Methodological notes to the Bulgarian government finance statistics data compiled in accordance with the Manual on Government Finance Statistics (GFS 86) of the IMF

The government finance statistics provides an internationally accepted framework for presenting data on government's fiscal operations. This framework is design to facilitate the analysis of government transactions with respect to income, outlays, capital accumulation, and financing.

The GFS 86 Manual identifies several layers of government: (i) central government; (ii) the state or regional government; (iii) local government; and (iv) any supranational authority. For Bulgaria, the general government includes the fiscal operations of the central and local governments. Central government covers operations of budgetary, extra-budgetary and social security funds' accounts of the budgetary units at the central level. Local governments include operations of budgetary and extra-budgetary accounts of the municipalities. The detailed list of the institutional units of general government is presented in the table "Bulgaria: Units of General government".

Government finance statistics compiled in accordance with GFS 86 standards record transactions on a cash basis rather than on the accrual basis used in the national income and product accounts, the monetary accounts, the balance of payments that make up the System of National Accounts (SNA 93). To harmonize the GFS with the other macroeconomic statistics the IMF has developed the new 2001 GFS standard that is being introduced by the all member countries.

The GFS framework is designed to provided comprehensive coverage of the government's transactions with the rest of the economy and the world and measures primarily government receipts, payments, and unpaid obligations for the corresponding year.

Government transactions are classified into broad categories under "revenues" and "expenditures". The primary classifications are economic, including total, current, and capital revenues and expenditures. Within these categories, taxes are broken down according to the type of activity on which they are imposed, and expenditures according to their purpose – defense and education, for example.

<u>Total revenue include revenue and grants.</u>

- <u>Revenue</u> are tax and non-tax. Taxes are defined as compulsory and unrequited receipts collected by government for public purposes. Tax revenues (shown net of refunds of earlier overpayment) include also compulsory social security contributions and profits transferred to the government by its fiscal monopolies. Non-tax revenues include receipts from property income, fees and charges, fines, and operating surpluses of public enterprises. Revenues consists only those receipts of the government that do not give rise to an obligation of repayment. Receipts from loans to the government are not revenues, because the loans must be repaid. Revenues includes all non-repayable receipts except grants.

- <u>Grants</u> are unrequited receipts from other government or international institutions. The GFS manual groups grants together with revenues as transactions rather that with financing items. This treatment recognizes that the government has little control over the amount or sustainability of grants, as it is does over other receipts.

<u>Total expenditures</u> include expenditures and government net lending.

Expenditures. The main categories of public expenditures are wages and salaries, goods and services (maintenance), interest payments, subsidies and other current transfers (subsidies to enterprises, transfers to other level of general government, and transfers to households and non-profit institutions), and capital expenditures (acquisition of tangible and non-tangible assets, strategic stocks and capital transfers). Expenditures are not all payments of the government. For example, a loan repayment is not an expenditure, because it arises out of an obligation incurred when the loan was received. Interest payments, however, are expenditure item.

Government net lending.

- Net lending (loans minus repayments) comprises government lending undertaken to achieve public policy objectives rather that to manage government liquidity. Examples for such lending include subsidized loans to public non-financial or financial enterprises, loans to farmers, or small businesses. Net lending is grouped with expenditures rather that with financing under GFS 86 guidelines. This treatment reflects the asymmetry between the reasons for government lending and those that motivate its borrowing.

- The GFS 86 manual recommends treatment the proceeds of the sales of equity in public sector assets as *negative net lending*. This is to be distinguishes from sales of government physical assets which are recorded in non-tax capital revenue. This treatment results in one-time improvement in the fiscal balance. While they are formally treated as an above-the-line item, it is often useful (it is done in the national concept of the fiscal balance), to record privatization receipts below the line in analytical presentations of the fiscal accounts, along with the other transactions that affect the government's net fiscal position.

The GFS 86 concept of the overall fiscal balance defines it as the difference between total revenues (revenues and grants) and total expenditures (expenditures and lending minus repayments).

Overall Deficit/Surplus = (Revenue + Grants) – (Expenditure + Government net lending)

These items are "above the line", the remaining items, "below the line", are described as "financing".

The macroeconomic impact of a government deficit depends largely on the way the deficit is financed. In principal, there are four ways of financing a deficit: (I) borrowing from central bank, or "monetizing" the deficit; (ii) borrowing from the rest of the banking system; (iii) borrowing from the domestic non-bank sector; and (iv) borrowing abroad, or running down foreign exchange reserves. In broad sense, each form of financing is associated with a major macroeconomic imbalance: excessive money creation with inflation; excessive foreign borrowing with an external debt problem; depletion of reserves with an exchange rate crisis; and excessive domestic borrowing with high real rates – and possibly with explosive growth in public debt from the dynamic interactions between interest payments, deficit and debt. In Bulgaria after the introduction of currency board arrangements (CBA) the government have followed prudent stabilization policies and relies on the last three ways of financing.

Consolidation. In the GFS 86 methodology there are three level of consolidation required to assemble the transactions of the general government sector: (1) the consolidation within each government, which involves the elimination of intra-governmental transactions; (2) the consolidation of all governments at a single level, eliminating only intergovernmental transactions of sub-sectors of consolidated central government; (3) the consolidation of the consolidated central government and local governments into general government sector as a whole, which involves the elimination of intra-governmental transactions between levels of government.

The numbers shown in the Bulgarian GFS data for different levels of government are derived as a result of the consolidation of:

- Budget, extra-budgetary accounts, and social security funds at central level – for consolidated central government;
- Municipalities' budgets – for local governments;
- Consolidated central government and local governments – for general government, as per GFS 86 methodology.