EUROPEAN CENTRAL BANK

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GOVERNMENT FINANCE STATISTICS GUIDE

MARCH 2010

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In 2010 all ECB publications feature a motif taken from the €500 banknote.

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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.europa.eu

Fax
+49 69 1344 6000

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1 INTRODUCTION

CONTEXT AND PURPOSE

1.1 The Governing Council of the European Central Bank (ECB) attaches great importance to the reliable and timely compilation of government finance statistics (GFS). The Governing Council adopted the first guideline on the statistical reporting requirements in the field of government finance statistics ("GFS Guideline" or "Guideline")[1] in 2005 to ensure the timely transmission of government statistics from the national central banks (NCBs) to the ECB. The GFS Guideline imposes obligations on the ECB and the euro area national central banks, but does not bind central banks of non-participating Member States. However, the information contained in this Guide is nevertheless relevant to them, as they report GFS data to the ECB as well.

1.2 The ECB is interested in GFS data for various reasons. It uses GFS data in its monetary policy analysis, as government activity may influence the general price level. Moreover, the ECB, like the European Commission, prepares periodic "convergence" reports assessing the preparedness of non-participating Member States to adopt the euro, for which annual data on government deficits and outstanding government debt are important criteria. The ECB also closely follows developments under the EU's excessive deficit procedure (EDP) and the Stability and Growth Pact.

METHODOLOGICAL FRAMEWORK

1.3 The GFS Guideline requests data on government revenue and expenditure, government deficit and debt, the relationship between deficit and debt, and transactions between the EU institutions and general government or other resident sectors of the economy. The Guideline also lays down when and how these data should be reported to the ECB. The Guideline defines the requested data by reference to the European System of Accounts 1995 (the ESA 95)[2] and the EDP.[3]

1.4 European Union (EU) law requires Member States to use the ESA 95 in the preparation of the macroeconomic statistics which they send to the European Commission. This ensures that the national data are comparable. The ESA 95 is based on the System of National Accounts 1993 (SNA 93),[4] a worldwide system developed by the Commission (Eurostat), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the United Nations (UN) and the World Bank. The ESA 95 is an integrated system of economic accounts from which many macroeconomic aggregates, such as gross domestic product, are derived. It organises the statistics on the output of an economy, the generation and distribution of income arising from that output, the accumulation of capital and financial assets and liabilities, and balance sheets.

1.5 The general government sector in the ESA 95 is composed of central government, state government (in countries where it exists), local government and social security funds. The principal economic functions of the general government sector are: (1) to assume responsibility for the provision of goods and services to the community or individual households at prices that are not economically significant, and (2) to redistribute national income and wealth by means of transfer payments, financing both of these activities primarily from taxation.

1.6 The GFS data should also reflect decisions taken by Eurostat on the interpretation of the ESA 95 in specific cases involving the general

1 The original Guideline (ECB/2005/5) has in the meanwhile been repealed by the Guideline of the ECB of 31 July 2009 on government finance statistics (recast) (ECB/2009/20) OJ L 228, 1.9.2009, p. 25.
2 Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community, OJ L 310, 30.11.1996, p. 1-469, as amended.
3 Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (codified version), OJ L 145, 10.6.2009, p. 1-9.
4 The text of the SNA 93 can be found on the United Nations Statistics Division website at www.unstats.un.org.

government sector. With the aim of ensuring a consistent compilation of government deficit and debt across EU countries, Eurostat has developed a well-defined procedure for dealing with borderline transactions. After discussions in expert Eurostat working parties and task forces, Eurostat consults the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB),[5] comprising senior statisticians of NCBs and national statistical institutes. Eurostat then takes the final decision on the transaction according to purely technical criteria, which is thereafter applicable to similar cases arising throughout the EU. The main methodological decisions are discussed in more detail in the ESA 95 manual on government deficit and debt ("Deficit and Debt Manual").[6]

1.7 Total government revenue and expenditure are groupings of ESA 95 non-financial transactions. Total government revenue consists, inter alia, of taxes and social contributions. Total government expenditure consists, inter alia, of compensation of government employees and government investment. Chapter 2 explains the components of government revenue and expenditure in more detail. The deficit/surplus (net lending/ net borrowing in the ESA 95) is equal to total revenue minus total expenditure. For EDP purposes, settlements under interest rate swaps and forward rate agreements (FRAs) are recorded as property income and affect the government's revenue and expenditure. So the EDP deficit or surplus is not necessarily the same as general government net lending (+)/ net borrowing (-) (*B.9)* in the ESA 95. The GFS Guideline therefore requests information on settlements under swaps and FRAs. The difference between the ESA 95 and EDP definitions of government deficit is elaborated in Chapter 4. The relationship is as follows:

ESA 95 deficit/surplus *(B.9)*
+ net receipts from settlements of swaps and FRAs
= EDP deficit/surplus (EDP *B.9*)

1.8 There are, however, more substantial differences between general government liabilities in the ESA 95 balance sheet and government debt for EDP purposes:

- Maastricht debt (or EDP 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 (for most countries equal to zero anyway), insurance technical reserves, other accounts payable (such as trade credits) and financial derivatives, are not included in Maastricht debt.

- 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 (considered equivalent to face value), which is the amount that the government is committed to repay at maturity. The difference between market and nominal value can be large for low or zero coupon debt, or for long-term coupon securities issued when interest rates were different. Furthermore, the market price will reflect accrued interest on the instrument, whereas EDP debt at nominal (or face) value does not include accrued interest (with the exception of index-linked bonds).

- Third, 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 financial derivatives. In the EDP, by contrast, the foreign currency

5 See www.cmfb.org.
6 The ESA 95 manual on government deficit and debt is available on the government finance statistics section of the Eurostat website (www.epp.eurostat.ec.europa.eu).

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.

1.9 Maastricht debt is consolidated, meaning that general government debt for EDP purposes excludes all holdings of general government debt by general government. This is explained in more detail in Chapters 7 and 8.

1.10 For various reasons, therefore, the reconciliation between the 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 GFS Guideline requires information to enable this reconciliation between the deficit and debt (called the deficit-debt adjustment (DDA)) to be carried out. As explained in full detail in Chapter 5, outstanding government debt does not necessarily increase in line with the deficit for several reasons. First, the deficit is different from the amount a government needs to borrow (the borrowing requirement) because of changes in financial assets held by government. Second, there are differences in the time of recording, mainly between government expenditure or revenue and any related cash flow. Moreover, the change in outstanding government debt may differ from the borrowing requirement owing to other changes in the value or volume of debt as recorded in the "other changes in assets (and liabilities) account". All this is illustrated in the graph below:

DEFICIT (+)/SURPLUS (-) ***(-B.9)***
+ Transactions in main financial assets
+ Time of recording and other differences
= BORROWING REQUIREMENT
+ Valuation effects
+ Other changes in the volume of debt
= CHANGE IN DEBT

1.11 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 EU institutions 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 (RoW); the EDP data, which are concerned only with national general government accounts, include the transactions of general government with the EU institutions on its own account, but omit all transactions in which general government acts as an agent for the EU institutions. The GFS Guideline follows the ESA 95 methodology. A detailed description of the EU budget transactions is provided in Chapters 3 and 9.

ECB PUBLICATIONS AND OTHER USES OF GFS DATA

1.12 The ECB requires two submissions each year of annual GFS data (in April and October), and interim updates and revisions. These data deliveries are used to update Tables 6.1 to 6.3 on the euro area general government fiscal position in the "Euro area statistics" section of the ECB's Monthly Bulletin, as well as Tables 7.1, 7.2 and Tables 11.8 to 11.10 of the ECB's Statistics Pocket Book.[7] The April and October data submissions are also used for internal publications such as the Annual Public Finance Report and the Autumn Fiscal Policy Note, which contain statistics (up to year t-1) and fiscal forecasts (from year t to year t+2).

1.13 The ECB publishes quarterly euro area aggregates of government revenue, expenditure, deficit, debt and the deficit-debt adjustment in Tables 6.4 and 6.5 in the "Euro area statistics" section of the ECB's Monthly Bulletin. The provision of quarterly GFS data is not covered by the GFS Guideline. Eurostat and the Member States kindly transmit these quarterly data to the ECB. The quarterly euro area aggregates of the non-financial and financial

7 Available on the ECB's website at www.ecb.europa.eu.

accounts of the general government sector are used as a building-block in compiling the integrated euro area accounts.

STRUCTURE OF THE GUIDE

1.14 This Guide complements the latest GFS Guideline adopted by the ECB in July 2009,[8] in which the ECB's statistical reporting requirements in the field of GFS are set out. The Guide explains how the annual GFS data requested by the GFS Guideline are compiled. 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.

1.15 The remainder of this Guide consists of chapters for each GFS reporting table, and some additional methodological chapters.

- Chapter 2 provides an introduction to government revenue and expenditure, and a line-by-line analysis of reporting Table 1A.
- Chapter 3 provides an introduction to EU budget transactions and a line-by-line analysis of reporting Table 1B.
- Chapter 4 provides an introduction to government final consumption and alternative deficit measures, and a line-by-line analysis of reporting Table 1C.
- Chapter 5 provides an introduction to the deficit-debt adjustment and a line-by-line analysis of reporting Table 2A.
- Chapter 6 provides an introduction to the consolidation of financial transactions and a line-by-line analysis of reporting Table 2B.
- Chapter 7 provides an introduction to government debt and a line-by-line analysis of reporting Table 3A.
- Chapter 8 provides an introduction to the consolidation of government debt and a line-by-line analysis of reporting Table 3B.
- Chapter 9 explains how euro area and EU aggregates are compiled.
- Chapter 10 compares the ECB's GFS data request with that of the IMF, and the EDP notification tables.[9]
- Chapter 11 contains a list of abbreviations.
- Chapter 12 provides a list of definitions.
- Chapter 13 contains all the reporting tables used to collect data from the NCBs according to the GFS Guideline.

1.16 Each chapter contains a table showing the following information: the second column shows the GFS Guideline item numbers as listed in Annex II of the GFS Guideline; the third column shows the item numbers used in the reporting tables sent to the NCBs for collecting the GFS data (which only differ from the GFS Guideline in some memorandum items). This column shows how items in the GFS reporting tables relate to each other. The fourth column shows the corresponding codes in the ESA 95.

8 Guideline of the ECB of 31 July 2009 on government finance statistics (recast) (ECB/2009/20), OJ L 228, 1.9.2009, p. 25.

9 Throughout this Guide, GFS means the government finance statistics that the NCBs are requested to report to the ECB under the GFS Guideline. Government finance statistics requested by the IMF are referred to as GFS (IMF).

2 GOVERNMENT REVENUE AND EXPENDITURE (TABLE 1A)

INTRODUCTION TO TABLE 1A

2.1 Government revenue and expenditure are concepts used to analyse fiscal policy. They appear often in international comparisons. The national accounts of general government are compiled in the EU Member States with reference to the ESA 95, but the ESA 95 did not initially define government revenue and expenditure. However, Commission Regulation (EC) No 1500/2000 extended the ESA 95 to include these concepts, thereby ensuring that a common definition is used throughout the EU. In the Regulation, revenue and expenditure are defined with reference to ESA 95 categories, and thus follow the principles laid down in the ESA 95 on the delimitation of general government, as well as the valuation and time of recording principles for transactions. The European System of Central Banks (ESCB) uses the definition of revenue and expenditure as laid down in the Regulation.[10]

2.2 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. Total revenues and expenditures are broken down into current and capital revenue and expenditure. The difference between current revenue and current expenditure is equal to gross saving.

2.3 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 the ESA 95, but in most cases are not specifically defined in the ESA 95. In some cases, the GFS specify a broader breakdown than the ESA 95.

2.4 Table 1 shows how government revenue and expenditure relate to the ESA 95. The table gives the full non-financial sector accounts from the ESA 95 for general government. It shows which components of those accounts fall within the definitions of revenue and expenditure.

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

Table 1 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	

Table 1 How ESA 95 transactions relate to GFS (cont'd)

Transactions of general government		Resources [1]	Uses [2]	Comments (relate to boxes with *)
ESA 95 code		GFS treatment		
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:	Revenue	Expenditure	
D.75	Miscellaneous current transfers	Revenue	Expenditure	
D.8	Adjustment for household pension equity		Expenditure	
D.91	Capital taxes	Revenue	Expenditure	
D.92, *D.99*	Investment and other capital transfers: within government	*	*	Removed in consolidation
	other	Revenue	Expenditure	
P.31	Final consumption expenditure: individual		*	In *P2*, *D1*, … non-market output
P.32	Final consumption expenditure: 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.

2.5 In general, in GFS, government revenue and expenditure are respectively the sums of general government resources and uses that are transactions between units. ESA 95 *1.34* divides transactions into those within units [11] and those between units. Transactions within units (intra-unit transactions) are excluded from the definitions of government revenue and expenditure since they do not affect net lending/net borrowing. The purpose of recording them in the ESA 95 is to give a more analytically useful picture of output, final uses and costs. Most intra-unit transactions are transactions in products, typically recorded when institutional units consume some of the output they have produced themselves. By contrast, transactions between units (inter-unit transactions) 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, such as 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.

2.6 Transactions within general government are consolidated only if the expenditure and revenue are in the same transaction line and same account in the ESA 95. So current transfers within general government (*D.73*), interest (*D.41*), investment grants (*D.92*) and other capital transfers (*D.99*) are consolidated, but transactions in goods and services, taxes and subsidies are not.

2.7 In general, government revenue and expenditure are almost never recorded net, e.g. government interest receipts are not netted

11 Units are defined in the ESA 95, paragraph 2.12.

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 the ESA 95. Tax credits, i.e. amounts deductible from taxes that would otherwise be payable, should be recorded as a reduction on tax revenue up to the individual taxpayer's liability; the excess of tax credit over the taxpayer's liability should be recorded as government expenditure.

2.8 Government revenue and expenditure are recorded on an accrual basis (as are all transactions in the ESA 95). Council Regulation No 2516/2000 precisely defines the concept of accrual recording in relation to taxes and social contributions. 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 (Article 2). Article 3 requires amounts evidenced by assessments and declarations to be "adjusted by a coefficient reflecting assessed and declared amounts never collected. As an alternative treatment, a capital transfer to the relevant sectors could be recorded equal to the same adjustment. The coefficients shall be estimated on the basis of past experience and current expectations in respect of assessed and declared amounts never collected. They shall be specific to different types of taxes and social contributions. The determination of these coefficients shall be country-specific, the method being cleared with the Commission (Eurostat) beforehand". If the amounts are evidenced by cash receipts "they shall be time-adjusted so that the cash is attributed when the activity took place to generate the tax liability. This adjustment may be based on the average time difference between the activity (or the determination of the amount of tax) and cash tax receipt".

TABLE 1A: FORMAT AND CONTENTS

2.9 Table 1A presented below illustrates 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, and the ESA 95 codes.

Table 1A Government revenue and expenditure

Description	Guideline item number Table 1A	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	2	2 = 3+4	
Total current revenue	3	3 = 11	
Total capital revenue	4	4 = 33	
Total government expenditure	5	5 = 6+7	
Total current expenditure	6	6 = 23	
Total capital expenditure	7	7 = 35	
Primary deficit (-) or surplus (+)	8	8 = 9+10	*B.9 + D.41U*
Deficit (-) or surplus (+)	9	9 = 1	
Interest payable	10	10 = 28	*D.41 U, consolidated*
Total current revenue	11	11 = 12+15+17+20+22	
Direct taxes	12	12	*D.5 R*
payable by enterprises (*S.11+S.12*)	13	13	
payable by households (*S.14+S.15*)	14	14	
Indirect taxes	15	15	*D.2 R*
taxes on energy	-	15a	
VAT	16	16	*D.211 R*

Table 1A Government revenue and expenditure (cont'd)

Description	Guideline item number Table 1A	Reporting table line number and relationships	ESA 95 codes (U = uses, R = resources)
Social contributions	17	17	*D.61 R*
employers' actual social contributions	18	18	*D.6111 R*
employees' social contributions	19	19	*D.6112 R*
Other current revenue	20	20	*-D.39 U + D.41 R, consolidated + D.42 R + D.43 R + D.45 R + D.72 R + D.74 R + D.75 R*
interest receivable	21	21	*D.41 R, consolidated*
Sales	22	22	*P.11 R + P.12 R + P.131 R*
Total current expenditure	23	23 = 24+28+29+31	
Current transfers	24	24 = 25+26+27	
Social payments	25	25	*D.62 U + (D.75 U to NPISHs) + D.6311 + D.63121 + D.63131*
old age pensions	-	25a	*(COFOG 10.2 + COFOG 10.3) applied to (D.62 U + D.6311 + D.63121 + D.6313)*
unemployment benefits	-	25b	*COFOG 10.5 applied to (D.62 U + D.6311 + D.63121 + D.63131)*
Subsidies payable	26	26	*-D.3 R*
Other current transfers payable	27	27	*D.29 U + D.45 U + D.5 U + D.71 U + D.74 U + D.75 U - (D.75 to NPISHs)*
Interest payable	28	28	*D.41 U, consolidated*
Compensation of employees	29	29	*D.1 U*
employers' actual social contributions	-	29a	*D.121 U*
wages and salaries	30	30 = 29-29a-(17-44)	*D.11 U*
Intermediate consumption	31	31	*P.2 U*
Gross saving	32	32 = 11-23	
Total capital revenue	33	33	*D.9 R, consolidated*
of which capital taxes	34	34	*D.91 R*
Total capital expenditure	35	35 = 36+37+38	
Investment	36	36	P.51 U
Other net acquisitions of non-financial assets	37	37	*P.52 U + P.53 U + K.2 U*
Capital transfers payable	38	38	*-D.9 U, consolidated*
Deficit (-) or surplus (+)	39	39 = 40+41+42+43	*B.9 of S.13*
Deficit (-) or surplus (+) of central government	40	40	*B.9 of S.1311*
Deficit (-) or surplus (+) of state government	41	41	*B.9 of S.1312*
Deficit (-) or surplus (+) of local government	42	42	*B.9 of S.1313*
Deficit (-) or surplus (+) of social security funds	43	43	*B.9 of S.1314*
Memorandum items			
Actual social contributions	44	44	*D.611*
Social benefits other than social transfers in kind	45	45	*D.62*

LINE-BY-LINE ANALYSIS OF TABLE 1A

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

2.10 This refers to the balance net lending (+)/net borrowing (-) (*B.9*) of the general government sector in national accounts, which is the balance of the capital account.

2.11 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 (-).

ITEM 2: TOTAL GOVERNMENT REVENUE

2.12 This is the set of ESA 95 non-financial transactions that increase the general government net lending (surplus) or reduce net borrowing (deficit). They are transactions that increase net financial worth.

ITEM 3: TOTAL CURRENT REVENUE

2.13 This is the set of ESA 95 non-financial transactions that increase gross saving (item 32). It is the sum of taxes and social contributions, sales and other current revenue.

ITEM 4: TOTAL CAPITAL REVENUE

2.14 This is the difference between total government revenue and total current revenue. It consists of capital taxes and other capital revenue.

ITEM 5: TOTAL GOVERNMENT EXPENDITURE

2.15 This is mainly the set of ESA 95 non-financial transactions that decrease the general government net lending (surplus) or increase net borrowing (deficit). They are transactions that decrease net financial worth.

ITEM 6: TOTAL CURRENT EXPENDITURE

2.16 This is mainly the set of ESA 95 non-financial transactions that decrease gross saving (item 32). It is the sum of current transfers (such as social payments and subsidies), interest payable, compensation of employees and intermediate consumption.

ITEM 7: TOTAL CAPITAL EXPENDITURE

2.17 This is the difference between total government expenditure and total current expenditure. It consists of investment, other net acquisitions of non-financial assets and capital transfers payable.

ITEM 8: PRIMARY DEFICIT (-) OR SURPLUS

2.18 This is defined as *B.9* (item 1) excluding interest payable.

ITEM 9: DEFICIT (-) OR SURPLUS

2.19 See item 1.

ITEM 10: INTEREST PAYABLE

2.20 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, ESA 95 4.42-4.52*). Interest payable is consolidated within general government. The recording of interest is explained in more detail in the Deficit and Debt Manual.

ITEM 11: TOTAL CURRENT REVENUE

2.21 See item 3 of Table 1A.

ITEM 12: DIRECT TAXES

2.22 Direct taxes are defined as current taxes on income, wealth, etc. (*D.5*), which cover all compulsory, unrequited payments, in cash or in kind, levied periodically by general government and by the rest of the world on the income and wealth of institutional units, and some periodic taxes which are assessed on neither income nor wealth (*ESA 95 4.77-4.82*). Direct taxes constitute resources of government. Direct taxes are not consolidated in GFS, 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.

ITEM 13: DIRECT TAXES PAYABLE BY ENTERPRISES

2.23 Direct taxes payable by enterprises include that part of taxes on income (*D.51*) payable by units in the financial or non-financial corporation sectors in national accounts. Typically these are taxes on company profits, including taxes on capital gains as well as on operating income.

ITEM 14: DIRECT TAXES PAYABLE BY HOUSEHOLDS

2.24 Direct taxes payable by households include taxes on income (*D.51*) payable by households and non-profit institutions serving households (NPISHs), and other current taxes (*D.59*). The former include taxes on income and capital gains, and the latter include, for example, motor vehicle licence fees paid by households. Property taxes and capital gains taxes are also treated as current taxes.

ITEM 15: INDIRECT TAXES

2.25 Indirect taxes are taxes on production and imports (*D.2*) receivable by general government. 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. For example, taxes on the use of buildings by government entities (*D.29*) should be included in both revenue and expenditure.

ITEM 15A: ENERGY TAXES

2.26 These are taxes levied specifically on energy products, such as petrol, that are additional to general taxes on products like VAT.[12] This item is not included in the GFS Guideline, but is a voluntary item in the GFS data request.

ITEM 16: VAT

2.27 The ESA 95 (paragraph 4.17) defines VAT as a tax on goods or services collected in stages by enterprises and which is ultimately charged in full to the final purchasers.

ITEM 17: SOCIAL CONTRIBUTIONS

2.28 Social contributions are recorded as 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 employed government 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*.

ITEM 18: EMPLOYERS' ACTUAL SOCIAL CONTRIBUTIONS

2.29 This item consists of employers' actual social contributions (*D.6111*) payable by employers into social security schemes and into funded autonomous pension schemes by government, but re-routed in the national accounts as payments from employers to households and then as payments from households to government.

ITEM 19: EMPLOYEES' ACTUAL SOCIAL CONTRIBUTIONS

2.30 These are social contributions payable by employees into social security schemes and into funded autonomous pension schemes by government (*D.6112*).

ITEM 20: OTHER CURRENT REVENUE

2.31 This consists of transactions that are part of current revenue and that are not included in taxes (items 12 and 15), social contributions (item 17) or sales (item 22). It comprises *other subsidies on production*, *property income*, *non-life insurance claims*, *international co-operation* and *miscellaneous current transfers*.

2.32 *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).

12 A detailed definition of taxes on energy can be found in the Eurostat publication entitled "Environmental Taxes – A statistical guide" 2001, available on Eurostat's website at www.epp.eurostat.ec.europa.eu.

2.33 *Subsidies on products* (*D.31*) are not recorded under this item. Subsidies on products are subsidies payable in proportion to the volume of output produced. If any government units receive *D.31* subsidies on products, the amounts would be recorded as an increase in market output (*P.1*) and so would be reflected in sales (item 22) rather than item 20.

2.34 *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 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 payments from other general government units. Property income includes dividends paid by public corporations. In this case, payments which are much higher than the operating profit generated by the company in the year in question are called super-dividends and should be recorded as financial transactions (equity withdrawals) and not as government revenue.

2.35 *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 4.112-4.116*).

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

2.37 *Current international co-operation* (*D.74*) relates to current transfers receivable by general government units from foreign governments and international organisations (*ESA 95 4.121-4.124*).

2.38 *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 (for more details, see the Deficit and Debt Manual).

Table 2 Transactions included in other current revenue

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 transfers from the rest of the world
D.75 R	Miscellaneous current transfers such as fines and payments of compensation

ITEM 21: INTEREST RECEIVABLE

2.39 This is the amount that non-government units (debtors) become liable to pay to the government over a given period of time, without reducing the amount of principal outstanding (*D.41*, ESA *95 4.42-4.52*). Interest receivable/payable is consolidated within general government. The recording of interest is explained in more detail in the Deficit and Debt Manual.

ITEM 22: SALES

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

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

- a government museum which charges economically significant prices for some of its services, such as refreshments and car parking for visitors, although its entrance fee is not economically significant; or
- a government department or local authority which aims to reduce demand for road space and thereby congestion by levying charges for the use of roads at certain times.

2.42 The second component, *output for own final use* (*P.12*), consists of goods or services that are retained by government either for final consumption or for gross fixed capital formation. 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 fully recorded on items such as capital formation to give a fuller picture of government activity. The production of output for own final use is economically analogous to the case where general government produces investment goods and sells them on the market, and then buys similar goods from another producer.

2.43 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 less than half of production cost. This is the case, for instance, where a government health department charges patients for the provision of medicines, but at a standard price usually well below the cost of the medicines. The prices are not considered to be economically significant if they are not intended to influence demand and thus ration the distribution of the goods and services supplied, but rather to make a contribution to the cost.

2.44 The categories sales and intermediate consumption are not consolidated. 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.

2.45 Chapter 4 shows how sales relate to government output and consumption.

ITEM 23: TOTAL CURRENT EXPENDITURE

2.46 See item 6.

ITEM 24: CURRENT TRANSFERS

2.47 This is the sum of *social payments* (item 25), *subsidies* (item 26) *and other current transfers payable* (item 27). Current transfers exclude transfers made for the specific purpose of financing capital expenditure or one-off transfers of wealth (ESA 95 *4.126*); these are capital transfers payable (item 38).

ITEM 25: SOCIAL PAYMENTS

2.48 These include: *social benefits* (*D.62*), *social transfers in kind* related to expenditure on products supplied to households via market producers (*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.

2.49 *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 state old age pension schemes, as well as social security and social assistance benefits in cash.

2.50 *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*).

2.51 Social payments are further broken down into the categories identified in the ESA 95 using the definitions classifying 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. 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.

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

ITEM 26: SUBSIDIES PAYABLE

2.53 These are current unrequited payments from government to resident producers with the objective of influencing their production, their prices, or the remuneration of factors of production (ESA 95 *4.30-4.40*). Subsidies are not consolidated. The ESA 95 treats this item (*D.3*) as a negative resource of the government sector, rather than as a use, thus keeping 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 the sign reversed to be consistent with national accounts. For example, "- *D.3 R*" means that a positive figure should be recorded for subsidies payable by government.

2.54 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*.

ITEM 27: OTHER CURRENT TRANSFERS PAYABLE

2.55 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 such taxes paid by government units, even if paid to the same level of government, since these transactions are not consolidated.

2.56 Pr*operty income, excluding interest* (*D.4* except *D.41*) is "the income receivable by the owner of a financial asset or a tangible non-produced asset in return for providing funds to, or putting the tangible non-produced asset at the disposal of, another institutional unit" (ESA 95 *4.41*). It 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). Note that rental of buildings is recorded as intermediate consumption and not as rent in this item. This is because renting a building, which is a produced asset (unlike renting land), is regarded as a purchase of services in the ESA 95.

2.57 *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 used 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.

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

Table 3 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
D.75 U	Miscellaneous current transfers, including transfers to the EU budget (fourth resource), and transfers to NPISHs
D.8 U	Adjustment for the change in net equity of households in pension funds reserves

2.59 *Current international co-operation* (*D.74*) covers current transfers paid by government to foreign governments, the EU budget and other international organisations (ESA 95 *4.121-4.124*). Typically this item relates to development aid.

2.60 *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 rebate (which should not be treated as adjustments to VAT). Transfers to NPISHs are included in social payments (item 25).

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

ITEM 28: INTEREST PAYABLE

2.62 See item 10.

ITEM 29: COMPENSATION OF EMPLOYEES

2.63 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*).

ITEM 29A: EMPLOYERS' ACTUAL SOCIAL CONTRIBUTIONS

2.64 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 29). The payments into social security schemes and government-run non-autonomous pension schemes are also shown as government revenue in item 18 (part of *D.6111*). Item 29a is not included in the GFS Guideline, but it is part of the GFS data request.

ITEM 30: WAGES AND SALARIES

2.65 This is *D.11*. It is the compensation of employees (item 29) minus employers' actual social contributions payable by government (item 29a) minus imputed social contributions (item 17 – item 44).

ITEM 31: INTERMEDIATE CONSUMPTION

2.66 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*).

ITEM 32: GROSS SAVING

2.67 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 the ESA 95.

ITEM 33: TOTAL CAPITAL REVENUE

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

2.69 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), or to pay off liabilities. 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*).

2.70 Capital revenue does not include capital transfers (*D.92* or *D.99*) within government, for example between central and local government, since these are consolidated.

2.71 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 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.

ITEM 34: CAPITAL TAXES

2.72 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 owing to land use regulations.

ITEM 35: TOTAL CAPITAL EXPENDITURE

2.73 This includes government investment, net acquisition of other non-financial assets, and capital transfers.

2.74 Netting off sales of assets from acquisitions in categories *P.5* and *K.2* is standard ESA 95 practice. Thus sales of capital assets are also netted off in GFS total government expenditure. This constitutes an exception to the general principle of not netting.

ITEM 36: INVESTMENT

2.75 Government investment is gross fixed capital formation (*P.51*) recorded among changes in government assets. It equals the acquisition less disposal of fixed assets, plus certain improvements to the value of non-produced assets such as 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.

ITEM 37: OTHER NET ACQUISITIONS OF OTHER NON-FINANCIAL ASSETS

2.76 This comprises *changes in inventories* (*P.52*), *net acquisition of valuables*[13] (*P.53*) and *net acquisition of non-financial non-produced assets* (*K.2*). Note that "net" here means net of the sale of assets.

2.77 *Changes in inventories (P.52)* include the acquisition of commodities to be held in stock for subsequent use as intermediate consumption, less the sale or consumption of commodities 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. This is because 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.

2.78 *Net acquisition of valuables (P.53)* is the acquisition of 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 since works of art acquired for display are regarded as producing cultural outputs and so should be included in fixed assets (*P.51*).

2.79 *The net acquisition of non-financial non-produced assets (K.2)* consists of the net acquisition of non-produced assets that may be used in the production of goods and services, such as land, sub-soil assets and non-cultivated biological resources (ESA 95 *6.06-6.13*). It also includes intangible non-produced assets,

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

such as contracts for the use of non-financial assets (for example property leases) that are subsequently traded, and Universal Mobile Telecommunications System (UMTS) licence receipts that have been classified as sales of assets.

ITEM 38: CAPITAL TRANSFERS PAYABLE

2.80 This consists of *investment grants* (*D.92*) payable by government, and *other capital transfers* (*D.99*). According to the ESA 95 *4.152*, "investment grants (*D.92*) consist of capital transfers in cash or in kind made by governments or by the rest of the world to other resident or non-resident institutional units to finance all or part of the costs of their acquiring fixed assets". ESA 95 *4.164* goes on to state "other capital transfers (*D.99*) cover transfers other than investment grants and capital taxes which do not themselves redistribute income but redistribute saving or wealth among the different sectors or sub-sectors of the economy or the rest of the world". These include the capital transfers recorded as the counterpart to an assumption of debt by mutual consent. A comprehensive list of transactions is given in ESA 95 *4.165*.

2.81 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 the 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.

2.82 Note that there are special rules for distinguishing between capital transfers and financial transactions in the case of payments between government and public corporations (see the Deficit and Debt Manual for more details). 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 and not as a financial transaction, if government is not acting as a rational investor expecting a commercial return from its investment.

2.83 In some countries' national accounts, capital transfers (*D.995*) are recorded for cancelling taxes that accrue but are never paid. This ensures that net lending (+)/net borrowing (-) reflects only taxes that are actually (or are likely to be) collected. Such capital transfers should be recorded as negative figures under capital transfers received, rather than as positive figures under capital transfers paid.

ITEM 39: DEFICIT (-) OR SURPLUS (+) BY SUB-SECTOR

2.84 See item 1.

ITEMS 40 TO 43: DEFICIT (-) OR SURPLUS (+) BY SUB-SECTOR

2.85 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 EDP *B.9* in the EDP notification tables.

2.86 State government is sometimes misunderstood. It is confined to those countries that are a federation of regional governments, such as Belgium, Germany, Austria and Spain. State government is the regional level of government, lying 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".

ITEM 44: ACTUAL SOCIAL CONTRIBUTIONS

2.87 Actual social contributions (*D.611*) 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*).

ITEM 45: SOCIAL BENEFITS OTHER THAN SOCIAL TRANSFERS IN KIND

2.88 These are social security benefits in cash (*D.621*) provided under social security schemes, unfunded employee social benefits (*D.623*) payable by government to its employees from unfunded social insurance schemes, and social assistance benefits in cash (*D.624*).

3 EU BUDGET TRANSACTIONS (TABLE 1B)

INTRODUCTION TO TABLE 1B

3.1 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. The revenue and expenditure of the EU budget in a Member State are treated as transactions between the resident sector of the national economy and the rest of the world (*S.2*) – in particular, institutions of the EU (*S.212*). For example, in the ESA 95 national accounts, Common Agricultural Policy (CAP) subsidies paid to farmers are treated as payments 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 EU, which is subsequently reimbursed by the EU budget. In economic terms, however, EU budget subsidies (such as CAP farm subsidies) are similar in their impact as subsidies paid by (national) general government. Likewise, in the perception of taxpayers, taxes that are resources of the EU budget are similar to those paid to (national) general government. To better understand the extent of both national and EU government activity in a Member State, information on EU budget transactions is therefore required.

3.2 The data on EU budget transactions in reporting Table 1B allow the ECB to see, for each Member State, the payments made by the resident sectors of the economy to the EU budget and the EU expenditure in the Member State. Thus, the net

TABLE 4 TRANSACTIONS WITH THE EU BUDGET (TABLE 1C OF THE STATISTICAL SECTION OF THE ESCB ANNUAL PUBLIC FINANCE REPORT) (as a percentage of GDP)

1. Payments by Member State to EU budget

	Total	Indirect taxes received by EU budget	VAT received by EU budget	International co-operation paid by government to European Commission
	1	2	3	4
2007	-	-	-	-
2008	-	-	-	-

2. EU expenditure in Member State and net receipts/net payments

	EU expenditure in Member State			
	Total	Subsidies paid by EU budget	Current transfers paid by EU budget to government	Current transfers paid by EU budget to non-government
	1	2	3	4
2007	-	-	-	-
2008	-	-	-	-

3. Government activity – Impact of EU budget transactions on revenue and expenditure

	Total revenue	Difference due to EU budget revenue				Total revenue incl. EU budget	
		Total	Taxes paid by non-government to EU budget	Transfers from EU budget to government (-)	Net receipts from EU budget		Total VAT
	1	2	3	4	5	6	7
2007	-	-	-	-	-	-	-
2008	-	-	-	-	-	-	-

Source: NCB.

payers to and the net receivers from the EU budget can be identified, as well as the impact of the EU budget transactions on the general government deficit/surplus (see Table 1C of the statistical section of the ESCB Annual Public Finance Report below).

3.3 Chapter 9 contains a detailed description of the treatment of EU budget transactions in the compilation of euro area and EU aggregates.

TABLE 1B: FORMAT AND CONTENTS

3.4 The table shows the format and contents of reporting Table 1B 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 and item numbers, and the ESA 95 codes.

LINE-BY-LINE ANALYSIS OF TABLE 1B

ITEM 1: PAYMENTS BY MEMBER STATE TO EU BUDGET

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

ITEM 2: INDIRECT TAXES RECEIVED BY EU BUDGET

3.6 These comprise EU own resources, such as the part of VAT that is paid into the EU budget

Current transfers paid by government to EU budget	Fourth own resource	Capital transfers paid by government to EU budget
5	6	7
-	-	-
-	-	-

EU expenditure in Member State		Net receipts from (+)/ payments to (-) the EU budget	Memo: Effect on the general government deficit/surplus of the transactions with the EU budget
Capital transfers paid by EU budget to government	Capital transfers paid by EU budget to non-government		
5	6	7	8
-	-	-	-
-	-	-	-

Total expenditure	Difference due to EU budget expenditure					Total expenditure incl. EU budget	Total subsidies	Memo: Fiscal burden
	Total	Subsidies	Transfers from EU budget to non-government	Transfers from government to EU budget (-)	Net payments to EU budget			
8	9	10	11	12	13	14	15	16
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-

Table 1B EU budget transactions

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 UK rebate	-	5a	
of which EU fourth own resource	6	6	
Capital transfers paid by government to EU budget	7	7	*-D.9 U*
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 R*
Capital transfers paid by EU budget to non-government	13	13	*-D.9 U*
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	
Memo: Net receipts from pre-acceding programmes	-	16	
Memo: Net receipts from pre-acceding programmes paid to government	-	17	

and several types of customs duties[14] and indirect taxes.[15] 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*).

3.7 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.

ITEM 3: VAT RECEIVED BY EU BUDGET

3.8 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 EU 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 national government.

ITEM 4: CURRENT INTERNATIONAL CO-OPERATION PAID BY GOVERNMENT TO EU BUDGET

3.9 Current international co-operation (*D.74*) includes current transfers paid by general government to the EU budget other than the fourth resource. These could include transfers to finance the "European Development Fund" managed by the European Commission as an extra-budgetary fund.

ITEM 5: MISCELLANEOUS CURRENT TRANSFERS PAID BY GOVERNMENT TO EU BUDGET

3.10 This line is for miscellaneous current transfers (*D.75*) paid by government to the EU, i.e. the UK rebate and the fourth resource (see below).

ITEM 5A: UK REBATE

3.11 The UK rebate is a reduction, agreed by the European Council, in the payments to the EU budget by the UK, compensated for by increased payments from other Member States. This item is not part of the GFS Guideline, but is included in the GFS data request.

ITEM 6: EU FOURTH OWN RESOURCE

3.12 This is the gross national product (GNP) (or gross national income, GNI) – based contribution (the fourth resource) to the

14 For example, those levied on the basis of the EU's integrated tariff and on agricultural goods.

15 Such as the levy on mining and steel-producing enterprises, sugar production levies, the tax on isoglucose and the co-responsibility taxes on milk and cereals.

EU budget. It includes any transactions relating to retrospective adjustments to amounts paid under the fourth resource.

ITEM 7: CAPITAL TRANSFERS PAID BY GOVERNMENT TO EU BUDGET

3.13 This would include the exceptional case where a national government pays an investment grant to the EU budget.

ITEM 8: EU EXPENDITURE IN MEMBER STATE

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

ITEM 9: SUBSIDIES PAID BY EU BUDGET

3.15 Typically this consists of agricultural subsidies paid under CAP. In national accounts, these are transactions between the rest of the world and non-government resident sectors in *D.3*.

ITEM 10: CURRENT TRANSFERS PAID BY EU BUDGET TO GOVERNMENT

3.16 These are general government resources in current international co-operation (*D.74*) and miscellaneous other current transfers (*D.75*). They could include rebates to national governments from the EU budget, and current transfers to government units to fund activity in those units. Government units in receipt of EU transfers would, for example, include government scientific institutions undertaking EU-funded research and development programmes.

ITEM 11: CURRENT TRANSFERS PAID BY EU BUDGET TO NON-GOVERNMENT

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

ITEM 12: CAPITAL TRANSFERS PAID BY EU BUDGET TO GOVERNMENT

3.18 These are general government receipts of investment grants (*D.92*). The item could include transfers 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 pass on the transfers to non-government units for them to acquire capital assets.

ITEM 13: CAPITAL TRANSFERS PAID BY EU BUDGET TO NON-GOVERNMENT

3.19 Typically these are investment grants (*D.92*) paid from the European Agricultural Guidance and Guarantee Fund (EAGGF) and the ERDF programmes.

ITEM 14: NET RECEIPTS FROM EU BUDGET

3.20 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). It represents the net impact of transfers between the Member State and the EU budget.

3.21 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.

ITEM 15: OWN RESOURCES COLLECTION COSTS (MEMO ITEM)

3.22 Member State governments collect taxes on behalf of the EU budget, and transfer amounts to the EU budget net of an agreed amount to cover collection costs. The difference between the amount collected and the 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).

ITEMS 16 AND 17: NET RECEIPTS FROM PRE-ACCESSION FUNDS (MEMO ITEMS)

3.23 Net receipts from the pre-accession funds (PHARE, ISPA, SAPARD, etc.) are not part of the transactions between the EU budget and a Member State. This is because these pre-accession 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, hence the presence of two additional memorandum items in Table 1B of the GFS data request (not included in the GFS Guideline): "Net receipts from pre-acceding programmes" (item 16) and "Net receipts from pre-acceding programmes paid to government" (item 17).

4 GOVERNMENT FINAL CONSUMPTION EXPENDITURE AND OTHER NON-FINANCIAL CATEGORIES (TABLE 1C)

INTRODUCTION TO TABLE 1C

4.1 The purpose of Table 1C is twofold: to collect data on government final consumption and to explain alternative measurements of the government deficit. The introduction to Table 1C, therefore, first discusses the components of government final consumption expenditure before moving on to the various measurements of the government deficit.

GOVERNMENT FINAL CONSUMPTION EXPENDITURE

4.2 Final consumption expenditure is defined in the ESA 95 (*3.75*) as the expenditure incurred by resident institutional units on goods or services that are used for the direct satisfaction of individual needs or wants or the collective needs of the community. Final consumption expenditure may take place on the domestic territory or abroad (in which case it is, at least in principle, reflected in imports of goods and services). General government final consumption expenditure is current (as opposed to capital) expenditure involving the government's use of resources, either for the benefit of individuals (most current spending on health, education, etc. – what the ESA 95 calls "individual consumption expenditure") or for collective use (public administration, defence, policing, etc. – "collective consumption expenditure" in the ESA 95). Individual consumption expenditure of general government includes social benefits in kind, which may be available free or at heavily subsidised cost, or may take the form of reimbursing households for expenditures undertaken.

4.3 Table 5 shows the relationship between expenditure components, government output and government final consumption. The highlighted areas show, for each column, the components of final consumption. The last column shows that government final consumption consists of both individual and collective government consumption, as explained above. The middle column shows that government final consumption consists of:

- social transfers in kind of goods and services produced by market producers *(D.6311 + D.63121 + D.63131)*. These are goods and

Table 5 The relationship between GFS expenditure components, government output and final consumption

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

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

services produced by market producers and purchased by government, which supplies them to households without any transformation (ESA 95 *3.79.b*);

- other government non-market output (*P.132*), which is government output that is supplied free of charge.

The table also shows that the other components of government output (*P.11, P.12* and *P.131*), which together constitute the sales of government, are not part of government consumption.

ALTERNATIVE DEFINITIONS OF THE DEFICIT

4.4 This section discusses the different definitions of the government deficit/surplus contained in Table 1C of the GFS data request. The requested definitions are:

- The deficit (-)/surplus (+) as recorded in the capital accounts of general government (*B.9*). This is item 1 of Table 1A.

- The deficit (-)/surplus as defined for the purpose of the Excessive Deficit Procedure (EDP *B.9*, item 15 of Table 1C).

- The deficit (-)/surplus (+) excluding UMTS proceeds. This is item 16a of Table 1C.

4.5 When computing EDP *B.9*, settlements under swaps and forward rate agreements are treated as interest. A swap is an agreement between two parties to a future exchange of cash flows, determined with reference to the price of, say, currencies or interest rates in accordance with prearranged rules. For example, a swap could be an agreement to exchange a floating rate of interest (e.g. EURIBOR) for a fixed rate of interest on a notional amount of principal. When the contract is agreed, there is no exchange of cash since 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. 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.

4.6 When first published, the ESA 95 advised that net settlement flows on interest swaps and FRAs should be treated as interest. This approach was subsequently seen as contradictory to 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. The SNA 93 was accordingly revised to treat the settlement flows as financial transactions in derivatives.

4.7 Steps were taken to amend the ESA 95 in the same way. However, government 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 into account 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. The 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, and a second version of *B.9*, to be called EDP *B.9*, was introduced to allow such settlements to affect the deficit (-)/surplus (+). This is the headline version of *B.9* for EDP purposes. It was defined in Council Regulation No 2558/2001.

4.8 Recording net settlements as financial transactions requires the prior recording of holding gains/losses on derivatives contracts in financial derivatives (*AF.34*) in the nominal holding gains/losses account (*K.11*). 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 account *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*.

4.9 In 1999-2001 several EU Member States sold UMTS licences to private operators for very large sums. The proceeds were recorded as sales/purchases of non-financial assets in the capital account, and therefore affected the amount recorded under the deficit (-)/surplus (+) (*B.9*). When analysing data on the deficit (-)/surplus (+), exclusion of such large one-off proceeds may be considered preferable. Table 1C of the data request therefore includes item 16b, which excludes these proceeds from the deficit (-)/surplus (+).

TABLE 1C: FORMAT AND CONTENTS

4.10 The table below shows the format and content of reporting Table 1C used by the ECB to collect data from NCBs. The table shows the item numbers used in Table 1C of the GFS Guideline and the corresponding line

Table 1C Government final consumption expenditure

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 general government	2	2	*P.31*
Collective consumption expenditure of general government	3	3	*P.32*
Compensation of employees	4	4 = [1A.29][1]	*D.1*
Intermediate consumption	5	5 = [1A.31]	*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 = [1A.22]	*P.11 + P.12 + P.131*
Memorandum items			
Final consumption expenditure at prices of the previous year	11	11	*P.3 (volume)*
Deficit (-) or surplus (+)	12	12 = [1A.1]	*B.9*
Interest payable	13	13 = [1A.10]	*D.41 U, consolidated*
Interest including settlements under swaps and FRAs	14	14	*EDP D.41 U, consolidated*
EDP deficit (-) or surplus (+)	15	15 = 12+13-14	*EDP B.9*
UMTS proceeds	16	16	
Total capital expenditure excluding UMTS proceeds	-	16a = [1A.7]+16	
ESA 95 deficit (-) or surplus (+) excluding UMTS proceeds	-	16b = 12-16	
Debt	17	17 = [3A.1]	
Fiscal burden	-	17a = [1A.12] + [1A.15] + [1A.17] + [1A.34]	
Gross domestic product (GDP) at current prices	18	18	
GDP at prices of the previous year	19	19	
Government investment at prices of the previous year	20	20	*P.51 (volume)*

1) [x.y] refers to the item number y of Table x.

numbers in the reporting Table 1C, as well as the relationships between the line and item numbers, and the ESA 95 codes.

LINE-BY-LINE ANALYSIS OF TABLE 1C

ITEM 1: FINAL CONSUMPTION EXPENDITURE

4.11 This is *P.3* for the general government sector. According to the ESA 95 *3.75* "final consumption expenditure consists of expenditure incurred by resident institutional units on goods or services that are used for the direct satisfaction of individual needs or wants or the collective needs of members of the community. Final consumption expenditure may take place on the domestic territory or abroad". Note that it is net of the sale of services to EU institutions in respect of the collection of EU taxes (export of a service). But EU institutions' 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.

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

ITEM 2: INDIVIDUAL CONSUMPTION EXPENDITURE OF GENERAL GOVERNMENT

4.13 Individual consumption expenditure (*P.31*) has the following characteristics:

a) it satisfies the individual needs of household members;

b) it is possible to observe the consumption of 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) consumption of goods and services by one household means that less goods and services are available for other households.

ITEM 3: COLLECTIVE CONSUMPTION EXPENDITURE OF GENERAL GOVERNMENT

4.14 Collective consumption expenditure (*P.32*) 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 their express agreement or active participation; and

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

Components of final consumption expenditure by economic category

ITEM 4: COMPENSATION OF EMPLOYEES

4.15 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 29 of reporting Table 1A.

ITEM 5: INTERMEDIATE CONSUMPTION

4.16 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 31 of reporting Table 1A.

ITEM 6: SOCIAL TRANSFERS IN KIND VIA MARKET PRODUCERS

4.17 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 expenditure (*P.3*), unlike government current transfers to NPISHs (*D.75*) to fund services to households. The latter are government transfers rather than government procurement, and so are not relevant to this table. Government purchases of goods and services given directly to households with no government processing comprise:

- 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.

ITEM 7: CONSUMPTION OF FIXED CAPITAL

4.18 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.

ITEM 8: TAXES ON PRODUCTION PAID MINUS SUBSIDIES RECEIVED

4.19 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 27 and 20. 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: subsidies receivable are a negative use and subsidies payable are a negative resource). In other words, other taxes on production include, for example, taxes on the use of buildings and cars, but not taxes included in the prices of products, which are already counted in intermediate consumption; and other subsidies on production include, for example, subsidies on labour, but not subsidies included in prices paid, which are already counted in intermediate consumption.

ITEM 9: NET OPERATING SURPLUS

4.20 This is *B.2n* of the general government sector. It analyses the extent to which government market output covers intermediate consumption, compensation of employees, other taxes less subsidies on production and the consumption of fixed capital necessary for market output. For government non-market output, the net operating surplus is by definition equal to zero.

ITEM 10: SALES

4.21 See item 22 in Table 1A.

ITEM 11: GOVERNMENT FINAL CONSUMPTION EXPENDITURE AT PRICES OF THE PREVIOUS YEAR.

4.22 This is government final consumption (item 1) in chain-linked volumes at prices of the previous year (reference year 2000). In order to measure the volume growth of government final consumption, the effect of price changes must be eliminated. For this purpose, most EU countries in the past used a fixed weighting structure which was updated every five years. However, if fixed weights are used for a prolonged period, they become less relevant over time. To achieve more accurate and internationally comparable volume growth figures, NSIs and Eurostat have, since 2005, introduced weights that are updated annually, using values at the prices of the previous year, in line with EU legislation. The results obtained using these weights are subsequently (chain-)linked.

ITEM 12: DEFICIT (-) OR SURPLUS (+)

4.23 This is general government net lending (+)/ net borrowing (-) (*B.9*). See item 1, Table 1A.

ITEM 13: INTEREST PAYABLE

4.24 See item 10 of Table 1A.

ITEM 14: EDP INTEREST PAYABLE

4.25 This is interest expenditure in national accounts (government uses of *D.41*), plus net payments under swaps and FRAs.

ITEM 15: EDP DEFICIT (-) OR SURPLUS (+)

4.26 This is general government net lending (+) / net borrowing (-) as defined for the purpose of the EDP (*EDP B.9*), treating net settlements under swaps and FRAs as property income rather than as financial transactions. It is equal to item 12 plus the difference between items 13 and 14.

ITEM 16: UMTS PROCEEDS

4.27 This represents government revenue from the sale of UMTS licences, also known as third-generation (3G) mobile phone licences. They should be recorded in national accounts as the sale of a capital asset in *K.2*.[16] This item should show the amounts included each year in the calculation of the deficit (item 12). The purpose is to identify these large and exceptional transactions which might otherwise obscure the underlying fiscal position.

ITEM 16A: CAPITAL EXPENDITURE EXCLUDING UMTS PROCEEDS

4.28 This item does not appear in the GFS Guideline, but it is part of the GFS data request. This item serves to check the consistency between Tables 1A and 1C.

ITEM 16B: ESA 95 DEFICIT (-)/SURPLUS (+) EXCLUDING UMTS PROCEEDS

4.29 This item does not appear in the GFS Guideline, but is included in the GFS data request. This item serves to check the consistency between Tables 1A and 1C.

ITEM 17: DEBT

4.30 This is general government gross debt as defined for the EDP. See item 1 of Table 3A.

ITEM 17A: FISCAL BURDEN

4.31 This item does not appear in the GFS Guideline but is included in reporting Table 1C of the GFS data request. The fiscal burden groups together the categories of government revenue that are compulsory and unrequited. It 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*).

ITEM 18: GROSS DOMESTIC PRODUCT (GDP) AT CURRENT PRICES

4.32 Gross domestic product at market prices is defined in the ESA 95 *8.89*.

ITEM 19: GDP AT PRICES OF THE PREVIOUS YEAR

4.33 This is GDP in chain-linked volumes at prices of the previous year (reference year 2000). In order to measure the volume growth of GDP, the effect of price changes must be eliminated. For this purpose, most EU countries in the past used a fixed weighting structure which was updated every five years. However, if fixed weights are used for a prolonged period, they become less relevant over time. To achieve more accurate and internationally comparable volume growth figures, NSIs and Eurostat have, since 2005, introduced weights that are updated annually, using values at the prices of the previous year, in line with EU legislation. The results obtained using these weights are subsequently (chain-)linked.

ITEM 20: GOVERNMENT INVESTMENT AT PRICES OF THE PREVIOUS YEAR

4.34 This is government investment (item 36 of Table 1A) in chain-linked volumes at prices of the previous year (reference year 2000). In order to measure the volume growth of government investment, the effect of price changes must be eliminated. For this purpose, most EU countries in the past used a fixed weighting structure which was updated every five years. However, if fixed weights are used for a prolonged period, they become less relevant over time. To achieve more accurate and internationally comparable volume growth figures, NSIs and Eurostat have, since 2005, introduced weights that are updated annually, using values at the prices of the previous year, in line with EU legislation. The results obtained using these weights are subsequently (chain-) linked.

16 The applicable Eurostat decision on UMTS licences is available at www.epp.eurostat.ec.europa.eu.

5 GOVERNMENT DEFICIT AND ITS FINANCING (TABLE 2A)

INTRODUCTION TO TABLE 2A

5.1 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 general government debt with the deficit, through the analysis in Table 2A, provides an important data quality check. Since government deficit and debt are the primary focus of fiscal surveillance, it is important to understand why their development diverges.

5.2 Although government deficit and debt are closely interrelated concepts, the change in the debt level in any given year can be larger or smaller than the deficit. The difference between the change in debt and the deficit is known as the "deficit-debt adjustment" (DDA) or, more generally, as the "stock-flow adjustment" (SFA). The DDA measures the part of the change in debt that is not accounted for by the deficit/surplus. As long as the components of the DDA are sound, the difference between the change in debt and the deficit is explained and does not raise concerns regarding data quality. A positive DDA means that the increase in debt exceeds the deficit or that the reduction of debt is lower than the surplus. A negative DDA means that the decrease in debt is smaller than the surplus or that the debt has decreased despite a deficit.

5.3 The DDA can be divided into three main pillars:

A) transactions in main financial assets;

B) time of recording and other differences;

C) valuation effects and other changes in the volume of debt.

5.4 *Pillar A – transactions in main financial assets* comprises transactions in deposits held by the ministry of finance or other governmental units at the central bank and other monetary financial institutions (MFIs), the net acquisition of non-government securities by social security funds (which build up assets to cover future pension entitlements), and the net acquisition of equity held by government in public corporations. With a given deficit, government financial investment increases the borrowing requirement (the amount that government needs to borrow to finance its activities) and thereby also government debt; conversely, a reduction in financial assets (as a result of privatisations, for instance), tends to reduce the borrowing requirement and debt, while leaving the deficit unchanged.

5.5 *Pillar B – time of recording and other differences* can be divided into the following categories:

– time of recording differences;

– transactions in monetary gold and insurance technical reserves;

– transactions in financial derivatives; and

– statistical discrepancies.

5.6 *Time of recording differences* refers to the difference between the recording of expenditure and the related payments and that of revenue and the related cash flow to government. For instance, expenditure is recorded upon delivery of supplies and hence increases the deficit, although government may delay (in line with contractual settlement clauses) the actual cash payment. The financial claim on government owing to this timing difference is recorded under other accounts payable (*F.7*). Other accounts payable are not part of government debt as defined for the purpose of the EDP. Hence, delayed payment by government for supplies does not affect the borrowing requirement or the debt, but delivery does increase the deficit. Similarly, taxes are recorded as reducing the deficit at the time that they are assessed, even though payment may take place somewhat later. This delay is recorded under other accounts receivable (*F.7*) in the government accounts.

The delayed payment of taxes to government does not reduce the borrowing requirement, although the taxes themselves decrease the deficit. Other time of recording differences may arise on account of the advance or delay in the EU reimbursing the funds the government spends on its behalf.

5.7 In the GFS Guideline, transactions in other accounts receivable (*F.7*) are grouped together with *transactions in monetary gold and special drawing rights* (*SDRs*) (*F.1*) and the net acquisition of *insurance technical reserves* (*F.6*) under transactions in other financial assets (item 13 of Table 2A). Transactions in other accounts payable (*F.7*) are grouped together with the net incurrence of liabilities in insurance technical reserves under transactions in other liabilities (item 22, Table 2A). For the euro area countries, government transactions in *F.1* are by definition zero, since euro area governments are not allowed to hold monetary gold and SDRs. Of the non-euro area governments, only the UK government holds monetary gold. Government transactions in *F.6* are usually negligible in terms of GDP.

5.8 Transactions in financial derivatives (*F.34*) may either generate cash, thereby reducing the government borrowing requirement, or oblige the government to borrow more where settlements under swaps turn out to be negative.

5.9 The statistical discrepancy is the difference between the deficit as measured by the non-financial accounts (*B.9*) and the deficit as measured by the financial accounts (*B.9f*). When the government has a deficit in the non-financial accounts, the equivalent amount should be displayed in the general government financial accounts: the increase in liabilities should exceed the increase in financial assets by the amount of the deficit. Because different sources of data are used to measure the transactions resulting in the two balances, *B.9* and *B.9f* are not always equal.

5.10 *Pillar C – valuation effects and other changes in the volume of debt* can be divided in three groups:

– the market-to-face-value adjustment;

– foreign exchange holding gains and losses; and

– other changes in the volume of debt.

5.11 General government debt (and therefore the change in debt) is recorded at nominal (or face) value, whereas financial transactions in the 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*. The adjustment applies only to transactions – that is, to new borrowings and repayment or buying-in of debt at prices which differ from nominal value (issuances and redemptions below or above par).

5.12 The Deficit and Debt Manual and the ESA 95 recommend recording accrued unpaid interest under the instrument that generates the interest rather than under other accounts receivable/payable (although the ESA 95 also allows recording in other accounts receivable/payable (*F.7)*, see ESA 95, *5.130*). The accrual recording of interest means 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.

5.13 In the 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, as 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".

5.14 General government debt denominated in foreign currency, unless covered forward, is valued at current exchange rates on the balance sheet date. The amount of outstanding debt 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 of the DDA. General government debt covered forward is valued at the exchange rate in the forward contract, which does not vary during the life of the contract.

5.15 Changes in the debt related to reclassification are recorded in *other changes in the volume of debt*. These include changes in the statistical classification of units from the government to a non-government sector (or the reverse). Following the reclassification, liabilities of these units cease to be government debt, with no counterpart in the general government deficit. This item may also conceal statistical discrepancies between financial flows and the stock of debt.

5.16 Chart 1 shows the two ways, in which Table 2A reconciles the deficit and the change in debt. Item numbers refer to Table 2A.

Chart 1 Reconciliation of the deficit and debt

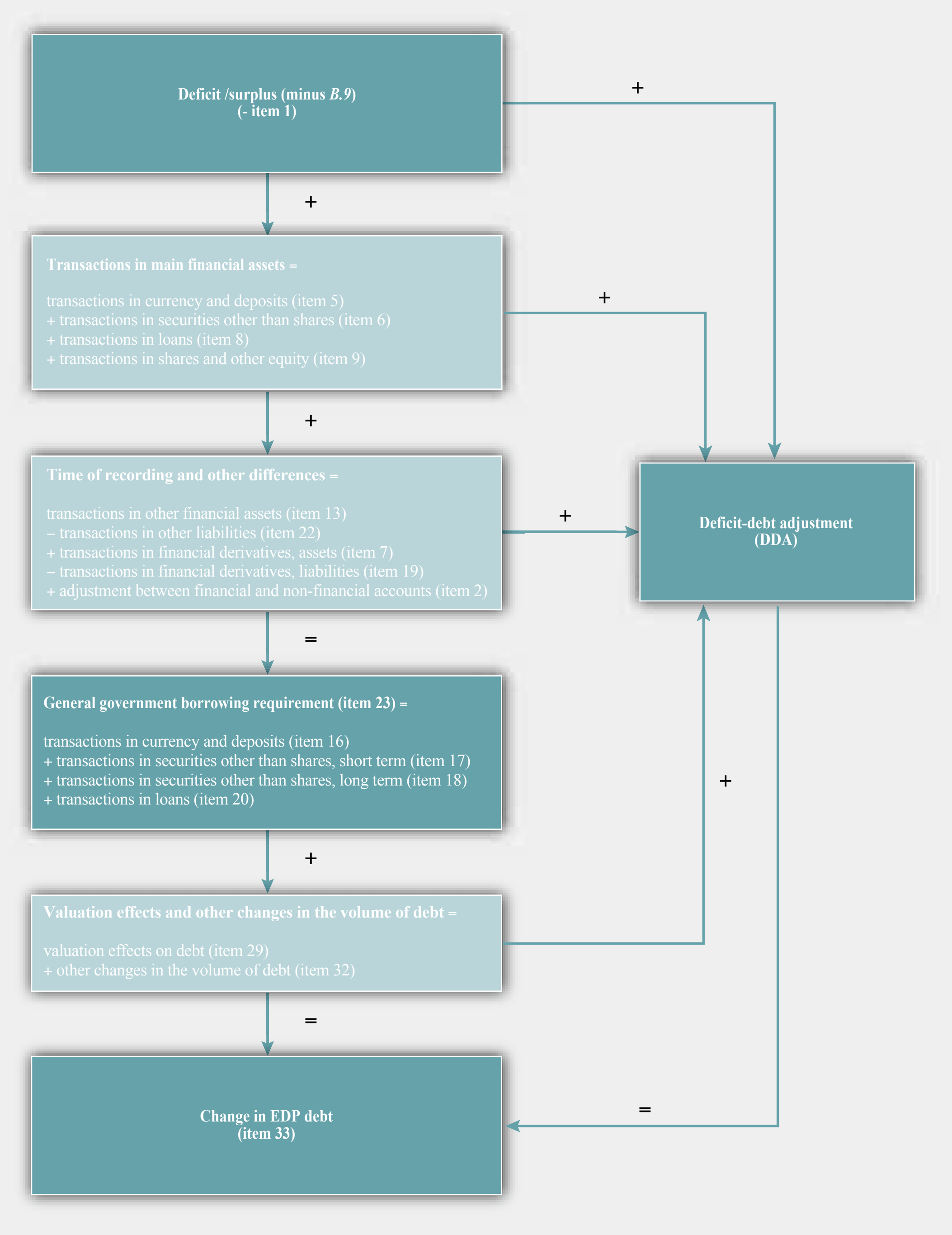


TABLE 2A: FORMAT AND CONTENTS

5.17 The table below shows the content and format of reporting Table 2A used by the ECB to collect data from the NCBs. The table shows the item numbers used in Table 2A of the GFS Guideline and the corresponding line numbers in reporting Table 2A, as well as the relationships between the line and item numbers, and the ESA 95 codes.

Table 2A Deficit-debt adjustment statistics

Description	Guideline item number Table 2A	Reporting table line number and relationships	ESA 95 codes
Deficit (-) or surplus (+)	1	1 = [1A.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	5	5	*F.2*
Transactions in securities other than shares – short and long-term securities	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	
Equity injections	11	11	
Other transactions in shares and other equity	12	12	
Transactions in other financial assets (consolidated)	13	13	*F.1 + F.6 + F.7*
of which taxes and social contributions accrued but not yet paid	14	14 = 14a.1 + 14a.2	
of which taxes accrued but not yet paid		14a.1	
of which social contributions accrued but not yet paid		14a.2	
Transactions in liabilities (consolidated)	15	15 = 16+17+18+19 + 20+22	
Transactions in currency and deposits	16	16	*F.2*
Transactions in securities other than shares – short-term securities	17	17	*F.331*
Transactions in securities other than shares – long-term securities	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	
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 national 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	
of which due to issuance and redemption value not at par	-	31a	
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*
of which reclassification of units	-	32a	
Change in debt	33	33 = 23+28 = 2-1+4-19-22+28 = ([3A.1] in year t) – ([3A.1] in year t-1)	

Table 2A Deficit-debt adjustment statistics (cont'd)

Description	Guideline item number Table 2A	Reporting table line number and relationships	ESA 95 codes
Memorandum items			
Transactions in loans (liabilities), of which other loans	-	34	*Part of F.4*
Privatisation proceeds allocated to debt redemption	-	35	
UMTS proceeds allocated to debt redemption	-	36	
Net transactions in other accounts receivable/payable related to the EU budget	-	37	*Part of F.7*
Difference between deliveries and corresponding cash payment related to military equipment expenditure	-	38	

1) [x.y] refers to the item number y of Table x.

TABLE 2A: LINE-BY-LINE ANALYSIS

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

5.18 Item 1 equals net lending (+)/net borrowing (-) (*B.9*) of the general government sector recorded in the capital account in the ESA 95. It uses the national accounts treatment for swaps (financial transactions). Item 1 of Table 2A equals item 1 of Table 1A.

ITEM 2: ADJUSTMENT BETWEEN FINANCIAL AND NON-FINANCIAL ACCOUNTS

5.19 Item 2 equals *B.9*, the balance of the capital account, minus *B.9f*, the balance of the financial account. In the ESA 95, there is no conceptual reason for the difference. The adjustment arises only from measurement discrepancies in the sources and timing of information used to compile the accounts.[17] It is common for the non-financial and financial accounts to be compiled independently and using different accounting or statistical documents as source data. The adjustment between financial and non-financial accounts is also known as the "statistical discrepancy". The size of the adjustment is a significant indicator of the quality of national accounts. Its size in the final version of the accounts must be reasonably small if the data are to be considered useful.

ITEM 3: NET TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES

5.20 This is net lending (+)/net borrowing (-) recorded in the financial account (*B.9f*). It is the balance of the transactions in financial assets (item 4) and transactions in liabilities (item 15).

ITEM 4: TRANSACTIONS IN FINANCIAL ASSETS (CONSOLIDATED)

5.21 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*). All transactions in financial assets are recorded on a consolidated basis.

Breakdown by instrument

ITEM 5: TRANSACTIONS IN CURRENCY AND DEPOSITS

5.22 Currency and deposits correspond to *F.2* in the ESA 95 (assets of *S.13*). They comprise deposits of the ministry of finance 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:

17 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.

transferable deposits, savings deposits and time deposits, whether in domestic or foreign currency.

5.23 This item also includes repurchase agreements (repos) where government units lend cash against securities and, in the process, acquire a claim on an MFI (see ESA 95, *5.46 (f)*).

5.24 Reverse repos (where government units deliver securities against the 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*).

5.25 Deposits of government units with other government units (for example local government deposits with the ministry of finance) 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.

5.26 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.

ITEM 6: TRANSACTIONS IN SECURITIES OTHER THAN SHARES

5.27 Securities other than shares are the ESA 95 category *F.33*, covering the net acquisition of non-government bills, notes and bonds. *F.33* includes certificates of deposit and commercial paper, which are money market instruments issued by financial institutions and non-financial corporations respectively. This item includes non-government bonds, notes and bills purchased primarily by social security funds, which in some countries have large holdings of such instruments. Transactions are recorded at market value, rather than at nominal (or face) value, and include accrued interest.

ITEM 7: TRANSACTIONS IN FINANCIAL DERIVATIVES

5.28 This item records the net acquisition of assets in the form of financial derivatives contracts (*F.34*). 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*)).

5.29 The market value of swaps is usually zero at inception. Changes in the market value, owing to changes in interest rates in the case of interest swaps, for example, are recorded as other flows in national accounts, increasing/decreasing the balance sheet position *AF.34* with no transaction recorded. Settlements of financial derivatives are recorded in the financial accounts as a transaction in *F.34* with a counterpart entry in currency and deposits (*F.2*).

5.30 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 was subsequently changed by an amendment to the ESA 95 in Regulation (EC) 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*). As explained in Chapter 3, a new ESA 95 balancing item was introduced, EDP *B.9*, to show government net lending (+)/net borrowing (-) if settlements under swaps and FRAs are recorded as interest for EDP purposes. The relationship between *B.9* and EDP *B.9* is shown in Table 1B.

ITEM 8: TRANSACTIONS IN LOANS

5.31 Loans are recorded in *F.4,* transactions in government assets. Examples are loans to public corporations (which are classified in *S.11* or *S.12*, and not in *S.13*), loans disbursed in the context of social housing schemes and loans to students. This item includes imputed transactions related to accruing interest.

5.32 Loans are valued at nominal (or face) value or the "principal" value (ESA 95 *7.51*) which is the contractually agreed amount that the debtor will have to repay to creditors at maturity.

Changes in the value of loans with floating interest owing to changes in market interest rates are ignored in the ESA 95 transactions, other flows and balance sheets.

ITEM 9: TRANSACTIONS IN SHARES AND OTHER EQUITY

5.33 Shares and other equity are recorded in the ESA 95 category *F.5* (government assets). In Table 2A, this category is broken down into privatisations, equity injections and other transactions in shares and other equity.

ITEM 10: PRIVATISATIONS

5.34 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 to the private sector. 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). During the early 1990s, privatisation, particularly of public utility businesses, became a normal practice of governments in western European countries. The former communist countries of eastern Europe also privatised many state-owned enterprises around the time of their accession to the EU.

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

5.36 Borderline cases might create specific difficulties. A sale of a large participation, such as a 20% stake in a business, even when not reducing control to less than 50% of the voting power, would nevertheless 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 lessening of control; or

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

5.37 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 first step of a pre-existing privatisation plan. Conversely, a sale of a 20% block in a corporation, 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).

5.38 Positive amounts for this item 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.

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.

5.39 Privatisation proceeds are to be recorded before the deduction of commissions and fees paid to investment banks acting 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*).

5.40 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.

ITEM 11: EQUITY INJECTIONS

5.41 An equity injection occurs when government acquires extra equity (*F.5*) in a public corporation through an injection of cash or in kind (a transfer of a building, for instance).

5.42 Negative equity injections (equity withdrawal) would be recorded in the event of a lump-sum payment by a public corporation to government, when the 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.

5.43 Amounts received by government that relate to "indirect privatisations" (see the Deficit and Debt Manual for more details) are generally recorded as negative equity injections. Indirect privatisation occurs where a public corporation, usually a holding company, sells assets (mainly shares and other equity) and gives the proceeds to government. According to the Deficit and Debt Manual, the transfer of the proceeds is to be considered as a withdrawal of equity from the holding company.

ITEM 12: OTHER TRANSACTIONS IN SHARES AND OTHER EQUITY

5.44 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.

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

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

ITEM 13: TRANSACTIONS IN OTHER FINANCIAL ASSETS

5.47 This category covers primarily monetary gold (*F.11*), special drawing rights (*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.

ITEM 14: OF WHICH TAXES AND SOCIAL CONTRIBUTIONS ACCRUED BUT NOT YET PAID

5.48 These are other accounts receivable (*F.7*) in respect of taxes and social contributions. Such amounts are the difference between accrual recording of taxes and social contributions and their cash recording. The Deficit and Debt Manual explains the accrual recording of taxes and social contributions.

ITEM 14a.1: OF WHICH TAXES ACCRUED BUT NOT YET PAID (MEMO ITEM)

5.49 These are other accounts receivable (*F.7*) in respect of taxes. Such amounts are the difference between the accrual recording of taxes and their cash recording.

ITEM 14a.2: OF WHICH SOCIAL CONTRIBUTIONS ACCRUED BUT NOT YET PAID (MEMO ITEM)

5.50 These are other accounts receivable (*F.7*) in respect of social contributions. Such amounts are the difference between the accrual recording of social contributions and their cash recording.

ITEM 15: TRANSACTIONS IN LIABILITIES

5.51 These are transactions in the EDP debt instruments, i.e. currency and deposits (*F.2*), loans (*F.4*) and securities other than shares (*F.33*) and in the liabilities that are not part of EDP debt, i.e. financial derivatives (*F.34*), insurance technical reserves (*F.6*) and other accounts payable (*F.7*), including trade credits. All transactions in liabilities are recorded on a consolidated basis.

Breakdown by instrument

ITEM 16: TRANSACTIONS IN CURRENCY AND DEPOSITS

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

5.53 Currency (*F.21*) comprises coins in circulation issued by government. In certain countries, coins are issued by the central bank rather than government and are therefore a central bank liability, as are banknotes. 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), or to public sector entities classified outside the general government sector.

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

5.55 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 to enter into 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 MFI balance sheet Regulation [18] (Annex I, Part 3) follows a different convention whereby no MFI liability is a "loan" and no MFI asset is a "deposit".

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

5.57 Since these transactions are derived from the ESA 95 financial accounts, accruing interest on such deposits is normally recorded in the instrument category. Some compilers, however, include accrued interest in *AF.7*, other accounts payable, 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).

18 Regulation (EC) No 2423/2001 of the ECB of 22 November 2001 concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2001/13) OJ L 333, 17.12.2001, p. 1.

ITEM 17: TRANSACTIONS IN SECURITIES OTHER THAN SHARES – SHORT-TERM SECURITIES

5.58 Item 17 covers government liabilities in the 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 18.

5.59 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 each of the first tranches was longer. In that case, all tranches would be classified as long-term instruments since it would not be possible to distinguish in the market between the tranches and to record transactions, other flows and stocks consistently.

5.60 This item excludes instruments – even those called "bills" or "treasury bills" – when their initial maturity exceeds one year. The ESA 95 defines short-term as an initial maturity of one year or less (ESA 95 *5.22*). While the ESA 95 allows flexibility up to two years, and even five years for certain securities issued by general government, the recommended practice is to make the distinction at one year in the interests of comparability across countries.

ITEM 18: TRANSACTIONS IN SECURITIES OTHER THAN SHARES – LONG-TERM SECURITIES

5.61 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 ministry of finance, 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.

5.62 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 numerous zero coupon bonds), fungible bonds issued in tranches, certain types of lottery bonds (although 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.

5.63 Instruments of one-year initial 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.

5.64 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 increase in the index is regarded as the property income received 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 are often a way of hedging or taking on risks.

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

ITEM 19: TRANSACTIONS IN FINANCIAL DERIVATIVES

5.66 This item records the net incurrence of liabilities in the form of financial derivatives contracts (*F.34*). See also item 7.

ITEM 20: TRANSACTIONS IN LOANS

5.67 Item 20, transactions in loans, is the 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.

5.68 The category includes imputed transactions in loans in respect of debt assumption. These are recorded in the 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 also includes imputed loans in respect of finance leases, lump-sum payments received at the inception of swaps, and securitisations. Guarantees are regarded as contingent liabilities and are not recorded in the system (ESA 95 *7.22*) except when they are traded.

ITEM 21: OF WHICH LOANS FROM THE NATIONAL CENTRAL BANK

5.69 This item records transactions in loans provided by the national central bank to government (usually the ministry of finance). Since the Maastricht Treaty rules prohibiting financing of government by the NCBs, the value of the transactions is expected to be zero (no incurrence of new liabilities) or negative (redemption of existing loans). Chapter 7 describes the prohibition of monetary financing in more detail.[19]

ITEM 22: TRANSACTIONS IN OTHER LIABILITIES

5.70 This category covers transactions related to insurance technical reserves (*F.6*) and other accounts payable (*F.7*).

ITEM 23: GENERAL GOVERNMENT BORROWING REQUIREMENT

5.71 The General Government Borrowing Requirement (GGBR) covers all financial transactions in Maastricht debt instruments (currency and deposits, loans and securities other than shares, excluding financial derivatives). It is sometimes called "transactions in government debt", "Maastricht debt transactions" or "transactions in Maastricht debt".

5.72 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.

ITEM 24: TRANSACTIONS IN LONG-TERM TERM DEBT INSTRUMENTS

5.73 This includes all Maastricht debt instruments with an initial maturity of more than one year. Initial maturity is the maturity at issue, which is also frequently referred to as "original maturity".

Breakdown by currency

5.74 The breakdown of transactions by currency indicates the exposure of government to changes in exchange rates. The compilation of transactions is often based on estimates of the

19 Article 123 of the Treaty on the Functioning of the European Union (formerly the EC Treaty).

stock of debt in a given currency and the change in value of that currency over an accounting period.

ITEM 25: NATIONAL CURRENCY-DENOMINATED

5.75 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 (national) currency that is legal tender.

ITEM 26: PARTICIPATING FOREIGN CURRENCY-DENOMINATED

5.76 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.

ITEM 27: NON-PARTICIPATING FOREIGN CURRENCY-DENOMINATED

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

ITEM 28: OTHER FLOWS

5.78 Items 28 to 32 account for the difference between transactions in government debt instruments, 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 the volume of debt (item 32).

ITEM 29: VALUATION EFFECTS ON MAASTRICHT DEBT

5.79 The change in debt (item 33) is recorded at nominal (or face) value, while the GGBR (item 23) is recorded at market value, because the ESA 95 records flows and balance sheets at market value. Item 29 shows the difference between the change in debt and the GGBR due to the different valuation methods. It is the summation of two valuation effects: foreign exchange holding gains and losses (item 30) and other valuation effects (item 31).

ITEM 30: FOREIGN EXCHANGE HOLDING GAINS AND LOSSES

5.80 This is the increase (+) or decrease (-) in the nominal value of Maastricht debt instruments due to exchange rate movements, recorded in the ESA 95 financial accounts within the other flow category for nominal holding gains/losses (*K.11*). Item 30 has two components:

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

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

5.81 Item 30 equals the net increase in the nominal value of Maastricht debt owing to these two factors. "Net increase" means the increases minus the decreases in the value due to such movements and changes.

5.82 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.

5.83 When sources of information are primarily balance sheets (stocks), estimates of the holding gains and losses must be made on the basis of the currency composition of the debt. The difference between transactions in foreign currency debt at nominal (or 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 of transaction, and the change in stocks at nominal (or 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.

5.84 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 (i.e. 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.

ITEM 31: OTHER VALUATION EFFECTS – FACE VALUE

5.85 This item is the "market-to-face-value adjustment" which was introduced in paragraph 5.10. 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 nominal (or face) value. In order to reconcile their movements, it is necessary that both transactions and other flows are at nominal (or face) value.

5.86 For example, a bond issued 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 nominal (or face) value.

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

5.88 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 as regards transactions in financial instruments whose traded prices take account of accrued interest. The stock of Maastricht debt is valued at nominal (or face) value and so does not include accrued interest (except for certain indexed instruments).

5.89 Item 31 records the adjustments needed for consolidated financial transactions.

The market-to-face-value adjustment

= Gross issuance: face value minus market value (A)

\- Gross redemption: face value minus market value (B)

\+ Accrual of interest: interest payable minus interest paid[20] (C)

\+ Exchange of debt (paragraph 5.96) (D)

A. GROSS ISSUANCE

Premium and discounts at issue

5.90 For example, a zero coupon bond with a redemption price of 100 (face value) issued at 80 is recorded (at issue) as follows:

Transaction in bonds	+80
Change in Maastricht debt	+100
Market-to-face-value adjustment	+20

The treatment is similar for all bonds not issued at nominal (or 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.

Accrued interest sold at issue

5.91 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 6% coupon bond with a face value of 100 pays a coupon on 1 September and is

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

issued on 1 June at par. The selling price will be 104.5, of which 4.5 represents accrued interest.

Transaction in bonds	+104.5
Change in Maastricht debt	+100.0
Market-to-face-value adjustment	-4.5

5.92 Now consider a bond, denominated in dollars, with a nominal (or face) value of 100. Suppose the euro falls from 1 dollar = 0.65 euro at the beginning of the year to 1 dollar = 0.70 euro at the end of the year. The nominal (or face) value of the bond (in euro) rises from 65 to 70, an increase of 5. This increase will be recorded in item 30. Any interest accrued during the year that remains unpaid is recorded in the financial accounts as a reinvestment in the bond and is therefore part of the borrowing requirement (item 23). Since the nominal value of the bond does not include interest accrued but not yet paid, the amount of accrued but unpaid interest will appear with a minus sign in item 31.

B. GROSS REDEMPTION

5.93 In general, redemption at maturity is, by definition, at nominal (or 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 the ESA 95) minus the nominal (or face) value.

C. ACCRUAL OF INTEREST

5.94 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 nominal (or face) value of the outstanding debt. Consider a ten-year bond, with a coupon paying 6% interest, issued at 90 and with a nominal (or 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

D. EXCHANGE OF DEBT

5.95 An exchange of debt is the early redemption of old debt and the issuance of new debt of equivalent market value. The nominal (or face) value of the old and new debts may differ. This difference is not entered in the general borrowing requirement (which is recorded at market value), but it does change Maastricht debt. The recording of early redemption and new issuance would be as described above.

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

ITEM 31A: OF WHICH DUE TO ISSUANCE AND REDEMPTION VALUE NOT AT PAR (MEMO ITEM)

5.97 This item is the part of the "market-to-face-value adjustment" which occurs when the issuance or redemption of debt at the market price differs from the face value. This information may be calculated by adding two adjustments: the issuances above (-)/below (+) nominal value and the redemptions of debt above(+)/below(-) nominal value. This information is also available through the EDP notification.

ITEM 32: OTHER CHANGES IN VOLUME OF DEBT

5.98 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 nominal value. In practice, this item is mostly a result of the reclassification of units between sectors (and, more rarely, the reclassification of instruments). Statistical discrepancies may also contribute to this item.

ITEM 32A: OF WHICH RECLASSIFICATION OF UNITS (MEMO ITEM)

5.99 This item is the part of other changes in volume of debt which is due to the reclassification of units between general government and other sectors and more rarely to the reclassification of instruments from Maastricht debt instruments to non-Maastricht debt instruments (or vice versa). This information is also available through the EDP notification.

ITEM 33: CHANGE IN DEBT

5.100 This equals the sum of transactions in Maastricht debt (GGBR, item 23) plus the other flows (item 28). It measures the impact 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.

5.101 Any unexplained residual arising from the two methods 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.

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

5.102 This is an additional memorandum item in Table 2A of the GFS data request (not included in the GFS Guideline). The same applies to the memorandum items below (items 35 and 36). Item 34 comprises short and long-term borrowing by government units from non-government units, such as financial corporations and the rest of the world.

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

5.103 This is the part of EDP debt redeemed directly as a result of privatisation proceeds. In some Member States, it may not be possible to identify the use of privatisation proceeds, in which case nothing will be recorded here.

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

5.104 This is the part of EDP debt redeemed directly as a result of UMTS proceeds. In some EU Member States, it may not be possible to identify the use of UMTS proceeds, in which case nothing will be recorded here.

ITEM 37: NET TRANSACTIONS IN OTHER ACCOUNTS RECEIVABLE/PAYABLE RELATED TO THE EU BUDGET (MEMO ITEM)

5.105 This category is equal to transactions in other accounts receivable (*F.7*) related to the EU budget minus transactions in other accounts payable (*F.7*) related to the EU budget. It includes advances received from the EU budget minus pre-payments made by government on behalf of the EU budget. Information on these transactions can be found in the EDP-related questionnaire that Member States are required to report to Eurostat along with the EDP notification tables.

ITEM 38: DIFFERENCE BETWEEN DELIVERIES AND CORRESPONDING CASH PAYMENT RELATED TO MILITARY EQUIPMENT EXPENDITURE (MEMO ITEM)

5.106 Military equipment expenditure is to be recorded as expenditure in national accounts at the time of delivery. The corresponding cash payment may be made at a different point in time (either before or after delivery of the equipment). If cash payments occur before the delivery, the sign of this series is positive, as government acquires a financial asset (other accounts receivable, *F.7*). Conversely, if the delivery pre-dates the payment, the sign of this series is negative, as the government incurs a liability (recorded under other accounts payable, *F.7*). Information on the delivery of military equipment and the corresponding cash payments can be found in the EDP-related questionnaire that Member States are required to report to Eurostat along with the EDP notification tables.

6 TRANSACTIONS IN MAASTRICHT DEBT – CONSOLIDATION (TABLE 2B)

INTRODUCTION TO TABLE 2B

6.1 In the ESA 95 “consolidation refers to the elimination, from both uses and resources, of transactions which occur between units when the latter are grouped, and to the elimination of reciprocal financial assets and liabilities” (ESA 95 *1.58,* first indent). Maastricht debt is fully consolidated, thus holdings by any unit in the general government sector of debt issued by any other unit in the general government sector are excluded from general government gross debt.

6.2 The non-consolidated financial accounts of general government show all transactions in financial assets and liabilities, irrespective of whether the counterpart unit also belongs to the government sector. However, when a government department purchases bonds issued by another department and the two departments are viewed as part of one unit, the financial accounts do not record the transaction or position in consolidated or in non-consolidated presentations. Thus such asset/liability positions are netted even in the non-consolidated ESA 95 accounts. Such instruments are not viewed as “consolidated” but as “non-registered”. This is similar to the treatment of non-financial transactions within units which are also not recorded, except in some exceptional cases, for example, the recording of output for own final use (*P.12*) and capital consumption (*K.1*) because the uses and resources appear in different accounts.

6.3 Starting with the non-consolidated ESA 95 financial accounts, the consolidation of the financial accounts of general government requires the following.

a) Elimination 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 held by other government units.

b) Elimination 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 an MFI 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).

c) Addition of transactions in liabilities 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 an MFI 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.

TABLE 2B: FORMAT AND CONTENTS

6.4 The table on the next page shows the format and contents of the reporting Table 2B 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. Table 2B shows how transactions in debt instruments are recorded in non-consolidated financial accounts reported to Eurostat under the ESA 95 transmission programme. The table starts with the non-consolidated transactions in Maastricht debt and then shows the “consolidating

Table 2B Transactions in Maastricht debt – consolidation

Description	Guideline item number Table 2B	Reporting table line number and relationships [1]	ESA 95 codes
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	*Part F.4*
Transactions in other loans	6	6	*Part F.4*
Consolidating transactions	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*

1) [x.y] refers to the item number y of Table x.

transactions", namely the differences between the non-consolidated (Table 2B) and the consolidated (Table 2A) transactions by financial instrument.

LINE-BY-LINE ANALYSIS OF TABLE 2B

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

6.5 Currency and deposits, loans and securities other than shares, excluding financial derivatives are those instruments included in the definition of general government gross debt in Council Regulation (EC) No 479/2009. They are defined in terms of the ESA 95 classifications.

6.6 This item covers the net incurrence 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.

ITEM 2: CURRENCY AND DEPOSITS

6.7 This is *F.2* in the ESA 95. The category, in the context of government liabilities, is described in more detail under item 16 of Table 2A (see Chapter 5).

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

ITEMS 3 AND 4: SECURITIES

6.9 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 up to 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 under items 17 and 18 of Table 2A.

ITEM 5: LOANS FROM CENTRAL BANK

6.10 This item is equal to item 21 in Table 2A.

ITEM 6: TRANSACTIONS IN OTHER LOANS

6.11 This item covers short-term and long-term borrowing in the form of loans from financial corporations, the rest of the world and 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 item 20 of Table 2A.

ITEMS 7 TO 11: CONSOLIDATING TRANSACTIONS

6.12 Consolidation is described in the introduction to this chapter. The instrument definitions are the same as for items 2 to 4 and item 6. "Consolidating transactions" are part of the process which reduces outstanding Maastricht debt through consolidation, for example the purchase by a governmental agency of debt issued by another. Item 7, consolidating transactions, summarises the difference between *non-consolidated* transactions and *consolidated* transactions for Maastricht debt instruments.

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

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

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

– Item 11, loans (*F.4*): this item is the non-consolidated transactions in other loans (item 6) minus the consolidated transactions in loans (Table 2A, item 20) minus 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)

INTRODUCTION TO TABLE 3A

7.1 This table analyses the stock of Maastricht debt, which is defined as "general government gross debt" in Council Regulation (EC) No 479/2009. 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).

7.2 Article 1(5) of Council Regulation (EC) No 479/2009 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" – 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.

7.3 Note that Maastricht debt excludes two types of government liability, as follows.

a) Certain ESA 95 liabilities:

– financial derivatives (*AF.34*) such as swaps or FRAs;

– insurance technical reserves, including pension liabilities (*AF.6*);

– trade credit (*AF.7*) originating from delayed payments to providers of goods and services;

– other accounts receivable and payable (*AF.7*); and

– accrued interest, whether recorded with the underlying instrument or recorded in other accounts payable *(AF.7)*.

b) Liabilities recognised by some accounting systems but not by the 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 unfunded pension schemes for the general population);

– contingent liabilities; and

– liabilities of entities regarded as government subsidiaries in other accounting systems but outside the general government sector in national accounts.

7.4 Instruments can be measured in several ways. The following approaches are discussed below: market value, transaction value, issue value, redemption value and nominal (or face) value.

a) 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 service charges, fees, commission and similar payments for services provided in carrying out the transaction and any taxes on financial transactions (ESA 95 *5.137*)). It will include accrued interest. It is the value used in the ESA 95 balance sheets (ESA 95 *7.25-7.32*). This value is relevant both for the debtor, as the opportunity cost for the issuer to settle its debt early by buying it back on the secondary market, and for the creditor.

b) The *transaction value* is usually close to the *market value* at the time of transaction. Nevertheless, the ESA 95 indicates that the transaction value is a 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, which may differ slightly from the quoted value at the same time (and differ more substantially from a "closing price"). When the difference between the agreed contract price and the market price is large enough to suggest that the transaction has a "gift" component, the transaction would be recorded at market value and the difference with the contract price recorded as a transfer (*D.7* or *D.9*) (cf. ESA 95 *5.136*).

c) The *issue value* (ESA 95 *5.138.b*) is the *transaction value* at the time of issue of a financial instrument. The issue value is relevant for the debtor since it represents the amount of funds received initially from the incurrence of the liability.

d) The *redemption value* (ESA 95 *5.138.g*) corresponds to the final payment on an instrument when it is repaid at maturity. It includes redemption premiums but excludes payments by lottery and saving premiums, which are recorded as interest. Redemption value is relevant both for the debtor, as the amount repayable at the end of the contract, and for the creditor.

e) The *nominal value* or the *face value* refers to a value that does not change in response to changes in market yields. As explained in Chapter 1 and in the section below, the GFS methodology uses nominal value or face value as equivalent terms. However, in GFS (IMF) nominal value is defined as the required future payments of principal and interest discounted at the existing contractual interest rate (i.e. interest prevailing at the time of issue), whereas face value is defined as the undiscounted amount of principal to be repaid.

7.5 Article 1(5) of Council Regulation (EC) No 479/2009 stipulates that government debt is to be recorded at nominal value. Nominal value is defined as the face value, that is, the (contractually agreed) amount that the government will repay to creditors at maturity. The Regulation develops or modifies the notion of nominal (or face) value in three specific cases:

– for an indexed-linked liability, the nominal value "corresponds to its face value adjusted by the index-related change in the value of the principal accrued to the end of the year";

– 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.

7.6 The Deficit and Debt Manual gives additional guidance for specific instruments, as below:

– Deposits (including non-negotiable notes): the nominal (or face) value includes interest accrued when it is actually credited to the holder (as a result of a legal obligation) and available for withdrawal.

– Index-linked bonds: the nominal value corresponds to the face value adjusted by the index-related capital uplift accrued to the end of the year.

– Zero coupon bonds: the nominal value is the redemption value (face value).

– Bonds with capitalised interest: the nominal value is the issue value (face value, but not the same as redemption value).

– Stripped bonds: stripping of coupon and principal does not modify the nominal value of the original bond.

– Financial leasing: debt includes the imputed loan equal to the gross fixed capital formation under financial leasing.

– If a securitisation cannot be recorded as a sale of assets in national accounts, debt includes the amount paid by the special purpose vehicle (SPV) to government at inception of the securitisation.

– Debt includes lump-sum payments received by government at the inception of swap contracts.[21]

7.7 The treatment of repos is clarified in the ESA 95 (*5.46f*, *5.64a*, *5.81d*), according to the maturity of the repo and the nature of the original holder of the security. Securities delivered in the context of repurchase agreements ("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 assignor. 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 record the security in their balance sheets, total holdings of the asset do not change. The treatment specified in the ESA 95 for repos is applicable only where the original seller of the asset has a firm commitment to repurchase it under conditions agreed at the outset. GFS follow the same rules.

TABLE 3A: FORMAT AND CONTENTS

7.8 The table below presents the format and contents of reporting Table 3A 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, and the relationship with the ESA 95 codes. The table shows several breakdowns of Maastricht debt: by instrument, holder, currency, maturity and sub-sector contribution.

21 Guidance on swaps is available on Eurostat's website at www.epp.eurostat.ec.europa.eu under the government finance statistics section.

Table 3A Government gross debt

Description	Guideline item number Table 3A	Reporting table line number and relationships [1)]	ESA 95 codes
Gross consolidated debt	1	1 = 2+3+4+5+6 = 7+12 = 13+14+15 = 16+17 = 19+20+22 = 24+25+26+27 = [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	*Part of F.4*
Debt – other loans	6	6	*Part of F.4*
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 of the Member State	11	11	*S.11 + S.14 + S.15*
Debt held by non-residents of the Member State	12	12 = 12A+12B	*S.2*
Debt held by non-residents inside euro area	-	12A	*S.21 (part)*
Debt held by non-residents outside euro area	-	12B	*S.21 (part)*
Debt denominated in national currency	13	13	
Debt denominated in a participating foreign currency	14	14	
Debt denominated in a non-participating foreign currency	15	15	

Table 3A Government gross debt (cont'd)

Description	Guideline item number Table 3A	Reporting table line number and relationships [1]	ESA 95 codes
of which variable interest rate	18	18	
Debt with residual maturity up to one year	19	19	
Debt with residual maturity over one and up to five years	20	20	
of which variable interest rate	21	21	
Debt with residual maturity over 5 years	22	22	
of which variable interest rate	23	23	
Central government debt contribution	24	24 = [3B.7]-[3B.15]	
State government debt contribution	25	25 = [3B.9]-[3B.16]	
Local government debt contribution	26	26 = [3B.11]-[3B.17]	
Social security funds debt contribution	27	27 = [3B.13]-[3B.18]	
Memorandum items			
Average residual maturity of debt	28	28	
Debt – zero coupon bonds (redemption value)	29	29	
Debt with residual maturity over one year	-	30 = 20+22	

[1] [x.y] refers to the item number y of Table x.

LINE-BY-LINE ANALYSIS OF TABLE 3A

ITEM 1: GROSS CONSOLIDATED DEBT

7.9 This is the general government gross consolidated debt at nominal (or face value). It is the sum of consolidated Maastricht debt instruments. It excludes any government debt held as a financial asset by government units.

Breakdown by instrument

ITEM 2: CURRENCY AND DEPOSITS

7.10 This item corresponds to liabilities of general government in currency (*F.21*), transferable deposits (*F.22*) and other deposits (*F.29*). Chapter 5 describes transactions in these instruments that are government liabilities under item 16.

7.11 Coins issued by government, as in most European countries, are a government liability. If coins are issued by the central bank, they are a liability of the central bank. Banknotes are also a central bank liability. 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.

7.12 Deposits held at the ministry of finance 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 (for example, public corporations) classified outside the general government sector (*S.13*) are included in this item.

7.13 This category may include 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.

ITEM 3: SHORT-TERM SECURITIES

7.14 This item includes bills and other short-term notes and bonds with an initial maturity of up to one year, issued predominantly by the ministry of finance (classified as *F.331* in the ESA 95). More information on short-term securities is given in Chapter 5 under item 17.

7.15 The face value rule means that instruments that pay no coupon interest, such as 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.

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

ITEM 4: LONG-TERM SECURITIES

7.17 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 Chapter 5 under item 18.

7.18 The redemption price of some securities is linked to an index such as a consumer price index. Council Regulation (EC) 479/2009 states that the face value of an index-linked liability includes 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 compilation of the coupons) will be reflected in Maastricht debt.

ITEM 5: LOANS FROM CENTRAL BANK

7.19 This item covers loans from the NCB to government (generally to the ministry of finance) classified as *F.4* (assets of sub-sector *S.121*) in national accounts. In accordance with the Maastricht Treaty's prohibition of lending to government by NCBs, all overdraft facilities granted by central banks to their governments in the EU Member States were ceased by 1994. 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.

7.20 While the Maastricht Treaty also prohibited the purchase by central banks of government bonds on the primary market, it did allow secondary market purchases. The item for government debt held by NCBs (item 8 of Table 3A) can therefore differ substantially from the item for loans from the NCB (item 5).

ITEM 6: OTHER LOANS

7.21 Other loans (*F.4*) cover short and long-term loans taken out by units of general government. While all sub-sectors are covered, in practice predominantly state and local government take such loans.

7.22 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.

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

7.24 Imputed loans in respect of finance leases are included in Maastricht debt in this item. Also included in this item are lump-sum payments received at inception of swap contracts, as are proceeds from securitisations that are not deemed a sale in national accounts.

Breakdown by holder/creditor

ITEM 7: RESIDENT HOLDERS

7.25 This is the debt held by residents of the Member State. It is calculated as the sum of the debt held by the central bank (item 8), the debt held by other monetary financial institutions (item 9), the debt held by other financial institutions (item 10), and the debt held by other residents of the Member State (item 11).

ITEM 8: CENTRAL BANK

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

- loans, including short-term loans, and overdraft facilities established before 1994 or before adoption of the euro;
- deposits made by the NCB before 1994 at the ministry of finance; and
- government securities (acquired in the secondary market), held by the NCB.

7.27 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 ministry of finance.

7.28 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.[22]

ITEM 9: OTHER MONETARY FINANCIAL INSTITUTION

7.29 This item covers all elements of Maastricht debt held by domestic MFIs other than the NCB. Other MFIs form the ESA 95 sub-sector *S.122* (ESA 95 *2.41* and *2.49*). It includes both public (government owned or controlled) and private institutions. The ECB defines other MFIs as resident credit institutions as defined in Community law, or 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 (EC) No 25/2009, Article).[23]

7.30 Government liabilities held by other MFIs may include:

- deposits at the ministry of finance;
- short 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 by them to or deposits placed by them with governments abroad;
- government securities borrowed or received (by banks) in the context of repos or bond lending/borrowing operations;
- liabilities in the form of derivatives, e.g. options issued by government and bought by MFIs, or swaps with negative market value (i.e. liabilities of government); and
- other instruments not included in Maastricht debt.

ITEM 10: OTHER FINANCIAL INSTITUTIONS

7.31 The category of other (non-monetary) financial institutions (or intermediaries in the ESA 95 terminology) includes:

- other financial intermediaries (*S.123*), including investment funds (but not money market funds, which are in *S.122*, or insurance corporations and pension funds, which are in *S.125*);
- 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;
- 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.

ITEM 11: OTHER RESIDENTS

7.32 Other residents comprise:

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

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

22 The Eurosystem comprises the ECB and the NCBs of those countries that have adopted the euro.
23 Regulation (EC) No 25/2009 of the ECB of 19 December 2008 concerning the balance sheet of the monetary financial institutions sector (recast) (ECB/2008/32) OJ L 15, 20.1.2009, p. 14.

7.34 In addition to their claims on general government in the form of coins, households in some countries hold significant deposits (*AF.2*) directly with the ministry of finance or at the post office (the latter being re-routed in national accounts to represent a liability of central government). These deposits are mostly of 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. Households may also have substantial holdings of marketable government debt. Holdings held indirectly via investment funds or other vehicles are not recorded here, but as holdings of the financial intermediaries concerned.

7.35 Non-financial corporations as well as NPISHs may also hold liquid assets in the form of government securities and hold claims on general government in the form of deposits (*AF.2*) or loans (*AF.4*). Their claims on general government in the form of other accounts receivable (*AF.7*) are excluded from Maastricht debt, as are any claims on general government in the form of financial derivatives (*AF.34*).

ITEM 12: NON-RESIDENT HOLDERS

7.36 This item covers the general government debt held by units of the rest of the world (*S.2* in the ESA 95). In the 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 provided for in the ESA 95 is euro area Member States. Counterpart data distinguishing between counterparts in the euro area and in the rest of the world are not requested under the GFS Guideline, although it is possible to report this breakdown (Table 3A, items 12A and 12B).

7.37 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 (mostly non-resident banks) with government, particularly ministries of finance. It includes deposits by other governments, notably of other EU Member States in the context of extended cooperation between ministries of finance on the timing of treasury bill issuance; and
- debt issued by the domestic government and held by a government unit of another country, possibly both in the euro area, e.g. German Bund holdings of a Finnish social security fund.

ITEM 12A: DEBT HELD BY NON-RESIDENTS INSIDE THE EURO AREA (MEMO ITEM)

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

ITEM 12B: DEBT HELD BY NON-RESIDENTS OUTSIDE THE EURO AREA (MEMO ITEM)

7.39 This item covers government debt held by residents of non-participating Member States and non-residents outside the EU.

Currency denomination

ITEM 13: NATIONAL CURRENCY-DENOMINATED

7.40 This includes all elements of Maastricht debt denominated in the currency that is legal tender of the Member State concerned in the year to which the data refer. This would be the euro for a euro area country either from the time of the establishment of the euro area, or from the time the Member State adopted the euro.

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

7.42 It excludes liabilities denominated in national currency but subsequently exchanged through contractual agreement into a foreign currency. In that case, the liability is entered under the relevant item of the breakdown by foreign currency (item 14 or 15).

ITEM 14: PARTICIPATING FOREIGN CURRENCY-DENOMINATED

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

7.44 By convention, this entry is zero for the years after the country in whose currency the debt is denominated joined the euro area, irrespective of whether each liability has been legally or technically converted into euro. For the 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.

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

ITEM 15: NON-PARTICIPATING FOREIGN CURRENCY-DENOMINATED

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

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

Maturity of Maastricht debt

7.48 Initial maturity is the length of life of an instrument when first issued. The 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.

ITEM 16: SHORT-TERM DEBT

7.49 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 debt because they can be redeemed at any time.

ITEM 17: LONG-TERM DEBT

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

7.51 Issues of tranches – each having one year or less maturity – of a long bond or long note benchmark would technically meet the short-term definition, but it is preferable for practical reasons to assimilate these last tranches to the others in terms of initial maturity. In other words, all future tranches of a bond issued with an initial maturity characteristic of a long-term bond would be classified as long term, as it is generally not possible to identify the original tranche to which an individual security belongs.

7.52 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 can be redeemed on demand with penalties, or after a period of notice. In these cases, it is a matter of judgement to determine whether long term or short term best describes the nature of the instrument.

ITEM 18: OF WHICH VARIABLE INTEREST RATE

7.53 This item covers the outstanding amount of long-term government debt with a variable interest rate. Variable interest rate instruments are instruments where the coupon rate or underlying principal is linked to an interest rate resulting in a variable nominal coupon payment over the life of the instrument.

7.54 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.

Breakdown of all Maastricht debt by residual maturity

7.55 Residual maturity is the duration from the reference period until the contractual redemption date of an instrument. 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.

7.56 For a conventional bond, the residual maturity corresponds to the redemption maturity, i.e. the date of 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 separate loans.

7.57 Instruments with an option for early redemption can be classified according to the earliest date the option can be exercised (either by the issuer or the holder).

ITEM 19: RESIDUAL MATURITY UP TO ONE YEAR

7.58 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 up to one year; and coins;

– debts with an initial maturity of more than one year 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.

ITEM 20: RESIDUAL MATURITY OVER ONE YEAR AND UP TO FIVE YEARS

7.59 This item includes:

– all debt of initial maturity of more than one year, with over 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 more than one and five years from the reporting date.

ITEM 21: OF WHICH VARIABLE INTEREST RATE

7.60 This item covers government variable rate debt instruments with a residual maturity over one year and up to five years. See also item 18.

ITEM 22: RESIDUAL MATURITY OVER FIVE YEARS

7.61 This item comprises instruments with a residual maturity over five years. For instruments with a redemption maturity of more than five years but which are redeemed on a regular basis, the part to be repaid more than five years from the reporting date is recorded here.

ITEM 23: OF WHICH VARIABLE INTEREST RATE

7.62 This item covers government variable rate debt instruments with a residual maturity over five years. See also item 18.

Breakdown of consolidated Maastricht debt by sub-sector

ITEMS 24 TO 27: SUB-SECTOR GOVERNMENT DEBT CONTRIBUTION

7.63 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 (Table 3A, item 24) is equal to the liabilities of the central government which are not assets of the central government (Table 3B, item 7), minus the holdings by central government of debt issued by units in other general government sub-sectors (Table 3B, item 15).

7.64 The gross consolidated general government debt (Table 3A, item 1) can be calculated by adding the sub-sector contributions (Table 3A, items 24, 25, 26 and 27), because these items already reflect the intra sub-sector consolidation.

ITEM 28: AVERAGE MATURITY OF DEBT (MEMO ITEM)

7.65 This memorandum 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.

7.66 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 estimations may be required for consolidation where precise data on the maturity of holdings by government units are not available.

7.67 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.

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

ITEM 29: DEBT – ZERO COUPON REDEMPTION VALUE

7.69 This memorandum item 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.

ITEM 30: DEBT WITH RESIDUAL MATURITY OVER ONE YEAR

7.70 This memorandum item is not part of the GFS Guideline but it appears in the GFS data request as item 30. It is the sum of items 20 and 22. For the application of this rule to the different instruments, see the guidance given above for items 19, 20 and 22.

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

INTRODUCTION TO TABLE 3B

8.1 Table 3B shows the reconciliation between consolidated general government debt (item 1 in Table 3A) and non-consolidated general government debt (item 1 in Table 3B). Non-consolidated general government debt includes debt issued by a sub-sector of general government and held in another sub-sector of general government, although it excludes debt held within the issuing sub-sector. In GFS, non-consolidated general government debt therefore equals the sum of the debt of each sub-sector (items 7, 9, 11, plus 13).

8.2 Table 3B suggests three possible methods to derive the consolidating elements for general government debt (Table 3B, item 2).

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

b) By adding the liabilities of each sub-sector that are held by another sub-sector (Table 3B, items 8, 10, 12 and 14).

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). This third method is the one applied in the EDP reporting tables.

Methods (b) and (c) are visualised in Table 6.

TABLE 3B: FORMAT AND CONTENTS

8.3 The table on the next page presents the format and contents of reporting Table 3B 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, and the ESA 95 codes.

LINE-BY-LINE ANALYSIS OF TABLE 3B

ITEM 1: GROSS DEBT (NON-CONSOLIDATED BETWEEN SUB-SECTORS)

8.4 *Non-consolidated* general government gross debt (meaning not consolidated between sub-sectors) is the sum of the Maastricht debt of each sub-sector (Table 3B, items 7, 9, 11 and 13). The 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. Valuation is at face value and follows the standard rules (see Chapter 7).

ITEM 2: CONSOLIDATING ELEMENTS

8.5 The consolidating elements of government debt comprise all government liabilities in the relevant instruments *(AF.2, AF.33* and *AF.4)*, at face value, which are held by government units outside the sub-sector that has the liability. (Holdings by a unit of its own debt[24] are not

24 That is, where the financial asset and liability are held by the same institutional unit.

Table 6 Relationships in Table 3B

		Liabilities by sub-sector				
		Central government	State government	Local government	Social security funds	General government
Financial assets by sub-sector [1]	Total	Item 7	Item 9	Item 11	Item 13	Item 1
	Central government					Item 15
	State government					Item 16
	Local government					Item 17
	Social security funds					Item 18
	General government	Item 8	Item 10	Item 12	Item 14	Item 2

1) The green cells represent intra sub-sector holdings that are neither recorded in the non-consolidated nor in the consolidated accounts.

Table 3B Government gross debt – consolidating elements

Description	Guideline item number Table 3B	Reporting table line number and relationships	ESA 95 codes
Debt (non-consolidated)	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	7	7	
of which held by other government sub-sectors	8	8	
Debt issued by state government	9	9	
of which held by other government sub-sectors	10	10	
Debt issued by local government	11	11	
of which held by other government sub-sectors	12	12	
Debt issued by social security funds	13	13	
of which held by other government sub-sectors	14	14	
Memorandum items			
Holdings by central government of debt issued by units in other government sub-sectors	15	15	
Holdings by state government of debt issued by units in other government sub-sectors	16	16	
Holdings by local government of debt issued by units in other government sub-sectors	17	17	
Holdings by social security funds of debt issued by units in other government sub-sectors	18	18	

recorded at all in the accounts *(*ESA 95*, 7.68)*; and, as noted earlier, in GFS holdings by other units in the issuing sub-sector are not recorded in the consolidated debt of that sub-sector).

8.6 The consolidating elements of government debt can be broken down into the ESA 95 categories:

– cross-deposits between government units, in particular local government (and social security fund) deposits held with the ministry of finance;

– cross-lending between government units, in particular central government loans to local government (and social security funds) to finance investments. In the latter case, year-end amounts may be small relative to infra-annual amounts outstanding; and

– cross-holdings 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, where such agencies are not part of the unit that issues the debt.

8.7 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.

8.8 The consolidating elements can be considered 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).

ITEMS 3 TO 6: CONSOLIDATING ELEMENTS BY INSTRUMENT

8.9 The instrument breakdown here follows the same definitions as for Table 3A.

ITEM 7: DEBT ISSUED BY CENTRAL GOVERNMENT

8.10 All EDP debt instruments issued by central government held by non-government units and by government units outside central government. Debt instruments issued by central government units that are held within these units or by other central government units are not included in this item.

ITEM 8: OF WHICH HELD BY OTHER SUB-SECTORS

8.11 All EDP debt instruments issued by central government that are held by government units outside central government. An example is holdings of treasury bills and other central government debt securities by social security funds.

ITEM 9: DEBT ISSUED BY STATE GOVERNMENT

8.12 All EDP debt instruments issued by state government held by non-government units and by government units outside state government. Debt instruments issued by state government units that are held within these units or by other state government units are not included in this item.

ITEM 10: OF WHICH HELD BY OTHER SUB-SECTORS

8.13 All EDP debt instruments issued by state government that are held by government units outside state government.

ITEM 11: DEBT ISSUED BY LOCAL GOVERNMENT

8.14 All EDP debt instruments issued by local government held by non-government units and by government units outside local government. Debt instruments issued by local government units that are held within these units or by other local government units are not included in this item.

ITEM 12: OF WHICH HELD BY OTHER SUB-SECTORS

8.15 All EDP debt instruments issued by local government that are held by government units outside local government. An example is a loan provided by central government to local government.

ITEM 13: DEBT ISSUED BY SOCIAL SECURITY FUNDS

8.16 All EDP debt instruments issued by social security funds held by non-government units and by government units that are not social security funds. Debt instruments issued by social security funds that are held by social security funds are not included in this item.

ITEM 14: OF WHICH HELD BY OTHER SUB-SECTORS

8.17 All EDP debt instruments issued by social security funds that are held by government units that are not social security funds.

ITEMS 15 TO 18: HOLDINGS OF DEBT ISSUED BY UNITS IN OTHER GOVERNMENT SUB-SECTORS

8.18 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, local government and social security funds).

9 COMPILATION OF AGGREGATES FOR THE EURO AREA AND THE EUROPEAN UNION

9.1 This chapter discusses the compilation of GFS aggregates for the EU 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. 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.

AGGREGATION METHOD

9.2 This chapter describes the two methods chosen for GFS: the fixed euro conversion rate method in the case of the euro area aggregates and the constant real exchange rate method in the case of the EU27 aggregates.

9.3 Under the fixed exchange rate method, the exchange rate in one chosen year is used for all years. In the case of the euro area aggregates, the irrevocable conversion rates into the euro of participating currencies are used. As the euro area countries already report their back data using the irrevocable conversion rates, the euro area aggregates are a simple sum of the country data.

9.4 Under the current exchange rate 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 affect significantly and complicate the analysis of the data.

9.5 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, although it does take account of long-run differences in inflation rates. The constant real exchange rate method has similarities with the purchasing power parities (PPPs) method[25] used at the OECD. (PPP exchange rates are calculated in such a way as to equalise a broad range of prices in different countries at a point in time.)

9.6 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.

9.7 More precisely,

where i refers to a country;

t is the year;

y^i_t is GDP at current prices, expressed in euro or ECUs[26];

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 = $\sum_i y^i_{t-1} g^i_t / \sum_i y^i_{t-1}$;

construct p_t, the aggregate GDP deflator index, such that $p_t / p_{t-1} = \sum_i y^i_{t-1} g^i_t / \sum_i y^i_{t-1}$;

e^i_t is the constant real exchange rate in year *t* of the domestic currency of country *i* vis-à-vis the euro, such that 1 euro equals e^i_t domestic currency units;

$e^i_t = e^i_n \, p^i_t / p_t$, e^i_n is the yearly average of the nominal exchange rates in t_n when aggregating EU27 up to the year t = n.

25 See Eun-Pyo Hong and Helen Beilby-Orrin (1999), "Compilation Methodologies for Euro zone Aggregates", OECD Monthly Note of Economic Leading Indicators.

26 GDP at current and constant prices is converted into euro or ECUs at the market rate in that year.

The constant real exchange rate method is applied to the EU aggregated zones. The aggregation of EU27 data is more difficult in the sense that not only the historic data must be converted into a common currency but current data as well, because some Member States remain outside the euro area. When aggregating EU27 data over the years t_0 to t_n, the constant exchange rate 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 base year; or iii) an average over the past years of the yearly average of the nominal exchange rates. The three EU27 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 EU27 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 EU27 area from 1995 to n (which is t-1), the constant real euro exchange rates are compiled by applying the inflation differentials among the 27 countries to the t-1 current annual exchange rates. For each country that is part of the EU, these constant real euro exchange rates are then applied to the countries' data 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 are calculated. Using the nominal exchange rate of the last year for aggregating the EU27 means that the aggregated data are affected by the latest developments in exchange rates vis-à-vis the euro.

AGGREGATION OF STOCKS AND FLOWS

9.8 Financial assets and liabilities 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 assets or liabilities of country i in year t, and $f1^i_t$ is the total financial transactions in those assets or liabilities and $f2^i_t$ is total other economic flows in those assets or liabilities.

9.9 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, i.e. holding gains and losses, and other volume changes). When using the constant real exchange rate method, the change in the aggregated stocks is not equal to the sum of the aggregated flows. In other words, the change in the aggregated stocks (the change in total EU government debt, for instance) differs from the aggregated change in stocks (the sum of the change in national government debts, for example). Indeed, because the exchange rates used in t differ from the exchange rates used in t-1, the reconciliation between the stocks and flows requires an additional element called the aggregation effect, which is further developed in 9.10.

9.10 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

$$= S_t - S_{t-1}$$

If the constant real exchange rate method is used then:

$$= \sum_i S^i_t / e^i_t - \sum_i S^i_{t-1}/e^i_{t-1}$$

$$= \sum_i (S^i_t / e^i_t - S^i_{t-1}/e^i_{t-1})$$

$$= \sum_i {}_i(S^i_t / e^i_t - S^i_{t-1}/e^i_{t-1}(e^i_{t-1}/e^i_t + 1 - e^i_{t-1}/e^i_t))$$

$$= \sum_i (S^i_t / e^i_t - S^i_{t-1}/e^i_t - S^i_{t-1} (1 - e^i_{t-1}/e^i_t)/e^i_{t-1})$$

$$= \sum_i ((S^i_t - S^i_{t-1})/e^i_t - S^i_{t-1} (e^i_t / e^i_{t-1} - 1)/e^i_t)$$

$$= \sum_i ((S^i_t - S^i_{t-1})/e^i_t + S^i_{t-1}/e^i_t (1 - e^i_t/e^i_{t-1}))$$

$$= f1_t + f2_t + \sum_i S^i_{t-1}/e^i_t (1 - e^i_t/e^i_{t-1})$$

where $f1_t = \sum_i f1^i_t/e^i_t$, and similarly for f2.

Note that $\sum_i ((S^i_t - S^i_{t-1})/e^i_t = \sum_i (f1^i_t + f2^i_t)/e^i_t$ because of the initial identity $S^i_t - S^i_{t-1} = f1^i_t + f2^i_t$

9.11 This means that the difference between the aggregated stocks (across countries) in the common currency does not equal the sum of the aggregated flows in the common currency when the constant real exchange rate method is used. As shown above, the difference is $+\sum_i S^i_{t-1}/e^i_t (1- e^i_t/e^i_{t-1})$. This is called the “aggregation effect”. 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.

9.12 An example of the aggregation effect is the difference between the change in EU government debt from one year to the next, and the underlying financial and other flows that occur during the year.

CONSOLIDATION OF NATIONAL DATA

9.13 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 consolidated in the ESA 95 or in the EDP data provided by Member States). Neither are cross-border holdings of government debt securities.

TREATMENT OF THE EUROPEAN UNION BUDGET

9.14 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 transfers and the provision of services. They are therefore taken into account in the compilation of GFS EU and euro area aggregates: transactions between the EU budget and the non-government units are added to either the government expenditure or the government revenue and transfers between the EU budget and the government sector are consolidated. The EU budget transactions also affect the ESA 95 national statistics, but there they are recorded as transactions between domestic institutional sectors and the rest of the world.

9.15 EU budget transactions are the transactions of the EU institutions. In the case of the euro area and EU aggregates, the transactions between the EU institutions and resident sectors in Member States are treated statistically as if they were the transactions of an extended general government sector. The ECB and the EIB are classified as financial corporations, thus their transactions are not part of the EU budget and so are not taken into account in GFS aggregates. Financial transactions carried out by EU institutions are negligible, apart from movements in deposits.

9.16 It is useful to distinguish between two types of EU budget transaction. Type I comprises transactions with individual Member States. On the revenue side, Type I transactions comprise EU own resources such as part of VAT, several kinds of customs duties[27] and other indirect taxes,[28] and the GNP (or GNI)-based fourth resource. The national accounts of Member States classify them as indirect taxes paid by residents to the EU institutions (*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 EU institutions. On the expenditure side, Type I transactions comprise expenditure within the framework of the 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.

27 For example, those levied on the basis of the EU’s integrated tariff and on agricultural goods.

28 Such as the levy on mining and steel-producing enterprises, sugar production levies, the tax on isoglucose and the co-responsibility taxes on milk and cereals.

9.17 For most EU budget transactions on revenue and expenditure, national accounts 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 EU institutions. Government operations as an agent of the EU budget show only as financial transactions between government and the rest of the world (sector *S.212*), where they appear because of timing differences between government 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.

9.18 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 the 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 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.

9.19 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 the other chapters of this Guide. This requires the elimination of any current transfers or capital transfers where the national government is a counterpart, such as the fourth resource. By contrast, the own resources collection costs, which are a sale of services by the national government to the EU budget, are not consolidated because they are treated as a sale of a service (*P.11*) by government to the rest of the world.

9.20 The GFS government expenditure and revenue aggregates for the euro area and EU are simply the sums of the Member States' data including the transactions with the EU budget. The inclusion of EU budget transactions with non-government residents, and the consolidation of transactions between government and the EU budget, changes government revenue and expenditure compared with 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 which is the overall net payments from governments to the EU budget. 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 effect is reversed by imputing an entry in other current transfers receivable, thereby leaving *B.9* unchanged. Similarly, if the extra government current expenditure is less than the extra government current revenue, the impact is reversed by an entry in other current transfers payable. EU transactions include capital as well as current transactions. Although *B.9* is thereby protected from the impact of EU transactions, gross saving is not, and will not be the same as the gross saving of general government in the 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.

9.21 It might be concluded that these overall net payments should be zero since, across all

Member States, payments to the EU budget should equal receipts from the EU budget, given that the EU budget is in balance. This is not the case, however, 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 the expenditure is EU budget administrative expenditure.

10 REFERENCES AND BACKGROUND INFORMATION

LEGAL BACKGROUND

10.1 The ECB Guideline on government finance statistics (recast) (ECB/2009/20) describes the data required from NCBs in the context of GFS.

OTHER PUBLISHED GUIDANCE AND MANUALS

10.2 *System of National Accounts 2008 (SNA 2008)*

International guidance on the compilation of national accounts, published jointly by the UN, the World Bank, the European Commission, the IMF and the OECD. Available on the website of the UN Statistics Division at www.unstats.un.org.

System of National Accounts 1993 (SNA 1993)

International guidance on the compilation of national accounts, published jointly by the UN, the World Bank, the European Commission, the IMF and the OECD. Available on the website of the UN Statistics Division at www.unstats.un.org

European System of Accounts 1995 (ESA 95)

This is the national accounts manual for Europe, derived from and largely consistent with the SNA 93, but with some additional elements for the EU context. The version published in the EU Official Journal includes the transmission programme which describes the tables that are required by the Commission. Available on the Europa website at www.circa.europa.eu.

ESA 95 Manual on government deficit and debt

This provides further guidance on matters affecting the general government sector in national accounts. Available on the Eurostat website at www.epp.eurostat.ec.europa.eu.

IMF Government Finance Statistics Manual 2001

This IMF publication defines the general government sector statistics to support fiscal analysis. Available on the IMF website at www.imf.org.

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. Available on the OECD website at www.oecd.org.

EDP NOTIFICATION TABLES

10.3 The following pages present the EDP notification Tables 1 and 3A.[29] Each has been modified to show how it relates to the GFS reporting 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 ministries of finance prepare data for the current (forecast) year.

10.4 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 and FRAs 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 close since it presents the deficit-debt adjustment for the general government sector. Notification Tables 3B to 3E present the deficit-debt adjustment for each of the sub-sectors.

10.5 Notification Table 2A does not correspond closely to the GFS reporting tables since it considers the transition between the national definitions of government

29 In accordance with Council Regulation (EC) 479/2009.

balance and the deficit (-)/surplus (+) (EDP *B.9*) of central government. This transition is different in each Member State, 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. Notification Tables 2B, 2C and 2D present a similar analysis for the other sub-sectors of general government.

10.6 Notification Table 4 requests descriptive data and GNI, which are not supplied in GFS.

Table 7 Comparison of EDP notification Table 1 and GFS tables

Item in EDP table	ESA 95 codes	Recording in the GFS tables (item numbers as in the GFS Guideline)
Net lending (+)/net borrowing (-)	*EDP B.9*	
General government	*S.13*	Table 1A, item 39
– Central government	*S.1311*	Table 1A, item 40, plus swaps [1]
– State government	*S.1312*	Table 1A, item 41, plus swaps
– Local government	*S.1313*	Table 1A, item 42, plus swaps
– Social security funds	*S.1314*	Table 1A, item 43, plus swaps
General government consolidated gross debt		Table 3A, item 1
Level at face 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 others, rather than short vs. long-term
Short term	*AF.41*	
Long term	*AF.42*	
General government expenditure on:		
Gross fixed capital formation	*P.51*	Table 1A, item 36
Interest (consolidated)	*EDP D.41*	Table 1C, item 14
p.m.: Interest (consolidated)	*D.41 (uses)*	Table 1C, item 13
Gross domestic product at current market prices	*B.1*g*	Table 1C, item 18

1) Items 43 to 46 are national accounts *B.9*, not EDP *B.9* which treats swaps differently.

Table 8 Comparison between EDP notification Table 3A and GFS

Item in EDP notification Table 3A	Recording in the GFS tables (item numbers as in the GFS Guideline)
Net borrowing (+)/lending (-) (EDP *B.9*) of general government *(ESA 95 accounts)*	Table 1A, item 39
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 net of loans repaid
Repayments (-)	
Shares and other equity (F.5)	
Acquisitions (+)	Table 2A, item 9 shows acquisitions of equity less sales of equity
Sales (-)	
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
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
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 (+/-)	Part of either item 2 or item 32 of Table 2A
Change in government consolidated gross debt [(1)]	Table 2A, item 33

Please note that the sign convention for net lending (+)/net borrowing (-) 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) A positive entry in this row means that government debt increases, a negative entry means that government debt decreases.

IMF GOVERNMENT FINANCE STATISTICS

BACKGROUND

10.7 The International Monetary Fund (IMF) collects annual and sub-annual GFS (IMF) data from most countries of the world. The methodology is described in the IMF Statistics Department's Government Finance Statistics Manual 2001 (GFSM 2001). The statistics are collected through its GFS Questionnaire[30] which consists of a series of reporting tables listed in the left column.

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	Details of Transactions in Non-financial Assets

10.8 It is also worth mentioning that the IMF collects higher frequency data, with less detail, for publication in the IFS (International Financial Statistics), and for use by the area departments.

SIMILARITIES BETWEEN GFS (IMF) AND GFS (ECB)

10.9 Both GFS (IMF) and GFS (ECB) are based on the framework for national accounts (the

30 Both the GFSM 2001 and the questionnaire are available on the IMF's website at www.imf.org.

SNA 93 and the ESA 95). The overall structure and definition of units are the same in both (i.e. the overall structure for the recording of full balance sheets and flows; the definition of units distinguishing between transactions, holding gains, and other changes in volume). The classification of transactions is very similar and the accounting conventions are identical in the two systems. However, there are nevertheless some differences.

10.10 The diagram on Page 74 taken from the IMF's GFS Manual shows the structure of accounts in GFS (IMF). The basic principle is that a change in the balance sheet can be explained by transactions and other flows; this is also true for the ESA 95 from which GFS (ECB) are derived. The concept of net lending (+)/net borrowing (-), as the balance of both the financial account and non-financial accounts, is also common to both systems, although the values will differ.

10.11 As discussed in the introduction to Table 1A in Chapter 2, national accounts show current transactions, each with a balance such that there is no obvious concept of total revenue and expenditure. Regulation (EC) No 1500/2000 amended the ESA 95 to define such concepts and this is the basis of the GFS (ECB) tables. GFS (IMF) are similar to GFS (ECB) 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 GFS (IMF nor ECB) show final consumption as an item of expenditure (but it can be shown as a memorandum item).

DIFFERENCES BETWEEN GFS (IMF) AND GFS (ECB)

10.12 Some of the differences are as follows:

Instances where GFS (IMF) depart from SNA 93/ ESA 95 methodology

10.13 One example is that the GFSM 2001 treats unfunded pension schemes operated by employers differently from the SNA 93 in that it does not record social contributions and social benefits paid as operating revenue/expense, but treats the net amount as a financial transaction (as if the schemes were funded). This has the effect of reducing GFS (IMF) total revenue and expense compared with GFS (ECB). It also means that GFS (IMF) record a balance sheet liability for non-autonomous government employee unfunded pension schemes, whereas the SNA 93 and the ESA 95 do not.

10.14 The IMF treats unfunded defined-benefit retirement schemes differently from the SNA 93. This has accounting consequences. Contributions to the schemes reflect payments made in the SNA 93, but under GFS (IMF) they also reflect the increase in promised future benefits in the GFS (IMF) balance sheets. Finally, concerning the property income attributed to insurance policyholders, GFS (IMF) record the increase in pension liabilities resulting from the passage of time, while the SNA 93 record the income earned on the reserves held by the schemes.

10.15 GFS (IMF) do not impute reinvested earnings on foreign direct investment (the ESA 95 category *D.43*).

The boundary of activity

10.16 GFS (IMF) encourage an extension of the coverage to include statistics for the public sector, i.e. including public corporations, while the ESA 95 and GFS (ECB) do not.

Level of detail

10.17 GFS (IMF) collect more information than GFS (ECB) and consequently, in some instances, a finer breakdown than GFS (ECB). In many cases, the extra detail is not defined by separate ESA 95 categories. For example, the breakdown of taxes for GFS (IMF) is more detailed than for the ESA 95 and follows closely the presentation in the OECD's Revenue Statistics.

10.18 In other cases, some differences are simplifications or the consequences of simplifications. For instance, in the GFS (IMF), inputs for own-account capital formation are not distinguished by type (such as use of goods and services, compensation of employees, and consumption of fixed capital). In GFS (IMF), the value of social benefits excludes goods and services produced by government units themselves. Another difference is that GFS (IMF) treat some in-kind transactions as if they were made in cash, followed by a sale. This applies only to goods or services produced by government itself.

10.19 GFS (IMF) collect information on the sub-sectors of general government and allow for combining the ESA 95 social security fund sector with the central government sector, and for dividing each sub-sector of government into budgetary accounts and non-budgetary accounts. This sub-classification of the general government sub-sectors is not defined in the ESA 95.

10.20 GFS (IMF) show full reconciliation of transactions, other flows and balance sheets at market value. GFS (ECB) show this reconciliation only for the main items of government debt in total, and show the stock of debt at face value.

10.21 Other differences are that while the SNA 93 records certain flows as taxes paid by general government units, GFS (IMF) classify them as a miscellaneous other expense in the accounts of individual units and eliminate them in consolidation for the general government sector. Likewise, whereas the SNA 93 records certain flows as subsidies paid to general government units, GFS (IMF) treat them as transfers.

Definition of expenditure and revenue

10.22 GFS (IMF) define total revenue and expenditure in terms of national accounts categories. There are some differences compared with GFS (ECB) expenditure and revenue. Expenditure for the GFS (IMF) includes, in addition to expense, the net acquisition of non-financial assets (which does not reduce net worth). The reason is that this transaction is an exchange of one type of asset for another or the exchange of a non-financial asset for the incurrence of a liability. In either case, net worth remains the same. For example, GFS (ECB) show expenditure on output for own final use (*P.12*) as both current (included, for example, in wages and other costs of production) and capital expenditure. By contrast, GFS (IMF) record expenditure on output for own final use as own-account capital formation and record it only once, as net acquisition of non-financial assets.

10.23 GFS (IMF) measure sales when goods are sold, but GFS (ECB) 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.

Consolidation of non-financial transactions

10.24 GFS (IMF), in theory, require consolidation of all flows and stock positions of the units in the general government sector. However, as explained in Chapter 2, GFS (ECB) do not consolidate certain categories of non-financial transactions, such as taxes and the sale of goods and services.

Choice of balancing items

10.25 The balance of revenue and expense in GFS (IMF) is called the net operating balance, which is broadly comparable to *B.10.1* in national accounts ("Changes in net worth due to saving and capital transfers"). GFS (ECB) show the balance "gross saving" which is before the impact of capital transfers and capital taxes. Net lending (+)/net borrowing (-) is the balancing item for the second and third sections of the "Statement of Government Operations" in GFS (IMF) and the balancing item of both the capital account and the financial account in GFS (ECB).

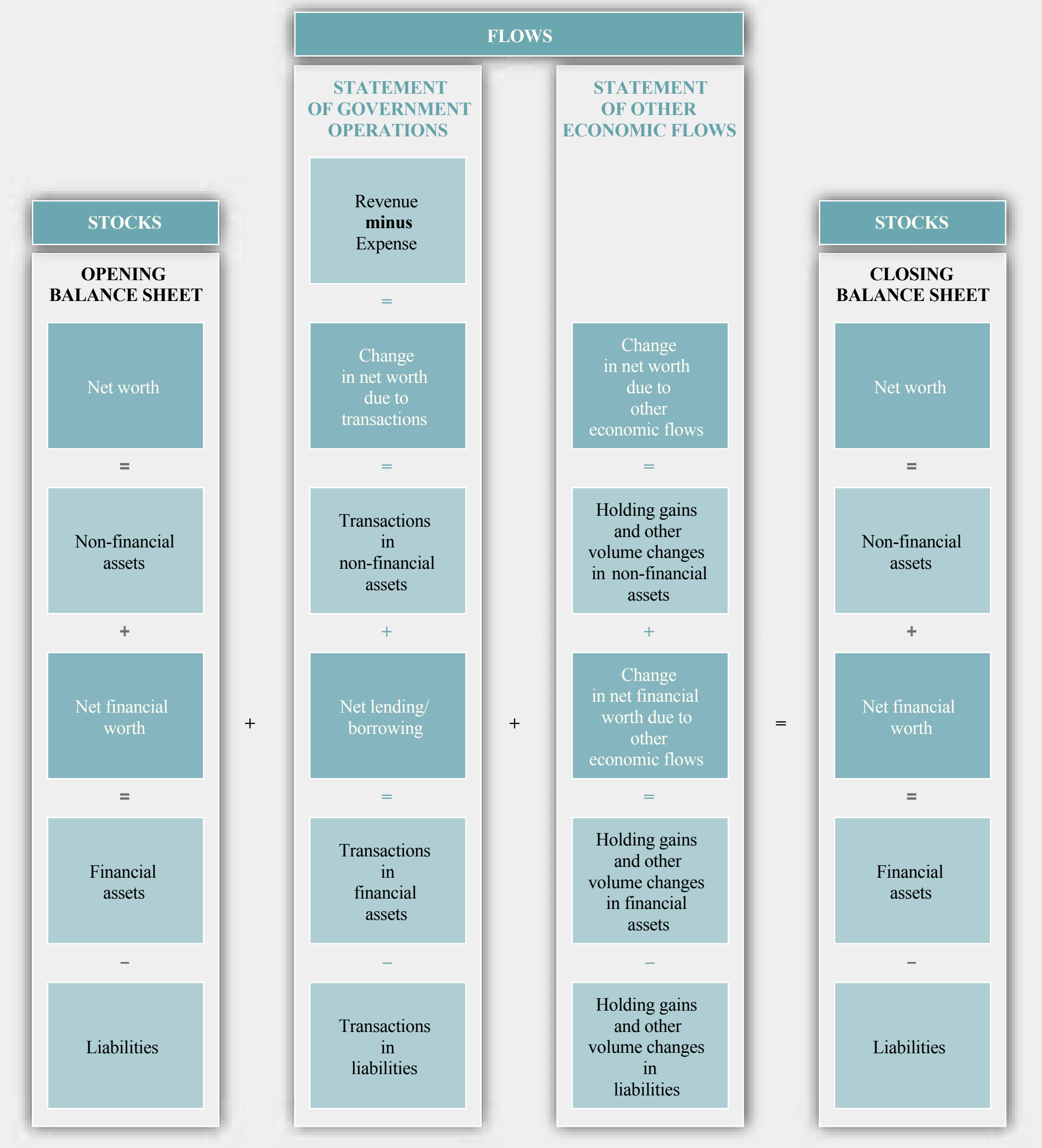
STRUCTURE OF ACCOUNTS CHART

10.26 This diagram shows the structure of accounts in GFS (IMF). The basic principle is that a change in the balance sheet can be explained by transactions and other economic flows.

Table 9 GFS (IMF): balancing items

GFS (IMF) Statement of Government Operations	Comparison with GFS
Transactions affecting net worth	
Revenue	
Taxes	
social contributions	IMF excludes contributions to employee pension schemes
Transfers	IMF includes current and capital transfers
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	
Transfers	IMF includes current and capital transfers
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	

Chart 2 Structure of accounts in GFS (IMF)



Source:

11 LIST OF ABBREVIATIONS

CAP	Common Agricultural Policy
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
ECU	European Currency Unit
EDP	Excessive deficit procedure
EIB	European Investment Bank
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
EURIBOR	Euro interbank offered rate
FRA	Forward rate agreement
GDP	Gross domestic product
GFS	Government Finance Statistics (European Central Bank)
GFSM 2001	IMF Government Finance Statistics Manual 2001
GG	General government
GGBR	General government borrowing requirement
GNI	Gross national income
GNP	Gross national product
IFS	International Financial Statistics (IMF publication)
IMF	International Monetary Fund
MFI	Monetary financial institution
NCB	National central bank
NPISHs	Non-profit institutions serving households
NSI	National statistical institute
OECD	Organisation for Economic Co-operation and Development
OJ	Official Journal (of the European Union)
PPP	Purchasing power parity
RoW	Rest of the world
SDR	Special drawing right
SFA	Stock-flow adjustment
SNA 93	System of National Accounts 1993
UMTS	Universal Mobile Telecommunications System
VAT	Value added tax

12 LIST OF DEFINITIONS

12.1 This section describes some terms used in this Guide. Some of them are not defined in the ESA 95; for others, a more detailed explanation is necessary.

12.2 *"Government deficit (surplus)"* refers to general government net lending (+)/net borrowing (-) (*B.9*) in the ESA 95 national accounts. Although in theory 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.

12.3 *"EDP deficit"*: The Protocol on the excessive deficit procedure annexed to the Treaties and Article 1(3) of Regulation (EC) No 479/2009 define government deficit as the balancing item net borrowing/net lending (EDP *B.9*) of the general government sector. Article 1(3) also states that "the interest comprised in the government deficit is the interest (EDP *D.41*), as defined in the ESA 95". Regulation (EC) No 2558/2001 amended the ESA 95 to record net settlement flows under swaps and forward rate agreements (FRAs) as financial transactions rather than as interest. Accordingly, it introduced the term EDP *B.9*, the version of general government net borrowing/net lending, in which swaps and FRAs are treated as interest.

12.4 *"Government revenue"* is a set of receipts of the general government as defined in Regulation (EC) No 1500/2000 (amending the ESA 95). Government revenue comprises the following ESA 95 categories, recorded under the resource side of general government accounts, with the exception of *D.39,* which is recorded under the use side of general government accounts as a negative expenditure ("Uses" are transactions which reduce the economic value of a unit or sector; "resources" are transactions which increase its economic value.):

P.11 Market output
P.12 Output for own final use
P.131 Payments for the other non-market output
D.2 Taxes on production and imports
D.39 Other subsidies on production, receivable
D.4 Property income
D.5 Current taxes on income, wealth, etc.
D.61 Social contributions
D.7 Other current transfers
D.9 Capital transfers

12.5 *"Government expenditure"* is a set of payments by the general government sectors, as defined in the ESA 95 (as amended by Regulation (EC) No 1500/2000). Government expenditure comprises the following ESA 95 categories, recorded under the use side of general government accounts, with the exception of *D.3* and *D.9,* which are recorded (as negative receipts) under the resource side of general government accounts. ("Uses" are transactions which reduce the economic value of a unit or sector; "resources" are transactions which increase its economic value.):

P.2 Intermediate consumption
P.5 Gross capital formation
D.1 Compensation of employees
D.29 Other taxes on production
D.3 Subsidies, payable
D.4 Property income
D.5 Current taxes on income, wealth, etc.
D.62 Social benefits other than social transfers in kind
D.6311+ D.63121 + D.63131 Social transfers in kind related to expenditure on products supplied to households via market producers
D.7 Other current transfers
D.8 Adjustment for the change in net equity of households in pension funds reserves
D.9 Capital transfers, payable
K.2 Acquisitions less disposals of non-financial non-produced assets

12.6 *"EDP debt"*, also denominated "Maastricht debt", refers to consolidated general government gross debt as reported for the excessive deficit procedure (EDP). It is defined in the Protocol on the excessive deficit procedure annexed to the Treaties and in Article 1(5) of Regulation (EC) No 479/2009 as the total general government gross debt at nominal value outstanding at the end of the year.

12.7 *"Face value"* and *"nominal value"* are terms used in this Guide to describe the valuation of Maastricht debt. Article 1(5) of Regulation (EC) No 479/2009 states that "the nominal value of a liability outstanding at the end of the year is the face value".

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

12.9 *"GFS"* refers to the ESCB system for compiling government finance statistics in line with the GFS Guideline (ECB/2009/20). It differs from the IMF's system, described in the IMF Government Finance Statistics Manual 2001 (GFSM 2001). The differences between GFS (ECB) and GFS (IMF) are outlined in Chapter 10 of this Guide.

Table 1A Government revenue and expenditure

Description	Guideline item number Table 1A	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	2	*2 = 3+4*	
Total current revenue	3	3 = 11	
Total capital revenue	4	4 = 33	
Total government expenditure	5	*5 = 6+7*	
Total current expenditure	6	6 = 23	
Total capital expenditure	7	7 = 35	
Primary deficit (-) or surplus (+)	8	8 = 9+10	*B.9 + D.41U*
Deficit (-) or surplus (+)	9	9 = 1	
Interest payable	10	10 = 28	*D.41 U, consolidated*
Total current revenue	11	11 = 12+15+ 17+20+22	
Direct taxes	12	12	*D.5 R*
payable by enterprises (*S.11+S.12*)	13	13	
payable by households (*S.14+S.15*)	14	14	
Indirect taxes	15	15	*D.2 R*
taxes on energy	-	15a	
VAT	16	16	*D.211 R*
Social contributions	17	17	*D.61 R*
employers' actual social contributions	18	18	*D.6111 R*
employees' social contributions	19	19	*D.6112 R*
Other current revenue	20	20	*-D.39 U + D.41 R, consolidated + D.42 R + D.43 R+ D.45 R + D.72 R + D.74 R + D.75 R*
interest receivable	21	21	*D.41 R, consolidated*
Sales	22	22	*P.11 R + P.12 R + P.131 R*
Total current expenditure	23	23 = 24+28+29+31	
Current transfers	24	24 = 25+26+27	
Social payments	25	25	*D.62 U + (D.75 U to NPISHs) +D.6311 + D.63121 + D.63131*
old age pensions	-	25a	*(COFOG 10.2 + COFOG 10.3) applied to (D.62 U + D.6311 + D.63121 + D.6313)*
unemployment benefits	-	25b	*COFOG 10.5 applied to (D.62 U + D.6311+D.63121+D.63131)*
Subsidies payable	26	26	*-D.3 R*
Other current transfers payable	27	27	*D.29 U + D.45 U + D.5 U + D.71 U + D.74 U + D.75 U - (D.75 to NPISHs)*
Interest payable	28	28	*D.41 U, consolidated*
Compensation of employees	29	29	*D.1 U*
employers' actual social contributions	-	29a	*D.121 U*
wages and salaries	30	30 = 29-29a-(17-44)	*D.11 U*
Intermediate consumption	31	31	*P.2 U*
Gross saving	32	32 = 11-23	
Total capital revenue	*33*	*33*	*D.91 R, consolidated*
of which capital taxes	34	34	*D.91 R*
Total capital expenditure	35	35 = 36+37+38	
Investment	36	36	*P.51 U*

Table 1A Government revenue and expenditure (cont'd)

Description	Guideline item number Table 1A	Reporting table line number and relationships	ESA 95 codes (U = uses, R = resources)
Other net acquisitions of non-financial assets	37	37	*P.52 U + P.53 U + K.2 U*
Capital transfers payable	38	38	*-D.9 U, consolidated*
Deficit (-) or surplus (+)	39	39 = 40+41+42+43	*B.9 of S.13*
Deficit (-) or surplus (+) of central government	40	40	*B.9 of S.1311*
Deficit (-) or surplus (+) of state government	41	41	*B.9 of S.1312*
Deficit (-) or surplus (+) of local government	42	42	*B.9 of S.1313*
Deficit (-) or surplus (+) of social security funds	43	43	*B.9 of S.1314*
Memorandum items			
Actual social contributions	44	44	*D.611*
Social benefits other than social transfers in kind	45	45	*D.62*

Table 1B EU budget transactions

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 UK rebate	-	5a	
of which EU fourth own resource	6	6	
Capital transfers paid by government to EU budget	7	7	*-D.9 U*
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 R*
Capital transfers paid by EU budget to non-government	13	13	*-D.9 U*
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	
Memo: Net receipts from pre-acceding programmes	-	16	
Memo: Net receipts from pre-acceding programmes paid to government	-	17	

Table 1C Government final consumption expenditure and other non-financial transactions

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 general government	2	2	*P.31*
Collective consumption expenditure of general government	3	3	*P.32*
Compensation of employees	4	4 = [1A.29] [1]	*D.1*
Intermediate consumption	5	5 = [1A.31]	*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 = [1A.22]	*P.11 + P.12 + P.131*
Memorandum item			
Final consumption expenditure at prices of the previous year	11	11	*P.3 (volume)*
Deficit (-) or surplus (+)	12	12 = [1A.1]	*B.9*
Interest payable	13	13 = [1A.10]	*D.41 U, consolidated*
Interest including settlements under swaps and FRAs	14	14	*EDP D.41 U, consolidated*
EDP deficit (-) or surplus (+)	15	15 = 12+13-14	*EDP B.9*
UMTS proceeds	16	16	
Total capital expenditure excluding UMTS proceeds	-	16a = [1A.7]+16	
ESA 95 deficit (-) or surplus (+) excluding UMTS proceeds	-	16b = 12-16	
Debt	17	17 = [3A.1]	
Fiscal burden	-	17a = [1A.12] + [1A.15] + [1A.17] + [1A.34]	
Gross domestic product (GDP) at current prices	18	18	
GDP at prices of the previous year	19	19	
Government investment at prices of the previous year	20	20	*P.51 (volume)*

[1] [x.y] refers to the item number y of Table x.

Table 2A Government deficit and its financing

Description	Guideline item number Table 2A	Reporting table line number and relationships	ESA 95 codes
Deficit (-) or surplus (+)	1	1 = [1A.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	5	5	*F.2*
Transactions in securities other than shares – short and long-term securities)	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	
Equity injections	11	11	
Other transactions in shares and other equity	12	12	
Transactions in other financial assets (consolidated)	13	13	*F.1 + F.6 + F.7*
of which taxes and social contributions accrued but not yet paid	14	14 = 14a.1+14a.2	
of which taxes accrued but not yet paid		14a.1	
of which social contributions accrued but not yet paid		14a.2	
Transactions in liabilities (consolidated)	15	15 = 16+17+18+19+ 20+22	
Transactions in currency and deposits	16	16	*F.2*
Transactions in securities other than shares – short -term securities	17	17	*F.331*
Transactions in securities other than shares – long-term securities	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	
Transactions in other liabilities (consolidated)	22	22	*F.6 + F.7*
Transactions in debt instruments (consolidated)	23	23 = 16+17+18+20	*F.2 + F.33 + F.4*
= General government borrowing requirement (GGBR)		23 = 25+26+27 23 = 2-1+4-19-22	
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	
of which due to issuance and redemption value not at par	-	31a	
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*
of which reclassification of units	-	32a	
Change in debt	33	33 = 23+28 = 2-1+4-19-22+28 = ([3A.1] in year t) – ([3A.1] in year t-1)	
Memorandum items			
Transactions in loans (liabilities), of which other loans	-	34	*Part of F.4*
Privatisation proceeds allocated to debt redemption	-	35	
UMTS proceeds allocated to debt redemption	-	36	
Net transactions in other accounts receivable/payable related to the EU budget	-	37	*Part of F.7*
Difference between deliveries and corresponding cash payment related to military equipment expenditure	-	38	

1) [x.y] refers to the item number y of Table x.

Table 2B Transactions in Maastricht debt – consolidation

Description	Guideline item number Table 2B	Reporting table line number and relationships	ESA 95 codes
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	*Part F.4*
Transactions in other loans	6	6	*Part F.4*
Consolidating transactions	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*

Table 3A Government gross debt

Description	Guideline item number Table 3A	Reporting table line number and relationships	ESA 95 codes
Gross consolidated debt	1	1 = 2+3+4+5+6 = 7+12 = 13+14+15 = 16+17 = 19+20+22 = 24+25+26+27 = [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	*Part of F.4*
Debt – other loans	6	6	*Part of F.4*
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 of the Member State	11	11	*S.11 + S.14 + S.15*
Debt held by non-residents of the Member State	12	12 = 12A+12B	*S.2*
Debt held by non-residents inside the euro area	-	12A	*S.21 (part)*
Debt held by non-residents outside the euro area	-	12B	*S.21 (part)*
Debt denominated in national currency	13	13	
Debt denominated in a participating foreign currency	14	14	
Debt denominated in a non-participating foreign currency	15	15	
Short-term debt	16	16	
Long-term debt	17	17	*F.2 + F.33 + F.4*
of which variable interest rate	18	18	
Debt with residual maturity up to one year	19	19	
Debt with residual maturity over one and up to five years	20	20	
of which variable interest rate	21	21	
Debt with residual maturity over five years	22	22	
of which variable interest rate	23	23	
Central government debt contribution	24	24 = [3B.7]-[3B.15]	
State government debt contribution	25	25 = [3B.9]-[3B.16]	
Local government debt contribution	26	26 = [3B.11]-[3B.17]	
Social security funds debt contribution	27	27 = [3B.13]-[3B.18]	
Memorandum items			
Average residual maturity of debt	28	28	
Debt – zero coupon bonds (redemption value)	29	29	
Debt with residual maturity over one year	-	30 = 20+22	

Table 3B Government gross debt – consolidating elements

Description	Guideline item number Table 3B	Reporting table line number and relationships	ESA 95 codes
Debt (non-consolidated)	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	7	7	
of which held by other government sub-sectors	8	8	
Debt issued by state government	9	9	
of which held by other government sub-sectors	10	10	
Debt issued by local government	11	11	
of which held by other government sub-sectors	12	12	
Debt issued by social security funds	13	13	
of which held by other government sub-sectors	14	14	
Memorandum items			
Holdings by central government of debt issued by units in other government sub-sectors	15	15	
Holdings by state government of debt issued by units in other government sub-sectors	16	16	
Holdings by local government of debt issued by units in other government sub-sectors	17	17	
Holdings by social security funds of debt issued by units in other government sub-sectors	18	18	