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**UPDATE OF THE 1993 SNA – CLARIFICATION ITEM C15
JULY 2005 MEETING OF THE ADVISORY EXPERT GROUP ON NATIONAL ACCOUNTS**

Proposed Chapter and Annex on the General Government and Public Sectors

For information

The Task Force on the Harmonization of Public Sector Accounting

June 20, 2005

1. The heart of the 1993 SNA is its sequence of accounts for institutional units and sectors, as described in chapters 6 through 13. In each chapter, a set of transactions, other flows, or stocks together with associated balancing items is described in detail, with those descriptions applying in most instances to all units and sectors. With the exception of the Rest of the World quasi-sector, there is no chapter devoted to all flows and stocks of a specific sector. The chapter on the rest of the world is included to explain the harmonization of the SNA with the Balance of Payments manual. This harmonization is virtually universal, but the analysis of balance of payments statistics requires different classifications, emphasis on selected balancing items, and additional explanations regarding selected transactions, other flows, and stocks. At the same time, a number of transactions that receive extended discussion in the SNA are less important for the Balance of Payments and the emphasis on them can be decreased. Thus, the material in the Rest of the World chapter can, on one hand, be described as a repetition of material presented in earlier chapters. Alternatively, it can be described as a demonstration of a flexible application of the SNA for a specific purpose.

2. It has long been recognized that government also presents special problems. Many of these difficulties are alluded to in the chapters describing the sequence of accounts, but there is not space there for full descriptions and analysis of how specific types of flows and stocks are interpreted for government and how some flows need to be modified to bring out their true economic substance. In addition, there is no illustration of how the sequence of accounts should be applied with flexibility to meet the particular needs of the analysis of government statistics.

3. The special requirements with regard to government have been long recognized. Eurostat has devoted a great quantity of resources developing its *ESA95 manual on government deficit and debt*. This manual is needed to comply with the regulations of the European Union regarding the measurement of government deficits and stocks of debts. While the manual is intended to be fully consistent with the SNA, it has required many clarifications of the SNA.

4. The IMF published *A Manual on Government Finance Statistics* in 1986 and then a revision as *Government Finance Statistics Manual 2001*. The latter was harmonized with the SNA, but a small number of differences between the two statistical systems remains. At the same time, the IMF manual rearranges the sequence of accounts slightly and utilizes a different set of balancing items in order to bring out the important aspects of government economic activities.

5. Experience has shown there are many advantages to presenting statistics related to government in a national accounts framework, most importantly such statistics can be used with confidence in conjunction with other statistics compiled in a national accounts framework and they are subject to internationally agreed standards. Compiling statistics on government in a national accounts framework does, however, encounter problems that deserve special attention and for which there is not sufficient space in the chapters on the sequence of accounts.

6. One set of problems is associated with the fact that governments engage in many non-monetary transactions and that using statistics in a policy or analytical context is often more effective if offsetting non-monetary transactions are omitted. For example, generally accepted notions of total government revenue do not include the value of non-market output distributed free to individuals or collectively to the entire community. Omitting non-monetary transactions, however, will affect some balancing items and there is some flexibility about which transactions to omit.

7. A second set of problems is associated with the complete ownership of corporations by governments. It can be extremely difficult to determine the economic substance of flows between governments and their wholly owned corporations, especially given the multiple policy objectives

a government may be attempting to fulfill simultaneously. Similar difficulties arise with flows between corporations and their wholly owned subsidiaries. In that case, however, both units are usually in the same sector and balancing items are not affected. With government, the units are in different sectors and balancing items may be affected. The balancing items affected may depend on the interpretation of the economic substance of the flows in question. Much of the Eurostat manual is devoted to developing clarifications of the SNA in this area.

8. An alternative way to deal with the problems created by flows between governments and public corporations is to compile statistics for the public sector so that both units are in the same sector, when appropriate. The SNA currently recognizes in chapter 19 a need for such statistics, but experience since the publication of the SNA has indicated that there is a need for more extensive guidance regarding the compilation of statistics for the government and public sectors.

9. For these reasons, it was proposed, and the AEG previously agreed, to include a chapter on government in the revised SNA. Several proposed changes or clarifications related to government are or will be submitted to the AEG for decision through other fora. Included are the delineation between public and private units; the treatment of government guarantees; tax revenues, uncollectible taxes and tax credits; the cost of capital of government and other non-market producers; non-resident SPVs linked to government; and super-dividends, capital injections and reinvested earnings. The decisions of the AEG with regard to these issues will be incorporated in this chapter. Much of the proposed chapter will not involve any further changes or clarifications of the SNA and drafting questions can be resolved in consultation with the editor. To the extent, however, that other clarifications of the SNA may arise, they will be given priority at an early stage so that they can be submitted to the AEG at its January 2006 meeting or immediately after.

10. It is proposed that the entire Task Force on the Harmonization of Public Sector Accounting will review part of the chapter in its September 2005 meeting, with subsequent written consultation on specific points with members of the Task Force as necessary.

11. While the attached outline is presented to the AEG for information, the Task Force would appreciate confirmation that the following is acceptable to the AEG:

- (a) its general plans to include a chapter on government,
- (ii) the overall scope and organization of topics to be included,
- (iii) its plans for completing the work are acceptable to the AEG, and
- (iv) the possibility of an annex to show the relationship with the *GFSM 2001*, the *ESA manual on government deficit and debt*, the *OECD Revenue Statistics* and, possibly, the *International Public Sector Accounting Standards (IPSAS)*.

Chapter on the General Government and Public Sectors

I. Introduction

1. Purpose of the chapter

A chapter dedicated to the general government and public sectors in the revised SNA is needed to present in an integrated structure the impact of public financial activities within the national accounts framework. Governments implement their fiscal policies directly through taxes, other revenue and expenditures measures, and indirectly through their control of public corporations. Showing the full impact of these economic activities requires, in some cases, coverage of the public sector, as well as the general government, and the use of a revenue-expenditure form of account rather than the standard SNA sequence of accounts.

The main SNA sectoring consists of five sectors, including the general government sector (S.13), financial corporations (S.12) and non-financial corporations (S.11) sectors. Corporations controlled by government, or public corporations, are included in the two sectors (S.11 and S.12). The public sector is constructed by reclassifying public corporations from the corporations sectors to the same sector that covers the general government units.

The accounts of the general government in the framework of the SNA are increasingly used by analysts to assess the soundness of public finance. In addition, statistics on the public sector are useful for studies of quasi-fiscal activities, the effects of privatization, measures of the total resources controlled by public authorities, total public debt, and analyzing the sustainability of fiscal policies. Consolidation creates a set of accounts as if the units within a sector were a single institutional unit. It is not normally used in the SNA, but may be desirable for analyzing government and public sector operations.

The presentation of public finance statistics differs from the SNA's usual sequence of accounts because it requires aggregates, such as total revenue and expenditure, and balancing items, such as deficit/surplus and gross/net operating balances, that are not in the traditional SNA presentation of accounts.

2. Summary of SNA concepts of institutional units and sectors

- Review the identification of institutional units
- Describe the classification of units into the general government and other primary SNA sectors.
- Use a diagram to show the classification of units into the primary SNA sectors, to highlight the relationship between the government and the public corporations, and to delineate the composition of the public sector.

II. The general government sector

1. The composition of the general government sector

- Definition of a government unit, including social security funds, extra-budgetary organizations, and ancillary organizations
- Sub-sectors of the general government sector, including social security
- Criteria for control, especially non-profit organizations
- The notion of "economically significant prices" and quasi-corporations

- Borderline with other sectors (non-financial and financial corporations, NPISH)
- Residency, including special purpose entities
- Joint ventures
- Supranational authorities

2. The accounts of the general government sector (public finance presentation)

This public finance presentation will show the SNA codes of transactions, in full coherence with the System's articulation of accounts.

- a) Government revenue
- b) Government expenditure, of which
 - government expense
 - government net acquisition of non-financial assets
- c) Government balances, including relationships with traditional SNA balancing items
 - Net saving, current deficit/surplus, the operating balance
 - Changes in net worth due to saving and capital transfers
 - Net borrowing/net lending and total deficit/surplus
- d) Financial account
- e) Other changes in assets account
- f) Balance sheets
- g) Consolidation rules

3. Accounting for specific activities of general government

- a) Accrual recording of government transactions
 - Tax revenue and credits
 - Interest (including fungible bonds, index-lined securities, zero-coupon bonds, derivatives)
- b) Consumption of fixed capital for government assets
- b) Debt operations, including cancellation, assumption, rescheduling, guarantees
- c) Pension obligations (government employees, social security)
- d) Military expenditures
- d) Rate of return on government assets/capital services
- e) Transactions with international and supranational organizations
- f) The distinction between government purchases, subsidies, and other transfer payments.
- g) Development assistance

III. The public sector

1. The composition of the public sector

- Identification of public corporations
- Criteria for control and economically significant prices
- Sub-sectors of the public sector

2. The accounts of the public sector

- The public sector in the SNA sequence of accounts for institutional sectors (using the SNA numerical example)
- Public sector revenue
- Public sector expenditures
- Public sector balances
- Public sector financial account
- Public sector other changes in assets account
- Public sector balance sheet
- Consolidation rules

IV. Relations between government and corporations

1. Transactions between government units and public corporations

- Earnings from equity investment
- Taxes versus withdrawal of equity
- Dividends versus withdrawal of equity
- Acquisition of equity, capital transfers, and subsidies
- Privatization and nationalization, including holding corporations
- Restructures, mergers, and reclassifications
- Transactions with the central bank
- Quasi-fiscal operations

2. Other transactions with corporations

- Public-private partnerships
- Licenses and concessions
- Exchange of provisions (pensions)
- Bailouts and defeasance
- Securitisation
- Nonperforming loans

Annex on the General Government and Public Sectors

I. Introduction

A number of formulations have been proposed to adapt the traditional SNA sequence of accounts for analysis of public finance statistics. This annex will provide a detailed correspondence between the SNA sequence of accounts and these public finance presentations.

II. Relationship between the sequence of accounts and public finance accounts

1. Government Finance Statistics Manual 2001
2. ESA95 Manual of government deficit and debt

3. OECD Revenue statistics
4. International Public Sector Accounting Standards