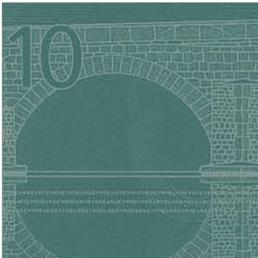
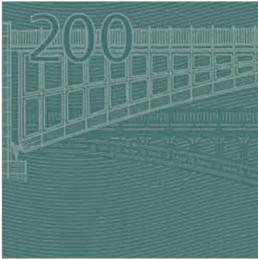




EUROPEAN CENTRAL BANK

EUROSYSTEM



GOVERNMENT FINANCE STATISTICS GUIDE



In 2014 all ECB publications feature a motif taken from the €20 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
Internet	http://www.ecb.europa.eu

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I INTRODUCTION

This chapter explains the ways government finance statistics (GFS) are used at the ECB. It also gives a brief overview of the methodological framework for GFS.

I.1 CONTEXT AND PURPOSE

The European Central Bank (ECB) is interested in government finance statistics (GFS) for several reasons. It uses GFS 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.

The Governing Council of the ECB therefore attaches great importance to the reliable and timely compilation of government finance statistics (GFS), and it adopted the first guideline on the statistical reporting requirements in the field of GFS (“GFS Guideline” or “Guideline”) in 2005 to ensure the timely transmission of government statistics from the national central banks (NCBs) to the ECB. The original Guideline has since been repealed by the Guideline of the ECB of July 2013 on government finance statistics (ECB/2013/23), which has now been amended by the GFS Guideline of 3 June 2014 (ECB/2014/21).

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 to the ECB as well.

I.2 METHODOLOGICAL FRAMEWORK

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 2010 (the ESA 2010)¹ and the EDP.²

European Union (EU) law requires Member States to use the ESA 2010 to prepare the macroeconomic statistics they send to the European Commission. This ensures that the national data are comparable. The ESA 2010 is based on the System of National Accounts 2008 (SNA

¹ Regulation No 549/2013 of the European Parliament of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union.

² Council Regulation (EU) No 479/2009 as amended by Commission Regulation (EU) No 220/2014.

2008),³ 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 2010 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.

The general government sector in the ESA 2010 is composed of central government, state government (in countries where it exists), local government and social security funds (in countries where these exist). 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.

GFS should reflect decisions taken by Eurostat on the interpretation of the ESA 2010 in specific cases involving the general 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 may consult the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB),⁴ comprising senior statisticians of the European Central Banks, the 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 Manual on Government Deficit and Debt (MGDD).⁵

Total government revenue and expenditure are groupings of ESA 2010 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 gross fixed capital formation (called government investment in the GFS Guideline). Chapter 2 explains the components of government revenue and expenditure in more detail. The deficit/surplus (net lending/net borrowing in the ESA 2010) is equal to total revenue minus total expenditure.

³ Available at <http://unstats.un.org/unsd/nationalaccount/sna2008.asp>.

⁴ See <http://www.cmfb.org>.

⁵ The MGDD is available on the government finance statistics section of the Eurostat website.

Both the ESA 2010 and the EDP are concerned with national data relating to the general government sector. They treat transactions between the EU institutions and institutional units in the Member States as transactions between resident sectors and the rest of the world. The GFS Guideline follows the ESA 2010 methodology, but requests information on the transactions between the EU institutions and the Member States to cover the full extent of government activity in the EU. A detailed description of the EU budget transactions is provided in Chapters 3 and 9.

The substantial differences between general government liabilities in the ESA 2010 balance sheet and government debt for EDP purposes are explained in Chapter 7. These differences can be summarised as follows:

- EDP debt comprises general government liabilities in the form of currency (coins), deposits, debt securities and loans only. All other general government liabilities, such as 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 2010, general government liabilities are valued at market prices; in the EDP, they are entered at face value, which is the amount that the government is committed to repay at maturity. The difference between market and face 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 face value does not include accrued interest (with the exception of zero-coupon bonds and the capital uplift for index-linked bonds).
- Third, the EDP values certain debt denominated in foreign currency in a different way. The ESA 2010 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 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.

EDP debt is consolidated, meaning that general government debt for EDP purposes excludes all holdings of general government debt by general government. Consolidation is explained in more detail in Chapter 8.

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 2010. The GFS Guideline requires information to enable this reconciliation between the deficit and debt (called the deficit-debt adjustment (DDA)) to be carried out. 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”. Chapter 5 explains the DDA in more detail.

1.3 ECB PUBLICATIONS AND OTHER USES OF GFS

The ECB requires two submissions each year of annual GFS (in April and October), and interim updates and revisions. These data deliveries are used to update tables of the ECB’s Monthly Bulletin.⁶ 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). Furthermore, the annual data transmitted by the NCBs of the non-participating Member States (excluding Denmark and the United Kingdom) are also used in the ECB’s Convergence Reports, which include tables with detailed breakdowns of government revenue and expenditure, the structural features of government debt and an analysis of the deficit-debt adjustment. Tables showing government support to the financial sector during the financial crisis and the financial support provided by international institutions to the countries under consideration are also included.

The ECB also publishes quarterly euro area aggregates of government revenue, expenditure, deficit, debt and the DDA in the ECB’s Monthly Bulletin. The provision of quarterly GFS 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 accounts of the general government sector are used as a building-block in compiling the integrated euro area accounts.

The ECB also compiles statistics on the (residual) maturity and debt service on government debt securities from the Centralised Securities Database (CSDB), which contains very detailed and timely information on a security-by-security basis. The GFS that are derived from this database are, at the time of writing, for use within the ESCB only.

⁶ Available on the ECB website at <http://www.ecb.europa.eu>.

I.4 STRUCTURE OF THE GUIDE

This Guide complements the latest GFS Guideline adopted by the ECB in 2014, 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.

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.
- Chapter 11 contains a list of abbreviations.

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 not only include the items in the Guideline but also some additional voluntary items reported by the NCBs). This column also shows how items in the GFS reporting tables relate to each other. The fourth column shows the corresponding codes in the ESA 2010.

2 GOVERNMENT REVENUE AND EXPENDITURE (TABLE IA)

2.1 INTRODUCTION TO TABLE IA

Government revenue and expenditure are defined in ESA 2010 paragraphs 20.76 and 20.91 – 20.92 respectively, as well as in Box 20.1. Government revenue and expenditure are recorded on an accrual basis, as are all transactions in the ESA 2010.

General government revenue and expenditure are respectively the sum of general government resources and the sum of general government uses that are transactions between units. ESA 2010 1.67 – 1.69 divides transactions into those within units and those between units.⁷ 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 2010 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 2010 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.

Transactions within general government are consolidated only if the expenditure and revenue are in the same transaction line and same account in the ESA 2010. 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.

In general, government revenue and expenditure are almost never recorded net, e.g. government interest receipts are not netted off government interest payments. The one exception to this “no netting rule” is that capital formation is net of sales of capital assets, in accordance with the ESA 2010. The payable tax credits should be recorded as government expenditure for the total amount (ESA 2010 20.168).

In the ECB GFS Guideline, government revenue is broken down into current and capital revenue, and government expenditure into current and capital expenditure. These four categories do not exist in the ESA 2010 but are part of the ECB Guideline for analytical purposes. Current revenue minus current expenditure amounts to gross savings of general government.

⁷ Units are defined in the ESA 2010, paragraph 2.12.

2.2 TABLE IA: FORMAT AND CONTENTS

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 2010 codes.

Table IA Government revenue and expenditure			
Description	Guideline item number Table 1A	Reporting table line number and relationships	ESA 2010 codes (U = uses, R = resources)
Deficit (-) or surplus (+)	1	1 = 7-22 1 = 3+4+5+6	B.9
of which: primary deficit (-) or surplus (+)	2	2 = 1+28	B.9 + D.41U
Central government	3	3	
State government	4	4	
Local government	5	5	
Social security funds	6	6	
Total revenue	7	7 = 8+20	
Total current revenue	8	8 = 9+12+14+17+19	
Direct taxes	9	9	D.5 R
of which: payable by corporations	10	10	
of which: payable by households	11	11	
Indirect taxes	12	12	D.2 R
of which: taxes on energy		12a	
of which: value added tax (VAT)	13	13	D.211 R
Net social contributions	14	14	D.61 R
of which: employers' actual social contributions	15	15	D.611 R
of which: households' actual social contributions	16	16	D.613 R
Other current revenue	17	17	D.39 U + D.4 R + D.7 R
of which: interest receivable	18	18	D.41 R, consolidated
Sales	19	19	P.11 R + P.12 R + P.131 R
Total capital revenue	20	20	D.9 R
of which: capital taxes	21	21	D.91 R
Total expenditure	22	22 = 23+32	
Total current expenditure	23	23 = 24+28+29+31	

Description	Guideline item number Table 1A	Reporting table line number and relationships	ESA 2010 codes (U = uses, R = resources)
Current transfers	24	24 = 25+26+27	
Social payments	25	25	D.62 U + D. 632 U + D.751 U
of which: old age pensions and survivors' pensions		25a	(COFOG 10.2.0 + COFOG 10.3.0) applied to (D.62 U+D.632)
of which: unemployment benefits		25b	COFOG 10.5.0 applied to (D.62 U+D.632)
Subsidies payable	26	26	-D.3 R
Other current expenditure	27	27	D.29 U + (D.4 U - D.41 U) + D.5 U + (D.7 U - D.751U) + D.8 U
Interest payable	28	28	D.41 U, consolidated
Compensation of employees	29	29	D.1 U
of which: employers' actual social contributions		29a	D.121 U
of which: wages and salaries	30	30	D.11 U
Intermediate consumption	31	31	P.2 U
Total capital expenditure	32	32 = 33+34+35	
Investment	33	33	P.51 U
Other net acquisitions of non-financial assets and changes in inventories	34	34	P.52 U + P.53 U + NP U
Capital transfers payable	35	35	D.92 U, consolidated + D.99 U
Memorandum items			
Gross savings	36	36 = 8-23	
Universal mobile telecommunications system sale proceeds	37	37	
Actual social contributions	38	38 = 15+16	D.611 + D.613
Social benefits other than social transfers in kind	39	39	D.62

2.3 LINE-BY-LINE ANALYSIS OF TABLE 1A

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

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.

This item is equal to the difference between total revenue (item 7) and total expenditure (item 22), which implies that if the government is spending more than it is receiving, the figure recorded in item 1 will be negative.

ITEM 2: OF WHICH: PRIMARY DEFICIT (-) OR SURPLUS (+)

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

ITEMS 3 TO 6: DEFICIT (-) OR SURPLUS (+) BY SUB-SECTOR

This refers to net lending (+)/net borrowing (-) (B.9) by the sub-sectors of general government.

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

ITEM 7: TOTAL REVENUE

This is the set of ESA 2010 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 8: TOTAL CURRENT REVENUE

This is the set of ESA 2010 non-financial transactions that increase gross saving (item 36). It is the sum of taxes and net social contributions, sales and other current revenue.

ITEM 9: DIRECT TAXES

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 2010 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 in the government sector may be liable for tax on their interest income.

ITEM 10: DIRECT TAXES PAYABLE BY CORPORATIONS

Direct taxes payable by corporations 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 11: DIRECT TAXES PAYABLE BY HOUSEHOLDS

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 12: INDIRECT TAXES

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 2010 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 12A: ENERGY TAXES

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

ITEM 13: VALUE ADDED TAXES (VAT)

The ESA 2010 (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 14: NET SOCIAL CONTRIBUTIONS

Social contributions are recorded as resources of government (D.61). They are composed of employers' actual social contributions (D.611), employers' imputed social contributions (D.612), households' actual social contributions (D.613), and households' social contribution supplements (D.614), less social security scheme service charges (D.615). Actual social contributions are payments received by general government either from employers for their employees (ESA 2010 4.92-4.96) or from households on their own behalf (ESA 2010 4.100) under social security schemes, or insurance and pension schemes, including schemes organised for its own employees. Employers' 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 2010 4.97-4.99). 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.6211.

ITEM 15: EMPLOYERS' ACTUAL SOCIAL CONTRIBUTIONS

This item consists of employers' actual social contributions (D.611) 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 16: HOUSEHOLDS' ACTUAL SOCIAL CONTRIBUTIONS

These are social contributions payable by households (employees, self-employed and non-employed persons) into social security schemes and into funded autonomous pension schemes by government (D.613).

ITEM 17: OTHER CURRENT REVENUE

This consists of transactions that are part of current revenue and that are not included in taxes (items 9 and 12), net social contributions (item 14) or sales (item 19). It comprises other subsidies on production (D.39 U), property income (D.4) and other current transfers (D.7) (ESA 2010 20.85 – 20.90).

ITEM 18: INTEREST RECEIVABLE

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 2010 4.42-4.52). Interest receivable/payable is consolidated within general government. The recording of interest is explained in more detail in the MGDD.

ITEM 19: SALES

Sales consist of the following resources of government in the ESA 2010: market output (P.11), output for own final use (P.12), and payments for other non-market output (P.131).

The first component of sales, market output (P.11), is equal to charges for goods and services by market establishments (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.

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.51g). 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.

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.

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.

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

ITEM 20: TOTAL CAPITAL REVENUE

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

Capital transfers (D.92 and D.99) in cash consist of transfers of cash that the first party has raised by disposing of assets (other than inventories), or that the second party is expected, or required, to use for the acquisition of assets (other than inventories), 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 2010 4.145-4.167).

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.

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 21: CAPITAL TAXES

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 22: TOTAL GOVERNMENT EXPENDITURE

This is mainly the set of ESA 2010 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 23: TOTAL CURRENT EXPENDITURE

This is mainly the set of ESA 2010 non-financial transactions that decrease gross saving (item 36). It is the sum of current transfers (such as social payments and subsidies), interest payable, compensation of employees and intermediate consumption.

ITEM 24: CURRENT TRANSFERS

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 2010 4.126); these are capital transfers payable (item 35).

ITEM 25: SOCIAL PAYMENTS

These include: social benefits (D.62), social transfers in kind related to expenditure on products supplied to households via market producers (D.2), and current transfers to NPISHs (D.751). For GFS, social transfers in kind and social benefits are grouped under the same category of expenditure because both have the nature of direct distributive transactions between government and households.

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

Social transfers in kind via market producers (D.632) are goods and services produced by market producers and purchased by government, which supplies them to households without any transformation (ESA 2010 3.98.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 transfers in kind (D.63)). Both are included in government final consumption expenditure (P.3).

Social payments are further broken down into the categories identified in the ESA 2010 using the definitions from the Classification of the Functions of Government (COFOG). 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.

Current transfers to NPISHs (D.751) 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 25A: OLD AGE PENSIONS AND SURVIVORS' PENSIONS

COFOG 10.2.0 and 10.3.0 data applied to the expenditure on social benefits other than social transfers in kind and on social transfers in kind related to expenditure on products supplied to households via market producers. These data are available in the table 11 of the ESA 2010 Transmission Programme (TP). T-1 data as well as back data should be based on best estimates when they are not available in the TP. Item 25a is not included in the GFS Guideline, but it is part of the GFS data request.

ITEM 25B: UNEMPLOYMENT BENEFITS

COFOG 10.5.0 data apply to expenditure on social benefits other than social transfers in kind and on social transfers in kind related to expenditure on products supplied to households via market producers. These data are available in table 11 of the ESA 2010 Transmission Programme (TP). T-1 data as well as back data should be based on best estimates when they are not available in the TP. Item 25b is not included in the GFS Guideline, but it is part of the GFS data request.

ITEM 26: SUBSIDIES PAYABLE

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 2010 4.30-4.40). Subsidies are not consolidated. The ESA 2010 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.

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

ITEM 27: OTHER CURRENT EXPENDITURE

These are current expenditures not included in any other category of current expenditure. These comprise other taxes on production (D.29), property income, excluding interest (D.4 except D.41), current taxes on income and wealth (D.5), other current transfers, excluding transfers to NPISHs (D.7 except D.751) and the adjustment for the change in pension entitlements (D.8) (ESA 2010 20.102 – 20.103). 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

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 2010 4.42-4.52). Interest payable is consolidated within general government. The recording of interest is explained in more detail in the MGDD.

ITEM 29: COMPENSATION OF EMPLOYEES

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 2010 4.02).

ITEM 29A: EMPLOYERS' ACTUAL SOCIAL CONTRIBUTIONS

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). Payments into social security schemes and government-run non-autonomous pension schemes are also shown as government revenue in item 15 (part of D.611). Item 29a is not included in the GFS Guideline, but it is part of the GFS data request.

ITEM 30: WAGES AND SALARIES

This item includes wages and salaries in cash and kind (D.11, ESA 2010 4.03-4.07).

ITEM 31: INTERMEDIATE CONSUMPTION

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 2010 3.88-3.92), which is not included in the GFS definition of government expenditure since it does not affect the deficit (B.9).

ITEM 32: TOTAL CAPITAL EXPENDITURE

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

Netting off sales of assets from acquisitions in categories P.5 and NP is standard ESA 2010 practice. Thus, sales of non-financial assets such as buildings are not recorded as revenue, but as negative capital expenditure, making the net lending/net borrowing more positive. This constitutes an exception to the general principle of not netting.

ITEM 33: INVESTMENT

Government investment is gross fixed capital formation (P.51g) 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 2010 3.124-3.138). “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 34: OTHER NET ACQUISITIONS OF NON-FINANCIAL ASSETS AND CHANGES IN INVENTORIES

This comprises changes in inventories (P.52), net acquisition of valuables (P.53)⁸ and net acquisition of non-financial non-produced assets (K.2). Note that “net” here means net of the sale of assets.

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 2010 3.146-3.153). 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.

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 2010 3.154-3.157). 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).

The net acquisition of non-financial non-produced assets (NP) 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 2010 3.184-3.194). It also includes

⁸ Monetary gold is treated as a financial asset (F.1), not as a valuable (P.53).

intangible non-produced assets, 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 35: CAPITAL TRANSFERS PAYABLE

This consists of investment grants (D.92) payable by government and other capital transfers (D.99). According to the ESA2010 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 2010 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 2010 4.165.

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 MGDD 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, provided government is not acting as a rational investor expecting a commercial return from its investment.

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 36: GROSS SAVINGS (MEMO ITEM)

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 2010.

ITEM 37: UNIVERSAL MOBILE TELECOMMUNICATIONS SYSTEM (UMTS) SALE PROCEEDS (MEMO ITEM)

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 NP, with the exception of contracts with specific characteristics as described in MGDD (Part VI Allocation of mobile phone licences), which are recorded as rents (D.45). This item should show the amounts included each year as the sale of a capital asset in NP in the calculation of the deficit (item 1). The purpose is to identify these large and exceptional transactions, which might otherwise obscure the underlying fiscal position. UMTS proceeds that are recorded as rents do not need to be included in this item.

ITEM 38: ACTUAL SOCIAL CONTRIBUTIONS (MEMO ITEM)

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 2010 4.92-4.96, 4.100).

ITEM 39: SOCIAL BENEFITS OTHER THAN SOCIAL TRANSFERS IN KIND (MEMO ITEM)

These are the social benefits other than social transfers in kind in ESA 2010 4.102 – 4.107.

3 EU BUDGET TRANSACTIONS (TABLE 1B)

3.1 INTRODUCTION TO TABLE 1B

In the ESA 2010 national accounts, total government revenue and expenditure are defined as groups of non-financial transactions of the general government sector of a Member State. Transactions between the resident sectors of the national economy and the EU budget are treated as transactions with the rest of the world (S.2) – in particular, institutions and bodies of the EU (S.212). In economic terms, however, EU budget subsidies are similar in their impact to 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.

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 payers to and the net recipients of the EU budget can be identified, as well as the impact of the EU budget transactions on the general government deficit/surplus.

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

3.2 TABLE 1B: FORMAT AND CONTENTS

The table below 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 2010 codes.

Table 1B EU budget transactions			
Description	Guideline item number Table 1B	Reporting table line number and relationships	ESA 2010 codes
Revenue of the European Union (EU) from the Member State	1	1 = 2+3+4+7	
Indirect taxes	2	2	D.2
Current international cooperation	3	3	D.74
Miscellaneous current transfers and EU own resources	4	4	D.75+D.76
<i>of which:</i> UK rebate	-	4a	D.762K
<i>of which:</i> VAT-based third own resource	5	5	D.761

Description	Guideline item number Table 1B	Reporting table line number and relationships	ESA 2010 codes
<i>of which:</i> GNI-based fourth own resource	6	6	D.762
Capital transfers	7	7	D.9 U
Expenditure of the EU budget in the Member State	8	8 = 9+10+11+12+13	
Subsidies	9	9	D.3
Current transfers to government	10	10	D.74 + D.75
Current transfers to non-government	11	11	D.75
Capital transfers to government	12	12	D.9 R (S13)
Capital transfers to non-government	13	13	D.9 R (S1W)
Balance of Member State vis-à-vis the EU budget (net receiver +, net payer -)	14	14 = 8-1	
Memo: Own resources collection costs	15	15	
Memo: Member State net revenue from pre- acceding programmes	-	16	
Memo: Net revenue from pre- acceding programmes paid to government	-	17	

3.3 LINE-BY-LINE ANALYSIS OF TABLE 1B

ITEM 1: REVENUE OF THE EU FROM THE MEMBER STATE

This is the total of taxes on production and imports (D.2) received by the EU budget, plus other 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

These comprise EU own resources, including several types of taxes on production and imports.⁹ The national accounts of Member States classify them as indirect taxes (D.2) paid by national residents to the institutions of the EU (S.212).

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

ITEM 3: CURRENT INTERNATIONAL COOPERATION

Current international cooperation (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

⁹ Such as receipts from the CAP, levies on imported agricultural products, monetary compensatory amounts levied on exports and import, sugar production levies and the tax on isoglucose, co-responsibility taxes on milk and cereals, receipts from trade with third countries, and customs duties levied on the basis of the Integrated Tariff of the European Communities (TARIC).

“European Development Fund” managed by the European Commission as an extra-budgetary fund.

ITEM 4: MISCELLANEOUS CURRENT TRANSFERS AND EU OWN RESOURCES

This line is for miscellaneous current transfers (D.75), as well as VAT- and GNI-based EU own resources (D.76) paid by government to the EU, i.e. the UK rebate, the third and the fourth resource (see below).

ITEM 4A: UK REBATE

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

ITEM 5: VAT-BASED THIRD OWN RESOURCE

This is the value added tax (VAT)-based contribution (the third resource) to the EU budget. It includes any currency transfers paid by the general government of each Member State to the EU budget under the third resource.

ITEM 6: GNI-BASED FOURTH OWN RESOURCE

This is the gross national income (GNI)-based contribution (the fourth resource) to the EU budget. It includes any current transfers paid by the general government of each Member State to the EU budget under the fourth resource.

ITEM 7: CAPITAL TRANSFERS

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

ITEM 8: EXPENDITURE OF THE EU BUDGET IN THE MEMBER STATE

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

ITEM 9: SUBSIDIES

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 TO GOVERNMENT

These are general government resources in current international cooperation (D.74) and miscellaneous 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 TO NON-GOVERNMENT

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 TO GOVERNMENT

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 TO NON-GOVERNMENT

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

ITEM 14: BALANCE OF MEMBER STATE VIS-À-VIS THE EU BUDGET

This item equals expenditure of the EU budget in the Member State (item 8) less the revenue of the EU budget from the Member State (item 1). It represents the net impact of transfers between the Member State and the EU budget.

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)

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 under non-market output (P.131). EU tax receipts are recorded gross (i.e. before the deduction of the collection costs).

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

Net revenues 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): “Member State net revenue from pre-acceding programmes” (item 16) and “Net revenue from pre-acceding programmes paid to government” (item 17).

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

4.1 INTRODUCTION TO TABLE 1C

The purpose of Table 1C is to collect data on government final consumption.

Final consumption expenditure is defined in the ESA 2010 (20.108) 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 includes two categories of expenditures:

- The value of the goods and services produced by general government itself (P.1) other than market output (P.11), output for own final use (P.12) and payments for non-market output (P.131);
- Purchases by general government of good and services produced by market producers that are supplied to households, without any transformation, as social transfers in kind (D.632). General government pays for these goods and services that the sellers provide to households.

Table A 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 – market production purchased by general government and NPISHs (D.632). These are goods and services produced by market producers and purchased by government, which supplies them to households without any transformation (ESA 2010 3.98.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.

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

GFS expenditure items and other items	Classification of the output and/or classification of the sale/transfer of the output by government		Sector consuming the output (either as final consumption or capital formation)
Social payments	Social benefits other than social benefits in kind (D.62)		Part of household consumption (P.3)
	Current transfers to NPISHs (D.751)		Part of NPISH final consumption (P.3)
	Social transfers in kind of goods and services produced by market producers (D.632)		
Government output = intermediate consumption + compensation of employees + taxes less subsidies + consumption of fixed capital + net operating surplus	Other government non-market output (P.132) (total non-market output minus P.131)	Social transfers in kind – general government and NPISHs non-market production (D.631)	Government individual final consumption expenditure (P.31)
		Transactions internal to government	Government collective final consumption expenditure (P.32)
	Sales (GFS revenue item)	Payments for government non-market output (P.131)	Any sector: either final consumption or capital formation
		Government market output (P.11)	
		Government output for own final use (P.12)	Part of government investment (P.51)

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

4.2 TABLE 1C: FORMAT AND CONTENTS

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 numbers in the reporting Table, as well as the relationships between the line and item numbers, and the ESA 2010 codes.

Table 1C Government final consumption expenditure

Description	Guideline item number Table 1C	Reporting table line number and relationships ¹	ESA2010 codes (U = uses, R = resources)
Final consumption expenditure	1	1 = 2+3 [1A.29]+[1A.31]+ 4+5+6+7- [1A.19]	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
Social transfers in kind – purchased market production	4	4	D.632
Consumption of fixed capital	5	5	P.51c

Description	Guideline item number Table 1C	Reporting table line number and relationships ¹	ESA2010 codes (U = uses, R = resources)
Taxes on production paid minus subsidies received	6	6	D.29 U – (-D.39 U)
Net operating surplus	7	7	B.2n
<i>Memorandum items:</i> Final consumption expenditure at prices of the previous year	8	8	P.3 (volume)
Government investment at prices of the previous year	9	9	P.51g (volume)
Gross domestic product (GDP) at current prices	10	10	B.1*g at market prices
GDP at prices of the previous year	11	11	B.1*g (volume)

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

4.3 LINE-BY-LINE ANALYSIS OF TABLE 1C

ITEM 1: FINAL CONSUMPTION EXPENDITURE

This is P.3 for the general government sector. According to ESA 2010 3.94 “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.

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

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

- it satisfies the individual needs of household members;
- it is possible to observe the consumption of goods and services by household members;
- households agree to consume the goods and services and take action to make it possible, for example by attending a school; and
- 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

Collective consumption expenditure (P.32) has the following characteristics:

- the consumption by government is used to provide services simultaneously to all members of the community;
- households' use of such services is usually passive and does not require their express agreement or active participation; and
- provision of the service to one household does not reduce the services available to others.

ITEM 4: SOCIAL TRANSFERS IN KIND VIA MARKET PRODUCERS

These are goods and services produced by market producers and purchased by government, which supplies them to households without any transformation (D.632, ESA 2010 4.108). They are part of government final consumption expenditure (P.3), unlike government current transfers to NPISHs (D.751) 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 5: CONSUMPTION OF FIXED CAPITAL

This is the capital consumption (P.51c, ESA 2010 3.139-3.145) 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 6: TAXES ON PRODUCTION PAID MINUS SUBSIDIES RECEIVED

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. 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). Note that taxes or subsidies on products (D.21 and D.31, respectively) cannot be consolidated because there is no counterpart sector in the ESA for such transactions; the relevant amounts are not separately recognised as expenditure and revenue (respectively) and are instead included in, or excluded from, the value of the intermediate consumption or of the sales. 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 7: NET OPERATING SURPLUS

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 8: GOVERNMENT FINAL CONSUMPTION EXPENDITURE AT PRICES OF THE PREVIOUS YEAR (MEMO ITEM)

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 that 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 9: GOVERNMENT INVESTMENT AT PRICES OF THE PREVIOUS YEAR (MEMO ITEM)

This is government investment (item 33 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 that 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 10: GROSS DOMESTIC PRODUCT (GDP) AT CURRENT PRICES (MEMO ITEM)

Gross domestic product at market prices is defined in ESA 2010 8.89.

ITEM 11: GDP AT PRICES OF THE PREVIOUS YEAR (MEMO ITEM)

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 that 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.

5 GOVERNMENT DEFICIT AND ITS FINANCING (TABLE 2A)

5.1 INTRODUCTION TO TABLE 2A

Table 2A shows how the general government deficit is financed and considers the relationship between the deficit and Maastricht debt. The ability to reconcile the change in 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.

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”. 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.

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.

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.

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, pension and standardised guarantee schemes;
- transactions in financial derivatives and employee stock options; and
- statistical discrepancies.

Time of recording differences refer 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.8). 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, unless a time adjusted cash method is used. This delay is recorded under other accounts receivable (F.8) 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.

In the GFS Guideline, **transactions in other accounts receivable** (F.8) are grouped together with **transactions in monetary gold and special drawing rights** (SDRs) (F.1) under transactions in other financial assets (item 13 of Table 2A). Transactions in other accounts payable (F.8) are grouped together with the net incurrence of liabilities in SDRs (F.1) and **equity and investment fund shares or units** (F.5) under transactions in other liabilities (item 23, Table 2A). For the euro area countries, government transactions in F.1 are by definition zero after adoption of the euro, 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. The **net acquisition of and net incurrence of liabilities in insurance, pension and standardised guarantee schemes** (F.6) (items 11 and 21 respectively, table 2A) for the government sector are likely negligible in terms of GDP.

Transactions in financial derivatives and employee stock options (F.7) 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.

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.

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.

General government debt (and therefore the change in debt) is recorded at face value, whereas financial transactions in the ESA 2010 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).

The MGDD and the ESA 2010 recommend recording accrued unpaid interest under the instrument that generates the interest rather than under other accounts receivable/payable (although the ESA 2010 also allows recording in other accounts receivable/payable (F.8), see ESA 2010, 5.242). 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.

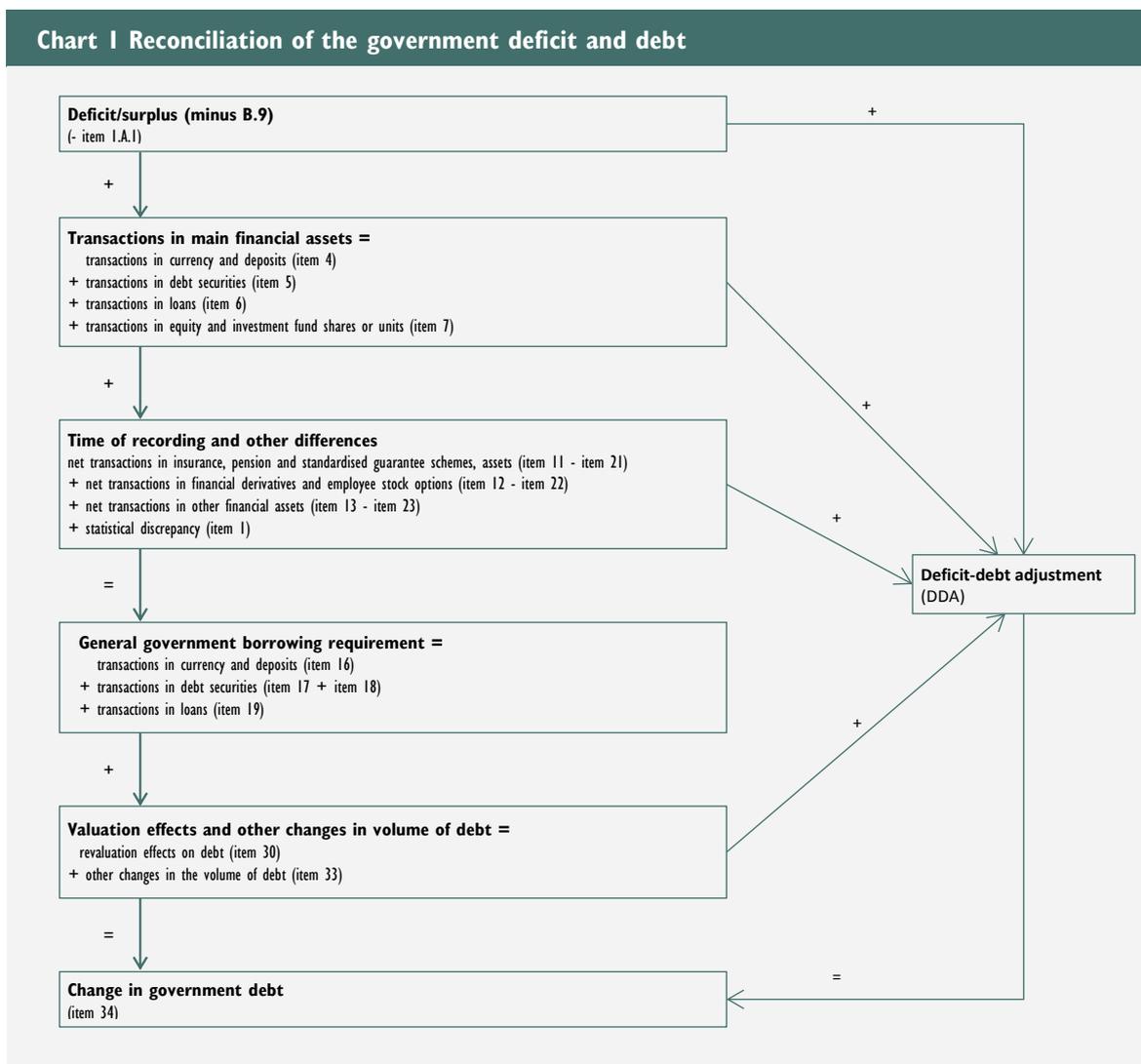
In the ESA 2010, the accruing of interest does not create difficulties in reconciling transactions and balance sheet stocks because, assuming no other events, the market value of the instrument increases in step with the accruing of interest (D.41). No entry in the revaluation account (K.7) is necessary. By contrast, because of the face valuation of debt, a reconciliation item is needed in GFS Table 2A, as 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”.

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.

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.

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



5.2 TABLE 2A: FORMAT AND CONTENTS

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 2010 codes. Some items in the data request are not included in the GFS Guideline (item 14a.1, item 14a.2, item 32a, item 33a, item 35, item 36, item 37). The rest of this chapter contains a description of each of the items listed in Table 2A. The transactions are presented net across instruments. For example, in transactions in financial assets, the receipt of the proceeds from the liquidation of a long-term bond is deducted from the purchase of long-term bonds.

Table 2A Deficit-debt adjustment statistics			
Description	Guideline item number Table 2A	Reporting table line number and relationships ¹	ESA 2010 codes
Adjustment between financial and non-financial accounts	1	1 = [1A.1]-2	B.9 - B.9f
Net financial transactions (consolidated)	2	2 = 3-15	B.9f
Financial assets (consolidated)	3	3 = 4+5+6+7+11+12+13	
Currency and deposits	4	4	F.2
Debt securities	5	5	F.3
Loans	6	6	F.4
Equity and investment fund shares or units	7	7 = 8+9+10	F.5
Privatisation	8	8	S.13 / F.5 / (S.11001+S.12x01) / other than (S.11001+S.12x01)
Equity injections	9	9	S.13 / F.5 / (S.11001+S.12x01) / (S.11001+S.12x01)
Other	10	10	S.13 / F.5 / other than (S.11001+S.12x01)
Insurance, pensions and standardised guarantee schemes	11	11	F.6
Financial derivatives and employee stock options	12	12	F.7
Other financial assets	13	13	F.1+F.8
<i>of which:</i> taxes and social contributions accrued but not yet paid	14	14 = 14a.1 + 14a.2	
<i>of which:</i> taxes accrued but not yet paid		14a.1	
<i>of which:</i> social contributions accrued but not yet paid		14a.2	

Description	Guideline item number Table 2A	Reporting table line number and relationships ¹	ESA 2010 codes
Liabilities (consolidated)	15	15= 16+17+18+19+21+22+23	
Currency and deposits	16	16	F.2
Short-term debt securities	17	17	F.31
Long-term debt securities	18	18	F.32
Loans	19	19 = 20+35	F.4
<i>of which:</i> loans from central bank	20	20	
Insurance, pension and standardised guarantee schemes	21	21	F.6
Financial derivatives and employee stock options	22	22	F.7
Other liabilities	23	23	F.1 + F.5 + F.8
General government borrowing requirement (GGBR)	24	24 = 16+17+18+19 24 = 26+27+28 24 = 1-[1A.1] +3-21-22-23	F.2 + F.3 + F.4
<i>of which:</i> long-term	25	25	
Denominated in national currency	26	26	
Denominated in currencies of euro area Member States	27	27	
Denominated in other currencies	28	28	
Other flows	29	29 = 30+33	
Revaluation effects on debt	30	30 = 31+32	
Foreign exchange holding gains and losses	31	31	K.7 (part) in liabilities AF.2 + AF.3 + AF.4
Other valuation effects – face value	32	32= 34-24-31-33	
<i>of which:</i> due to issuance and redemption value not at par		32a	
Other changes in volume of debt	33	33	K.2+K.3+K.4+K.5+K.6 in liabilities: AF.2+AF.3+AF.4
<i>of which:</i> reclassification of units	-	33a	
Change in government debt	34	34 = 24+29 = 1-[1A.1]+3-21-22-23+29 = ([3A.1] in year t) – ([3A.1] in year t-1)	
Memorandum items			
Transactions in loans (liabilities), of which other loans	-	35	(Other than S.121) / F.4 / S.13
Net transactions in other accounts receivable/payable related to the EU budget	-	36	F.89
Difference between deliveries and	-	37	

Description	Guideline item number Table 2A	Reporting table line number and relationships ¹	ESA 2010 codes
corresponding cash payment related to military equipment expenditure			
I[x.y] refers to the item number y of Table x.			

5.3 LINE-BY-LINE ANALYSIS OF TABLE 2A

ITEM 1: ADJUSTMENT BETWEEN FINANCIAL AND NON-FINANCIAL ACCOUNTS

Item 1 equals B.9, the balance of the capital account, minus B.9f, the balance of the financial account. In the ESA 2010, 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.¹⁰ 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 2: NET TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES

This is net lending (+)/net borrowing (-) recorded in the financial account (B.9f). It is the balance of the transactions in financial assets (item 3) and transactions in liabilities (item 15).

ITEM 3: TRANSACTIONS IN FINANCIAL ASSETS (CONSOLIDATED)

These are transactions in the main financial assets, i.e. currency and deposits (F.2), debt securities (F.3), loans (F.4), and equity and investment fund shares or unit (F.5); as well as transactions in other financial assets, i.e. monetary gold and SDRs (F.1), insurance, pension and standardised guarantee schemes (F.6), financial derivatives and employee stock options (F.7), and accounts receivable (F.8). All transactions in financial assets are recorded on a consolidated basis.

¹⁰ 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.8) or, in the case of accrued interest, under the relevant financial instrument. They should have no impact on the statistical adjustment.

BREAKDOWN BY INSTRUMENT

ITEM 4: TRANSACTIONS IN CURRENCY AND DEPOSITS

Currency and deposits correspond to F.2 in the ESA 2010 (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: transferable deposits, savings deposits and time deposits, whether in domestic or foreign currency.

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 2010 5.86 (f)).

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).

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.

Accrued interest is recorded under the relevant instrument (rather than under accounts receivable/payable, F.8) and so contributes to the transactions in such assets.

ITEM 5: TRANSACTIONS IN DEBT SECURITIES

Debt Securities are the ESA 2010 category F.3, covering the net acquisition of non-government bills, notes and bonds. F.3 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 face value, and include accrued interest.

ITEM 6: TRANSACTIONS IN LOANS

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.

Loans are valued at nominal value (ESA 2010 7.70), 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 2010 transactions, other flows and balance sheets.

ITEM 7: TRANSACTIONS IN EQUITY AND INVESTMENT FUND SHARES OR UNITS

Equity and investment fund shares are recorded in the ESA 2010 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 8: PRIVATISATIONS

Privatisation, although not an ESA 2010 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 2010 2.35-2.38 defines control as “the ability to determine general corporate policy, for example 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.

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.

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.

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 10 (other transactions in equity and investment shares or units).

Positive amounts for this item may occur in the following two cases:

- **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.
- **Debt assumptions and debt cancellations in the context of a privatisation (ESA 2010 4.165.f).** In this case, the imputed payments from government to a corporation, which are recorded as the counterparts to the imputed transactions in loans, are classified as acquisitions of equity (F.5) (and not as capital transfers, the usual treatment for debt cancellation and assumption). For the GFS, however, the transaction is recorded under privatisation rather than under equity injections since the intention is to increase the selling price when the unit is privatised. The net privatisation proceeds recorded in F.5 should therefore reflect the proceeds net of the cost of debt assumptions and cancellations.

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

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 9: EQUITY INJECTIONS

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).

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.

Amounts received by government that relate to "indirect privatisations" (see the MGDD 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 MGDD, the transfer of the proceeds is to be considered as a withdrawal of equity from the holding company.

ITEM 10: OTHER TRANSACTIONS IN EQUITY AND INVESTMENT FUND SHARES OR UNITS

This covers other transactions in equity and investment fund shares, 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.

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 2010 financial accounts, while privatisation or equity injections may be estimated from different sources using slightly different methodologies.

ITEM 11: TRANSACTIONS IN INSURANCE, PENSION AND STANDARDISED GUARANTEE SCHEMES

This covers transactions in insurance, pension and standardised guarantee schemes, i.e. all transactions that are recorded in F.6 (government assets). It includes:

- Non-life insurance and technical reserves
- Life insurance and annuity entitlements
- Pension entitlements
- Claims of pension funds on pension managers
- Entitlements to non-pension benefits
- Provisions for calls under standardised guarantees

ITEM 12: TRANSACTIONS IN FINANCIAL DERIVATIVES AND EMPLOYEE STOCK OPTIONS

This item records the net acquisition of assets in the form of financial derivatives contracts (F.7). 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 2010 5.136 d)).

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.71 with no transaction recorded. Settlements of financial derivatives are recorded in the financial accounts as a transaction in F.71 with a counterpart entry in currency and deposits (F.2).

ITEM 13: TRANSACTIONS IN OTHER FINANCIAL ASSETS

This category covers primarily monetary gold (F.11), special drawing rights (F.12) and transactions related to other accounts receivable (F.8). 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

These are other accounts receivable (F.8) 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 MGDD explains the accrual recording of taxes and social contributions.

ITEM 14A.1: OF WHICH TAXES ACCRUED BUT NOT YET PAID

These are other accounts receivable (F.8) 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

These are other accounts receivable (F.8) 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

These are transactions in the ESA 2010 liabilities, i.e. currency and deposits (F.2), debt securities (F.3), loans (F.4), insurance, pension and standardised guarantee schemes (F.6), financial derivatives and employee stock options (F.7), and other accounts payable (F.8), including trade credits. All transactions in liabilities are recorded on a consolidated basis.

BREAKDOWN BY INSTRUMENT

ITEM 16: TRANSACTIONS IN CURRENCY AND DEPOSITS

This item includes transactions in government liabilities classified as currency (F.21), transferable deposits (F.22) or other deposits (F.29) in the ESA 2010.

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.

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.

The borderline between deposits and loans is explained in ESA 2010 5.117-5.119. The distinction between transactions in loans and transactions in deposits is that a debtor offers a standardised non-negotiable contract in the case of a loan but not in the case of a deposit (ESA 2010 5.117). The ECB's MFI balance sheet Regulation¹¹ follows a different convention whereby no MFI liability is a "loan" and no MFI asset is a "deposit".

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

Since these transactions are derived from the ESA 2010 financial accounts, accruing interest on such deposits is normally recorded in the instrument category. Some compilers, however, include accrued interest in AF.8, other accounts payable, not in the underlying instrument category. The stock of government 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 32 (other valuation effects).

ITEM 17: TRANSACTIONS IN SHORT-TERM DEBT SECURITIES

Item 17 covers government liabilities in the ESA 2010 category F.31. 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.32) in item 18.

¹¹ Regulation (EC) No 1071/2013 of the ECB of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector (ECB/2013/33).

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 still record transactions, other flows and stocks consistently.

This item excludes instruments – even those called “bills” or “treasury bills” – when their initial maturity exceeds one year. The ESA 2010 defines short-term as an initial maturity of one year or less (ESA 2010 5.A1.14).

ITEM 18: TRANSACTIONS IN LONG-TERM DEBT SECURITIES

Long-term securities (F.32) 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.

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.

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.

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

- 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.5) or valuation (K.7) effects in other flows. The increase in the index is regarded as the property income received from the instrument over its life.

- When the index is volatile, the MGDD allows recording as other volume changes (K.5) 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.

This means that sometimes the change in Maastricht debt in the form of indexed instruments will appear in the GGBR (item 24), and sometimes in other volume changes (item 33).

ITEM 19: TRANSACTIONS IN LOANS

Item 19, transactions in loans, is the ESA 2010 category F.4. It covers short-term and long-term borrowing by government units from the central bank (item 20) and from other non-government units (memorandum item 35) such as MFIs, other financial corporations and the rest of the world.

The category includes imputed transactions in loans in respect of debt assumption. These are recorded in the ESA 2010 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 2010 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 2010 7.31) except when they are traded.

ITEM 20: OF WHICH LOANS FROM THE NATIONAL CENTRAL BANK

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.¹²

ITEM 21: TRANSACTIONS IN INSURANCE, PENSION AND STANDARDISED GUARANTEE SCHEMES

This item records the net incurrence of liabilities in the form of insurance, pension and standardised guarantee (F.6). See also item 11.

¹² Article 123 of the Treaty on the Functioning of the European Union.

ITEM 22: TRANSACTIONS IN FINANCIAL DERIVATIVES

This item records the net incurrence of liabilities in the form of financial derivatives contracts (F.7). See also item 12.

ITEM 23: TRANSACTIONS IN OTHER LIABILITIES

This category covers transactions related to SDRs (F.1), equity and investment fund shares (F.5) and other accounts payable (F.8).

ITEM 24: GENERAL GOVERNMENT BORROWING REQUIREMENT

The general government borrowing requirement (GGBR) covers all financial transactions in Maastricht debt instruments (currency and deposits (F.2), debt securities (F.3) and loans (F.4). It is sometimes called “transactions in government debt”, “Maastricht debt transactions” or “transactions in Maastricht debt”.

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

ITEM 25: TRANSACTIONS IN LONG-TERM DEBT INSTRUMENTS

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

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

ITEM 26: NATIONAL CURRENCY-DENOMINATED

For Member States in the euro area, this means the euro or the national currency it replaced. For EU Member States outside the euro area, it means the (national) currency that is legal tender.

ITEM 27: DENOMINATED IN CURRENCIES OF EURO AREA MEMBER STATES

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 that have not yet adopted the euro, this item includes euro-denominated debt.

ITEM 28: NON-PARTICIPATING FOREIGN CURRENCY-DENOMINATED

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 29: OTHER FLOWS

Items 29 to 33 account for the difference between transactions in government debt instruments, the GGBR, and the change in government debt. Item 29 “Other flows” is simply the summation of revaluation effects on debt (item 30) and other changes in the volume of debt (item 33).

ITEM 30: REVALUATION EFFECTS ON DEBT

The change in government debt (item 34) is recorded at face value, while the GGBR (item 24) is recorded at market value, because the ESA 2010 records flows and balance sheets at market value. Item 30 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 31) and other valuation effects – face value (item 32).

ITEM 31: FOREIGN EXCHANGE HOLDING GAINS AND LOSSES

This is the increase (+) or decrease (-) in the face value of government debt instruments due to exchange rate movements, recorded in the ESA 2010 financial accounts within the other flow category for nominal holding gains/losses (K.7). Item 31 has two components:

- the effect of exchange rate movements on debt denominated in foreign currency; and
- the impact of derivative contracts that change the effective currency of the debt.

Item 31 equals the net increase in the face value of government debt owing to these two factors. “Net increase” means the increases minus the decreases in the value due to such movements and changes.

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

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

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 government 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 32: OTHER VALUATION EFFECTS – FACE VALUE

This item is the “market-to-face-value adjustment” which was introduced in paragraph 5.10. It recognises that transactions in government debt instruments recorded at market value in the ESA 2010 financial account will differ from transactions in government debt recorded at face value. In order to reconcile their movements, it is necessary that both transactions and other flows are at face value.

For example, a bond issued at a discount will increase the ESA 2010 balance sheet debt by the discounted price (since that is the market price), but will increase government debt by the full face value.

The accounting identity is as follows: $\text{item 32} = \text{face value} - \text{market price}$.

The ESA 2010 balance sheet is also affected by the addition of accrued unpaid interest in the financial account. Transactions in government 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 government debt is valued at face value and so does not include accrued interest (except for certain indexed instruments).

Item 32 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 ¹³ (C)
+	Exchange of debt (D)

A. GROSS ISSUANCE

Premium and discounts at issue

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 face value. Other bonds include deep-discounted bonds, bonds with small discounts, or bonds issued at a premium. In the last case, a negative entry is shown in item 31.

Accrued interest sold at issue

Accrued interest is sometimes sold at issue, e.g. in the case of fungible tranches of linear bonds. Since accrued interest is not part of Maastricht debt, an adjustment is necessary. For example, suppose a 6% coupon bond with a face value of 100 pays a coupon on 1 September and is issued on 1 June at par. The selling price will be 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

¹³ Except for index-linked instruments where index linking is reflected in EDP debt.

Now consider a bond, denominated in dollars, with a 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 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 24). 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 32.

B. GROSS REDEMPTION

In general, redemption at maturity is, by definition, at face value, so no adjustment is needed. For early redemption, item 31 equals the price paid to redeem the securities (the financial transaction recorded under the ESA 2010) minus the face value.

C. ACCRUAL OF INTEREST

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

Interest accrued (D.41)	+7
(coupon plus amortisation)	
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

An exchange of debt is the early redemption of old debt and the issuance of new debt of equivalent market value. The face value of the old and new debts may differ. This difference is not entered in the 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.

Note that governments can reduce their 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 32A: OF WHICH DUE TO ISSUANCE AND REDEMPTION VALUE NOT AT PAR

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 33: OTHER CHANGES IN VOLUME OF DEBT

This item concerns all changes in stocks of government debt instruments that do not relate to (consolidated) transactions or (consolidated) valuation effects. The changes correspond to the ESA 2010 categories K.3, K.4, K.5 and K.6, 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 33A: OF WHICH RECLASSIFICATION OF UNITS

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 34: CHANGE IN DEBT

This equals the sum of transactions in government debt (GGBR, item 24) plus the other flows (item 28). It measures the impact of the valuation effects (item 30) and other volume changes (item 33) recorded in Table 2A. It also equals the government debt at the end of the year minus the government debt at the end of the previous year, as recorded in the GFS Tables 3A and 3B.

Any unexplained residual arising from the two methods of measuring the change in debt should be added to item 33 (other volume changes) to ensure consistency. The amount added should be indicated in a footnote to the table.

ITEM 35: TRANSACTIONS IN LOANS (LIABILITIES), OF WHICH OTHER LOANS (MEMO ITEM)

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

ITEM 36: NET TRANSACTIONS IN OTHER ACCOUNTS RECEIVABLE/PAYABLE RELATED TO THE EU BUDGET (MEMO ITEM)

This category is equal to transactions in other accounts receivable (F.8) related to the EU budget minus transactions in other accounts payable (F.8) 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 37: DIFFERENCE BETWEEN DELIVERIES AND CORRESPONDING CASH PAYMENT RELATED TO MILITARY EQUIPMENT EXPENDITURE (MEMO ITEM)

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.8). 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.8). 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 (TABLE 2B)

6.1 INTRODUCTION TO TABLE 2B

In the ESA 2010, “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 2010 1.106, first indent). Government 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.

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 2010 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.

Starting with the non-consolidated ESA 2010 financial accounts, the consolidation of the financial accounts of general government requires the following:

- Elimination of 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.
- Elimination 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 of a central government bond by a social security fund to an MFI would not be recorded in consolidated financial assets, since in a consolidated general government balance sheet the asset would not exist (but see below).
- Addition 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 of a central government bond by a

social security fund to an MFI would be recorded in consolidated financial liabilities, since it would be a new liability in the consolidated general government balance sheet.

6.2 TABLE 2B: FORMAT AND CONTENTS

The table below 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 2010 codes. Table 2B shows how transactions in debt instruments are recorded in non-consolidated financial accounts reported to Eurostat under the ESA 2010 transmission programme. The table starts with the non-consolidated transactions in government debt and then shows the “consolidating transactions”, namely the differences between the non-consolidated (Table 2B) and the consolidated (Table 2A) transactions by financial instrument.

Table 2B Transactions in Maastricht debt - consolidation			
Description	Guideline item number Table 2B	Reporting table line number and relationships¹	ESA 2010 codes
Transactions in government debt instruments (non-consolidated)	1	$1 = 2+3+4+5+6 = 7+ [2A.24]$	
Transactions in currency and deposits	2	2	F.2
Transactions in short-term debt securities	3	3	F.31
Transactions in long-term debt securities	4	4	F.32
Transactions in loans from central bank	5	5	F.4 (S.121)
Transactions in other loans	6	6	F.4 (excluding S.121)
Consolidating transactions	7	$7 = 8+9+10+11$	
Currency and deposits	8	$8 = 2-[2A.16]$	F.2
Short-term debt securities	9	$9 = 3-[2A.17]$	F.31
Long-term debt securities	10	$10 = 4-[2A.18]$	F.32
Loans	11	$11 = 6-([2A.19]-[2A.20])$	F.4

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

6.3 LINE-BY-LINE ANALYSIS OF TABLE 2B

ITEM I: TRANSACTIONS IN GOVERNMENT DEBT INSTRUMENTS (NON-CONSOLIDATED)

Currency and deposits, loans and debt securities are those instruments included in the definition of general government gross debt in Council Regulation (EC) No 479/2009 as amended by Commission Regulation No 220/2014. They are defined in terms of the ESA 2010 classifications.

This item covers the net incurrence of these liabilities at market prices, as recorded in the ESA 2010 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

This is F.2 in the ESA 2010. The category, in the context of government liabilities, is described in more detail under item 16 of Table 2A (see Chapter 5).

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 non-consolidated figures and in consolidating transactions.

ITEMS 3 AND 4: SECURITIES

Short-term securities correspond to the ESA 2010 category F.31. 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.32). 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

This item is equal to item 20 in Table 2A.

ITEM 6: TRANSACTIONS IN OTHER LOANS

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 19 of Table 2A.

ITEMS 7 TO 11: CONSOLIDATING TRANSACTIONS

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 government 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 government debt instruments. It is the sum of the following consolidating transactions:

- 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.31): 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.32): 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)

7.1 INTRODUCTION TO TABLE 3A

This table analyses the stock of Maastricht debt, which is defined as “general government gross debt” in Council Regulation (EC) No 479/2009 as amended by Commission Regulation No 220/2014. 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).

Article 1(5) of Council Regulation (EC) No 479/2009 as amended by Commission Regulation No 220/2014 defines general government gross debt as:

- the consolidated liabilities of the ESA 2010 general government sector (S.13);
- in the ESA 2010 categories: currency and deposits (AF.2), debt securities (AF.3), and loans (AF.4);
- 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.

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

- Certain ESA 2010 liabilities:
 - financial derivatives and employee stock options (AF.7);
 - insurance, pension and standardised guarantee schemes (AF.6);
 - equity and investment fund shares/units (AF.5);
 - other accounts receivable and payable (AF.8) including trade credits and advances (AN.81) originating from delayed payments to providers of goods and services; and
 - accrued interest, whether recorded with the underlying instrument or recorded in other accounts payable (AF.8).
- Liabilities recognised by some accounting systems but not by the ESA 2010:
 - provisions for expected but uncertain future payments arising from past events;
 - contingent liabilities, including pension entitlements under unfunded government defined benefit employer pension schemes or social security pension funds; and
 - liabilities of entities regarded as government subsidiaries in other accounting systems but outside the general government sector in national accounts.

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

- The market value corresponds to the quoted price of instruments, representing the price a purchaser or a seller can expect to pay or receive at that time (excluding commissions, fees and taxes (ESA 2010 7.38)). It includes accrued interest. It is the value used in the ESA 2010 balance sheets (ESA 2010 7.33-7.35). 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.
- The transaction value is usually close to the market value at the time of transaction. Nevertheless, the ESA 2010 indicates that the transaction value is a concept different from the market value (ESA 2010 5.21) 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 2010 5.21).
- The issue value is the transaction value at the time of issue of a financial instrument and represents nominal value plus the issue premium (ESA 2010 5.155). The issue value is relevant for the debtor since it represents the amount of funds received initially from the incurrence of the liability.
- The redemption value corresponds to the final payment on an instrument when it is repaid at maturity. Redemption value is relevant both for the debtor, as the amount repayable at the end of the contract, and for the creditor.
- The nominal value reflects the sum of funds originally advanced, plus any subsequent advances, less any repayments, plus any accrued interest. Nominal value is not the same as face value (ESA 2010 7.39). It refers to a value that does not change in response to changes in market yields.
- Face value is defined as the undiscounted amount of principal to be repaid at maturity (IMF Public Sector Debt Statistics: Guide for Compilers and Users – 2013 2.121).

Article 1(5) of Council Regulation (EC) No 479/2009 as amended by Commission Regulation No 220/2014 stipulates that government debt is to be recorded at nominal value. For the purpose of this Regulation, the 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.

The MGDD 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 the market value for the off-market (non-zero value) swaps at the inception of swap contracts.¹⁴

The treatment of securities lending and repos is clarified in the ESA 2010 (5.86f, 5.126 - 5.133). Securities delivered in the context of repurchase agreements (“repos”) or securities 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. They are 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 securities lending transaction) and subsequently sold

¹⁴ Guidance on swaps is available in the government finance statistics section of the Eurostat website.

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 2010 for securities lending and 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.

7.2 TABLE 3A: FORMAT AND CONTENTS

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 2010 codes. The table shows several breakdowns of Maastricht debt: by instrument, holder, currency and maturity.

Table 3A Government gross debt			
Description	Guideline item number Table 3A	Reporting table line number and relationships	ESA 2010 codes
Government debt (consolidated)	1	1 = 2+3+4+5+6 = 7+12 = 13+14+15 = 16+17 = 19+20+22	
Currency and deposits	2	2	F.2
Short-term securities	3	3	F.31
Long-term securities	4	4	F.32
Loans from central bank	5	5	Part of F.4 (S.121)
Other loans	6	6	Part of F.4 (excluding S.121)
Held by residents of the Member State	7	7 = 8+9+10+11	
Central bank	8	8	S.121
Other monetary financial institutions	9	9	S.122 + S.123
Other financial institutions	10	10	S.124 + S.125 + S.126 +S.127 + S.128 + S.129
Other residents of the Member State	11	11	S.11 + S.14 + S.15
Held by non-residents of the Member State	12	12	S.2
Denominated in national currency	13	13	
Denominated in currencies of euro area Member States	14	14	
Denominated in other currencies	15	15	

Description	Guideline item number Table 3A	Reporting table line number and relationships	ESA 2010 codes
Short-term debt	16	16	
Long-term debt	17	17	F.2 + F.3 + F.4
<i>of which:</i> variable interest rate	18	18	
Residual maturity up to one year	19	19	
Residual maturity over one and up to five years	20	20	
<i>of which:</i> variable interest rate	21	21	
Residual maturity over five years	22	22	
<i>of which:</i> variable interest rate	23	23	
Memorandum items			
Average residual maturity of debt	24	24	
Government debt – zero coupon bonds	25	25	
Government debt with residual maturity over one year		26 = 20+22	
Trade credits and advances (consolidated)		27	

7.3 LINE-BY-LINE ANALYSIS OF TABLE 3A

ITEM 1: GOVERNMENT DEBT (CONSOLIDATED)

This is the general government gross consolidated debt 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

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.

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.

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.

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

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.31 in the ESA 2010). More information on short-term securities is given in Chapter 5 under item 17.

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.

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

ITEM 4: LONG-TERM SECURITIES

Long-term securities (F.32) 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.

The redemption price of some securities is linked to an index such as a consumer price index. Council Regulation (EC) 479/2009 as amended by Commission Regulation No 220/2014 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

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.

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

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.

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

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

Imputed loans in respect of finance leases are included in Maastricht debt in this item. Also included in this item are lump-sum payments received at the 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

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

This item covers all government debt instruments held by the NCB (the ESA 2010 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.

This item excludes other financial links, sometimes substantial, between central banks and government, such as other accounts payable/receivable (F.8) arising when the central bank processes banking orders made daily by the ministry of finance.

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.¹⁵

ITEM 9: OTHER MONETARY FINANCIAL INSTITUTIONS

This item covers all elements of Maastricht debt held by domestic MFIs other than the NCB. Other MFIs form the ESA 2010 sub-sectors S.122 and S.123 (ESA 2010 2.68). They include 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.¹⁶

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

The category of other (non-monetary) financial institutions includes:

- non-money market fund (MMF) investment funds (S.124);

¹⁵ The Eurosystem comprises the ECB and the NCBs of those countries that have adopted the euro.

¹⁶ Regulation (EC) No 1071/2013 of the ECB of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector (ECB/2013/33).

- other financial intermediaries, except insurance corporations and pension funds (S.125);
- financial auxiliaries (S.126) 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 2010 2.33) and so, by definition, are not likely to hold significant government liabilities;
- captive financial institutions and money lenders (S.127) are units engaged in neither financial intermediation nor providing financial auxiliary services, and where most of either their assets or their liabilities are not transacted on open markets.
- insurance corporations (S.128) and pension funds (S.129). 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

Other residents comprise:

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

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

In addition to 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 recorded not here, but as holdings of the financial intermediaries concerned.

Non-financial corporations and 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.8) are

excluded from Maastricht debt, as are any claims on general government in the form of financial derivatives (AF.7).

ITEM 12: NON-RESIDENT HOLDERS

This item covers the general government debt held by units of the rest of the world (S.2 in the ESA 2010). In the ESA 2010 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 2010 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.

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.

CURRENCY DENOMINATION

ITEM 13 DENOMINATED IN NATIONAL CURRENCY

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.

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

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: DENOMINATED IN CURRENCIES OF EURO AREA MEMBER STATES

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.

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.

This item includes liabilities that have subsequently been exchanged through contractual agreement into a currency of a euro area Member State. This item excludes liabilities in a currency of a euro area Member State that have been exchanged through contractual agreement into a national or other foreign currency.

ITEM 15: DENOMINATED IN OTHER CURRENCIES

This item comprises all elements of Maastricht debt denominated in currencies other than the national currency, the euro, the ECU or the currency that was 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 national currency), the Swiss franc, the US dollar and the Japanese yen.

The item includes liabilities that have been exchanged through contractual agreement into a currency other than the national currency or a currency of a euro area Member State. This item excludes liabilities that have been exchanged through contractual agreement into the national currency or into a currency of a euro area Member State.

MATURITY OF MAASTRICHT DEBT

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

ITEM 16: SHORT-TERM DEBT

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

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

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.

Some deposits, although legally redeemable at short notice, are in practice held long term with incentives for 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

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.

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 MAASTRICHT DEBT BY RESIDUAL MATURITY

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.

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.

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

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

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

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

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

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

ITEM 24: AVERAGE RESIDUAL MATURITY OF DEBT (MEMO ITEM)

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.

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.

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

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

ITEM 25: GOVERNMENT DEBT – ZERO COUPON BONDS (MEMO ITEM)

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 short-term debt. Zero coupon loans or deposits are also recorded here.

ITEM 26: GOVERNMENT DEBT WITH RESIDUAL MATURITY OVER 1 YEAR (MEMO ITEM)

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

ITEM 27: TRADE CREDITS AND ADVANCES (CONSOLIDATED) (MEMO ITEM)

Trade credits and advances are defined in ESA 2010 paragraphs (5.233-5.239). These financial claims arise when payment for goods and services is not made at the time they are delivered. In accordance with Regulation (EU) No 220/2014, trade credits are excluded from the definition of government debt. This item is not part of the Guideline, but is a voluntary item in reporting Table 3A to monitor their size and data quality.

According to a Eurostat decision taken in 2012, when a supplier totally and irrevocably transfers its trade credit claim on government to a financial institution, the trade credit liability of government has to be reclassified as a loan if the following two conditions are both met:

- the government unit no longer has any payment obligation to its supplier, and
- the financial institution has no direct or indirect recourse against the supplier (transferor of the claim) if the government unit does not meet its payment obligations on time.

Likewise, when a trade credit claim is restructured in such a way that its main features are changed, for instance by adjusting the rate of interest charged to the debtor government unit and/or the timing of the repayment obligations, provided the changes are not restricted to a simple extension of the initial maturity, the original trade credit should be reclassified as a loan.

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

8.1 INTRODUCTION TO TABLE 3B

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 and 13).

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

- Adding the consolidating elements for each debt instrument (Table 3B, items 3, 4, 5 and 6).
- Adding the liabilities of each sub-sector that are held by another sub-sector (Table 3B, items 8, 10, 12 and 14).
- Adding the financial assets held by a sub-sector that are liabilities of other general government sub-sectors (Table 3B, memorandum items 15, 16, 17 and 18). This third method is the one applied in the EDP reporting tables.

Methods (b) and (c) are shown in Table B.

Table B 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 dark cells represent intra sub-sector holdings that are recorded neither in the non-consolidated nor in the consolidated accounts.

8.2 TABLE 3B: FORMAT AND CONTENTS

The table below 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 2010 codes.

Table 3B Government gross debt – consolidating elements			
Description	Guideline item number Table 3B	Reporting table line number and relationships	ESA 2010 codes
Government debt (non-consolidated between sub-sectors)	1	1 = 7+9+11+13	
Consolidating elements	2	2 = 3+4+5+6 = 8+10+12+14 = 15+16+17+18	
Consolidating elements by category			
Currency and deposits	3	3	F.2
Short-term securities	4	4	F.31
Long-term securities	5	5	F.32
Loans	6	6	F.4
Debt issued by central government (consolidated)	7	7	
of which held by other government sub-sectors	8	8	
Debt issued by state government (consolidated)	9	9	
of which held by other government sub-sectors	10	10	
Debt issued by local government (consolidated)	11	11	
of which held by other government sub-sectors	12	12	
Debt issued by social security funds (consolidated)	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	

8.3 LINE-BY-LINE ANALYSIS OF TABLE 3B

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

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.3 and AF.4) issued by all units in that sub-sector that are not assets of that sub-sector. Valuation is at face value and follows the standard rules (see Chapter 7).

ITEM 2: CONSOLIDATING ELEMENTS

The consolidating elements of government debt comprise all government liabilities in the relevant instruments (AF.2, AF.3 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 debt¹⁷ are not recorded at all in the accounts (ESA 2010, 7.92), and, as noted earlier, in GFS holdings by other units in the issuing sub-sector are not recorded in the debt of that sub-sector.)

The consolidating elements of government debt can be broken down into the ESA 2010 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.

This item does not cover securities issued by government that are acquired by government under a repo operation, because repos are considered as a collateralised loan of cash, not a transaction in securities.

The consolidating elements can be considered as either:

¹⁷ That is, where the financial asset and liability are held by the same institutional unit.

- 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

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

ITEM 7: DEBT ISSUED BY CENTRAL GOVERNMENT (CONSOLIDATED)

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

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 (CONSOLIDATED)

All 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

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

ITEM 11: DEBT ISSUED BY LOCAL GOVERNMENT (CONSOLIDATED)

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

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 (CONSOLIDATED)

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

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 (MEMO ITEM)

These are the holdings of financial assets by 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

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.

9.1 AGGREGATION METHOD

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 current exchange rate method in the case of the EU aggregates.

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 in euro.

Under the current exchange rate method, the actual market exchange rate in the year is used to aggregate national data.

The difference between the aggregated stocks (across countries) in the common currency at the end of year t with the aggregated stocks at the end of year $t - 1$ does not equal the sum of the aggregated flows in year t in the common currency due to exchange rate fluctuations.

9.2 CONSOLIDATION OF NATIONAL DATA

At present, cross-border transactions between national governments in the euro area, and between governments and the EU budget, are as a general rule not consolidated in GFS (nor are they consolidated in the ESA 2010 or in the EDP data provided by Member States). Neither are cross-border holdings of government debt securities. An exception to this general rule is the intergovernmental lending operations in the context of the financial crisis, which are consolidated in the euro area and EU aggregates. One example of such intergovernmental lending operations is the loans provided by the European Financial Stabilisation Facility (EFSF), which was set up to lend money to euro area countries in financial difficulty. Its lending operations are re-routed through the government accounts of the guarantor euro area Member States (EAMS). Thus, not only does the gross government debt of the country in need

increase, but the gross government debt of the guarantor EAMS also increases in proportion to their respective share in the guarantees provided to the EFSF. The bilateral loans to Greece and the loans provided by the EFSF are consolidated in the euro area gross debt as well as in the financial transactions in loans.

9.3 TREATMENT OF THE EUROPEAN UNION BUDGET

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 2010 national statistics, but there they are recorded as transactions between domestic institutional sectors and the rest of the world.

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. Transactions of the ECB and EIB are not part of the EU budget and so are not taken into account in GFS aggregates.

It is useful to distinguish between two types of EU budget transaction. Type I comprises transactions with individual Member States and Type II transactions consist of transactions whose economic impact cannot be attributed to an individual Member State.

Type I:

- On the revenue side, Type I transactions comprise EU own resources such as part of VAT, several kinds of customs duties¹⁸ and other indirect taxes¹⁹, and the GNP (or GNI)-based fourth resource. The ESA2010 defines the VAT- and GNI-based third and fourth EU own resources (D.76) as current transfers paid by the general government of each Member State to the institutions of the European Union (S.212). In the ESA2010 all VAT collected by government (whether further distributed to the EU institutions or not) are recorded as VAT (D.211) in the government accounts. The amount of VAT-based third own resource transferred to the EU budget is recorded as government expenditure under D.761.

¹⁸ For example, those levied on the basis of the EU's integrated tariff and on agricultural goods.

¹⁹ 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.

- 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 residents, or as current international cooperation (D.74) in the case of EU current payments made directly to national governments. Type I transactions make up the bulk of the EU budget.

Type II transactions consist of transactions whose economic impact cannot be attributed to an individual Member State. They include current international cooperation 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.

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 are not consolidated because they are treated as a sale of non-market output (P.131) by government to the rest of the world.

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

10.1 LEGAL BACKGROUND

The ECB Guideline on government finance statistics (ECB/2014/21) amending Guideline ECB/2013/23 describes the data required by the ECB from NCBs in the context of GFS.

10.2 OTHER PUBLISHED GUIDANCE AND MANUALS

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.

European System of Accounts 2010 (ESA 2010)

This is the national accounts manual for Europe, derived from and largely consistent with the SNA 2008, 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 Eurostat website at www.epp.eurostat.ec.europa.eu.

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.

Manual on sources and methods for the compilation of COFOG Statistics

This manual provides a methodological background, practical guidance, national sources and methods for the compilation of COFOG data. Available on the Eurostat website at www.epp.eurostat.ec.europa.eu.

IMF Government Finance Statistics Manual 2014

This IMF publication defines the general government sector statistics used to support fiscal analysis. Available on the IMF website at www.imf.org. This Manual is described in more detail below.

OECD Revenue Statistics

Each year the OECD publishes its Revenue Statistics. An annex to the publication explains the OECD classification of taxes and provides an interpretive guide. It is useful for understanding differences between government revenue totals reported by OECD and GFS. Available on the OECD website at www.oecd.org.

10.3 EDP NOTIFICATION TABLES

The following pages present the EDP notification Tables 1 and 3A.²⁰ 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. Notification Tables 1 and 3 have a reasonable correspondence with GFS. Notification Table 2A does not correspond closely to the GFS reporting tables since it considers the transition between the national definitions of government balance and the deficit (-)/surplus (+) (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.

Table C Comparison of EDP Notification Table 1 and GFS Tables		
Item in EDP table	ESA 2010 codes	Recording in the GFS tables (item numbers as in the GFS Guideline)
Net lending (+)/net borrowing (-)	B.9	
General government	S.13	Table 1A, item 1
– Central government	S.1311	Table 1A, item 3
– State government	S.1312	Table 1A, item 4
– Local government	S.1313	Table 1A, item 5
– Social security funds	S.1314	Table 1A, item 5
General government consolidated gross debt		Table 3A, item 1
Currency and deposits	AF.2	Table 3A, item 2
Debt securities	AF.3	
Short-term	AF.31	Table 3A, item 3
Long-term	AF.32	Table 3A, item 4
Loans	AF.4	Table 3A, items 5 + 6
Short-term	AF.41	
Long-term	AF.42	
General government expenditure on:		
Gross fixed capital formation	P.51	Table 1A, item 33
Interest (consolidated)	D.41	Table 1A, item 28
Gross domestic product at current market prices	B.1*g	Table 1C, item 10

²⁰ In accordance with Council Regulation (EU) 479/2009 as amended by Commission Regulation (EU) No 220/2014.

Table D Comparison of EDP Notification Table 3A and GFS Tables	
Item in EDP notification Table 3A	Recording in the GFS reporting tables
Net borrowing (+)/lending (-) (B.9) of general government*	Table 1A, item 1
Net acquisition of financial assets (consolidated)	
Currency and deposits (F.2)	Table 2A, item 4
Debt securities (F.3)	Table 2A, item 5
Loans (F.4)	Table 2A, item 6
Equity and investment fund shares/units (F.5)	Table 2A, item 7
Financial derivatives (F.71)	Table 2A, item 12**
Other accounts receivable (F.8)	These two items in EDP Table 3A together add up to Table 2A, item 13 in the ECB data request**
Other financial assets (F.1, F.62 and F.72)	
Adjustments (consolidated)	
Net incurrence of liabilities in financial derivatives (F.71)	Table 2A, item 22**
Net incurrence of other accounts payable (F.8)	These two items in EDP Table 3A together add up to Table 2A, item 23 in the ECB data request**
Net incurrence of other liabilities (F.1, F.5, F.6 and F.72)	
Appreciation (+)/depreciation (-) of foreign currency debt	Table 2A, item 31
Issuance above (-)/below (+) nominal value	Table 2A, item 32a
Difference between interest accrued (D.41) (-) and interest paid (+)	
Redemptions of debt above (+)/below (-) par	
Changes in sector classification (K.61) (+/-)	Table 2A, item 33a
Other volume changes in financial liabilities (K.3, K4, K5)	= Table 2A, item 33 – Table 2A, item 33a
Statistical discrepancies	
Difference between capital and financial 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	Table 2A, item 33

* The sign convention for net lending (+)/net borrowing (-) is different from EDP Tables 1 and 2.
** Assuming that government employee stock options (F.72) are zero.

10.4 IMF GOVERNMENT FINANCE STATISTICS

10.4.1 BACKGROUND

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 recently expanded and updated Government Finance Statistics Manual 2014. The statistics are

collected through its GFS Questionnaire,²¹ which consists of a series of reporting tables covering:

Statement I	Statement of Government Operations
Statement II	Statement of Sources and Uses of Cash
Statement III	Integrated Statement of Flows and Stock Positions
Statement IV	Statement of Total Changes in Net Worth
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 Volume of Assets and Liabilities
Table 6	Balance Sheet
Table 6A	Debt Liabilities at Nominal/Market Value
Table 6	Debt Liabilities at Face Value
Table 7	Expenditure by Functions of Government
Table 8A	Transactions in Financial Assets and Liabilities by Counterpart Sectors
Table 8B	Stock Positions in Financial Assets and Liabilities by Counterpart Sectors
Table 9	Total Other Economic Flows in Assets and Liabilities
Annex 1	Consolidation (From Whom-to-Whom) Table
Annex 2	Consistency with Other Macroeconomic Statistics

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.

10.4.2 SIMILARITIES BETWEEN GFS (IMF) AND GFS (ECB)

Both GFS (IMF) and GFS (ECB) are based on the framework for national accounts (the SNA 2008 and the ESA 2010, respectively). 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, and distinctions between transactions, holding gains, and other changes in volume).

²¹ Both the GFSM 2014 and the questionnaire are available on the IMF's website at www.imf.org.

The classification of transactions is very similar and the accounting conventions are identical in the two systems. However, there are nevertheless some differences.

The diagram below, 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 economic flows; this is also true for the ESA 2010, 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 may differ.

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).

10.4.3 DIFFERENCES BETWEEN GFS (IMF) AND GFS (ECB)

Some of the differences are as follows:

INSTANCES WHERE GFS (IMF) DEPART FROM SNA 2008/ESA 2010 METHODOLOGY

The IMF treats unfunded defined-benefit retirement benefits provided through social security schemes differently from the SNA 2008. The starting point for the IMF GFS and SNA 2008 approach is that employment-related pensions are seen as part of the compensation package and negotiations between employees and employers. Therefore, unfunded defined-benefit pension schemes offered by government to its employees give rise to liabilities recorded in the balance sheet. Payments of pensions are recorded as reductions in these liabilities. Increases in liabilities arise from the employment of qualifying workers, and this is reflected in operating expense, as an imputed social contribution. However, in recognition of the fact that social security is normally financed on a pay-as-you-go basis, entitlements accruing under social security are not normally shown in the SNA. The SNA 2008 therefore allows some flexibility regarding the recording of pension entitlements of unfunded pension schemes in the main sequence of accounts. Contributions to the schemes reflect social security contributions receivable in the SNA 2008, but under GFS (IMF) they also reflect the increase in liabilities for promised future benefits in the GFS (IMF) balance sheets. The SNA 2008 requires that the estimates for these schemes be presented in a supplementary table.

THE BOUNDARY OF ACTIVITY

GFS (IMF) encourage an extension of the coverage to include statistics for the public sector and its subsectors, i.e., including the general government sector and the public corporations sector, while the ESA 2010 and GFS (ECB) limit their data to only the general government sector.

LEVEL OF DETAIL

GFS (IMF) collect more information than GFS (ECB) and consequently, in some instances, offer a finer breakdown than GFS (ECB). In many cases, the extra detail is not defined by separate ESA 2010 categories. For example, the breakdown of taxes for GFS (IMF) is more detailed than for the ESA 2010 and is similar to the presentation in the OECD's Revenue Statistics.

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 included in expense by type (such as use of goods and services, compensation of employees, and consumption of fixed capital), but are recorded as a component of the cost of the acquisition of the non-financial asset. In GFS (IMF) goods and services produced by government itself and transferred in kind are recorded as imputed sales only when provided to employees as wages in-kind. In all other cases, only the cost of producing these goods and services are recognised in the respective expense categories. Therefore, the value of social benefits in kind and transfers not elsewhere classified in kind exclude goods and services produced by government units themselves. In SNA 2008 all goods and services produced by government and transferred in kind are treated as if they were made in cash, followed by a sale. GFS (IMF) collect information on the sub-sectors of general government and allow for combining the ESA 2010 social security fund sector with the central government sector, and for dividing each sub-sector of government into budgetary accounts and extra-budgetary accounts. This sub-classification of the general government sub-sectors is not defined in the ESA 2010.

GFS (IMF) show full reconciliation of transactions, other flows and balance sheets at market value. GFS (ECB) show this reconciliation only for the change in government debt and deficit (deficit-debt adjustment).

GFS (IMF) show financial assets and liabilities generally at market value if tradable, or otherwise at nominal value, while GFS (ECB) show the stock of debt at face value.

Other differences are that while the SNA 2008 records certain transfers, such as taxes and fines imposed by one unit of general government on another general government unit as taxes, GFS

(IMF) classify them as current transfers not elsewhere classified in the accounts of individual units and eliminate them in consolidation for the general government sector.

DEFINITION OF EXPENDITURE AND REVENUE

GFS (IMF) and GFS (ECB) define total revenue and expenditure in terms of aggregates of categories of transactions, other than transactions in financial assets and liabilities. Expenditure includes, in addition to expense, the net investment in 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. 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 investment in non-financial assets.

CONSOLIDATION OF NON-FINANCIAL TRANSACTIONS

GFS (IMF), in principle, 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

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).

Table E GFS (IMF): balancing items

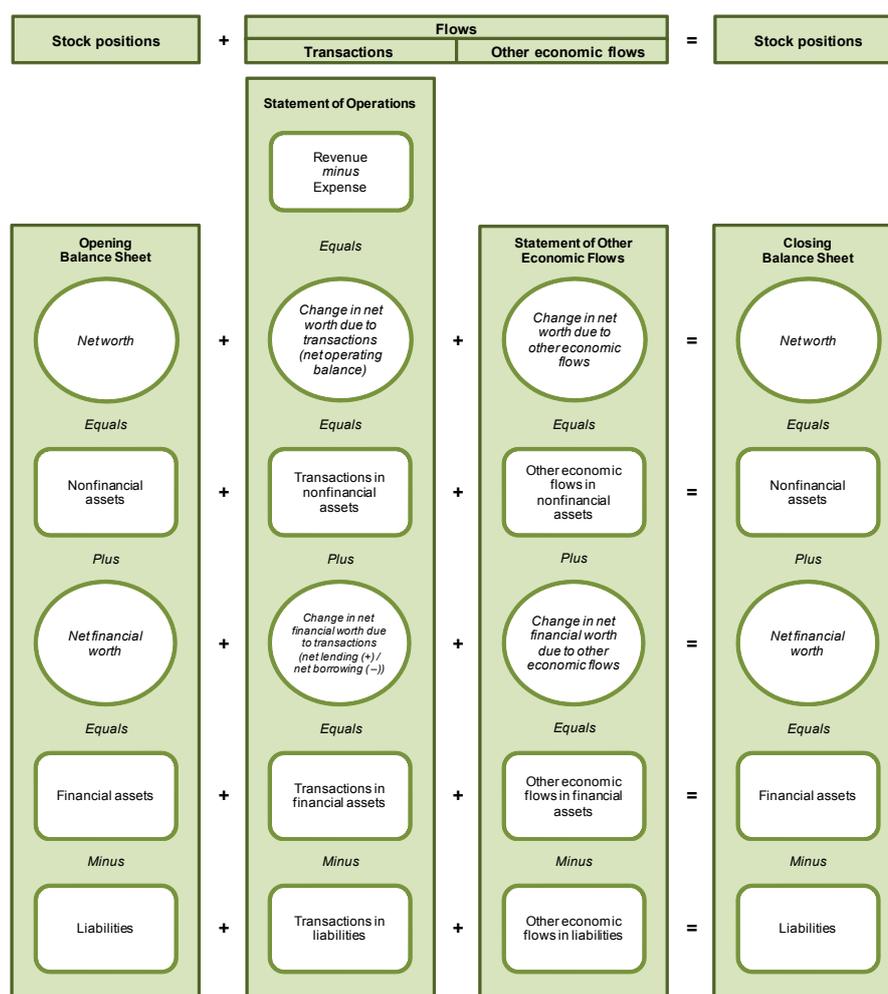
GFS (IMF) Statement of Government Operations	Comparison with GFS
Transactions affecting net worth	
Revenue	
Taxes	
Social contributions	IMF excludes contributions to employment-related pension schemes
Grants	IMF includes current and capital transfers

GFS (IMF) Statement of Government Operations	Comparison with GFS
Other revenue	IMF includes sales of goods from stock
Expense	
Compensation of employees	IMF excludes compensation of employees involved in own-account capital formation and includes imputed social contributions associated with unfunded defined-benefit employment-related pensions schemes
Use of goods and services	IMF excludes use of goods and services for own-account capital formation
Consumption of fixed capital	IMF excludes consumption of fixed capital for own-account capital formation
Interest	
Subsidies	
Grants	IMF includes current and capital transfers
Social benefits	IMF excludes employment-related pension benefit payments and social benefits in kind produced by government
Other expense	
Net/gross operating balance	
Transactions in non-financial assets	
Net acquisition of non-financial assets	
Fixed assets	
Inventories	
Valuables	
Non-produced assets	
Net lending/borrowing	
Transactions in financial assets and liabilities	
Net acquisition of financial assets	
Domestic	
External	
Net incurrence of liabilities	
Domestic	IMF includes imputed contributions and benefit payments of employment-related unfunded defined-benefit pension schemes
External	

10.4.4 STRUCTURE OF ACCOUNTS CHART

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.

Chart 2 Structure of accounts in GFS (IMF)



10.5 THE DATA GAPS INITIATIVE AND THE SPECIAL DATA DISSEMINATION STANDARD

In November 2009, the G-20 Finance Ministers and Central Bank Governors asked the IMF and the Financial Stability Board to identify and close data gaps revealed by the global crisis. Work to meet this request was coordinated by the Inter-Agency Group on Economic and Financial Statistics (IAG),²² which undertook extensive consultation with users and compilers of data and produced a set of recommendations. This Data Gaps Initiative (DGI) resulted in two recommendations on GFS:

Recommendation #17 of the DGI: “The IMF to promote timely and cross-country standardized and comparable government finance data based on the accepted international standard, the Government Finance Statistics Manual 2001 (GFSM 2001).”

²² The members of the IAG are the Bank for International Settlements (BIS), the European Central Bank (ECB), Eurostat, the IMF (chair), the Organization for Economic Co-operation and Development (OECD), the United Nations and the World Bank.

Recommendation #18 of the DGI: “The World Bank, in coordination with the IMF, and consulting with the Inter-Agency Task Force on Finance Statistics, to launch the public sector debt database.”

The IAG developed a Standard GFS Template to promote the compilation and dissemination of comparable and timely GFS. The template has been filled with available fiscal data from the G-20 economies and published on the Principal Global Indicators website.²³

In 1996 the IMF developed the Special Data Dissemination Standard (SDDS) to support the provision of their economic and financial data to the public by members that have, or that might seek, access to international capital. In October 2012, the IMF created the SDDS Plus to help address the data gaps identified during the global financial crisis. Compared to the SDDS, the SDDS Plus requires adherents to disseminate on a voluntary basis a broader range of data with specified periodicity and timeliness. These SDDS plus requirements are fully consistent with the recommendations of the G-20 DGI. The SDDS Plus includes inter alia the data categories *general government operations* and *general government gross debt*. The requirements of the SDDS Plus for adhering countries are explained in more detail in the SDDS Plus Guide for Adherents and Users available on the IMF website.

²³ <http://www.principalglobalindicators.org/pages/default.aspx>

II 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	European System of Accounts
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	IMF Government Finance Statistics Manual
GGBR	general government borrowing requirement
GNI	gross national income
GNP	gross national product
IFS	International Financial Statistics
IMF	International Monetary Fund
ISPA	Instrument for Structural Policies for Pre-Accession
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
PHARE	Poland and Hungary Assistance for the Restructuring of the Economy
SAPARD	special accession programme for agriculture and rural development
SDR	special drawing right
SNA	System of National Accounts
TARIC	Integrated Tariff of the European Communities
UMTS	Universal Mobile Telecommunications System
VAT	value added tax