Box 7

General government fiscal position in the euro area: a new presentation

The general government fiscal position in the euro area, as presented in Tables 7.1 to 7.3 in the "Euro area statistics" section, now shows more detailed breakdowns of government revenue and expenditure, debt, the change in debt and, for the first time, a reconciliation between the change in debt and the deficit, i.e. the *deficit-debt adjustment*. These data, expressed as a percentage of GDP, are compiled on a consolidated basis and in accordance with the European System of Accounts 1995 (ESA 95). They are aggregated by the ECB from harmonised data provided by the NCBs, using the euro conversion rates from 1999 onwards, and exchange rates based on constant real exchange rates before 1999.

Total government revenue and expenditure shown since April 1999 are conceptually in line with the definition recently agreed at the European level and laid down in Commission Regulation 1500/2000. The inclusion of an explicit definition of total government revenue and expenditure within the ESA 95 is an important step towards ensuring the provision of harmonised euro area data, which are now directly comparable. The difference between government revenue and expenditure is equal to the government surplus/deficit, defined as the government net lending or net borrowing in the Treaty and used in the framework of the Stability and Growth Pact. Government revenue and expenditure cover all non-financial transactions at all levels of government, that is, central, state and local government, as well as social security funds. For the most part they are consolidated at the domestic level, so that revenues of government units which are the expenditure of other government units in the same Member State are eliminated along with internal transactions, while cross-border transactions between governments of different Member States are not consolidated. Government revenue and expenditure also take into account transactions with and by EU institutions. They thus include taxes levied by the EU, and subsidies and capital transfers paid by the EU directly to non-government beneficiaries. Table 7.1 also shows the link between "government consumption", a component in GDP, and individual sub-items of government expenditure and revenue. Table 7.2 shows the general government gross consolidated debt at nominal value, as defined in a Protocol to the Treaty and in Council Regulation 475/2000. The consolidation means that those government liabilities held by other government units, such as intra-government cross-lending or social security funds' holdings of government bonds, are eliminated. Residual maturity of debt helps to track the financing needs of government and the interest rate sensitivity of government interest expenditure. Information on holders and the denomination currency may point to potential volatility and currency risks.

Table 7.3 details the change in debt, expressed as a percentage of GDP, and the difference between the change in debt and the deficit, i.e. the *deficit-debt adjustment*. In addition to an aggregation effect, the change in debt originates, on the one hand, from "transactions" in government debt (issuance minus redemption) and, on the other, from "other flows": the impact of the appreciation and depreciation of the domestic currency (exchange rate effects), the reclassification of units (other changes in volumes) and effects linked to the nominal value definition (other valuation effects). All but the last of these entries are defined in accordance with the ESA 95. The *deficit-debt adjustment* is detailed in the second part of Table 7.3. In addition to the "other flows" in government debt, the *deficit-debt adjustment* is predominantly derived from (consolidated) transactions in financial assets held by general government, including changes in bank deposits, the acquisition or sale of non-government securities by social security funds, loans by government units to public corporations and to other borrowers, and transactions in equity. The latter include privatisation, which is treated as a sale of financial assets, equity injections undertaken during the "recapitalisation" of public enterprises and other transactions in shares.

Reporting on the reconciliation between the deficit and the change in debt, using a detailed and harmonised presentation, is important from a fiscal and monetary policy perspective. It helps to clarify the reasons behind the substantial and systematically positive *deficit-debt adjustment* observed for much of the past 20 years and the impact of privatisation proceeds in recent years. In addition, *deficit-debt adjustment* tables help to monitor the financial side of government accounts. It could be relevant for the analysis of the fiscal stance if cash expenses were to be booked under financial transactions. This might be the case with equity injections (which easily substitute for subsidies or capital transfers) and skilfully packaged derivatives transactions (in particular those using off-market swaps). The table also provides information on government portfolio restructuring, which, along with the size and structure of the general government borrowing requirement, could have monetary policy implications.