

# Appendix I: Changes from the 1986 A Manual on Government Finance Statistics

*This appendix summarizes the principal methodological changes from the 1986 GFS Manual.*

## A. Introduction

1. The revised GFS system described in this manual represents a substantial modernization and expansion of the system described in the *1986 GFS Manual*. Major changes have been made in the coverage of units and economic events to be recorded in the system, the timing at which economic events are to be recorded, definitions, classifications, and balancing items. The revised GFS system is also more harmonized with other macroeconomic statistical systems than was the 1986 GFS system. There are numerous detailed changes within each major topic, but an exhaustive listing of all such changes is beyond the scope of this appendix.

## B. Coverage of units

2. The focus of the coverage of units in the revised GFS system is the general government sector as defined in the *1993 SNA*. Its definition is based on the concept of an institutional unit, which is described in Chapter 2. The general government sector consists of all resident government units and all resident non-profit institutions that are controlled and mainly financed by government. The coverage of the 1986 GFS system is defined on a functional basis rather than a unit basis. It includes all units carrying out a function of government, but in principle, only those transactions that are directly related to the functions of government are included. By implication, the transactions that do not represent the fulfillment of a fiscal policy are excluded. In particular, all transactions related to the functions of the monetary authority and other depository financial institutions are excluded.

3. Supranational authorities are international organizations that have been endowed with the authority to raise taxes or other compulsory transfers within the territories of the countries that are members of the authority. Despite the fact that supranational authorities fulfill some of the functions of government within each member country, they are always considered nonresident institutional units. As a result they are not included in the revised GFS system for any country. In the *1986 GFS Manual*, transactions resulting from governmental functions carried out within a country by supranational organizations are included in the statistics for that country. It is possible, however, to compile statistics for supranational authorities using the revised GFS framework as if they constituted a separate country and to classify relevant categories of transactions by country.

## C. Time of recording economic events

4. The time at which transactions and other economic flows are recorded is determined by the principles of accrual accounting in the revised *GFS Manual*. That is, flows are recorded when economic value is created, transformed, exchanged, transferred, or extinguished. In the *1986 GFS Manual*, transactions are recorded when cash is received or paid. In general, flows are recorded at an earlier time under the accrual basis than under the cash basis.

5. Recording flows on the accrual basis will automatically capture past-due obligations, such as arrears of debt principal, interest payments, or payments for goods and services. In the *1986 GFS Manual*, use of the cash basis means that arrears and changes in the level of arrears are not recorded.

6. The accrual basis of recording permits the difference between the redemption value of a bond or similar security and its issue price to be recorded as

interest as it is earned or incurred rather than when the security matures. In the *1986 GFS Manual*, the entire difference between the issue and redemption prices is recorded as interest when the security is redeemed.

#### D. Coverage of events

7. The coverage of events in the revised GFS system is broader than in the *1986 GFS Manual* because the revised system includes all economic events that affect assets, liabilities, revenue, or expense rather than just those represented by a cash transaction. For example, barter and grants of goods and services are included. The *1986 GFS Manual* incorporates in-kind transactions only selectively and as memorandum items.

8. The revised *GFS Manual* includes other economic flows, which are all flows other than transactions that affect a unit's stocks of assets, liabilities, and net worth. Other economic flows must be included to reconcile fully the balance sheet at the beginning of an accounting period with the balance sheet at the end of the period. Examples of other economic flows are price changes and the destruction of assets. By definition, other economic flows are noncash events, which means that they are not part of the *1986 GFS Manual*.

#### E. Valuation

9. Assets and liabilities are valued at current market prices in the revised *GFS Manual*, including debt securities that may have a different nominal value. Loans generally are not traded and therefore do not have market values. They are recorded at their nominal values. In the *1986 GFS Manual*, debt securities are always valued at the amount the government is obligated to pay when the debt matures, which may differ from both the nominal value and the current market value. The revised *GFS Manual* includes a provision for recording the nominal value of debt securities as a memorandum item.

#### F. Gross and net recording of flows

10. The presentation of flows on a gross or net basis is, for the most part, the same in the revised *GFS Manual* and the *1986 GFS Manual*. The major excep-

tion pertains to the sales and expenses of market establishments. Generally speaking, a market establishment is a part of a general government unit that is situated in a single location and whose primary activity is to produce and sell goods and services at economically significant prices. In concept, it is possible to compile complete accounting records with respect to an establishment's productive activity, including sales and the costs of production. In the revised *GFS Manual*, the sales and costs of production of market establishments are presented on a gross basis as revenue and expense, respectively. In the *1986 GFS Manual*, the net value of sales less the costs of production is recorded as revenue if positive and as expenditure if negative.

#### G. Integration of flows and stocks

11. The revised GFS system is a fully integrated system in which the stock data at the end of an accounting period can be derived from the stock data at the beginning of the accounting period and the flows occurring during the period. As a result of this integration, all events that affect the financial performance, financial position, or liquidity situation of the general government sector are included. In the *1986 GFS Manual*, the stock data included are limited to debt liabilities. The changes in the stocks of debt liabilities normally cannot be reconciled with the flows recorded. Supplementary tables are included that indicate the additional data that would be needed to complete the reconciliation.

#### H. Definitions and classifications

12. Revenue in the revised GFS system is an increase in net worth resulting from a transaction. Thus, revenue includes grants but excludes proceeds from disposals of nonfinancial assets. In the *1986 GFS Manual*, revenue is defined as the set of all non-repayable receipts other than grants. Thus, revenue includes proceeds from disposals of nonfinancial assets.

13. Similarly, expense in the revised GFS system is a decrease in net worth resulting from a transaction. Purchases of nonfinancial assets do not affect net worth and are not considered expense transactions. The term "expense" replaces "expenditure" from the *1986 GFS Manual* because it is more closely associated with the accrual basis of recording and indicates

that transactions in nonfinancial assets are excluded. Expenditure is defined in the *1986 GFS Manual* as the set of all nonrepayable payments and includes purchases of nonfinancial assets.

**14.** The classifications of revenue are substantially different in the two manuals. Revenue in the *1986 GFS Manual* is classified as tax, nontax, or capital revenue. Grants form a separate, nonrevenue category of receipts. In the revised *GFS Manual*, revenue is subdivided into taxes, social insurance contributions, grants, and other revenue. In more detail:

- Taxes exclude social security contributions in the revised *GFS Manual*, but include them in the *1986 GFS Manual*.
- Social insurance contributions in the revised *GFS Manual* include social security contributions, which are classified as taxes in the *1986 GFS Manual*, and contributions to social insurance schemes operated for the benefit of government employees, which are classified as nontax revenue in the *1986 GFS Manual*.
- Other revenue in the revised *GFS Manual* includes most of the category of nontax revenue in the *1986 GFS Manual* plus capital transfers, which are classified as capital revenue in the *1986 GFS Manual*.
- Capital revenue in the *1986 GFS Manual* consists of sales of nonfinancial assets and receipts of capital transfers. Sales of assets are not revenue in the revised *GFS Manual* and capital transfers are classified as other revenue.

**15.** Expense/expenditure is classified in two ways—by function and by economic type of transaction—in both the revised *GFS Manual* and the *1986 GFS Manual*. The classification by function in both manuals is the Classification of Functions of Government (COFOG) published by the United Nations, but that classification has itself been revised.<sup>1</sup> The revised *GFS Manual* incorporates the revised COFOG.

**16.** The classification of expense by economic type in the revised *GFS Manual* is broadly similar to the corresponding classification in the *1986 GFS Manual*. The primary exception is that acquisitions

of nonfinancial assets are not considered an expense in the revised *GFS Manual*. Other changes include the following:

- Consumption of fixed capital is an expense in the revised *GFS Manual*. As a noncash expense, it was excluded from the *1986 GFS Manual*.
- Transfer payments are classified by type of payment in the revised *GFS Manual*. In the *1986 GFS Manual*, they are classified by the sector receiving the payment. The major types of transfer payments are subsidies, grants, and social benefits.

**17.** A new classification is dedicated to changes in nonfinancial assets resulting from transactions because they are not classified as revenue or expense in the revised *GFS Manual*. The classification follows the parallel classification in the *1993 SNA*, which is based on the type of asset involved in the transaction. This classification includes consumption of fixed capital because it represents a decline in the value of fixed assets.

**18.** Lending minus repayments is a category of transactions in the *1986 GFS Manual* representing the net acquisition of financial assets for policy purposes and is classified together with expenditures for the calculation of the overall deficit/surplus. In the revised *GFS Manual*, these transactions are classified together with other transactions in financial assets.

## I. Balancing items

**19.** Several new balancing items are introduced in the revised *GFS Manual*, a consequence of the view that fiscal analysis must include a variety of considerations and that no single measure is sufficient for all purposes. In the *1986 GFS Manual*, the analytic framework is focused on a single balancing item, the overall deficit/surplus, although provision was made for other balancing items.

**20.** The analytic framework of the revised *GFS Manual* features several balancing items. The Statement of Government Operations includes the following:

- The net operating balance, which is defined as revenue less expense and represents the change in net worth resulting from transactions.

<sup>1</sup>The revised COFOG was developed by the Organisation for Economic Co-operation and Development and published by the United Nations.

- Net lending/borrowing, which is defined as the net acquisition of financial assets less the net incurrence of liabilities, or alternatively as the net operating balance less the net acquisition of non-financial assets.

**21.** The Statement of Sources and Uses of Cash includes the cash surplus/deficit to indicate the balance of cash flows from government operations and the net acquisition of nonfinancial assets. It is similar to the overall deficit/surplus of the *1986 GFS Manual* except that net cash outflows from lending and repayment transactions are not subtracted.

**22.** Another balancing item in the revised *GFS Manual* is the overall balance, defined as net lending/borrowing adjusted through the rearrangement of transactions in assets and liabilities that are deemed to be for public policy purposes. Notably, all proceeds under privatization (including fixed asset sales) would be included as financial items; and subsidies given in the form of loans would be recognized as an expense. It is the equivalent of the overall deficit/surplus in the *1986 GFS Manual*, but determined using the accrual basis or recording.

**23.** Other balancing items in the revised *GFS Manual* include net worth, net financial worth, the change in net worth, and the change in net financial worth—all related to the balance sheet—the change in net worth from other economic flows, the primary balance, and saving. There are no similar balancing items in the *1986 GFS Manual*.

## J. Harmonization with other statistical systems

**24.** The revised GFS system is harmonized with other international macroeconomic statistical systems. That is, the basic concepts, definitions, and conventions are the same to the extent possible given the goal of the GFS system of supporting fiscal analysis. The other statistical manuals with which the GFS system has been harmonized are the *1993 SNA*, the fifth edition of the IMF's *Balance of Payments Manual*, and the IMF's *Monetary and Financial Statistics Manual*. The *1986 GFS Manual* follows the 1968 version of the *SNA*<sup>2</sup> where possible, but the degree of harmonization is much less, primarily because of the use of the cash basis of recording in the *1986 GFS Manual*.

**25.** The major differences between the revised GFS system and the macroeconomic statistical systems with which it is harmonized are the classifications used and the resulting balancing items. For example, the classifications of taxes in the revised GFS system and in the *1993 SNA* are quite different, but the definition of a tax is the same in both systems. The treatments of retirement schemes and reinvested earnings on direct foreign investment in the GFS system differ from the treatment in the *1993 SNA*, and, as a result, net lending/borrowing differs in the two systems. In addition, differences in coverage mean that some items, such as compensation of employees, are defined identically but are less inclusive in the GFS system than in the *1993 SNA*. Appendix 3 provides additional information on harmonization of the GFS system with the *1993 SNA*.

<sup>2</sup>United Nations, *A System of National Accounts*, Studies in Methods, Series F, No. 2, Rev. 3 (New York, 1968).