments denominated in participating foreign currency	26	26	
Transactions in debt instruments denominated in non-participating foreign currency	27	27	
Other flows	28	28 = 29+32	
Valuation effects on Maastricht debt	29	29 = 30+31	
Foreign exchange holding gains and losses	30	30	*K.11 (part) in liabilities AF.2 + AF.33 + AF.4*
Other valuation effects – face value	31	31	
Other changes in volume of debt	32	32	*K.7 + K.8 + K.10 + K.12.1 + K.12.2 in liabilities AF.2 + AF.33 + AF.4*
Change in debt	33	33 = 23+28 33 = 2-1+4-19-22+28	
Memorandum items			
Transactions in loans (liabilities), of which other loans	-	34	
Privatisation proceeds allocated to debt redemption	-	35	
UMTS proceeds allocated to debt redemption	-	36	

1) In order to capture the counterpart sectors, the following convention is used: the creditor appears first, then the transaction, then the debtor and then the transactor. *S.13 / F.331 / S.11 / S.14* would mean an acquisition (or sale) by GG (*S.13*), the new creditor, of a short-term security (*F.331*) that is a debt of a corporation (*S.11*) sold to GG by the household sector (*S.14*), the previous creditor.

5.3 LINE-BY-LINE ANALYSIS OF TABLE 2A

5.3.1 DEFICIT (-) OR SURPLUS (+) (ITEM 1)

This is the net lending (+)/net borrowing (-) (*B.9*) of the general government sector reported in the capital account in ESA 95. It uses the national accounts treatment for swaps (financial transactions) and UMTS receipts (sale of a non-financial asset).

5.3.2 ADJUSTMENT BETWEEN FINANCIAL AND NON-FINANCIAL ACCOUNTS (ITEM 2)

In practice, net lending (+)/net borrowing (-) (*B.9*) reported in the non-financial accounts (the balancing item of the capital account) may differ from the value reported in the financial accounts. Hence, *B.9* in item 1 (government revenue minus expenditure) is not in practice exactly equal to the net acquisition of financial assets minus the net incurrence of liabilities. In this Guide, the difference is called the "adjustment between financial and non-financial accounts", or just "the adjustment". It is also known as the "statistical discrepancy".

In ESA 95 there is no conceptual reason for the difference. The balances of the financial transactions account and of the capital account are both called *B.9*.[38] The adjustment arises only from measurement discrepancies in the sources and timing of information used to compile the accounts. It is common for the non-financial and financial accounts to be compiled independently and using different accounting or statistical documents as source data, so small differences in *B.9* are to be expected.[39]

The adjustment (item 2) equals *B.9*, the balance of the capital account, minus *B.9f*, the balance of the financial account.

Putting the adjustment to zero by absorbing it into other accounts receivable/payable (*F.7*) is poor practice and should be avoided. It is better to revise transactions that have to be estimated due to a lack of quality data sources. In other words, part of the adjustment observed in a first draft set of accounts is allocated to plausible instruments. This process must take account of the plausibility of the impact on the counterpart sectors to maintain the integrity of the national accounts as a whole.

The size of the adjustment is a significant indicator of the quality of national accounts. Information on this is required for the ECB's GFS data quality report.[40] Its size in the final version of the accounts must be reasonably small in order to allow proper analysis of GFS tables. For annual general government sector accounts, adjustments above 0.1% of GDP could cause quality concerns.

5.3.3 NET TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (ITEM 3)

This is net lending (+)/net borrowing (-) measured from the financial account (*B.9f*). It is the balance of the following two items, measured on a consolidated basis:

Transactions in financial assets: these are transactions in the main financial assets, i.e. currency and deposits (*F.2*), loans (*F.4*) and securities including shares (*F.33* + *F.5*), and transactions in other financial assets, i.e. monetary gold and SDRs (*F.1*), financial derivatives (*F.34*), insurance technical reserves (*F.6*) and accounts receivable (*F.7*), including trade credits.

Transactions in liabilities: these are the transactions in the EDP instruments, i.e. currency and deposits (*F.2*), loans (*F.4*) and securities other than shares (*F.33*) and the non-EDP instruments, i.e. financial derivatives (*F.34*), insurance technical reserves (*F.6*) and other accounts payable (*F.7*), including trade credits.

38 In the context of the ESA 95 transmission programme, the balance of the financial account is called *B.9f*, with *B.9* being kept for the balance of the non-financial accounts.

39 Note that the adjustment does not derive from the difference between cash movements and national accounts recording on an accrual basis. Differences in timing between accrual and payment require an entry under other accounts receivable/payable (*F.7*) or, in the case of accrued interest, under the relevant financial instrument. They should have no impact on the statistical adjustment.

40 As required by the GFS Guideline.

5.3.4 TRANSACTIONS IN FINANCIAL ASSETS (CONSOLIDATED) (ITEM 4)

This is the acquisition of certain types of financial assets minus the sale of such assets.

5.3.4.1 Transactions in currency and deposits (item 5)

Currency and deposits correspond to *F.2* in ESA 95 (assets of *S.13*). They comprise deposits of the Treasury and deposits held by other units of general government with the central bank (*S.121*), other monetary financial institutions (*S.122*), and perhaps other sectors, both domestic and abroad. All types of deposit are included in this item: transferable deposits, savings deposits and time deposits, whether in domestic or foreign currency.

This item also includes repurchase agreements (repos) when government units lend cash against securities and in the process acquire a claim on an MFI.

Reverse repos (when government units deliver securities against a receipt of cash) do not appear under item 5 as negative deposits. They are recorded as financial liabilities of government in the form of loans (*F.4*) and included in Maastricht debt (when transacted with a non-government unit), and so increase the GGBR (item 23 of Table 2a).

Deposits of government units with other government units (for example local government deposits with the Treasury) are consolidated. They do not appear under item 5 of Table 2a but under item 8 of Table 2b, which shows the consolidation of government financial accounts.

Accrued interest is recorded under the relevant instrument (rather than under accounts receivable/payable, *F.7*) and so contributes to the transactions in such assets.

5.3.4.2 Transactions in securities other than shares (short and long-term) (item 6)

Securities other than shares are the ESA 95 category *F.33*. It covers the net acquisition of non-government bills, notes and bonds. It includes certificates of deposit and commercial paper, which are money market instruments issued by financial institutions, such as MFIs, and non-financial corporations respectively. It includes non-government bonds, notes and bills purchased primarily by social security funds, which can have large holdings of such instruments in some countries.

This item excludes non-government securities acquired by government in the context of repos (or stock borrowing) because such transactions are treated as collateralised loans or deposits rather than as transactions in securities.

Transactions are recorded at market value, rather than at face value, and include transactions relating to accruing interest.

5.3.4.3 Transactions in financial derivatives (items 7 and 19)

This group of items corresponds to *F.34* in ESA 95. It records the net acquisition of assets in the form of financial derivatives contracts (item 7) and the net incurrence of liabilities in the same form (item 19). It includes inflows and outflows related to purchases and sales of and settlements under options and warrants, margin calls on futures, and interim and termination payments related to all types of derivatives. However, deposits or initial margins placed or repaid are not recorded here, but under deposits (*F.2*) (or under loans (*F.4*) if government has received a margin payment which represents a liability of government (see ESA 95, *5.81 c*)).

The ESA 95 (paragraph *4.47*) initially required net settlement payments on interest rate swaps and FRAs to be recorded as interest (*D.41*). This treatment was subsequently changed by an amendment to the ESA 95 in European Parliament and Council Regulation No 2558/2001, which changed the national accounts treatment of settlements under such contracts from interest (*D.41*) to financial transactions in derivatives (*F.34*). However, a new ESA 95 balancing item was introduced, *EDP B.9*, to show government net lending/net borrowing if

Table 11 Comparison of the recording of derivatives in ESA 95 and GFS tables

	ESA 95	GFS
Net lending *(B.9)*	0	0
Transactions in deposits *(F.2)*	+1	+1 (Table 2a, item 5)
Transactions in derivatives *(F.34)*	-1	-1 (Table 2a, item 7- item 19)
Revaluation account *(K.11, AF.34)*	+1	Not recorded
Change in stock of *AF.34*	0	*F.34* not in Maastricht debt

settlements under swaps and FRAs are recorded as interest as they continue to be for EDP purposes. Both versions of *B.9* are shown in the GFS tables.

Any profit or loss on a financial derivative, whether realised or unrealised, is recorded in *F.34* in the financial account. The change in value of the financial derivative in the balance sheet, before the holding gain or loss is realised, is recorded in other flows (*K.11*, nominal holding gains and losses).

For example, consider a position taken on the price of a bond at some future point. The initial value of the contract is zero. If the market interest rate decreases, the contract gains a positive value to the holder, recorded initially as a holding gain in *K.11*, and as an asset (*AF.34*) in the holder's balance sheet. When the gain is realised (which may be when the contract is sold, or when an interim settlement is made, as when the market authority credits the account of the holder by the amount of the gain and debits the account of the issuer correspondingly), there will probably be a transfer of deposits accompanied by the extinction of the asset position in *AF.34*. Symmetrical entries will be made in the accounts and balance sheet of the other party to the contract.

5.3.4.4 Transactions in loans (item 8)

Loans are recorded in *F.4*, transactions in government assets. Examples are loans to public corporations, loans disbursed in the context of social housing schemes and loans to students. This item includes imputed transactions related to accruing interest.

F.4 includes imputed transactions in loans in respect of loans owed to government that are willingly written off by government for policy reasons (as opposed to being written off because government does not expect to be repaid when the debtor no longer exists or cannot pay). This is explained in ESA 95 *4.165.f.* Agreed cancellations of debt are recorded as an imputed capital grant (*D.99*) by government, matched by an imputed repayment of the loan by the debtor.

Subsidies do not need to be imputed when government makes loans at below market interest rates since there is already an impact on the deficit through the difference between government's interest payments (on the extra borrowing needed to finance the lending) and its interest receipts (from the cheap loans given). No imputed financial transactions are recorded in ESA 95 when loans are made by non-government units to other non-government units and are subsidised by government. The subsidies paid would be recorded as non-financial transactions (*D.3*).

Some payments by government described in legal terms as "loans" may have economic characteristics of equity or a gift. Loans to special projects (to the Airbus consortium or the European Space Agency, for instance), which have low interest rates but give a right to a share in future profits, may properly be classified as other equity in *F.5* (item 10: equity injections). Loans given and not likely to be repaid should be classified as capital transfers (*D.9*).

Loans are valued at nominal value or the "principal" value (ESA 95 *7.51*). Changes in the value of loans with fixed interest due to changes in market interest rates are ignored in ESA 95 transactions, other flows and balance sheets. Although loans are to be recorded at their nominal value, the volume of a loan book can change other than through transactions, for example as a result of write-offs. This change is recorded in the other changes in volume account (*K.10*), and not as a transaction.

When loans are traded, the transaction value is the market value. ESA 95 *6.51* and *7.51* explain that the reconciliation between the transaction value (market value) and the change in stock value (measured at face value for loans) should be recorded in the revaluation account (*K.11*). This difference would in general not be included in item 27, which relates to Maastricht debt only rather than government assets (unless those traded loans were government liabilities purchased by non-government units from government units, thus increasing Maastricht debt by the face value of the loans).

5.3.4.5 Transactions in shares and other equity (item 9)

Shares and other equity are recorded in ESA 95 category *F.5* (government assets). In Table 2a, this category is broken down into privatisation, equity injections and other transactions in shares and other equity. This differs from the ESA 95 breakdown in that it focuses on the counterpart and liability sectors, i.e. whether they are public or private (ESA 95 *Table 3.1* defines the public sector).

Government transactions in shares or other equity can be categorised as follows:

a) *privatisation/nationalisation:* when the transaction takes place between government and a private unit, and is a transaction in the *F.5* liabilities of a corporation such that the transaction leads to a change in government's control of the corporation;

b) *equity injections/withdrawals:* when the transaction takes place with a resident public corporation and is a transaction in the *F.5* liabilities of that corporation; and

c) *other transactions in shares and other equity:* when the transaction takes place between government and a non-government unit and it represents a transaction in the *F.5* liabilities of a corporation which is not part of a privatisation or nationalisation operation. Furthermore, the transaction is not directly carried out by the government sector with the corporation (debtor unit) but with another creditor unit.

5.3.4.5.1 Privatisations (item 10)

Privatisation, although not an ESA 95 category, is an important criterion for classification in the context of public finance analysis. Privatisation is the sale to third parties of government-owned shares in public corporations such that the government cedes control of the corporation. Thus ESA 95 *5.16* describes privatisation as "the giving up of control [by government] over [a] public corporation by the disposal of shares and other equity". ESA 95 *2.26* defines control as "the ability to determine general corporate policy by choosing appropriate directors, if necessary", involving the ownership of "more than half the voting shares or otherwise controlling more than half the shareholders' voting power" (or sometimes having the power through legislation to determine corporate policy or to appoint the directors). Privatisation is often undertaken in the context of a programme to transfer control to the private sector. During the 1990s, privatisation, particularly of public utility businesses, became a normal practice of governments in Europe.

Not all sales of shares in public corporations are to be recorded as privatisation. For example, the sale by a social security fund of a share initially bought by a social security fund for investment purposes would not be a privatisation.

Borderline cases might create specific difficulties. A sale of a large participation such as a 20% stake in a business, although not formally leading to a change in control, would be seen as a privatisation when it:

– is the first step of a pre-announced sale of more than 50% of the shares in the unit;

– involves a clear change of influence; or

– is part of a clear agenda to reduce government holdings.

Similarly, a public corporation to be privatised could first be sold by the government to another public company (holding company). Although not formally leading to a change in control, this could be the initial step of a pre-existing privatisation plan. Conversely, a sale of a 20% block in a corporation, which was viewed as portfolio management by a government unit acting primarily as an investment manager, would not be recorded under privatisation, but under item 12 (other transactions in shares and other equity).

Negative privatisation receipts may occur in the following two cases:

a) *Nationalisation:* when government purchases a corporation from the private sector, thus acquiring ownership of a private sector business. This is normally an act of policy rather than an act of investment management although examples of acquisition of a controlling interest in profitable companies for investment purposes could no doubt be found. The degree of public ownership varies among Member States, although it was more prevalent before the 1990s.

b) *Debt assumptions and debt cancellations* in the context of a privatisation (ESA 95 *4.165.f*). In this case, the imputed payments from government to a corporation, which are recorded as the counterparts to the imputed transactions in loans, are classified as acquisitions of equity (*F.5*) (and not as capital transfers, the usual treatment for debt cancellation and assumption). For the GFS, however, the transaction is recorded under privatisation rather than under equity injections since the intention is to increase the selling price when the unit is privatised. The net privatisation proceeds recorded in *F.5* should therefore reflect the proceeds net of the cost of debt assumptions and cancellations.

Privatisation proceeds are to be recorded before the deduction of commissions and fees paid to investment banks that act on the government's behalf as agents in the privatisation. The commissions and fees paid are treated as purchases of services and are recorded as government expenditure in intermediate consumption (*P.2*).

Privatisation changes the classification of a unit from public corporation to private corporation (ESA 95, *2.27* and *2.42*). The assets and liabilities of the corporation, as recorded in the ESA 95 balance sheets, are transferred through the other flow "changes in classification and structure" (*K.12*) rather than through transactions. When a sale of shares coincides with a reclassification, the financial transaction should be recorded as a sale of shares in a private corporation to ensure consistency with the counterpart sectors buying shares.

All privatisation proceeds are recorded under this item, and not solely those proceeds that by law, regulation or accounting device are allocated to reducing government debt. In practice, it is not usually possible to identify the subsequent uses of privatisation proceeds.

5.3.4.5.2 Equity injections (item 11)

An equity injection occurs when government increases the equity base of a public corporation through an injection of cash or in kind. Part II.3 of the *Deficit and Debt Manual* gives specific instructions on whether to record these:

– as a non-financial transaction under capital transfers (*D.9*); or

– as a financial transaction in equity (*F.5*).

Negative equity injections (equity withdrawal) would be recorded in the event of a lump-sum payment by a public corporation to government, when this transaction is viewed as a financial transaction and is not a loan repayment. Lump-sum payments to government that greatly exceed a public corporation's recent profit would in general be classified as an equity withdrawal.

Amounts received by government that relate to "indirect privatisations" (see Part II.2 of the *Deficit and Debt Manual*) are generally recorded as negative equity injections. Indirect privatisation is where a public corporation sells assets (mainly shares and other equity) and gives the proceeds to government. According to the *Deficit and Debt Manual*, a financial transaction has to be recorded between the government and public corporation in case of an indirect sale of a financial or a non-financial asset. It is considered as a withdrawal of equity from this company.

5.3.4.5.3 Other (item 12)

This covers other transactions in shares and other equity, i.e. all other transactions that are recorded in *F.5* (government assets). It includes:

– investment portfolio transactions, such as purchases by social security funds of shares for short-term money management or long-term investment purposes;

– equity investments in international financial organisations where it is clear that these are genuine financial investments with an economic return expected. When no economic return is expected, the payments should be recorded as gifts (*D.74* or *D.92* in the non-financial accounts) even if government has a theoretical legal entitlement to a return of its funds. It is the economic substance that matters, not the legal form.

Assets invested in mutual fund shares (*AF.52*) are also recorded under shares and therefore are to be recorded into this category.

Although well defined in principle, this category may in practice be compiled as a residual since total *F.5* transactions will be available in ESA 95 financial accounts, while privatisation or equity injections may be estimated from different sources using slightly different methodologies.

5.3.4.6 Transactions in other financial assets (item 13)

This category covers primarily monetary gold (*F.11*), special drawing rights (SDRs) (*F.12*), transactions related to the net acquisition of insurance technical reserves (*F.6*) and other accounts receivable (*F.7*). It includes government holdings of foreign currency, monetary gold and SDRs in countries where government controls the foreign exchange reserves rather than the NCB.

Transactions in these instruments are recorded on a consolidated basis.

5.3.4.7 Accrued taxes minus cash tax receipts (item 14)

This item covers an element in transactions in other financial assets, namely accrued taxes minus cash tax receipts. These are other accounts receivable (*F.7*) which arise because transactions and actual payments related to them may occur in different time periods. Such amounts are the difference between accrual recording and cash recording.

Item 14 includes only those accounts receivable in respect of taxes and social contributions. It represents the amounts accrued less the amounts paid. Part III of the *Deficit and Debt Manual* explains the accrual recording of taxes and social contributions.

5.3.5 TRANSACTIONS IN LIABILITIES (ITEMS 15, 16, 17, 18, 19, 20, 21 AND 22)

Item 15 shows the summation of all liabilities, both EDP and non-EDP instruments.

Breakdown by instrument

5.3.5.1 Transactions in currency and deposits (item 16)

This item includes transactions in government liabilities classified as currency (*F.21*), transferable deposits (*F.22*) or other deposits (*F.29*) in ESA 95.

Currency (*F.21*) comprises coins in circulation. Generally the Treasury issues these and they are therefore a government liability (banknotes are a liability of central banks, not governments).

The issuance of coins during an accounting period is not government revenue; it represents an increase in financial liabilities carrying a zero interest rate. The cost of producing coins is counted as government expenditure. The seigniorage from coinage activity is therefore the net margin earned on this zero interest rate debt (on the assumption that the coins are exchanged for interest-bearing assets) minus the costs of production.

General government is unlikely to have liabilities in the form of transferable deposits (*F.22*), except perhaps to other government units, which would not be included here because of the consolidation of financial transactions in the GGBR, or public sector entities classified outside the general government sector, under the ESA95 framework.

Other deposits (*F.29*) include time deposits, savings deposits, savings books and savings certificates that are liabilities of government. For example, some government treasuries operate savings accounts for households, perhaps managed by postal services or other public agencies. This category would also include specific arrangements for banks or public corporations depositing cash with government.

The borderline between deposits and loans is explained in ESA 95 *5.75* and *5.76*. It is assumed that, in the case of deposits, the initiative in undertaking the transaction lies with the creditor. This is in contrast to loans where the debtor is seen as taking the initiative (ESA 95 *5.74*). The ECB's *Money and Banking Statistics Compilation Guide* follows a different convention whereby no MFI liability is a "loan" and no MFI asset is a "deposit".

This item also includes short-term liabilities in the form of repos.

Since these transactions are derived from ESA 95 financial accounts, accruing interest on such deposits is normally to be recorded in the instrument category. Some compilers however include accrued interest in *AF.7*, other accounts payable/receivable, not in the underlying instrument category. The stock of Maastricht debt increases only when the interest is actually credited to the account. The transactions and change in debt are reconciled through an entry in item 31 (other valuation effects).

5.3.5.2 Transactions in securities other than shares – short-term securities (item 17)

Item 17 covers government liabilities in ESA 95 category *F.331*. It includes bills, short-term notes, and bonds sold with an initial maturity of one year or less. Other securities are classified under long-term securities (*F.332*) in item 16.

Specific Treasury paper placed with households would preferably not be included here but under currency and deposits (item 16).

Securities with an initial maturity of exactly one year are classified here. Some flexibility is necessary for issues of fungible securities when the initial maturity of the last tranche is, exceptionally, one year or less while the initial maturity of the first tranches was longer. In that case all tranches would be classified as medium or long-term instruments since it would not be possible to distinguish in the market between the tranches and so to record transactions, other flows and stocks consistently.

This item excludes instruments even when they are called "bills" or "Treasury bills" when the initial maturity exceeds one year. ESA 95 defines short-term as an original maturity of one year or less (ESA 95 *5.22*). While ESA 95 allows flexibility up to two years, and even five years for certain securities issued by general government, the practice is not recommended, as it would substantially distort international comparisons.

5.3.5.3 Transactions in securities other than shares – long-term securities (item 18)

Long-term securities (*F.332*) include bonds, notes and Treasury bills with an initial maturity of more than one year. They might be issued by the Treasury, other central government agencies, state governments, local governments or social security funds. This item may include liabilities legally structured as bonds although in practice there may be a single creditor such as the central bank or a special fund established for a public purpose. The category includes securities with reimbursement options (callable by either the debtor or the creditor) of more than one year at the time of issue.

Long-term securities include conventional bonds issued at par; zero coupon bonds; deep discounted bonds; bonds with capitalised interest; floating rate bonds; stripped bonds (coupon and principal split into many zero coupon bonds); fungible bonds issued in tranches; certain types of lottery bonds (though not non-tradable varieties, typically held by households, that are more appropriately classified as deposits); indexed bonds; foreign exchange bonds; and callable or puttable bonds.

Instruments of one-year original maturity are not classified here but as short-term bonds. As noted above, some flexibility is needed in the case of fungible bonds issued close to maturity. Securities held by other government units are excluded in consolidation.

The redemption price of some securities is linked to an index such as a consumer price index. The *Deficit and Debt Manual* identifies two ways to account for the change in value of an indexed instrument.

a) When the index is a consumer price index, the uplift in the value of the principal is generally small and not highly volatile. It is deemed to be interest (*D.41*) and is shown as being reinvested in the instrument in the financial account. It affects the GGBR if the security is a Maastricht debt instrument. There are no volume (*K.10*) or valuation (*K.11*) effects in other flows. The expected increase in the index is regarded as part of the yield of property income from the instrument over its life.

b) When the index is volatile, the *Deficit and Debt Manual* allows recording as other volume changes (*K.10*) and not as interest (*D.41*). This approach could cover liabilities indexed to stock prices, gold, other commodities or a currency. There is no certainty that the index will be higher when the bond is redeemed and the change is not regarded as part of the yield. Such instruments often a way of hedging or taking on risks.

This means that sometimes the change in Maastricht debt for indexed instruments will appear in the GGBR (item 23), and sometimes in other volume changes (item 32).

5.3.5.4 Transactions in loans (items 20, 21 and Memo item 34)

Item 20, transactions in loans is ESA 95 category *F.4*. It covers short-term and long-term borrowing by government units from the central bank (item 21) and from other non-government units (memorandum item 34) such as MFIs, other financial corporations and the rest of the world.

Section 7.3.4 describes the impact on this category of the Maastricht Treaty rules on financing government through loans from the NCB.

The category includes imputed transactions in loans in respect of debt assumption. These are recorded in ESA 95 financial accounts as the counterpart to the capital transfer recorded to reflect the implicit gift that government makes to a non-government unit when it agrees to assume the unit's debt owed to a third party. ESA 95 *4.165.f* gives a more detailed explanation of this, including cases where the non-government unit becomes insolvent or where debt assumption is associated with privatisation.

The category includes imputed loans in respect of finance leases.

In general, guarantees are regarded as contingent liabilities and not recorded in the system (ESA 95 *7.77*) except when they are traded. Government-guaranteed borrowing is, however, recorded as government borrowing when government plans to finance the repayment of the debt, rather than just provide a facility to deal with uncertain future events. Part II.4 of the *Deficit and Debt Manual* explains further the treatment of debt guaranteed by the government.

In some specific cases, the existence of loan guarantees would cause national accounts to re-route the guaranteed lending via the government sector. This would apply to certain types of securitisation of government revenue or government payments when government bears most of the risk and rewards. This is explained further in the ESA 95 *Manual on government deficit and debt – securitisation operations undertaken by general government* (*Part V*).

5.3.5.5 Transactions in other liabilities (item 22)

This category covers transactions related to insurance technical reserves (*F.6*) and other accounts payable (*F.7*). Transactions in these instruments are recorded on a consolidated basis.

5.3.6 GENERAL GOVERNMENT BORROWING REQUIREMENT (ITEM 23)

The GGBR covers all financial transactions in Maastricht debt instruments as defined in Article 1 (5) of Council Regulation (EC) No 3605/93. It is sometimes called transactions in government debt, Maastricht debt transactions or transactions in Maastricht debt.

The GGBR is shown consolidated. For example, if central government issues bonds that are all bought by social security funds, there is no impact on the GGBR. Data covering non-consolidated transactions, and thus including central government bonds bought by social security funds, are shown separately in Table 2b. Those non-consolidated data are often comparable to issuance statistics available from market sources.

In many countries, transactions by general government units in general government debt instruments are small and could be estimated, in particular for securities, on the basis of changes in stocks of assets. Estimates based on stocks would need to exclude foreign exchange revaluation effects and take into account the possibility that transactions on the asset side are recorded at market value but liabilities are recorded at face value.

The compilation of the so-called consolidating transactions (see 6.3.5 and Chapter 8) requires information on the type of instruments and the sectors of the issuers and asset holders.

5.3.6.1 Transactions in long-term term debt instruments (item 24)

This includes all Maastricht debt instruments with an original maturity (maturity at issue) of more than one year.

Breakdown by currency

The breakdown of transactions by currency indicates the exposure of government to changes in exchange rates.

Compilation of transactions is often based on estimates of the stock of debt in a given currency and the change in value of that currency over an accounting period.

5.3.6.2 National currency-denominated (item 25)

For Member States in the euro area, this means the euro or the national currency which it replaced. For EU Member States outside the euro area, it means the currency of legal tender.

5.3.6.3 Participating foreign currency-denominated (item 26)

This item covers instruments denominated in currencies of countries participating in the euro area before they joined the euro area, other than the relevant domestic currency. It includes the European Currency Unit (ECU). For EU Member States which have not yet adopted the euro, this item includes euro-denominated debt.

5.3.6.4 Non-participating foreign currency-denominated (item 27)

This item covers instruments denominated in the currencies of EU countries outside the euro area, such as the British pound, and also in (for example) US dollars, Swiss francs and Japanese yen.

Items 28 to 32 account for the difference between transactions in Maastricht debt instruments, as recorded in ESA 95 financial accounts (the GGBR), and the change in Maastricht debt. Item 28 "Other flows" is simply the summation of valuation effects on debt (item 29) and other changes in volume of debt (item 32).

5.3.7 VALUATION EFFECTS ON MAASTRICHT DEBT (ITEM 29)

Maastricht debt is recorded at face value. ESA 95 records flows and balance sheets at market value. There are various ways in which adjustments for the different valuation methods can be made to derive the change in Maastricht debt from ESA 95 financial transactions at market value and other flows (concepts described in the *K* series of accounts in ESA 95). The table in Section 5.1.5 shows the various routes. Within this table, one can move either horizontally or vertically, starting from the unconsolidated ESA 95 financial account for Maastricht debt instruments (top left of the table) and finishing with the change in consolidated Maastricht debt (bottom right of the table). The route chosen for the GFS tables is highlighted. In some Member States, it might not be possible to adopt the chosen route because of inadequate data sources. In such cases, the deviation from that route should be explained in terms of the table in Section 5.1.5.

5.3.8 FOREIGN EXCHANGE HOLDING GAINS AND LOSSES (ITEM 30)

This is the increase (+) or decrease (-) in the market value of Maastricht debt instruments due to exchange rate movements, recorded in ESA 95 financial accounts within the other flow category for nominal holding gains/losses (*K.11*). It is only part of that category, which also includes other changes in the market prices of financial instruments denominated in foreign currency such as in response to interest rate changes – these other changes are not relevant here, because outstanding Maastricht debt denominated in foreign currency is expressed at nominal or face value in foreign currency terms.

Item 30 has two components:

a) the effect of exchange rate movements on debt denominated in foreign currency; and

b) new derivative contracts that change the effective currency of the debt.

Item 30 equals the net increase in the market value of Maastricht debt due to these two factors. "Net increase" means the increases, less the decreases, in the value due to such movements and changes.

These foreign exchange holding gains and losses can apply to all instruments: deposits, loans, short-term securities and long-term securities. They are recorded on a consolidated basis and so do not include changes in the value of government liabilities denominated in foreign currency that are held as assets by other units in the general government sector.

When sources of information are primarily balance sheets (stocks), estimates of the holding gains and losses have to be made on the basis of the currency composition of the debt. The difference between transactions in foreign currency debt at face value (comprising new borrowings and repayment or buying-in of foreign currency debt), converted into national currency at the exchange rate at the time, and the change in stocks at face value in foreign currency terms but converted into national currency at the exchange rate on the balance sheet date, after allowing for any reclassification or other exceptional volume changes, would be recorded as holding gains or losses.

A change in the market value of a security denominated in a foreign currency can arise from either a change in foreign currency exchange rates (as described above) or a change in yields (as with securities in domestic currency). If the exchange rate effect can be estimated directly, the residual can be assumed to reflect changes in yields. But, to repeat, a change in value reflecting a change in yield does not affect Maastricht debt at nominal value.

Article 1 (5) of Council Regulation No 3605/93 stipulates that, for EDP purposes, foreign currency-denominated debts are to be converted into national currency at the representative market exchange rate prevailing on the balance sheet date (or, strictly, on the last working day of the period). When foreign exchange risk is changed through contractual agreements, the rate agreed in those contracts should be used. Entering into such a contract can affect Maastricht debt since the exchange rate agreed in the contract may differ from the rate prevailing on the last working day of the period. These contractual arrangements can include various hedging instruments such as currency swaps, foreign exchange swaps, foreign exchange forwards, futures and possibly options.

5.3.9 OTHER VALUATION EFFECTS – FACE VALUE (ITEM 31)

This item is the *market-to-face value adjustment* which was introduced in Section 5.1.1. It recognises that transactions in Maastricht debt instruments recorded at market value in the ESA 95 financial account will differ from transactions in Maastricht debt recorded at face value. In order to reconcile movements in the two, it is necessary to have both transactions and other flows at face value.

For example, a bond sold at a discount will increase the ESA 95 balance sheet debt by the discounted price (since that is the market price), but will increase Maastricht debt by the full face value.

The accounting identity is as follows: item 31 = face value minus market price.

The ESA 95 balance sheet is also affected by the addition of accrued unpaid interest in the financial account. Transactions in Maastricht debt instruments include amounts for accruing interest, both for interest accruing in *D.41* in the non-financial account with its counterpart in the relevant financial instrument, and for transactions in financial instruments whose traded prices take account of accrued interest. The stock of Maastricht debt is valued at face value and so does not include accrued interest (except for certain indexed instruments).

The item records the adjustments needed for consolidated financial transactions.

The market-to-face-value adjustment
= Gross issuance: face value minus market value
- Gross redemption: face value minus market value
+ Accrual of interest: interest payable minus interest paid[41]
+ Exchange of debt
+ Net increase in foreign currency liabilities measured at face value arising from exchange rate changes minus the net increase measured at market value
+ Net increase in liabilities measured at face value arising from other volume changes minus the net increase measured at market value

41 Except for index-linked instruments where index linking is reflected in EDP debt.

5.3.9.1 Gross issuance

a. Premia and discounts at issue

For example, a zero coupon bond with a redemption price of 100 (face value) issued at 60 is recorded (at issue) as follows:

Transaction in bonds	+60
Change in Maastricht debt	+100
Market-to-face-value adjustment	+40

The treatment is similar for all bonds not issued at face value. Other bonds include deep discounted bonds, bonds with small discounts, or bonds issued at a premium. In the latter case, a negative entry is shown in item 31.

b. Accrued interest sold at issue

Accrued interest is sometimes sold at issue, e.g. in the case of fungible tranches of linear bonds. Since accrued interest is not part of Maastricht debt, an adjustment is necessary.

For example, suppose a 12% coupon bond with a face value of 100 pays a coupon on 1 September and is issued on 1 June at par. The selling price will be 109, of which 9 represents accrued interest.

Transaction in bonds	+109
Change in Maastricht debt	+100
Market-to-face-value adjustment	-9

5.3.9.2 Gross redemption

In general redemption at maturity is, by definition, at face value, so no adjustment is needed.

For early redemption, item 31 equals the price paid to redeem the securities (the financial transaction recorded under ESA 95) minus the face value.

5.3.9.3 Accrual of interest

Because interest (*D.41*) is recorded on an accrual basis, premia and discounts are amortised over time giving rise to transactions in the instrument that do not affect the face value of the outstanding debt. Consider a ten-year bond, with a coupon paying 6% interest, issued at 90 and with a face value of 100. Assume linear amortisation of the discount of 10. Each year, the following would be recorded:

Interest accrued (*D.41*) (coupon plus amortisation)	+7
Interest actually paid	+6
Transaction in bonds (*F.3*)	+1
Change in Maastricht debt	0
Market-to-face-value adjustment	-1

5.3.9.4 Exchange of debt

An exchange of debt is the early redemption of old debt and the issuance of new debt of equivalent market value. The face value of the old and new debts may differ. This difference is not entered in the non-financial accounts and it does not affect net lending/net borrowing (*B.9*), but it does change Maastricht debt. The recording of early redemption and new issuance would be as described above.

Note that governments can reduce their Maastricht debt by redeeming low coupon bonds and issuing high coupon bonds of the same market value. But for instruments close to maturity, this would mean higher interest payments, which would increase the deficit.

5.3.9.5 Exchange rate changes

This is the change in foreign currency liabilities measured at face value arising from exchange rate changes minus the change measured at market value as recorded in item 32.

Consider a bond, denominated in dollars, with a face value of 100 and a market value of 200. Suppose the euro falls from 1 dollar = 0.8 euro, to 1 dollar = 1.0 euro. The face value of the bond (in euro) rises from 80 to 100, an increase of 20. The market value rises from 160 to 200, an increase of 40. So the market-to-face-value adjustment would be minus 20 (= 20-40).

5.3.9.6 Other volume changes

This is the net increase in liabilities arising from other volume changes measured at face value minus the net increase measured at market value (as recorded in item 32).

5.3.10 OTHER CHANGES IN VOLUME OF DEBT (ITEM 32)

This item concerns all changes in stocks of Maastricht debt instruments that do not relate to (consolidated) transactions or (consolidated) valuation effects. The changes correspond to the ESA 95 categories *K.7, K.8, K.10* and *K.12*, at market value as in ESA 95. In practice this item includes:

– debt assumptions which do not have as counterpart a capital transfer or a transaction in equity;

– debt cancellations (government units being the beneficiary) without a capital transfer; and

– reclassification of units between sectors (and more rarely reclassification of instruments).

5.3.11 CHANGE IN DEBT (ITEM 33)

This equals the sum of transactions in Maastricht debt (GGBR, item 23) plus the other flows (item 28) which measures the effect of the valuation effects (item 29) and other volume changes (item 32) recorded in Table 2a. It also equals the Maastricht debt at the end of the year minus the Maastricht debt at the end of the previous year, as recorded in the GFS tables 3a and 3b.

Any unexplained residual arising from the two ways of measuring the change in debt should be added to item 32 (other volume changes) to ensure consistency. The amount added should be indicated in a footnote to the table.

5.3.12 TRANSACTIONS IN LOANS (LIABILITIES), OF WHICH OTHER LOANS (MEMO ITEM 34)

See Section 5.3.5.4 above.

5.3.13 PRIVATISATION PROCEEDS ALLOCATED TO DEBT REDEMPTION (MEMO ITEM 35)

This is the face value of Maastricht debt redeemed directly as a result of privatisation proceeds. In some Member States, it may not be possible to relate specific receipts to specific expenditure, so nothing will be recorded here.

5.3.14 UMTS PROCEEDS ALLOCATED TO DEBT REDEMPTION (MEMO ITEM 36)

This is the face value of EDP debt redeemed directly as a result of UMTS proceeds. In some Member States, it may not be possible to relate specific receipts to specific expenditure, so nothing will be recorded here.

6 GOVERNMENT BORROWING REQUIREMENT (TABLE 2B)

6.1 INTRODUCTION TO TABLE 2B

Consolidation refers to the elimination of reciprocal financial assets and liabilities when institutional units are grouped together. Statistics of government debt may be compiled at various levels of consolidation. Debt may be completely unconsolidated, meaning that it includes all debt outstanding, irrespective of the holder. Alternatively, debt may exclude institutional units' holdings of their own debt. Partial consolidation may be extended to holdings within a sub-sector of all debt issued by units in that sub-sector, such that, for example, central government debt excludes all debt issued by institutional units in the central government sector and held within the central government sector. Or the consolidation may extend to general government as a whole, so that all holdings of general government debt by governmental institutional units, regardless of the sub-sector which issued the debt, are excluded from the measure of general government gross debt.

ESA 95 records debt with a low degree of consolidation – only holdings by institutional units of their own debt are deducted in calculating gross debt. Maastricht debt, by contrast, is highly consolidated, such that holdings by any unit in general government of debt issued by any unit in general government are excluded from general government gross debt.

Accordingly in most GFS tables transactions in Maastricht debt instruments are shown consolidated, as they are in Table 2a. Non-consolidated items are shown in Table 2b because that is how the transactions are recorded in financial accounts reported to Eurostat under the ESA 95 transmission programme. Non-consolidated here means that all financial transactions between units are recorded but not the financial transactions within units. The table therefore provides a reconciliation of GFS figures with the ESA 95 data. The differences between the non-consolidated (Table 2b) and the consolidated (Table 2a) transactions are called the "consolidating transactions", which are also shown in Table 2b. All transactions (consolidated, non-consolidated and consolidating), are broken down by each broad class of financial instrument. The entries contributing to the reconciliation are called "consolidating elements"- see further in Chapter 8 and Table 3b.

6.1.1 DEFINITION OF CONSOLIDATED FINANCIAL TRANSACTIONS FOR GFS

The consolidation of financial transactions in GFS reflects the definition of consolidated debt. For example, when consolidated, financial transactions in Maastricht debt instruments are only recorded, and always recorded, when the transaction has an impact on Maastricht debt. The same principle applies to transactions in other instruments and financial assets with reference to a balance sheet consolidated according to the same principles as Maastricht debt.

The consolidated balance sheet, for this purpose, excludes assets and liabilities where both the borrower and the holder are general government units. Paragraph 8.1.1 explains more about the consolidation of balance sheets.

All types of financial instrument are taken into account for the consolidation.

The consolidation rules apply to the other flows recorded in table 2a as well as to transactions.

6.1.2 THE CONSOLIDATION OF UNCONSOLIDATED ESA 95 FINANCIAL TRANSACTIONS

Starting with unconsolidated ESA 95 financial accounts, consolidation requires:

a) removal of direct financial transactions between government units

   This covers transactions in deposits and loans where one government unit lends to, or deposits funds with, another government unit.

It also covers the issue of new tradable government liabilities when they are bought by other government units, and the redemption of tradable government liabilities in the hands of other government units.

b) removal of secondary market transactions between government units

For example, this includes the purchase by one government unit, from another government unit, of shares in a private company. At the level of general government the adjustment has no impact since the transaction in shares would be recorded net, but it does affect data at the sub-sector level when the transacting government units are in different sub-sectors.

c) removal from transactions in assets of secondary market transactions in financial assets between a government unit and a non-government unit when the instrument exchanged is the liability of another government unit

For example, the sale by a social security fund to a private bank of a central government bond would not be recorded in consolidated financial assets, since in a consolidated general government balance sheet the asset would not exist (but see (d) below).

d) adding to transactions in liabilities the secondary market transactions in financial assets between a government unit and a non-government unit when the instrument exchanged is the liability of another government unit

For example, the sale by a social security fund to a private bank of a central government bond would be recorded in consolidated financial liabilities, since it would be a new liability in the consolidated general government balance sheet.

The table in Section 6.1.7 applies the consolidation rules to various combinations of transactors and creditors/debtors.

6.1.3 CONSOLIDATION: SOME GENERAL POINTS

The GFS concept of consolidation departs from the one used in business accounting when drawing up consolidated accounts for a group of companies. The latter involves three steps: extending the perimeter of compilation to all subsidiaries; eliminating mutual shareholdings, financial links and other transactions; and applying some specific extra accounting treatments. In national accounts, consolidation involves only this second process since the boundary for reporting is defined by the sector (or sub-sector) under consideration. In particular, consolidated government accounts in ESA 95 do not incorporate the operations of public corporations or any other entities outside the general government sector even if these are judged by business accounting standards to be subsidiaries of a general government unit.

Consolidation is not to be confused with non-recording or with netting (see below).[42]

The consolidation of non-financial transactions is described in Section 2.1.4.

The compilation of “consolidated” and “consolidating” accounts requires information on the counterpart sectors or sub-sectors. This is available where financial information is provided on a from-whom-to-whom basis, called “financial accounts by debtor/creditor” in ESA 95 *5.13* or “detailed flow of funds” in SNA 93 paragraphs 11.103 to 11.111. For example, the compilation of consolidated government liabilities requires a distinction to be made, among the holders of government liabilities, between government and non-government units. For traded instruments (debt securities such as bills, notes, bonds and some loans), this information is not easy to collect.

6.1.4 CONSOLIDATION: NOTIONS OF COUNTERPART AND FINANCIAL LINKS

The counterpart of a financial instrument in the balance sheet is clear. A financial asset held by one sector is clearly the liability of another

42 Also explained in ESA 95 *1.58* and *1.59*.

sector without any conceptual ambiguity. But it is not as clear in the case of financial transactions, since there are two different notions of counterpart: the transactor and the debtor/creditor.

Take the case of a government bond sold by a bank and bought by an insurance corporation.

a) The "transactor principle" records a single transaction in bonds between the insurance sector and the banking sector.

b) The "debtor-creditor principle" records two financial links: an acquisition by the insurance sector of a bond "issued" by the government, and a redemption of an identical government bond "repaid" to the banking sector. Because financial accounts present the net incurrence of liabilities (gross issues minus redemptions) and the net acquisition of financial assets (gross acquisitions minus sales), the financial accounts of government (without counterpart sector information) would not show anything, while in a from-whom-to-whom presentation two elements of information would be shown.

The debtor-creditor principle is generally more useful because analysts are interested in the nature of the instruments bought rather than from whom they are bought, and because it is consistent with the method for balance sheets. In addition, the intervention of brokers and centralised clearing systems often makes it difficult to identify the actual transactors.

Financial transactions consist of two types. The first involves only two units. Thus only two units are involved when the instrument exchanged is the liability of one of the two units: a transaction then involves either a creation or redemption of an instrument. This applies typically when there is no secondary market, and when an instrument is issued or redeemed. When there is a secondary market three units may be involved: the two units exchanging an asset, and the unit whose liability it is.

Consolidation for GFS involves consolidation of both types: where transactors are both in the general government sector; and where the units holding the asset and liability are both in the general government sector.

6.1.5 NETTING TERMINOLOGY

Netting has various meanings.

Financial accounts are presented net in the sense that, for example, transactions in liabilities show gross issues minus gross redemptions. (Information on gross issues may be available as a memorandum item.) By contrast, transactions in non-financial accounts are recorded gross, except for transactions related to the acquisition of capital assets. For example, the government sector accounts do not net off taxes paid by government units from taxes received by them.

Financial accounts are presented net across instruments with different characteristics and with different debtors/creditors, provided they are within the same ESA transaction category or sub-category. For example, when recording transactions in financial assets, the sale of a long-term bond is netted off the purchase of long-term bonds even though the bonds sold might have slightly different characteristics and different debtors from the bonds purchased. Note however that the detailed from-whom-to-whom financial accounts re-establish gross recording when the sector of the debtor is different.

"Net recording" versus "gross recording" relates also to the treatment of ownership of own instruments (see Section 6.1.6 below).

Finally, non-financial entries such as the balancing items are also referred to as being recorded "gross" or "net" (e.g. *B.1g* and *B.1n*, which are GDP and NDP), but this generally refers to the adjustment for fixed capital consumption. An exception to this is net borrowing/net lending where the netting refers to the net impact of transactions in financial assets and liabilities.

6.1.6 OWNERSHIP OF OWN INSTRUMENTS

When a department of government purchases bonds issued by another department, in particular when the bonds are issued, and when the two departments are viewed as part of one unit, financial accounts do not generally record the transaction or positions in consolidated or in non-consolidated presentations. Such instruments are not viewed as "consolidated" but as "non-registered". Not recording the ownership of instruments issued by the same unit can also be thought of as "netting".

This is similar to the treatment of non-financial transactions. Such transactions within units are not recorded, except in some exceptional cases such as the recording of output for own final use (*P.12*) and capital consumption (*K.1*) because the uses and resources appear in different accounts.

Some financial accountants might prefer a "gross approach" and keep the instrument on both the asset side and the liability side to follow the legal presentation (voting rights, actual payments of coupons, dividends, etc.) or to preserve the link with market statistics. In the "net approach" the purchase by a unit of its own debt is recorded as a redemption of debt rather than an acquisition of consolidating assets. By contrast, the gross approach records it as an acquisition of consolidating assets.

6.2 TABLE 2B: FORMAT AND CONTENTS

This is the format and contents of the reporting table used by the ECB to collect GFS data from NCBs. The table shows the item numbers used in Table 2B of the GFS Guideline which are the same as the line numbers in the reporting table 2b, as well as the relationships with the ESA 95 codes.

6.3 LINE-BY-LINE ANALYSIS OF TABLE 2B

The item numbers given in the section headings below refer to those of the GFS Guideline which coincide with those shown in the GFS data request.

6.3.1 TRANSACTIONS IN MAASTRICHT DEBT INSTRUMENTS (NON-CONSOLIDATED) (ITEM 1)

Maastricht debt instruments are those instruments included in the definition of general government gross debt in Council Regulation (EC) No 3605/93. They are defined in terms of the ESA 95 classifications.

This item covers the net acquisition of these liabilities at market prices, as recorded in the ESA 95 financial accounts for the general government sector. They are "non-consolidated" in the sense that the figures include the net acquisition by government units of financial assets that are liabilities of other government units.

6.3.2 CURRENCY AND DEPOSITS (ITEMS 2 AND 8)

This is *F.2* in ESA 95. The category, in the context of government liabilities, is described in Section 5.3.4.1 of this Guide.

Some government treasuries run deposit schemes for other government units (e.g. central government agencies and local governments). These transactions should be included in the unconsolidated figures and in consolidating transactions.

6.3.3 SECURITIES (ITEMS 3, 4, 9 AND 10)

Short-term securities correspond to the ESA 95 category *F.331*. This category covers bills, short-term notes and bonds sold with a maturity of less than one year.

Other securities are classified under long-term securities (*F.332*). Securities with a maturity of exactly one year are to be recorded under short-term securities.

More information on securities can be found in Section 5.3.4.2.

6.3.4 LOANS (ITEMS 5, 6 AND 11)

This is ESA 95 category *F.4*. It covers short-term and long-term borrowing from MFIs, other financial corporations, the rest of the world

Table 2b Transactions in Maastricht debt – consolidation

Description	Guideline item number Table 2B	Reporting table line number and relationships	ESA 95 codes[2)]
Transactions in Maastricht debt instruments (non-consolidated)	1	1 = 2+3+4+5+6 = 7+ [2A.23]	
Transactions in currency and deposits	2	2	*F.2*
Transactions in short-term securities	3	3	*F.331*
Transactions in long-term securities	4	4	*F.332*
Transactions in loans from central bank	5	5	*S.121 / F.4 / S.13*
Transactions in other loans	6	6	*(Other than S.121) / F.4 / S.13*
Consolidating transactions[1)]	7	7 = 8+9+10+11	
Currency and deposits	8	8 = 2–[2A.16]	*F.2*
Short-term securities	9	9 = 3–[2A.17]	*F.331*
Long-term securities	10	10 = 4–[2A.18]	*F.332*
Loans	11	11= 6-([2A.20]-[2A.21])	*F.4 / S.13*

1) Transactions in financial assets which are Maastricht debt instruments = acquisitions of assets by government units which are liabilities of (other) government units, minus sales of such assets.
2) In order to capture the counterpart sectors, the following convention is used: the creditor appears first, then the transaction, then the debtor and then the transactor. *S.13 / F.331 / S.11 / S.14* would mean an acquisition (or sale) by GG (*S.13*), the new creditor, of a short-term security (*F.331*) that is a debt of a corporation (*S.11*) sold to GG by the household sector (*S.14*), the previous creditor.

and, in the unconsolidated figures, from other government units. State and local government borrowing is typically in the form of loans rather than securities and often the funds are borrowed from central government.

For more information on loans, see Section 5.3.4.4.

6.3.5 CONSOLIDATING TRANSACTIONS (ITEMS 7 TO 11)

Consolidation is described in Section 6.1. Instrument definitions are the same as for items 2 to 6. “Consolidating transactions” are transactions which tend to reduce Maastricht debt outstanding through consolidation, for example the purchase by an governmental agency of debt issued by another. “Consolidating transactions” (item 7) therefore summarises the difference between *non-consolidated* transactions and *consolidated* transactions for Maastricht debt instruments.

– Currency and deposits (*F.2*): item 8 is the difference between the non-consolidated transactions for that EDP instrument (item 2) and the corresponding consolidated transactions (Table 2A, item 16);

– Short-term securities (*F.331*): item 9 is the difference between the non-consolidated transactions for that EDP instrument (item 3) and the corresponding consolidated transactions (Table 2A, item 17);

– Long-term securities (*F.332*): item 10 is the difference between the non-consolidated transactions for that EDP instrument (item 4) and the corresponding consolidated transactions (Table 2A, item 18); and

– Loans (*F.4*): item 11 is derived from the difference between the non-consolidated transactions in other loans (item 6) and the consolidated transactions in loans (Table 2A, item 20) and loans from central bank (Table 2A, item 21). The purpose of this calculation is to obtain the consolidating transactions for loans other than from the central bank.

7 GOVERNMENT GROSS DEBT (TABLE 3A)

7.1 INTRODUCTION TO TABLE 3A

This table analyses the stock of Maastricht debt, which is defined as "general government gross debt" in Council Regulation (EC) No 3605/93. Unlike Table 2b, which shows transactions in Maastricht debt over a period of time (one year), Table 3a shows the stock of debt at a point in time (the year-end).

7.1.1 DEFINITION OF GENERAL GOVERNMENT GROSS DEBT

Article 1 (5) of Council Regulation (EC) No 3605/93 defines general government gross debt as:

1) the consolidated liabilities of the ESA 95 general government sector (*S.13*);

2) in the ESA 95 categories: currency and deposits (*AF.2*), securities other than shares, excluding financial derivatives (*AF.33*), and loans (*AF.4*);

3) measured at "nominal value", in line with Protocol 5 of the EC Treaty, further defined in the Regulation as "face value". This means, in particular, that government debt is not affected by changes in market interest rates, and excludes unpaid accrued interest.

The composition of the ESA 95 financial instruments listed in (2) above is explained below in the line-by-line analysis of the instrument breakdown.

Note that Maastricht debt excludes two types of government liability. These are:

a) ESA 95 liabilities not included in Maastricht debt:

- financial derivatives (*AF.34*) such as swaps or FRAs;
- insurance technical reserves, including pension liabilities (*AF.6*);
- trade credit (in *AF.7*) originating from delayed payments to providers of goods and services;
- other accounts payable (in *AF.7*); and
- accrued interest, whether recorded with the underlying instrument or identified separately.

b) Liabilities recognised by some accounting systems but not by ESA 95:

- provisions for expected but uncertain future payments arising from past events;
- unfunded pension schemes operated by government units for their employees, paid out of government's current resources, and without special reserves (and also unfunded pension schemes for the general population);
- contingent liabilities; and
- liabilities of entities regarded as subsidiaries of government in other accounting systems but outside the general government sector in national accounts.

7.1.2 ANALYSIS OF MAASTRICHT DEBT

A financial obligation by a debtor to a creditor can be described by three pieces of information:

- the nature of the instrument;
- the value of the instrument; and
- the timing of required redemption (if any).

Accounting systems differ in terms of classifications and valuation rules. Maastricht debt is based on ESA 95 to the extent that it uses (some of) the same instrument categories and the same delineation of the general government sector. It departs from ESA 95 with regard to the valuation rule.

Table 3a gives information on the breakdown of Maastricht debt by instrument (ESA 95 categories), by currency, by residual maturity, and by ESA 95 debtor and creditor sub-sectors or groupings of sub-sectors.

7.1.3 VALUATION RULES IN GENERAL AND THEIR TERMINOLOGY

Instruments can be measured in several ways: at face value, issue value, redemption value, acquisition or purchase value, volume value, principal value, market value, book value and nominal value.

The *market value* corresponds to the quoted price of instruments, representing the price a purchaser or a seller can expect to pay or receive at that time (excluding commission). It will include accrued interest. It is the value used by national accountants when drawing up the ESA 95 balance sheets (ESA 95 *7.25-7.32*).

The *issue value* (ESA 95 *5.138.b*) and the *acquisition value* are the *transaction value* at the time of issue or acquisition, respectively. The *transaction value* is as a general rule close to the *market value* at the time of transaction. Nevertheless, ESA 95 indicates that the transaction value is, in concept, different from the market value (ESA 95 *5.136*), because the former is defined as the value corresponding to the actual payment for each transaction. It may slightly differ from the quoted value at the same time (and differ more substantially from the "closing price"). When the difference between the agreed contract price and the market price is large enough to suggest that a "gift" component has been incorporated into the transaction, it would be recorded at market value and the difference from the cash value would be recorded as a transfer (*D.7* or *D.9*) (cf. ESA 95 *5.136*).

The *book value* refers to the value at which the instrument is recorded in the balance sheet of the unit holding the asset or liability. On the asset side, it may be the acquisition value, market value or face value, while on the liability side it may be the issue value, market value or face value.

The *volume value* (ESA 95 *4.46.a*, *6.52* and *7.47*) corresponds to the issue value plus accrued interest not yet paid. It is also equal at any point in time to the actuarial value of remaining cash flows when using the yield at issue as a discount factor.

The *redemption value* (ESA 95 *5.138.g*) corresponds to the final payment on an instrument to be reimbursed at maturity. It excludes the final coupon. It is often the same value that is used to compile the coupon on the basis of the interest rate of the instrument when the three elements are advertised in the sale prospectus (or mentioned in the name of the security, e.g. the "4.5% 2012"). This is usually regarded as the *face value*.

The *principal value*, in ESA 95, seems to be sometimes equivalent to the volume value (ESA 95 *4.42, 4.44, 4.45, 4.48*, *5.138.e* and *6.52*) and sometimes to the redemption value (*4.46.c, 5.138.e, 7.47, 6.51* and *7.51*).

The *nominal value* refers to a value that does not change in response to changes in market yields.

Only some of these values are relevant for the debtor. The issue value is relevant as the amount of funds received initially from the incurrence of the liability. The volume value represents the volume including the accrued cost of all the funds put at the disposal of the borrower by the lender. The market value represents the opportunity cost for the issuer to settle its debt early by buying it back on the secondary market. The redemption value is the amount needed at the end of the contract.

Similarly, the relevant values for the creditor are the acquisition value, the acquisition value plus accrued discounts and premia, the market value and the redemption value.

Example of valuation terminology

Consider a ten-year 4% bond, paying annual coupons of 4. The face value and redemption value would be 100. Given a 5% market rate at the time of issue, the issue value would be 92.2. One year later, the issue value plus accrued discount would be 92.9 (the volume value of the instrument, which changes with time in line with accrued interest minus payments of coupons). If market interest rates fell to 3% immediately after issue, the price of the bond would increase to 108.5 (its market value). A purchaser might have bought it on the secondary market at 95 (its acquisition value).

7.1.4 VALUATION OF MAASTRICHT DEBT

Government debt is valued at "nominal value". Article 1 (5) of Council Regulation (EC) No 3605/93 defines nominal value as the face value rather than the volume or principal value. In addition, the Regulation defines the notion of face value in three specific cases:

- For indexed securities, the face value changes in line with changes in the index. In particular, it is adjusted when the principal and coupons of bonds linked to consumer price indices are regularly adjusted.

- Foreign currency-denominated liabilities are converted into domestic currency at the market exchange rate at the end of each accounting period.

- Liabilities denominated in foreign (or even domestic) currency that are exchanged or swapped for another currency, including the domestic currency, are converted at the rate stipulated in the contract, and not at the current market exchange rate.

The face value is usually understood to be the redemption value. The *Deficit and Debt Manual* gives additional guidance for specific instruments, as below:

- The face value of a loan due to be repaid in full at maturity is the redemption value. It excludes any accrued interest paid at redemption.

- The face value of a loan with regular repayments of capital corresponds to the initial value of the loan less the capital repayments to date. This residual amount would in practice be the basis for the computation of interest.

- The face value of deposits would generally be the amount deposited. Interest earned and credited to the account would increase the face value of the instrument at the time of the actual credit, but accrued interest not yet credited to the account would not be included.

- The face value of a bond issued at a discount or at a premium is the redemption value or the value mentioned in the prospectus used as a basis for the computation of coupons. Particular cases are zero coupon bonds, and Treasury bills, for which over the whole life of the instrument there is only one payment, on redemption; this payment is equal to the face value.

- For the purpose of recording Maastricht debt, the value of an indexed instrument corresponds to its face value adjusted by the index-related change in the value of the principal accrued to the end of the year.[43]

- The face value is identical for all tranches of the same fungible bond.

- The face value of a stripped bond is the same as the face value of the original. The face value of elements of strips is therefore neither zero nor their redemption value, but must have the property that the face value of the sum of the components is equal to the face value of the original bond, in order to prevent double-counting. This question is particularly relevant for the consolidation of debt and the compilation of interest receivable.

- The face value of debt denominated in foreign currency is expressed in domestic currency using the market exchange rate at the end of the accounting period, unless the debt has been swapped or otherwise covered forward – see further below.

43 Council Regulation (EC) No 475/2000 of 28 February 2000 amending Regulation (EC) No 3605/93.

- The face value of capitalised bonds is the issue value plus capitalised interest (but not accrued interest not yet capitalised). This case differs from zero coupon bonds (where the face value is recorded as the redemption value) in that for bonds with capitalised interest the redemption value may not be certain.

- The face value of an instrument denominated in one currency which has been exchanged or swapped for another is determined by the rate agreed in the contract (usually this will be an instrument denominated in foreign currency which has been swapped into domestic currency).

- Maastricht debt includes imputed loans in respect of financial leasing. The initial value of the loan is equal to the gross fixed capital formation under the lease and is the face value. This debt gradually decreases over the life of the lease because the regular payments under the lease are assumed to include interest and capital.

7.1.5 NOTE ON REPURCHASE AGREEMENTS AND STOCK LENDING

Securities delivered in the context of repos, or stock lending, remain on the balance sheet of the assignor and do not appear on the balance sheet of the assignee. This is because repos are treated as a form of collateralised lending, and recorded as transactions in loans or deposits and not in the underlying instrument, which is regarded as being retained by the transferor. The operation is not recorded as a transaction in securities. Thus, in the breakdown by holder of government debt in GFS, securities received under a repo (or a bond borrowing transaction) and subsequently sold outright by the assignee are recorded as a negative holding of securities by the assignee. Since both the assignor and the final purchaser show the security in their balance sheets, total holdings of the asset do not change. GFS follow the same rules. Repos are considered transactions in securities only where there is no firm commitment to reverse the transaction but simply an option to do so.

7.1.6 TERMINOLOGY

"Maastricht debt" is general government gross debt as defined in the Excessive Deficit Procedure of the Maastricht Treaty and Council Regulation (EC) No 3605/93. Maastricht debt comprises the ESA 95 categories *AF.2, AF.33* and *AF.4* where these instruments are liabilities of general government. These are called "Maastricht debt instruments" in this Guide. Maastricht debt is sometimes called "EDP debt" and the relevant ESA 95 categories are sometimes called "Maastricht debt instruments".

The "consolidating EDP instruments" are Maastricht debt instruments owned by government units. Total Maastricht debt instruments less consolidating EDP instruments equal the "consolidated EDP instruments". Maastricht debt is the stock of consolidated EDP instruments measured at face value.

7.2 TABLE 3A: FORMAT AND CONTENTS

This is the format and contents of the reporting table used by the ECB to collect GFS data from NCBs. The table shows the item numbers used in Table 3A of the GFS Guideline which are the same as the line numbers in the reporting table 3a, as well as the relationships between with the ESA 95 codes.

In order to capture the counterpart sectors, the following convention is used: the creditor appears first, then the transaction, then the debtor and then the transactor. *S.13 / F.331 / S.11 / S.14* would mean an acquisition (or sale) by GG (*S.13*), the new creditor, of a short-term security (*F.331*) that is a debt of a corporation (*S.11*) sold to GG by the household sector (*S.14*), the previous creditor.

7.3 LINE-BY-LINE ANALYSIS OF TABLE 3A

The item numbers in this section refer to those of Table 3A of the GFS Guideline which is identical to the GFS data request. The starting point of the table is the general government gross consolidated debt at nominal value (item 1). This is Maastricht debt. It is the sum of consolidated Maastricht debt components, as described for Table 3a. It excludes any government debt held as financial assets by government units. A sub-sector's Maastricht debt component is defined as the relevant liabilities (*AF.2, AF.33* and *AF.4*) issued by that sub-sector and not held by units in any government sub-sector. Table 3a shows the possible breakdowns of Maastricht debt.

Breakdown by instrument

7.3.1 CURRENCY AND DEPOSITS (ITEM 2)

This item corresponds to liabilities of general government in currency (*F.21*), transferable deposits (*F.22*) and other deposits (*F.29*). Section 5.3.5.1 describes transactions in these instruments that are government liabilities.

Coins are usually a liability of government rather than the central bank. Coins physically held by central banks on behalf of government, and so not in circulation, are not counted as financial liabilities. Coins held by government units are not counted because of the consolidation rules.

Deposits held at the Treasury by local government or any other part of general government are not included because of the consolidation rules. However, such deposits held by public sector entities classified outside the general government sector (*S.13*) are included in this item.

This category includes liabilities in the form of repos. It excludes accrued interest because of the face value rule, but capitalised interest on deposits is recorded when it is added to the account.

7.3.2 SHORT-TERM SECURITIES (ITEM 3)

This item includes bills and other short-term notes and bonds with an initial maturity of less than one year, issued predominantly by the Treasury (classified as *F.331* in ESA 95). More information on short-term securities is given in Section 5.3.5.2.

The face value rule means that instruments that pay no coupon interest, like zero coupon bonds, are recorded in Maastricht debt at the full redemption value. Coupon instruments are also measured at redemption value. Accrued interest is excluded from Maastricht debt.

Securities held by other government units are excluded under the consolidation rules.

7.3.3 LONG-TERM SECURITIES (ITEM 4)

Long-term securities (*F.332*) cover all types of securities with an initial maturity of more than one year. More information on long-term securities is given in Section 5.3.5.3.

The redemption price of some securities is linked to an index such as a consumer price index. Council Regulation (EC) No 3605/93 states that the nominal value of an index-linked liability corresponds to its face value adjusted by the index-related change in the value of the principal accrued to the end of the year. Any change in the value of the principal (assumed to be the basis for the compilation of the coupons) will be reflected in the Maastricht debt.

The categories of short-term and long-term for initial maturity are of interest for public finance analysis, but the breakdown is an imprecise indicator of the liquidity and interest rate risks that issuers might be exposed to. Better indicators are:

– residual maturity to assess liquidity risks; and

– maturity corrected for variable rate instruments to assess interest rate risks.

7.3.4 LOANS FROM CENTRAL BANK (ITEM 5)

This item covers loans from the NCB to government (generally to the Treasury) classified as *F.4* (assets of sub-sector *S.121*) in national accounts. In accordance with the Maastricht Treaty prohibition of lending by NCBs to government, all previously existing overdraft facilities granted by central banks to their governments were ended by 1994 in the

Table 3a General government gross debt

Description	GFS Guideline item number Table 3A	Reporting table line number and relation-ships	ESA 95 codes *
Gross consolidated debt	1	1 = 2+3+4+5+6 = 7+12 = 15+16+17 = 21+22+24 = 26+27+28+29 = [3B.1]-[3B.2]	
Debt – currency and deposits	2	2	*F.2*
Debt – short-term securities	3	3	*F.331*
Debt – long-term securities	4	4	*F.332*
Debt – loans from central bank	5	5	*S.121 / F.4 / S.13*
Debt – other loans	6	6	*Other than S.121 / F.4 / S.13*
Debt held by residents of the Member State	7	7 = 8+9+10+11	
Debt held by central bank	8	8	*S.121*
Debt held by other monetary financial institutions	9	9	*S.122*
Debt held by other financial institutions	10	10	*S.123 + S.124 + S.125*
Debt held by other residents	11	11	*S.11 + S.14 + S.15*
Debt held by non-residents of the Member State	12	12 = 13+14	*S.2*
Debt held by non-resident inside euro area	13	13	*S.21 ((part))*
Debt held by non-resident outside euro area	14	14	
Debt denominated in domestic currency	15	15	
Debt denominated in a participating foreign currency	16	16	*F.2 + F.33 + F.4*
Debt denominated in a non-participating foreign currency	17	17	
Short-term debt	18	18	
Long-term debt	19	19	*F.2 + F.33 + F.4*
Of which variable interest rate	20	20	
Debt with residual maturity up to 1 year	21	21	
Debt with residual maturity between 1 and 5 years	22	22	
of which variable interest rate	23	23	*F.2 + F.33 + F.4*
Debt with residual maturity over 5 years	24	24	
of which variable interest rate	25	25	
Central government debt contribution	26	26 = [3B.7]-[3B.15]	*non S.13 / debt / S.1311*
State government debt contribution	27	27 = [3B.9]-[3B.16]	*non S.13 / debt / S.1312*
Local government debt contribution	28	28 = [3B.11]-[3B.17]	*non S.13 / debt / S.1313*
Social security funds debt contribution	29	29 = [3B.13]-[3B.18]	*non S.13 / debt / S.1314*
Memorandum items			
Average residual maturity of debt	30	30	*F.2 + F.33 + F.4*
Debt – zero coupon bonds (redemption value)	31	31	*F.332*
Debt with residual maturity over 1 year	-	32 = 22+24	

EU Member States at that time. Some existing loans and overdrafts were converted to medium or long-term credit. Hence, the content and pattern of this item changed from short-term and volatile to long-term and decreasing (new loans being forbidden) after 1993.

While the Maastricht Treaty also forbids the purchase by central banks of government bonds on the primary market, it does allow secondary market purchases. The item for government debt held by NCBs can therefore differ substantially from the item for loans from the NCB.

7.3.5 OTHER LOANS (ITEM 6)

Other loans (*F.4*) cover short-term and long-term loans taken out by units of general government, predominantly in the state government and local government sub-sectors.

All units can grant loans: not only MFIs but also other financial intermediaries, and non-financial corporations, as well as units in the rest of the world sector. This item includes syndicated loans. Loans granted by other government units are excluded under the consolidation rules.

Overdraft facilities with MFIs (other than the central bank) are recorded here when used. Unused facilities are not recorded.

Imputed loans in respect of finance leases are included in Maastricht debt here.

Breakdown by holder/creditor

7.3.6 RESIDENT HOLDERS (ITEM 7)

7.3.6.1 Central bank (item 8)

This item covers all government debt instruments held by the NCB (ESA 95 category *S.121*). It includes the following:

- loans, including short-term loans, and overdraft facilities established before 1994 or before entry into the euro area;
- deposits made by the NCB before 1994 at the Treasury; and
- government securities held by the NCB.

This item excludes other financial links, sometimes substantial, between central banks and government, such as other accounts payable/receivable (*F.7*) arising when the central bank processes banking orders made daily by the Treasury.

It excludes government securities received by NCBs in connection with repos extended by central banks to MFIs – often as part of the refinancing operations of the Eurosystem. Repos are classified as loans and not as transactions in the underlying security.

7.3.6.2 Other monetary financial institutions (item 9)

This item covers all elements of Maastricht debt held by domestic MFIs other than the NCB.

The other MFI sector corresponds to ESA 95 sector *S.122* (ESA 95 *2.41* and *2.49*). It includes public (government-owned or controlled) and private institutions. The ECB defines other MFIs as "resident credit institutions as defined in Community law, and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs, and, for their own account (at least in economic terms) to grant credits and/or make investments in securities" (Regulation ECB/2001/13, Article 2.1). Government liabilities held by other MFIs may include:

- deposits at the Treasury;
- short-term and long-term loans extended to government units; and
- securities issued by government units and held by MFIs other than NCBs.

This item excludes:

- securities issued by governments of other countries and held by domestic MFIs, and any loans made to or deposits placed with governments abroad;
- government securities borrowed or received (by banks) in the context of repos or bond lending/borrowing operations;
- other financial links such as those constituted by derivatives, e.g. options issued by government and bought by MFIs, or swaps with negative market value (i.e. liabilities of government); and
- instruments not included in Maastricht debt.

7.3.6.3 Other financial institutions (item 10)

The category of other financial institutions (or intermedaries in the ESA 95 terminology) includes:

- insurance corporations and pension funds (*S.125*). These often have large holdings of government bonds. In some cases these institutions are required by law to hold a minimum proportion of their portfolio as government bonds;

– other financial intermediaries, including investment funds (but not MMFs, which are in *S.122*) (*S.123*);
– financial auxiliaries (*S.124*) providing services closely linked to financial intermediation without undertaking financial intermediation themselves. They include supervisory bodies, fund managers and brokers. In contrast to financial intermediaries, auxiliaries do not place themselves at risk by acquiring financial assets and incurring liabilities on their own account (ESA 95 *2.33*) and so, by definition, are not likely to hold significant government liabilities.

7.3.6.4 Other residents (item 11)

Other residents comprise:

– non-financial corporations (*S.11*);
– households (*S.14*); and
– non-profit institutions serving households (NPISHs) (*S.15*).

Other residents exclude general government (*S.13*) because government debt is presented on a consolidated basis.

In addition to coins, households have, in some countries, significant deposits (*AF.2*) directly at the Treasury or sometimes via the postal office (the latter being re-routed in national accounts to represent a liability of central government). Such deposits have, for a large part, a monetary nature and are reported accordingly to the ECB in the context of monetary statistics. The larger part of government debt held by households is usually in the form of non-tradable government bonds or other instruments issued in small denominations and sometimes specifically targeted at the general public, though households may have substantial holdings of marketable government debt also. Holdings held indirectly via mutual funds or other vehicles are not recorded here, but as holdings of the financial intermediaries concerned.

Non-financial corporations as well as NPISHs may also hold liquid assets in government securities and hold claims on general government in the form of deposits (*AF.2*) or loans (*AF.4*).

7.3.7 NON-RESIDENT HOLDERS (ITEM 12)

This item covers the general government debt held by units of the rest of the world (*S.2* in ESA 95). In ESA 95 this is split between "the European Union" (*S.21*) and "non-member countries and international organisations" (*S.22*). The former is divided further into "the Member States of the EU" (*S.211*) and "the institutions of the EU" (*S.212*). A category not foreseen in ESA 95 is euro area Member States. Counterpart data distinguishing between counterparts in the euro area and in the rest of the world are however necessary for compiling euro area accounts.

This item covers:

– holdings of securities by non-residents;
– loans granted by non-resident institutions (such as euro-syndicated credit), including loans granted by the European Investment Bank (EIB);
– deposits by non-resident institutions made with government, particularly treasuries, mostly by non-resident banks. It includes deposits made by other governments, notably of other EU Member States in the context of extended co-operation between treasuries in respect of the timing of Treasury bill issuance; and
– debt issued by the domestic government and held by a government unit of another country, possibly both participants of the euro area, e.g. German Bund holdings of a Finnish social security fund.

7.3.7.1 Non-residents inside the euro area (item 13)

This covers government debt held by residents of other Member States in the euro area. The current composition of the euro area should be used for all years, even for those years when the euro area did not exist or its composition was different.

7.3.7.2 Non-residents outside the euro area (item 14)

This covers government debt held by residents of EU Member States other than those now in the euro area, and debt held by non-residents of the European Union.

Currency denomination

7.3.8 NATIONAL CURRENCY-DENOMINATED (ITEM 15)

This includes all elements of Maastricht debt denominated in the currency that is legal tender of the Member State in the year to which the data refer. This would be the euro for a euro area country from the start of the the euro area (or from the time that Member State joined).

It excludes liabilities denominated in national currency but subsequently exchanged through contractual agreements into a foreign currency. In that case the liability is entered under the relevant item of the breakdown by currency.

This item includes liabilities denominated in foreign currency and exchanged through contractual agreements into the domestic currency. The amount recorded is the face value expressed in foreign currency converted at the rate agreed upon in the contract.

7.3.9 PARTICIPATING FOREIGN CURRENCY-DENOMINATED (ITEM 16)

This comprises Maastricht debt in a foreign currency that was legal tender of a country now part of the euro area. It includes the ECU before 1999.

By convention, this entry is put at zero for the years after a country joins the euro area, irrespective of whether each liability has been legally or technically converted into euro.

For years after 1999 it includes the euro for countries that were (or still are) outside the euro area in the year to which the figures relate.

This item includes liabilities in national currency, or in a non-participating foreign currency, subsequently exchanged through contractual agreements into a participating foreign currency. This item excludes liabilities in a participating foreign currency and exchanged through contractual agreements into the national currency or into a non-participating foreign currency.

7.3.10 NON-PARTICIPATING FOREIGN CURRENCY-DENOMINATED (ITEM 17)

This item comprises all elements of Maastricht debt denominated in currencies other than the domestic currency, the euro, the ECU or the legal tender of a euro area country before it joined the euro area. It includes, for example, debt denominated in the British pound (except for the UK for which it is the domestic currency), the Swiss franc, the US dollar and the Japanese yen.

The item includes liabilities in national currency or in a participating foreign currency and exchanged through contractual agreements into a non-participating foreign currency. This item excludes liabilities in a non-participating foreign currency and exchanged through contractual agreements into the national currency or into a participating foreign currency.

Maturity of Maastricht debt

Initial maturity is the length of life of an instrument when first issued. ESA 95 considers the initial maturity as a secondary classification criterion in the financial accounts (ESA 95 *5.22*), noting that financial market innovation has diminished the usefulness of the short-term/long-term distinction.

7.3.11 SHORT-TERM DEBT: INITIAL MATURITY UP TO ONE YEAR (ITEM 18)

This is the total face value of all Maastricht debt instruments with an initial maturity of one year or less.

Coins and transferable deposits are recorded under short-term because they can be redeemed at any time.

7.3.12 LONG-TERM DEBT: INITIAL MATURITY OVER ONE YEAR (ITEM 19)

This is the total face value of all Maastricht debt instruments with an initial maturity of over one year.

Flexibility might also be required for the classification by initial maturity of fungible instruments. Issues of tranches of one year or less maturity of a long-bond or long-note benchmark would technically meet the short-term definition, but it is better for practical reasons to assimilate these last tranches to the other tranches in terms of initial maturity. In other words, all future tranches of a bond first issued with an initial maturity characteristic of a medium/long-term bond would be classified as medium/long-term: because of the fungibility principle, it is generally not possible to identify the original tranche to which an individual security belongs.

Some deposits although legally redeemable at short notice are in practice held long-term, with incentives to holders to retain them. By contrast, other time deposits might legally be long-term, but have arrangements for redemption on demand with penalties, or after some period of notice. In these cases judgement should be applied to determine whether long-term or short-term best describes the nature of the instrument. Monetary aggregates divide instruments into "with an agreed maturity" and "redeemable at notice", but it would be inappropriate here to classify the entire first category as medium/long-term.

Breakdown of all Maastricht debt by residual maturity

Residual maturity is the time from the reference date until the contractual redemption date of an instrument.

7.3.13 RESIDUAL MATURITY UP TO ONE YEAR (ITEM 21)

This item includes:

- all debt with an initial maturity of one year or less, such as: Treasury bills; other paper issued on money markets, such as commercial paper; short-term loans such as overdrafts; deposits of less than one year; and coins;
- debts with an initial maturity of one year or more which are within a year of maturity; and
- debts repaid on a regular basis, some of which fall to be redeemed over the coming year.

7.3.14 RESIDUAL MATURITY BETWEEN ONE YEAR AND UP TO FIVE YEARS (ITEM 22)

This item includes:

- all debt of initial maturity of more than one year, with one-to-five years to redemption; and
- for instruments with a redemption maturity of more than five years but which are redeemed on a regular basis, the part to be repaid between one year and five years from now.

7.3.15 RESIDUAL MATURITY OVER FIVE YEARS (ITEM 24)

This item comprises all other instruments.

For a conventional bond, the residual maturity corresponds to the redemption maturity, i.e. the date of the reimbursement of the principal.

Some loans are redeemed gradually over time through regular payments comprising both interest and principal. Ideally these loans should be apportioned to the different residual maturity categories as if they were a large number of separate loans.

Instruments with an option for early redemption can be classified according to the earliest date the option can be exercised. Such options can either be in the hands of the issuer or of the holder.

Information on residual maturity gives a measure of the redemptions that general government will have to finance for each relevant period. This gross redemption amount plus the expected borrowing requirement for each period equals the total need for finance expected for that period. This gives a measure of potential liquidity risks and allows interest expenditure to be forecast in the event of changes in market interest rates.

7.3.16 DEBT WITH VARIABLE INTEREST RATES (ITEMS 20, 23 AND 25)

For a given instrument, the contractual payments may be:

– fixed in terms of the domestic currency: this applies to fixed coupon bills, notes and bonds, and fixed interest deposits and loans in domestic currency;
– fixed in terms of a unit which may fluctuate against the domestic currency: this is the case of foreign currency debts or debts indexed on price indices where both coupon and principal are indexed; and
– variable: this is the case of instruments with coupons that are revised periodically depending on money market rates or bond yields.

In Table 3a, only instruments of the third category count as variable rate instruments.

Instruments swapped are to be classified according to their after-swap characteristics. For example, a fixed rate instrument swapped into a floating rate instrument would be recorded in the category for variable rate instruments.

7.3.17 AVERAGE MATURITY OF DEBT (ITEM 30)

This item is the average residual maturity (in years) weighted by the face value outstanding, in line with the definition used for the residual maturity breakdown. This measure captures, in a very simple way, various changes occurring in the structure of the debt.

In practice, the average maturity of the component for securities can be compiled precisely because security-by-security databases are often available. However, more complex calculations and estimation might be needed for consolidation since precise data on the maturity of holdings by government units might not be available.

The average maturity of coins along with transferable deposits is, by convention, zero. The average maturity of deposits transferable without notice is also, by convention, zero unless there are incentives to retain such deposits, resulting in a longer maturity in practice, when a suitable average maturity should be estimated.

The average maturity of loans takes into account the various dates associated with the regular reimbursement of loan principal where regular payments of interest and principal are made. The average maturity of overdrafts is, by convention, zero.

7.3.18 DEBT – ZERO COUPON REDEMPTION VALUE (ITEM 31)

This is the total face value of all medium/long-term zero coupon instruments. The face value of a zero coupon bond is the redemption value and not its issue value. Zero coupon instruments are instruments where the final payment is the only payment over the whole life of the instrument. By convention, only “zeros” of more than one year are reported here, so the item excludes Treasury bills. Zero coupon loans or deposits are also recorded here.

7.3.19 DEBT WITH RESIDUAL MATURITY OVER ONE YEAR

This is the sum of items 22 and 24. For the application of this rule to the different instruments, see the guidance given above for items 21 to 25.

Breakdown of consolidated Maastricht debt by sub-sector

7.3.20 SUB-SECTOR GOVERNMENT DEBT CONTRIBUTION (ITEMS 26 TO 29)

A sub-sector’s Maastricht debt contribution (component) refers to the relevant liabilities issued by the sub-sector which are not assets of that sub-sector, minus the assets held by that sub-sector in the form of debt issued by other general government sub-sectors. For instance, the central government contribution (3A/26) is equal to the liabilities of the central government which are not assets of the central government (3B/7), minus the holdings by central government of debt issued by units in other general government sub-sectors (3B/15).

The gross consolidated general government debt (3A/1) can be calculated by adding up the sub-sector contributions (3A, items 26, 27, 28 and 29) because these items already reflect the intra sub-sector consolidation.

8 GOVERNMENT GROSS DEBT – CONSOLIDATING ELEMENTS (TABLE 3B)

8.1 INTRODUCTION TO TABLE 3B

In Table 3a, Maastricht debt is shown consolidated, i.e. it excludes any government debt held as financial assets by government units. Table 3b by contrast shows unconsolidated government debt, which is often how information on debt is presented in public accounts. Unconsolidated debt includes debt issued by a sub-sector of general government and held in another sub-sector of general government, though in this context it excludes debt held within the issuing sub-sector. The consolidating elements in Table 3b reconcile the two by showing how much debt of other sub-sectors of general government each sub-sector holds, and how much of its own debt is held by other sub-sectors of *S.13*.

Gross debt means that no assets are offset against the debt. Net debt (as explained in Section 5.1.7) is calculated by subtracting financial assets from gross debt.

8.1.1 DEFINITION OF CONSOLIDATION FOR BALANCE SHEETS

The aim is to calculate the general government consolidated gross debt (Maastricht debt) which is the value of debt instruments issued by the general government sub-sectors that are held outside the general government sector. Tables 3a and 3b suggest two approaches.

Firstly, *consolidated Maastricht debt* (Table 3a, item 1) can be directly calculated by deducting the consolidating elements from the non-consolidated Maastricht debt. *Non-consolidated Maastricht debt* (Table 3b/1) is the sum of all debt instruments issued by the general government sub-sectors, excluding the liabilities held by the units of the issuing general government sub-sector. In other words, it is the sum of the consolidated debt of each sub-sector. In order to derive the *consolidating elements* for general government debt (Table 3b, item 2), Table 3b proposes three possible paths:

a) By adding the consolidating elements for each EDP instrument (Table 3b, items 3, 4, 5 and 6).

b) By adding the "debt issued by" each sub-sector "of which held by other government sub-sectors" (Table 3b, items 8, 10, 12 and 14). This corresponds to the value of debt instruments issued by for instance, central government that are assets of the other sub-sectors (state and local government and social security funds).

c) By adding the financial assets held by a sub-sector which are liabilities of other general government sub-sectors (Table 3b, memorandum items 15, 16, 17, 18), for example, the liabilities issued by state and local government and social security funds that are assets of central government. This third path is the one followed in the EDP reporting tables. It produces a different answer for each sub-sector but the same aggregate for *S.13* as a whole.

The second approach when calculating *consolidated Maastricht debt* (Table 3a, item 1) is linked to a path (c). This approach subtracts from each sub-sector's non-consolidated[44] debt (Table 3b, items 7, 9, 11, 13) the financial assets held by that sub-sector which are liabilities of other general government sub-sectors (Table 3b, items 15, 16, 17, 18). The result is the calculation of the sub-sector's Maastricht debt contribution[45] (Table 3a, items 26, 27, 28, 29). Maastricht consolidated debt (EDP debt) is the sum of these sub-sector contributions.

44 As defined in this context, meaning not consolidated between sub-sectors but consolidated within the sub-sector.

45 "Components" as denominated in the GFS Guideline (Table 3A, items 26, 27, 28, 29),

Table 12 showing relationships in Table 3b

		Financial liabilities by sub-sector				
Financial assets by sub-sector		Central Government	State Government	Local Government	Social Security Funds	General Government
	Central Government					Item 15
	State Government					Item 16
	Local Government					Item 17
	Social Security Funds					Item 18
	General Government	Item 7	Item 9	Item 11	Item 13	Item 2
	All other sectors [1]	Table 3a item 26	Table 3a item 27	Table 3a item 28	Table 3a item 29	Table 3a item 1
	Total [2]	Item 7	Item 9	Item 11	Item 13	Item 1

1) This line shows the contribution of each sub-sector to the consolidated general government debt, as shown in Table 3a (item 1).
2) This line shows the contribution of each sub-sector to the non-consolidated general government debt, as shown in Table 3b (item 1).

Table 3b General government gross debt – consolidating elements

Description	GFS Guideline item number Table 3B	Reporting table line number and relationships	ESA 95 codes[1]
Debt (gross non-consolidated debt between sub-sectors)	1	1 = 7+9+11+13	
Consolidating elements	2	2 = 3+4+5+6 = 8+10+12+14 = 15+16+17+18	
Consolidating elements by category			
Currency and deposits	3	3	*F.2*
Short-term securities	4	4	*F.331*
Long-term securities	5	5	*F.332*
Loans	6	6	*F.4*
Debt issued by central government (non-consolidated debt)	7	7	*non S.1311 / debt / S.1311*
of which held by other government sub-sectors	8	8	*S.13-S.1311 / debt / S.1311*
Debt issued by state government (non-consolidated debt)	9	9	*non S.1312 / debt / S.1312*
of which held by other government sub-sectors	10	10	*S.13-S.1312 / debt / S.1312*
Debt issued by local government (non-consolidated debt)	11	11	*non S.1313 / debt / S.1313*
of which held by other government sub-sectors	12	12	*S.13-S.1313 / debt / S.1313*
Debt issued by social security funds (non-consolidated debt)	13	13	*non S.1314 / debt / S.1314*
of which held by other government sub-sectors	14	14	*S.14-S.1314 / debt / S.1314*
Memorandum items			
Holdings by central government of debt issued by units in other government sub-sectors	15	15	*S.1311 / debt / S.13-S.1311*
Holdings by state government of debt issued by units in other government sub-sectors	16	16	*S.1312 / debt / S.13-S.1312*
Holdings by local government of debt issued by units in other government sub-sectors	17	17	*S.1313 / debt / S.13-S.1313*
Holdings by social security funds of debt issued by units in other government sub-sectors	18	18	*S.1314 / debt / S.13-S.1314*

1) In order to capture the counterpart sectors, the following convention is used: the creditor appears first, then the instrument and then the debtor. S.13 / F.331 / S.11 would mean an asset of GG (S.13), in short-term securities (F.331), issued by corporations (S.11).

8.2 TABLE 3B: FORMAT AND CONTENTS

This is the format and contents of the reporting table used by the ECB to collect GFS data from NCBs. The table shows the item numbers used in Table 3B of the GFS Guideline and the corresponding line numbers in the reporting table, as well as the relationships between the line numbers and item numbers.

8.3 LINE-BY-LINE ANALYSIS OF TABLE 3B

The item numbers below refer to Table 3B of the GFS Guideline unless otherwise stated.

8.3.1 GROSS DEBT (NON-CONSOLIDATED BETWEEN SUB-SECTORS) (ITEM 1)

Non-consolidated general government gross debt (meaning not consolidated between sub-sectors) is the sum of the non-consolidated[46] Maastricht debt of each sub-sector (Table 3B, items 7, 9, 11 and 13). The non-consolidated debt of a sub-sector for this purpose is the total of all relevant EDP liabilities (i.e. *AF.2, AF.33* and *AF.4*) issued by all units in that sub-sector, which are not assets of that sub-sector.[47] Valuation is at nominal value and follows the standard rules (see Section 7.1.4).

8.3.2 CONSOLIDATING ELEMENTS (ITEM 2)

The consolidating elements of government debt comprise all government liabilities in the relevant instruments (*AF.2, AF.33* and *AF.4*), valued according to nominal value, which are held by government units outside the sub-sector that has the liability. (Holdings of its own debt by a unit[48] are not recorded at all in the accounts (ESA 95, *7.68*); and, as noted earlier, holdings by other units in the issuing sub-sector are not recorded in this context even in the non-consolidated debt of that sub-sector.)

The consolidating elements of government debt can be broken down into ESA 95 categories:

- cross-deposits between government units, in particular local government (and social security fund) deposits held with the Treasury (which may be part of monetary aggregates);
- cross-lending between government units, in particular central government loans to local government (and social security funds) to finance investments, or advances of transfers in respect of taxes to be collected or received by those units later in the year. In the latter case, year-end amounts may be small relative to infra-annual amounts outstanding; and
- cross-holding of securities:
  - mainly holdings by social security funds in the form of Treasury bills, notes and bonds;
  - holdings of government securities by other government units; and
  - holdings of government agencies which intervene on the market to manage government debt and liquidity, when such agencies are not part of the unit that issues the debt.

This item does not cover securities issued by government which are acquired by government under a repo operation, because repos are considered as a collateralised loan of cash, not a transaction in securities.

The consolidating elements can be seen as either:

- the sum of all assets of each government sub-sector that are liabilities issued by government units (other than the unit which holds them); or

- the sum of all liabilities of each government sub-sector that are held by government units (other than the unit which holds them).

8.3.3 CONSOLIDATING ELEMENTS BY INSTRUMENT (ITEMS 3 TO 6)

The instrument breakdown here follows the same defintions as for Table 3a.

8.3.4 NON-CONSOLIDATED DEBT BY SUB-SECTOR (ITEMS 7, 9, 11 AND 13)

The non-consolidated[49] debt of a sub-sector is, for the purpose of this table, the total of all relevant liabilities issued by units of that sub-sector and held outside that sub-sector. Thus the non-consolidated debt of central government is equal to the liabilities of the central government

46 This is debt which is not consolidated between sub-sectors but is consolidated within the sub-sector.
47 In case of "net" recording, see Section 6.1.6.
48 i.e. where the financial asset and liability are held by the same institutional unit.
49 This is debt which is not consolidated between sub-sectors but is consolidated within the sub-sector.

which are not assets of the central government.

8.3.5 OF WHICH, HELD BY GOVERNMENT UNITS IN OTHER SUB-SECTORS (ITEMS 8, 10, 13 AND 14)

This is the total of all relevant government liabilities issued by units in the sub-sector (for example central government) and held by units in other government sub-sectors (in this case state and local government and social security funds).

8.3.6 HOLDINGS OF DEBT ISSUED BY UNITS IN OTHER GOVERNMENT SUB-SECTORS (ITEMS 15, 16, 17 AND 18)

These are the holdings of financial assets by the sub-sector (for example central government) that are liabilities of other government sub-sectors (in this case state and local government and social security funds).

9 COMPILATION OF AGGREGATES FOR THE EUROPEAN UNION AND EURO AREA

This chapter deals with the compilation of GFS aggregates for the European Union and the euro area. Three main issues are considered. The first is the aggregation method to be used for converting national series into a common currency, which is a general issue that goes beyond GFS. So far as data relating to Member States in the euro area are concerned, the problem is confined to years before 1999 (2001 for Greece, 2007 for Slovenia). The second is the extension of the consolidation principle to "cross-border" transactions between national governments. The third issue is the treatment of EU budget transactions.

9.1 AGGREGATION METHOD

This concerns the aggregation of economic statistics from different countries when they are expressed in different currencies the values of which change over time.

A number of papers have dealt with aggregation of series in the context of EMU,[50] presenting and comparing aggregation methods, in particular those based on constant, current and purchasing power parity (PPP) exchange rates. This chapter describes the method chosen for GFS: the constant real exchange rate method.

Two methods were considered.

a) Current exchange rate
Under this method the actual market exchange rate in the year would be used to aggregate national data. The problem with this method for producing a time series is that the volatility of exchange rates can distort significantly the analysis of the series.

b) Fixed exchange rate
Under this method the exchange rate in one chosen year would be used for all years. The problem with this method is that long-term differences in inflation rates in different countries can seriously distort the aggregated long-run time series by giving too little weight in earlier data to countries with higher inflation rates and currencies which have depreciated.

The advantage of the constant real exchange rate method is the elimination of the differences in the price levels among the countries involved in the conversion process. It means that the aggregated series are not distorted by erratic short-term movements in exchange rates, while it does take account of long-run differences in inflation rates. This constant real exchange rates method can be considered as a variant of the purchasing power parities (PPPs) method[51] used at the OECD (Organisation for Economic Co-operation and Development). PPPs are currency conversion rates that both convert to a common currency and equalise the purchasing power of different currencies.

9.1.1 CONSTANT REAL EXCHANGE RATE METHOD

The constant real exchange rate is calculated from the market exchange rate at a given point. The rates for other years adjust the base year exchange rate to reflect price inflation relative to the whole area. The measure of inflation used is the GDP deflator.

The method is applied in a different way for each of the aggregated zones. Thus:

a) Euro area 11 countries

The base for the exchange rate level is the irrevocable conversion rates on 31 December 1998.

b) Euro area 13 countries (the current composition)

50 In particular: Winder (1997), "On the construction of European area-wide aggregates: a review of the issues and empirical evidence", presented at the 51st session of the International Statistical Institute; Hong and Beilby-Orrin (1999), "Compilation Methodologies for Euro Zone Aggregates", OECD Working Papers. The question was extensively discussed in the EMI's Working Group on Statistics.

51 See Eun-Pyo Hong and Helen Beilby-Orrin, OECD working paper, August 1999.

The base for the exchange rate level is the irrevocable conversion rates on 31 December 1998 for the euro area 11 countries; on 31 December 2000 for Greece; and on 29 December 2006 for Slovenia.

More precisely,

where i refers to a country (variable without the suffix is for the whole euro area);

t is the year;

y^i_t is GDP at current prices, expressed in euro or ECUs[52]

y^{i*}_t is GDP at constant prices, expressed in euro or ECUs

p^i_t is the GDP deflator, such that $p^i_t = y^i_t / y^{i*}_t$

g^i_t is the growth in the GDP deflator, such that $g^i_t = p^i_t / p^i_{t-1}$

Aggregate growth in the GDP deflator = $\Sigma_i\, y^i_{t-1}\, g^i_t \,/\, \Sigma_i\, y^i_{t-1}$

Construct p_t, the aggregate GDP deflator index, such that $p_t \,/\, p_{t-1} = \Sigma_i\, y^i_{t-1}\, g^i_t \,/\, \Sigma_i\, y^i_{t-1}$

e^i_t is the constant real exchange rate in year *t* of the domestic currency of country i into the euro (or ECU before the introduction of the euro), such that 1 euro equals e^i_t domestic currency units

$e^i_t \;=\; e^i_{1999}\, p^i_t \,/\, p_t$

For example, suppose that in 1999 1 euro buys 10 national currency units (e^i_{1999}) and that in 1990 the national price index was half that of the average price index for the whole of the EMU (p^i_t / p_t). This implies faster inflation in that Member State than on average in the whole EMU, implying that the currency was worth more in the past than now relative to other EMU currencies. Under the method described above, the constant real exchange rate in 1990 would be equal to 10 * 0.5 = 5. In other words, the currency was worth twice as much in 1990 than in 1999 in terms of the euro/ECUs it would buy.

c) European Union 27 countries

The aggregation of EU-27 data is more difficult in the sense that not only the back data have to be converted into a common currency but the recent and current data as well because fourteen countries do not belong to the common currency zone. When aggregating EU-27 data over the years t_0 to t_n, the constant exchange rate to be used can be i) a yearly average of the nominal exchange rates in t_n, or ii) a yearly average of the nominal exchange rates in a given basis year, or iii) an average over the past years of the yearly average of the nominal exchange rates. The three EU-27 aggregation methods do not lead to significant differences in the final results. In order to take into account the latest developments in the Member States, the first method is applied at the ECB when compiling the EU-27 aggregates.

In the first alternative, the last year of statistics will be used as the reference year for the constant exchange rate and the past years will be projected back using the inflation differentials among the 27 countries.

When aggregating the GDP of the EU-27 area from 1995 to n (which is t-1), the real constant euro exchange rates are compiled by applying the inflation differentials among the 27 countries to the t-1 current annual exchange rates. These constant real euro exchange rates are then applied to the countries' GDPs in local currency (euro and national currency). By applying the constant real euro exchange rates to the GDPs in national currency, the GDPs in constant real euro are compiled and, therefore, the implicit weights calculated. Taking the nominal exchange rate of the last year for the aggregation of the EU-27 means that the aggregated data are affected by the latest developments in exchange rates vis-à-vis the euro.

52 GDP at current and constant prices is converted into euro or ECUs at the market rate in that year.

9.1.2 AGGREGATION OF STOCKS AND FLOWS

Financial assets and liabilities and non-financial assets can be measured both as flows in relation to a given period of time, and as stocks at a given point in time. Stocks and flows relate to each other according to the following expression:

$$S^i_t - S^i_{t-1} = f1^i_t + f2^i_t.$$

where S^i_t is the stock of financial liabilities of country i in year t, and $f1^i_t$ is the total financial transactions in those liabilities and $f2^i_t$ is total other flows in those liabilities.

The change in stocks is equal to the sum of two types of flows: those that result from transactions (f1) and those that do not (f2 e.g. holding gains and losses). Aggregating the stocks and flows of a number of countries gives the following derivation.

Difference between the sum of national stocks at the start of the year in the common currency (defined as S_t), and the sum of national stocks at the end of the year

$$= S_t - S_{t-1}$$

$$= \Sigma_i\, S^i_t / e^i_t - \Sigma_i\, S^i_{t-1}/e^i_{t-1}$$

$$= \Sigma_i\, (S^i_t / e^i_t - S^i_{t-1}/e^i_{t-1})$$

$$= \Sigma_i\, (S^i_t / e^i_t - S^i_{t-1}/e^i_{t-1}(e^i_{t-1}/e^i_t + 1 - e^i_{t-1}/e^i_t))$$

$$= \Sigma_i\, (S^i_t / e^i_t - S^i_{t-1}/e^i_t - S^i_{t-1}\, (1 - e^i_{t-1}/e^i_t)/\, e^i_{t-1})$$

$$= \Sigma_i\, ((S^i_t - S^i_{t-1})/e^i_t - S^i_{t-1}\, (e^i_t / e^i_{t-1} - 1) / e^i_t$$

$$= \Sigma_i\, ((S^i_t - S^i_{t-1})/e^i_t + S^i_{t-1}/e^i_t\, (1 - e^i_t/e^i_{t-1}))$$

$$= f1_t + f2_t + \Sigma_i\, S^i_{t-1}/e^i_t\, (1 - e^i_t/e^i_{t-1})$$

where $f1_t = \Sigma_i\, f1^i_t / e^i_t$, and similarly for f2.

Note that $\Sigma_i\, ((S^i_t - S^i_{t-1})/e^i_t = \Sigma_i\, (f1^i_t + f2^i_t)/\, e^i_t$ because of the initial identity $S^i_t - S^i_{t-1} = f1^i_t + f2^i_t$

This means that the difference between aggregated stocks (across countries) in the common currency does not equal the sum of the aggregated flows in the common currency. As shown above, the difference is $+\Sigma_i\, S^i_{t-1}/e^i_t\, (1 - e^i_t/e^i_{t-1})$. This is called the "aggregation effect". Its values can be seen in the ECB Monthly Bulletin Table 6.3.1, column 5. Note that the size of the effect depends on how close e^i_t/e^i_{t-1} is to 1. In other words, it depends on the stability of the constant real exchange rate over time.

9.2 CONSOLIDATION OF NATIONAL DATA

Cross-border transactions between national governments in the euro area and between governments and the EU budget are not at present consolidated in GFS (nor are they in ESA 95 or in the EDP data provided by Member States).

If they were consolidated, the rule in GFS would be that cross-border consolidation in the euro area should cover the same categories that are consolidated at the level of national governments. On the non-financial side, only interest (*D.41*), current transfers within government (*D.73*) and capital transfers (*D.9*) would be consolidated (see Section 2.1.5). On the financial side, all transactions, other flows and stocks (see Section 6.1.1) would be consolidated.

Within the European Union, non-financial transactions like current international co-operation and investment grants are not normally carried out between national governments, but instead take place through the EU budget. The transactions between governments of the euro area which would probably be the most important for consolidation are those related to holdings by one government (usually by the social security fund sub-sector) of liabilities issued by another government in the euro area, and the associated interest flows.

9.3 TREATMENT OF THE EUROPEAN UNION BUDGET

9.3.1 CONCEPTS

The transactions in the EU general budget have a similar economic impact on national economies as transactions carried out by national governments. For example, EU budget transactions include the levying of taxes, the paying of grants and the provision of services. They are therefore taken into account in the compilation of GFS EU and euro area aggregates, as explained in Section 1.3. They also affect ESA 95 national statistics, but there they are recorded as transactions between domestic institutional sectors and the rest of the world.

EU budget transactions are undertaken by EUIs which, it will be recalled, are treated statistically as resident in the European Union but not in the euro area and not in any individual Member State. It will also be recalled that the ECB and the EIB are classified as financial corporations, not as EUIs, and that their transactions are not part of the EU budget and so are not taken into account in GFS aggregates. Financial transactions carried out by EUIs are negligible, apart from movements in deposits.

It is useful to distinguish between two types of EU budget transaction.

Type I comprises transactions with individual Member States. On the revenue side, they comprise EU own resources like part of VAT, several types of customs duties[53] and other indirect taxes,[54] and the GNP-based fourth resource. The national accounts of Member States classify them as indirect taxes paid by residents to the rest of the world (institutions of the EU *(S.212)*), or, in the case of the fourth resource and payments in respect of the UK rebate, as miscellaneous current transfers (*D.75*) between the national government and the rest of the world. On the expenditure side, type I transactions comprise expenditure within the framework of the European Agricultural Guidance and Guarantee Fund (EAGGF) (e.g. on the CAP), the ERDF, the European Social Fund and the Cohesion Funds. National accounts record these mostly under subsidies (*D.3*) and capital transfers (*D.9*) as payments from the rest of the world to (non-government) residents, or as current international co-operation (*D.74*) in the case of EU current payments direct to national governments.

For most EU budget revenue and expenditure, national accounts therefore record transactions between national residents and the rest of the world. These non-financial transactions bypass the government sector, even though in most cases the national government acts as an agent in collecting or distributing the money on behalf of the institutions of the EU. Government operations as an agent of the EU budget show only as a financial transaction between government and the rest of the world (sector *S.212*), where they appear because of timing differences between government's cash payments and receipts in that agency role and EU budget payments and receipts recorded as non-financial transactions between the rest of the world and non-government residents.

Type I transactions make up the bulk of the EU budget, accounting for around 98% of revenue and 90% of expenditure.[55]

Type II transactions consist of transactions whose economic impact cannot be attributed to an individual Member State. They include current international co-operation with third countries appearing under EU budget headings external action or pre-accession aid (without counterparts in the national accounts of Member States); and administrative expenditure, such as compensation of employees and intermediate consumption. They also include some receipts in the EU budget such as direct taxes levied on employees of the EU institutions. The administrative expenditure, although not aimed at Member States, is included

53 For example, those levied on the basis of the Integrated Tariff of the EU and on agricultural goods.

54 For example, the levy on mining and steel-producing enterprises, sugar production levies, the tax on isoglucose and the co-responsibility taxes on milk and cereals.

55 1999 EU budget.

in their national accounts where the counterparts are resident units. The one exception is the payment made by the EU budget to each government for collecting EU own resources: this is treated as a type I transaction. Conceptually the treatment of EU budget transactions in the compilation of EU aggregates is straightforward. They are handled as if they related to an extra Member State. Both type I and type II transactions are included. Type I transactions which have national governments as counterparts are consolidated in the EU aggregates according to the usual consolidation rules for government revenue and expenditure described in other chapters of this Guide. This requires the elimination of any current transfers or capital transfers that have the national governments as a counterpart, such as the fourth resource. In contrast, the own resource collection costs, which are a sale of services by the national government to EU budget, are not consolidated because they are transactions in goods and services.

The aggregated government deficit for the European Union will be the sum of the deficits of EU Member States plus the balance resulting from EU budget revenue and expenditure. The EU budget is drawn up with the aim of balancing income and expenditure. Even if in practice the actual outturn deviates from balance,[56] the inclusion of EU budget revenue and expenditure tends to be of minor importance for the deficit of the European Union as a whole.

9.3.2 ACTUAL TREATMENT OF EU BUDGET IN GFS AGGREGATES

The GFS government expenditure and revenue aggregates for the euro area and European Union are simply the sums of the Member States' data, with an adjustment for net transactions with the EU budget as described below. Actual data on type II transactions are not used, but they are reflected in GFS total expenditure.

In Member States' GFS returns, net transactions with the EU budget are included within other current transfers receivable (item 18 table 1A) if there is a net receipt, or within other transfers payable (item 25 Table 1A) if there is a net payment. For aggregation purposes, the figures for net transactions with the EU budget are all included within other transfers payable. In effect, the aggregated figure for other current transfers payable includes the overall net[57] payments from governments to the EU budget.

It might be thought that this overall net payment should be zero since, across all Member States, payments to EU budget should equal receipts from EU budget, given that the EU budget is in balance. This is not the case because type II EU budget revenue and expenditure is not recorded in Member States' GFS tables.

The overall net payment figure is positive because the type II expenditure is greater than the unattributed EU budget revenue. It can be regarded as an indirect measure of the type II EU budget transactions, for which no data are collected by the GFS system, but which need to be included in the EU and euro area aggregates.

To summarise: the EU and euro area aggregates,[58] for each component of government revenue, expenditure, financial transactions, and debt, are simply the sum of the figures for each country from the GFS reporting tables, with two exceptions:

a) the aggregate of other current transfers receivable[59] is the sum of other current transfers receivable (item 18 of Table 1A) for each country, less the sum of all the positive entries in item 14 of Table 1B "net receipts from EU budget";

b) the aggregate of other current transfers payable[60] is the sum of other current transfers payable (item 25 Table 1A) for each country, less the sum of all the positive entries in item 14 in Table 1B "net receipts from EU budget".

56 The actual balances are carried forward to the following year.
57 Net of receipts from EU budget, as recorded in table 1B.
58 As for example shown in the ECB Monthly Bulletin section 6 tables.
59 Part of "current revenue" in Table 6.1.1 in the ECB Monthly Bulletin.
60 Part of "current transfers" within "current expenditure" in MoBu Table 6.1.2.

10 REFERENCES AND BACKGROUND INFORMATION

10.1 LEGAL BACKGROUND

The "Guideline on the statistical reporting requirements of the European Central Bank and the procedures for exchanging statistical information within the European System of Central Banks in the field of Government Finance Statistics" issued by the ECB on 17 February 2005 (ECB/2005/5) describes the data required from NCBs in the context of GFS. The amending GFS Guideline (ECB/2006/2) approved on 3 February 2006 changes the reporting deadline in the framework of the autumn transmission to "before 15 October".

10.2 OTHER PUBLISHED GUIDANCE AND MANUALS

System of National Accounts 1993 (SNA 93)
International guidance on the compilation of national accounts, published jointly by the UN, the World Bank, the European Commission, the IMF and the OECD. ISBN 92-1-161352-3.

European System of Accounts 1995 (ESA 95)
This is the national accounts manual for Europe, derived from and largely consistent with SNA 93, but with some additions for the context of the European Union. The EU Official Journal version includes the transmission programme which describes the tables that are required by the Commission. ISBN 92-827-7954-8.

ESA 95 manual on government deficit and debt, second edition
This provides further guidance on matters affecting the general government sector in national accounts. Published by Eurostat. ISBN 92-894-3231-4.

IMF Government Finance Statistics Manual 2001
This IMF publication defines the general government sector statistics to support fiscal analysis. ISBN 1-58906-061-X.

OECD's Revenue Statistics 2002
This explains the compilation of statistics on government revenue required by the OECD. It is useful for understanding differences between government revenue totals reported by OECD and GFS. ISBN 92-64-09885-2.

10.3 EDP NOTIFICATION TABLES

The following pages show the four tables for the EDP notification.[61] Each has been modified to show how it relates to the GFS tables. The EDP notification tables are sent to Eurostat by EU Member States at the end of March and at the end of September each year. Typically, national statistical offices with help from NCBs prepare data for outturn years, and the finance ministries prepare data for the current (forecast) year.

Notification Tables 1 and 3 have a reasonable correspondence with GFS. The main difference in notification Table 1 is that the government deficit and interest payments treat net settlement flows on swaps as interest as in *EDP B.9*, but, in GFS, *B.9* and interest are recorded as in national accounts unless otherwise stated. The relationship between notification Table 3A and GFS data is very good since it refers to financial data for the general government sector. However, notification Tables 3B to 3E show the detailed data for debt broken down by sub-sectors.[62]

Notification Table 2 does not correspond very much to the GFS tables since it considers the transition between the national definitions of

61 In accordance with Council Regulation (EC) 3605/93 as amended, the Statements contained in the Council minutes of 22/11/1993, and the Code of Best Practice adopted by the Ecofin Council of 18/02/2003. Set of reporting tables as endorsed by the CMFB on 26/06/2003.
62 Notification Table 3B (central government, S.1311); Table 3C (state government, S.1312); Table 3D (local government, S.1313) and Table 3E (social security funds, S.1314).

government balance and the deficit/surplus (*EDP B.9*) of each government sub-sector. This is the part that corresponds to how public accounts of "the state" are presented in each Member State. This varies depending on the extent to which extra-budgetary funds and other decentralised units within the government sub-sectors are brought within the presentations of public accounts and budgets. Furthermore, notification Tables 2 are broken down at the level of sub-sector.[63]

Notification Table 4 asks for descriptive data and GNP, which are not supplied in GFS.

63 Notification Table 2A (central government, *S.1311*); Table 2B (state government, *S.1312*); Table 2C (local government, *S.1313*) and Table 2D (social security funds, *S.1314*).

10.3.1 COMPARISON OF EDP NOTIFICATION TABLE 1 AND GFS

Table 13 Reporting of government deficits and debt levels and provision of associated data

(in accordance with the definitions and rules laid down in Council Regulation (EC) No 3605/93, as amended by Council Regulation (EC) No 475/2000 and by Commission Regulation (EC) No 351/2002 and the Code of Best Practice adopted by the Ecofin Council of 18/02/2003)

Member State: Data are in units of currency Date:	ESA 95 codes	Recording in the ECB's GFS tables (item numbers as in the GFS Guideline)
Net borrowing (-)/net lending (+)	*EDP B.9*	
General government	*S.13*	Table 1A, item 37
– Central government	*S.1311*	Table 1A, item 2, plus swaps[1)]
– State government	*S.1312*	Table 1A, item 3, plus swaps
– Local government	*S.1313*	Table 1A, item 4, plus swaps
– Social security funds	*S.1314*	Table 1A, item 5, plus swaps
General government consolidated gross debt		Table 3A, item 1
Level at nominal value outstanding at end of year		
By category:		
Currency and deposits	*AF.2*	Table 3A, item 2
Securities other than shares, excluding financial derivatives	*AF.33*	
Short-term	*AF.331*	Table 3A, item 3
Long-term	*AF.332*	Table 3A, item 4
Loans	*AF.4*	Loans split into loans from NCB and
Short-term	*AF.41*	others. Breakdown by maturity includes
Long-term	*AF.42*	all instruments, not just loans.
General government expenditure on:		
Gross fixed capital formation	*P.51*	Table 1A, item 34
Interest (consolidated)	*EDP D.41*	Table 1A, item 38
p.m.: Interest (consolidated)	*D.41 (uses)*	Table 1A, item 26
Gross domestic product at current market prices	*B.1*g*	Table 1A, item 42

(1) Please indicate status of data: estimated, half-finalised, final.
(2) Data for sub-sectors to be provided in accordance with an agreement reached in the Expert Group "Comparison of Budgets".
(3) Forecast of level of government debt to be provided by the Member States in accordance with Statement No 7 to the Council Minutes of 23/11/1993.

1) Items 43 to 46 are national accounts *B.9*, not *EDP B.9* which treats swaps differently.

10.3.2 COMPARISON OF EDP NOTIFICATION TABLE 2 AND GFS

Table 14 Provision of the data which explain the transitioon between the public accounts budget deficit and the government deficit – Tables broken down by sub-sector (Table 2A, 2B, 2C, 2D)

(in accordance with the definitions and rules laid down in Council Regulation (EC) No 3605/93, as amended by Council Regulation (EC) No 475/2000 and by Commission Regulation (EC) No 351/2002 and the Code of Best Practice adopted by the Ecofin Council of 18/02/2003)

Member State: Data are in units of currency Date:	**Recording in the ECB's GFS tables[1]** **(item numbers as in the GFS Guideline)**
Working balance in central government accounts (deficit(-)/surplus(+)) *(public accounts, please specify whether this working balance is cash-based)* Financial transactions included in the working balance	Not recorded
Loans, granted (+) Loans, repayments (-)	Table 2A, item 8, shows loans granted, net of repayments, for the whole general government sector
Equities, acquisition (+) Equities, sales (-)	Table 2A, item 9, shows the acquisition of equity, net of sales, for the whole general government sector
Other financial transactions (+/-) Other accounts receivable (+)/payable (-)	Table 2A, item 13 shows other financial transactions, including other accounts receivable (+) for the whole general government sector. Table 2A, item 22 includes other accounts payable (-).
Difference between interest paid (+) and interest accrued (-) (EDP D.41)	Table 2A, item 31, includes this difference
Net borrowing (+) or net lending (-) of state entities not part of central government	Not recorded
Net borrowing (-) or net lending (+) of other central government bodies	Not recorded
Other adjustments (+/-)	Not recorded
Net borrowing(-)/lending(+) of central government (S.1311) *(ESA 95 accounts)*	Table 1A, item 2, plus swaps

1) Financial transactions considered in EDP Table 2 may not be exactly the same to the amounts considered in GFS Table 2A. This is due to the fact that while the concept of financial transactions in EDP Table 2 is restricted to those transactions which are included in the working balances (from public accounts perspective), GFS Table 2 include financial transactions from national accounts perspective.

10.3.3 COMPARISON OF EDP NOTIFICATION TABLE 3 AND GFS

Table 15 Provision of the data which explain the contributions of the deficit/surplus and the other relevant factors to the variation in the government debt level – Tables broken down by sub-sector (Table 3B, 3C, 3D, 3E)

(in accordance with the definitions and rules laid down in Council Regulation (EC) No 3605/93, as amended by Council Regulation (EC) No 475/2000 and by Commission Regulation (EC) No 351/2002 and the Code of Best Practice adopted by the Ecofin Council of 18/02/2003)

Member State: Data are in units of currency Date:	**Recording in the ECB's GFS tables** **(item numbers as in the GFS Guideline)**
Net borrowing (+)/lending (-) (*EDP B.9*) of general government	Table 1A, item 37
(ESA 95 accounts)	
Net acquisition of financial assets (consolidated)	
Currency and deposits (*F.2*) (+/-)	Table 2A, item 5
Securities other than shares (*F.3*) (+/-)	Table 2A, item 6
Loans (*F.4*)	
Granted (+)	Table 2A, item 8 shows loans granted
Repayments (-)	net of loans repaid
Shares and other equity (F.5)	
Acquisitions (+)	Table 2A, item 9 shows acquisitions of equity less sales
Sales (-)	of equity
Other financial assets (*F.1, F.62* and *F.7*) (+/-)	Table 2A, item 13
Adjustments (consolidated)	
Net incurrence of liabilities in financial derivatives (*F.34*) (-/+)	Table 2A, item 19
Net incurrence of other liabilities (*F.62* and *F.7*) (-/+)	Table 2A, item 22
Appreciation(+)/depreciation(-) of foreign currency debt*	Table 2A, item 30[1)]
Issuance above (-)/below (+) par	Table 2A, item 31
Difference between interest accrued (*EDP D.41*) (-) and interest paid (+) and capital uplift (+/-)	
Redemptions of debt above (+)/below (-) par	
Changes in sector classification (*K.12.1***) (+/-)	Table 2A, item 32[2)]
Other volume changes in financial liabilities (*K.7***, *K.8***, *K.10***) (-)	
Statistical discrepancies	
Difference between financial and capital accounts (+/-)	Table 2A, item 2
Other statistical discrepancies (+/-)	Not recorded[3)]
Change in government consolidated gross debt (2)	Table 2A, item 33

Please note that the sign convention for net borrowing/net lending is different from tables 1 and 2.

* Due to exchange rate movements and to swap activity.
** Only concerning liabilities AF.2, AF.33 and AF.4. At face value.
(1) Please indicate the status of the data: estimated, half-finalised, final.
(2) A positive entry in this row means that nominal debt increases, a negative entry that nominal debt decreases.

1) Assumes that the notification table figure is based on the face value of the foreign currency debt.
2) Assumes that the other volume changes recorded in the notification table are at face value.
3) Nevertheless, statistical discrepancies *per se* are covered in Table 2A, item 2.

10.3.4 COMPARISON OF EDP NOTIFICATION TABLE 4 AND GFS

Table 16 Provision of other data in accordance with the Statements to the Council Minutes of 22/11/1993

Statement Number	Member State: **Data are in units of currency** Date:	**Recording in the ECB's GFS tables (item numbers as in the GFS Guideline)**
2	Trade credits and advances (*AF.71 L*)	Table 2A, item 12, part
3	Amount outstanding in the government debt from the financing of public undertakings	Not recorded
	Data:	
	Institutional characteristics:	
4	In case of substantial differences between the face value and the present value of government debt, please provide information	
	i) the extent of these differences:	Not recorded
	ii) the reasons for these differences:	Not recorded
10	Gross National Income at current market prices (*B.5*g*)(2)	Not recorded, GFS ask for GDP (*B.2*)
	(1) Please indicate status of data: estimated, half-finalised, final.	
	(2) Data to be provided in particular when GNI (also known as GNP) is substantially greater than GDP.	

10.4 IMF GOVERNMENT FINANCE STATISTICS

10.4.1 BACKGROUND TO IMF GFS

The International Monetary Fund (IMF) collects annual GFS data, as well as higher frequency data, from most countries of the world. The statistics are collected through its GFS Yearbook Questionnaire[64] which consists of a series of reporting tables covering:

Statement I	Statement of Government Operations
Statement II	Statement of Sources and Uses of Cash
Table 1	Revenue
Table 2	Expense
Table 3	Transactions in Assets and Liabilities
Table 4	Holding Gains and Losses in Assets and Liabilities
Table 5	Other Changes in the Volume of Assets and Liabilities
Table 6	Balance Sheet
Table 7	Outlays by Functions of Government
Table 8	Transactions in Financial Assets and Liabilities by Sector
Table 9	Total Other Economic Flows in Assets and Liabilities
Annex 1	Consolidation Table
Annex 2	Integrated Statement of Flows and Stocks in Assets and Liabilities

The methodology is described in the GFSM 2001.[65]

10.4.2 SIMILARITIES BETWEEN ECB GFS AND IMF GFS

Both IMF GFS and ECB GFS are based on the framework for national accounts (SNA 93 and ESA 95), but there are still some differences. For example, IMF GFS value all assets and liabilities at their current market value.

The diagram in Section 10.4.4, from the IMF GFS Manual, shows the structure of accounts in IMF GFS. The basic principle is that a change in the balance sheet can be explained by transactions and other flows; this is also true for ESA 95 from which ECB GFS are derived. The concept of net lending/borrowing, as the balance of both the financial account and non-financial accounts, is also common to both systems, although the values will differ.

64 The IMF GFS Yearbook can be found at http://www.imf.org/external/pubs/ft/gfs/manual/quest97.xls.
65 This can be found at http://www.imf.org/external/pubs/ft/gfs/manual/.

As discussed in Section 2.1.4, national accounts show current transactions in five different accounts, each with a balance such that there is no obvious concept of total revenue and expenditure. Council Regulation No 1500/2000 appended ESA 95 to define such concepts and this is the basis of the ECB GFS tables. IMF GFS are similar to ECB GFS in that they have just one "revenue and expense" account. In both presentations each item of revenue and expense is generally recorded once and is a transaction with a non-government unit. This means for example that neither of the GFS systems shows final consumption as an item of expenditure (but it can be shown as a memo item).

10.4.3 DIFFERENCES BETWEEN ECB GFS AND IMF GFS

The differences can be grouped as follows:

10.4.3.1 Instances where IMF GFS do not follow ESA 95 methodology

IMF treats unfunded pension schemes operated by employers differently from national accounts in that it does not record social contributions and social benefits, but does record financial transactions for them. This has the effect of reducing IMF GFS total revenue and expenditure compared with ECB GFS. Also it means that IMF GFS record a balance sheet liability for government employee unfunded pension schemes. ESA 95 does not.

IMF does not impute earning on foreign direct investment (ESA 95 category *D.43*).

10.4.3.2 The boundary of activity

ECB GFS include EU transactions as well as those of general government. IMF GFS cover general government only.

10.4.3.3 Level of detail

IMF GFS collect more information than ECB GFS and consequently, in some instances, they collect a finer breakdown than in ECB GFS. In many cases the extra detail is not defined by separate ESA 95 categories.

For example, the breakdown of taxes for IMF GFS is more detailed than ESA 95 and follows closely the presentation in the OECD's Revenue Statistics.

IMF GFS collect information on the sub-sectors of general government but combine the ESA 95 social security fund sector with the central government and define sub-sectors of government (budgetary accounts and non-budgetary accounts) that are not defined in ESA 95.

IMF GFS show full reconciliation of transactions, other flows and balance sheets at market value. ECB GFS show this reconciliation only for the main items of government debt in total, and show the stock of debt at face value.

10.4.3.4 Definition of expenditure and revenue

IMF GFS define total revenue and expenditure in terms of national accounts categories. There are some differences compared with ECB GFS. For example, unlike ECB GFS, IMF GFS do not show expenditure on output for own final use as both current (included for example in wages and other costs of production) and capital expenditure; it appears just once as capital expenditure, and accordingly does not reduce government net worth.

IMF GFS measure sales when goods are sold, but ECB GFS record them when they are produced. Both systems record the net acquisition of finished goods, and work in progress, in inventories in the capital account. To correct this double-counting (the sale of goods from stock is recorded in sales and inventories) in IMF GFS, the sales from stock are netted off the item for expenditure on goods and services.

10.4.3.5 Consolidation of non-financial transactions

IMF GFS require consolidation of all non-financial transactions including those that the ECB GFS do not consolidate, such as taxes and the sale of goods and services.

10.4.3.6 Choice of balancing items

The balance of revenue and expense in IMF GFS is called the net operating balance, which is comparable to *B.10.1* in national accounts ("Changes in net worth due to saving and capital transfers"). ECB GFS show the balance "gross saving" which is before the impact of capital grants and capital taxes. In both systems the balance of the capital account, and of the financial account, is the same – net lending/net borrowing.

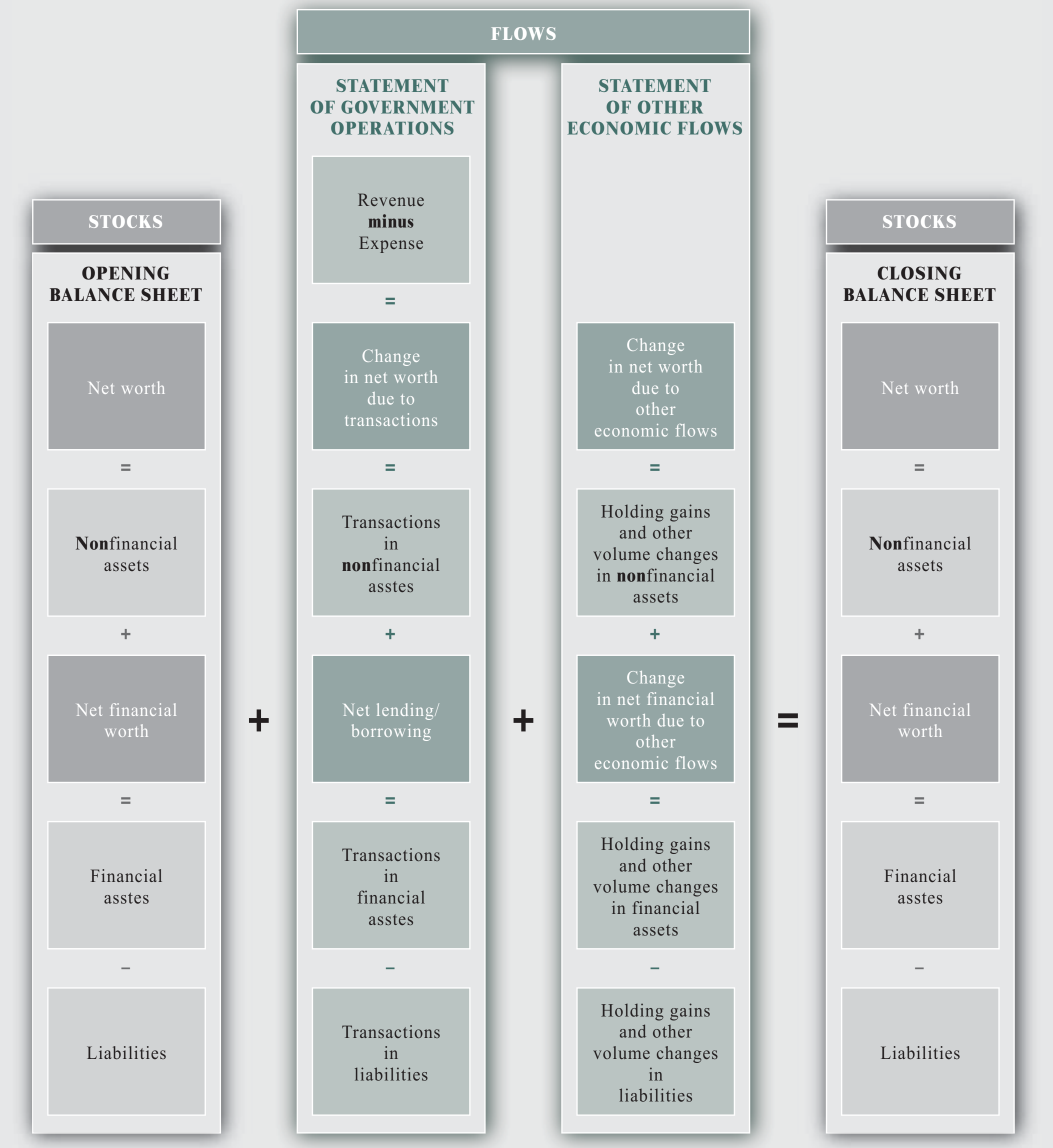
Table 17 IMF GFS: balancing items

IMF GFS Statement of Government Operations	Comparison with ESA 95
Transactions affecting net worth	
Revenue	
Taxes	
social contributions	IMF excludes contributions to employee pension schemes
Grants	IMF includes current and capital grants
other revenue	IMF includes sales of goods from stock
Expense	
Compensation of employees	IMF excludes output for own final use
use of goods and services	IMF excludes output for own final use
Consumption of fixed capital	IMF includes depreciation in market and non-market establishments, but excludes output for own final use
Interest	
Subsidies	
Grants	IMF includes current and capital grants
social benefits	IMF excludes employee pensions
other expense	
net / gross operating balance	
Transactions in non-financial assets	
Net acquisition of non-financial assets	
fixed assets	
change in inventories	
Valuables	
non-produced assets	
Net lending / borrowing	
Transactions in financial assets and liabilities	
Net acquisition of financial assets	
Domestic	
Foreign	
Net incurrence of liabilities	
Domestic	IMF includes employee pensions
Foreign	

10.4.4 STRUCTURE OF ACCOUNTS CHART

This diagram shows the structure of accounts in IMF GFS. The basic principle is that a change in the balance sheet can be explained by transactions and other flows.

Chart 2 Structure of accounts in IMF GFS



[1] The basic principle is that a change in the balance sheet can be explained by transactions and other flows.

11 LIST OF ABBREVIATIONS

CAP	Common Agricultural Policy
CG	Central government
CMFB	Committee on Monetary, Financial and Balance of Payments Statistics
COFOG	Classification of the Functions of Government
DDA	Deficit-debt adjustment
EAGGF	European Agricultural Guidance and Guarantee Fund
EC	European Community
ECB	European Central Bank
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EDP	Excessive deficit procedure
EFC	Economic and Financial Committee
EIB	European Investment Bank
EMU	Economic and Monetary Union
ERDF	European Regional Development Fund
ESA 79	European System of Accounts 1979
ESA 95	European System of Accounts 1995
ESCB	European System of Central Banks
EU	European Union
EUI	European Union Institution
EURIBOR	Euro interbank offered rate
FRA	Forward rate agreement
GDP	Gross domestic product
GFS	Government Finance Statistics
GFSM 2001	IMF Government Finance Statistics Manual 2001
GG	General government
GGBR	General government borrowing requirement
GNI	Gross national income
GNP	Gross national product
IMF	International Monetary Fund
ISWGNA	Inter-Secretariat Working Group on National Accounts
LG	Local government
MBS	Money and Banking Statistics
MFI	Monetary financial institution
MoF	Ministry of finance
NAWP	National Accounts Working Party
NCB	National central bank
NPISHs	Non-profit institutions serving households
NSI	National statistical institute
OJ	Official Journal (of the European Union)
OECD	Organisation for Economic Co-operation and Development
PFR	Public Finance Report
PPP	Purchasing power parity
RoW	Rest of the world
SDR	Special drawing right
SNA 93	System of National Accounts 1993
SG	State government

SS	Social security (funds)
TARGET	Trans-european Automated Real-time Gross settlement Express Transfer system
TFHPSA	Task Force on Harmonization of Public Sector Accounting
UMTS	Universal Mobile Telecommunications System
VAT	Value added tax

12 ECB REPORTING TABLES AND RELATIONSHIPS

12.1.1 TABLE 1A: GOVERNMENT REVENUE AND EXPENDITURE

Table 1a

Description	Guideline item number Table1A	Reporting table line number and relationships	ESA 95 codes (U = uses, R = resources)
Deficit (-) or surplus (+)	1	1 = 2-5	*B.9*
Total government revenue	7	2 = 3+4	
Total current revenue	9	3 = 11	
Total capital revenue	31	4 = 37	
Total government expenditure	8	5 = 6+7	
Total current expenditure	21	6 = 24	
Total capital expenditure	33	7 = 39	
Primary deficit (-) or surplus (+)	6	8 = 9+10	*B.9 + D.41U*
Deficit (-) or surplus (+)	1	9 = 1	
Interest payable	26	10 = 31	*D.41 U (consolidated)*
Total current revenue	9	11 = 12+15+ 18+21+23	
Direct taxes	10	12	*D.5 R*
payable by enterprises (*S.11+S.12*)	11	13	
payable by households (*S.14+S.15*)	12	14	
Indirect taxes	13	15	*D.2 R + D.2 received by EU budget (item 2 of Table 1B)*
VAT	14	16	*D.211 R + D.211 received by EU budget (item 3 of table 1B)*
taxes on energy	-	17	
Social contributions	15	18	*D.61 R*
employers' actual social contributions	16	19	*D.6111 R*
employees' social contributions	17	20	*D.6112 R*
Other current transfers receivable	18	21	*-D.39 U + D.41 R (consolidated) + D.42 R + D.43 R+ D.45 R + D.72 R + D.74 R – (D.74+D.75) received by GG from EU budget (item 10 of Table 1B) +D.75 R + net receipts from EU budget (item 14 of Table 1B), if positive*
interest receivable	19	22	*D.41 R (consolidated)*
Sales	20	23	*P.11 R + P.12 R + P.131*
Total current expenditure	21	24 = 25+31+32+35	
Current transfers	22	25 = 26+29+30	
Social payments	23	26	*D.62 U +(D.75 U to NPISHs) + D.6311 + D.63121 + D.63131*
old age pensions (COFOG 10.2)	-	27	
unemployment benefits (COFOG 10.5)	-	28	
Subsidies payable	24	29	*-D.3 R - D.3 R paid by EU Budget (item 9 of Table 1B)*
Other current transfers payable	25	30	*D.29 U + D.45 U + D.5 U + D.71 U + D.74 U + D.75 U - (D.75 to NPISHs) + D.75 paid by EU Budget to non-government (item 11 of Table 1B) - D.74paid to EU budget by GG (item 4 of Table 1B) – D.75 paid to EU budget (item 5 of table 1B) – net receipts from the EU budget (item 14 of table 1B, if negative)*
Interest payable	26	31	*D.41 U (consolidated)*
Compensation of employees	27	32	*D.1 U*
employers' actual social contributions	-	33	*D.121 U*
Of which wages and salaries	28	34	*D.11*
Intermediate consumption	29	35	*P.2 U*
Gross saving	30	36 = 11-24	

Table 1a (cont'd)

Description	Guideline item number Table1A	Reporting table line number and relationships	ESA 95 codes (U = uses, R = resources)
Total capital revenue	31	37	*D.9 receivable (consolidated) - D.9 received by GG from EU Budget (item 12 of Table 1B)*
Of which capital taxes	32	38	*D.91 R*
Total capital expenditure	33	39 = 40+41+42	
Investment	34	40	*P.51 U*
Other net acquisitions of non-financial assets	35	41	*P.52 U + P.53 U + K.2 U*
Capital transfers payable	36	42	*-D.9 payable (consolidated) - D.9 received by non-government from EU Budget (item 13 of Table 1B) + D.9 payable by GG to EU Budget (minus item 7 of Table 1B)*
Deficit (-) or surplus (+) by sub-sector	1	43 = 44+45+46+47	
Central government (S.1311)	2	44	
State government (S.1312)	3	45	
Local government (S.1313)	4	46	
Social security funds (S.1314)	5	47	
Memorandum items			
EDP deficit (-) or surplus (+) including UMTS proceeds and settlements under swaps and FRAs	37	item 15 of Table 1c [1c.15] = [1c.12] + [1a.13] - [1a.14]	*EDP B.9*
EDP interest payable Interest including net settlements under swaps and FRAs	38	item 14 of Table 1c	*EDP D.41*
Proceeds from the sales of UMTS licences	39	item 16 of Table 1c	
Actual social contributions	40	48	*D.611*
Social benefits other than social transfers in kind	41	49	*D.62*
Gross Domestic Product	42	item 21 of Table 1c	
Gross Domestic Product at constant prices	43	item 22 of Table 1c	
Government investment at constant prices	44	item 23 of Table 1c	*P.51 (volume)*

Subsidies: note that in national accounts subsidies paid by government are treated as a negative resource, and subsidies received are a negative use, which is why subsidies are shown with minus signs in this table.
Capital transfers paid: note that in national accounts capital transfers payable are recorded as a negative number, which is why capital transfers payable are shown with minus signs in this table (or with a positive sign when the capital transfer has to be deducted from the item total).

12.1.2 TABLE 1B: IMPACT OF EU BUDGET TRANSACTIONS ON REVENUE AND EXPENDITURE

Table 1b

Description	GFS Guideline item number Table 1B	Reporting table line number and relationships	ESA 95 codes
Payments by Member State to EU budget	1	1 = 2+4+5+7	
Indirect taxes received by EU budget	2	2	*D.2*
of which VAT received by EU budget	3	3	*D.211*
Current international co-operation paid by government to EU budget	4	4	*D.74*
Miscellaneous current transfers paid by government to EU budget	5	5	*D.75*
of which EU fourth own resource	6	6	
Capital transfers paid by government to EU budget	7	7	*D.9*
EU expenditure in Member State	8	8 = 9+10+11+12+13	
Subsidies paid by EU budget	9	9	*D.3*
Current transfers paid by EU budget to government	10	10	*D.74+D.75*
Current transfers paid by EU budget to non-government	11	11	*D.75*
Capital transfers paid by EU budget to government	12	12	*D.9*
Capital transfers paid by EU budget to non-government	13	13	*D.9*
Net receipts from EU budget (the Member State is a net receiver +, net payer -)	14	14 = 8-1	
Memo: *Own resources collection costs*	15	15	*P.11*
Memo: *Net receipts from pre-acceding programmes*	16	16	
Memo: *Net receipts from pre-acceding programmes paid by government*	17	17	

12.1.3 TABLE 1C: GENERAL GOVERNMENT FINAL CONSUMPTION

Table 1c

Description	Guideline item number Table 1C	Reporting table line number and relationships	ESA 95 codes (U = uses, R = resources)
Final consumption expenditure	1	1 = 2+3 = 4+5+6+7+8+9-10	*P.3 = P.31 + P.32*
Individual consumption expenditure of GG	2	2	*P.31*
Collective consumption expenditure of GG	3	3	*P.32*
Compensation of employees	4	4 = item 32 of Table 1a	*D.1*
Intermediate consumption	5	5 = item 35 of Table 1a	*P.2*
Social transfers in kind via market producers	6	6	*D.6311 + D.63121 + D.63131*
Consumption of fixed capital	7	7	*K.1*
Taxes on production paid minus subsidies received	8	8	*D.29 U + D.39 U*
Net operating surplus	9	9	*B.2n*
Sales	10	10 = item 23 of Table 1a	*P.11 + P.12 + P.131*
Memorandum items			
Memo: Final consumption expenditure at constant prices	11	11	*P.3 (volume)*
Memo: ESA 95 deficit (-) or surplus (+)	1A.1	12 = item 1 of Table 1a	
Memo: Interest payable	1A.26	13 = item 10 of Table 1a	
Memo: EDP interest payable (interest including settlements under swaps and FRAs)	1A.38	14	*EDP D.41*
Memo: EDP deficit (-) or surplus (+) including UMTS proceeds and settlements under swaps and FRAs	1A.37	15 = 12+13-14	*EDP B.9*
Memo: UMTS proceeds	1A.39	16	
Memo: Total capital expenditure excluding UMTS proceeds	-	17 = [1a.7]+16	
Memo: ESA 95 deficit (-) or surplus (+) excluding UMTS proceeds and settlements under swaps and FRAs	-	18 = 12-16	
Memo: Government debt	3A.1	19	
Memo: Fiscal burden	-	20 = [1a.12] + [1a.15] + [1a.18] + [1a.38]	
Memo: GDP ESA 95 (Gross Domestic Product)	1A.42	21	
Memo: GDP ESA 95 at constant prices	1A.43	22	
Memo: Government investment at constant prices	1A.44	23	*P.51 (volume)*

Subsidies: note that in national accounts subsidies paid by government are treated as a negative resource, and subsidies received are a negative use. So when subsidies are shown in this table with a positive sign in this table it means they are deducted.
UMTS sales are treated as sales of a capital asset, and consequently as negative capital expenditure.

12.1.4 TABLE 2A: GENERAL GOVERNMENT DEFICIT AND ITS FINANCING

Table 2a

Description	Guideline item number Table 2A	Reporting table line number and relationships	ESA 95 codes[1)]
Deficit (-) or surplus (+)	1	1 = [1a.1]	*B.9*
Adjustment between financial and non-financial accounts	2	2 = 1-3	*B.9 - B.9f*
Net transactions in financial assets and liabilities	3	3 = 4-15	*B.9f*
Transactions in financial assets (consolidated)	4	4 = 5+6+7+8+9+13	
Transactions in currency and deposits (including repos)	5	5	*F.2*
Transactions in securities other than shares (short and long-term)	6	6	*F.331 + F.332*
Transactions in financial derivatives	7	7	*F.34*
Transactions in loans	8	8	*F.4*
Transactions in shares and other equity	9	9 = 10+11+12	*F.5*
Privatisation	10	10	*S.13 / F.5 / (S.11001 + S.12x01) / other than (S.11001 + S.12x01)*
Equity injections	11	11	*S.13 / F.5 / (S.11001 + S.12x01) / (S.11001 + S.12x01)*
Other transactions in shares and other equity	12	12	*S.13 / F.5 / other than (S.11001 + S.12x01)*
Transactions in other financial assets (consolidated)	13	13	*F.1 + F.6 + F.7*
of which accrued taxes and social contributions minus tax and social contributions receipts	14	14	
Transactions in liabilities (consolidated)	15	15= 16+17+18+19+ 20+22	
Transactions in currency and deposits (including repos)	16	16	*F.2*
Transactions in securities other than shares (short -term)	17	17	*F.331*
Transactions in securities other than shares (long-term)	18	18	*F.332*
Transactions in financial derivatives	19	19	*F.34*
Transactions in loans	20	20 = 21 + 34	*F.4*
of which loans from central bank	21	21	*S.121/F.4/S.13*
Transactions in other liabilities (consolidated)	22	22	*F.6 + F.7*
Transactions in debt instruments (consolidated) = General Government Borrowing Requirement (GGBR)	23	23 = 16+17+18+20 23 = 25+26+27 23 = 2-1+4-19-22	*F.2 + F.33 + F.4*
Transactions in long-term debt instruments	24	24	
Transactions in debt instruments denominated in domestic currency	25	25	
Transactions in debt instruments denominated in participating foreign currency[2)]	26	26	
Transactions in debt instruments denominated in non-participating foreign currency[2)]	27	27	
Other flows	28	28 = 29+32	
Valuation effects on Maastricht debt	29	29 = 30+31	*K.11 (part) in liabilities AF.2 + AF.33 + AF.4*
Foreign exchange holding gains and losses	30	30	
Other valuation effects – face value	31	31	
Other changes in volume of debt	32	32	*K.7 + K.8 + K.10 + K.12.1 + K.12.2 in liabilities AF.2 + AF.33 + AF.4*
Change in debt	33	33 = 23+28 33 = 2-1+4-19-22+28	
Memorandum items			
Transactions in loans (liabilities), of which other loans	-	34	
Privatisation proceeds allocated to debt redemption	-	35	
UMTS proceeds allocated to debt redemption	-	36	

1) In order to capture the counterpart sectors, the following convention is used: the creditor appears first, then the transaction, then the debtor and then the transactor. *S.13 / F.331 / S.11 / S.14* would mean an acquisition (or sale) by GG (*S.13*), the new creditor, of a short-term security (*F.331*) that is a debt of a corporation (*S.11*) sold to GG by the household sector (S.14), the previous creditor.
2) A participating foreign currency is the former currency of a country which now forms part of the euro area, but not the currency of the country to which the data relate. A non-participating foreign currency is the currency of an EU Member State outside the euro area or a country outside the EU.

12.1.5 TABLE 2B: TRANSACTIONS IN MAASTRICHT DEBT – CONSOLIDATION

Table 2b

Description	Guideline item number Table 2B	Reporting table line number and relation-ships	ESA 95 codes[1)]
Transactions in Maastricht debt instruments (non-consolidated)	1	1 = 2+3+4+5+6 = 7+ [2A.23]	
Transactions in currency and deposits	2	2	*F.2*
Transactions in short-term securities	3	3	*F.331*
Transactions in long-term securities	4	4	*F.332*
Transactions in loans from central bank	5	5	*S.121 / F.4 / S.13*
Transactions in other loans	6	6	*(Other than S.121) / F.4 / S.13*
Consolidating transactions[2)]	7	7 = 8+9+10+11	
Currency and deposits	8	8 = 2–[2A.16]	*F.2*
Short-term securities	9	9 = 3–[2A.17]	*F.331*
Long-term securities	10	10 = 4–[2A.18]	*F.332*
Loans	11	11= 6-([2A.20]-[2A.21])	*F.4 / S.13*

1) In order to capture the counterpart sectors, the following convention is used: the creditor appears first, then the transaction, then the debtor and then the transactor. S.13 / F.331 / S.11 / S.14 would mean an acquisition (or sale) by GG (S.13), the new creditor, of a short-term security (F.331) that is a debt of a corporation (S.11) sold to GG by the household sector (S.14), the previous creditor.
2) Transactions in financial assets which are Maastricht debt instruments = acquisitions of assets by government units which are liabilities of (other) government units, minus sales of such assets.

12.1.6 TABLE 3A: GENERAL GOVERNMENT GROSS DEBT

Table 3a

Description	GFS Guideline item number Table 3A	Reporting table line number and relationships	ESA 95 codes[1]
Gross consolidated debt	1	1 = 2+3+4+5+6 = 7+12 = 15+16+17 = 21+22+24 = 26+27+28+29 = [3B.1]-[3B.2]	
Debt – currency and deposits	2	2	*F.2*
Debt – short-term securities	3	3	*F.331*
Debt – long-term securities	4	4	*F.332*
Debt – loans from central bank	5	5	*S.121 / F.4 / S.13*
Debt – other loans	6	6	*Other than S.121 / F.4 / S.13*
Debt held by residents of the Member State	7	7 = 8+9+10+11	
Debt held by central bank	8	8	*S.121*
Debt held by other monetary financial institutions	9	9	*S.122*
Debt held by other financial institutions	10	10	*S.123 + S.124 + S.125*
Debt held by other residents	11	11	*S.11 + S.14 + S.15*
Debt held by non-resident of the Member State	12	12 = 13+14	*S.2*
Debt held by non-resident inside euro area	13	13	*S.21 ((part))*
Debt held by non-resident outside euro area	14	14	
Debt denominated in domestic currency	15	15	*F.2 + F.33 + F.4*
Debt denominated in a participating foreign currency	16	16	
Debt denominated in a non-participating foreign currency	17	17	
Short-term debt	18	18	*F.2 + F.33 + F.4*
Long-term debt	19	19	
Of which variable interest rate	20	20	
Debt with residual maturity up to 1 year	21	21	*F.2 + F.33 + F.4*
Debt with residual maturity between 1 and 5 years	22	22	
of which variable interest rate	23	23	
Debt with residual maturity over 5 years	24	24	
of which variable interest rate	25	25	
Central government debt contribution	26	26 = [3B.7]-[3B.15]	*non S.13 / debt / S.1311*
State government debt contribution	27	27 = [3B.9]-[3B.16]	*non S.13 / debt / S.1312*
Local government debt contribution	28	28 = [3B.11]-[3B.17]	*non S.13 / debt / S.1313*
Social security funds debt contribution	29	29 = [3B.13]-[3B.18]	*non S.13 / debt / S.1314*
Memorandum items			
Average residual maturity of debt	30	30	*F.2 + F.33 + F.4*
Debt – zero coupon bonds (redemption value)	31	31	*F.332*
Debt with residual maturity over 1 year	-	32 = 22+24	

1) In order to capture the counterpart sectors, the following convention is used: the creditor appears first, then the transaction, then the debtor and then the transactor. *S.13 / F.331 / S.11 / S.14* would mean an acquisition (or sale) by GG (*S.13*), the new creditor, of a short-term security (*F.331*) that is a debt of a corporation (*S.11*) sold to GG by the household sector (*S.14*), the previous creditor.

12.1.7 TABLE 3B: GENERAL GOVERNMENT GROSS DEBT – CONSOLIDATING ELEMENTS

Table 3b

Description	GFS Guideline item number Table 3B	Reporting table line number and relationships	ESA 95 codes[1]
Debt (gross non-consolidated debt between sub-sectors)	1	1 = 7+9+11+13	
Consolidating elements	2	2 = 3+4+5+6 = 8+10+12+14 = 15+16+17+18	
Consolidating elements by category			
Currency and deposits	3	3	*F.2*
Short-term securities	4	4	*F.331*
Long-term securities	5	5	*F.332*
Loans	6	6	*F.4*
Debt issued by central government (non-consolidated debt)	7	7	*non S.1311 / debt / S.1311*
of which held by other government sub-sectors	8	8	*S.13-S.1311 / debt / S.1311*
Debt issued by state government (non-consolidated debt)	9	9	*non S.1312 / debt / S.1312*
of which held by other government sub-sectors	10	10	*S.13-S.1312 / debt / S.1312*
Debt issued by local government (non-consolidated debt)	11	11	*non S.1313 / debt / S.1313*
of which held by other government sub-sectors	12	12	*S.13-S.1313 / debt / S.1313*
Debt issued by social security funds (non-consolidated debt)	13	13	*non S.1314 / debt / S.1314*
of which held by other government sub-sectors	14	14	*S.14-S.1314 / debt / S.1314*
Memorandum items			
Holdings by central government of debt issued by units in other government sub-sectors	15	15	*S.1311 / debt / S.13-S.1311*
Holdings by state government of debt issued by units in other government sub-sectors	16	16	*S.1312 / debt / S.13-S.1312*
Holdings by local government of debt issued by units in other government sub-sectors	17	17	*S.1313 / debt / S.13-S.1313*
Holdings by social security funds of debt issued by units in other government sub-sectors	18	18	*S.1314 / debt / S.13-S.1314*

1) In order to capture the counterpart sectors, the following convention is used: the creditor appears first, then the transaction, then the debtor and then the transactor. *S.13 / F.331 / S.11 / S.14* would mean an acquisition (or sale) by GG (*S.13*), the new creditor, of a short-term security (*F.331*) that is a debt of a corporation (*S.11*) sold to GG by the household sector (*S.14*), the previous creditor.

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