Methodological framework of the Government Finance Statistics Manual 2001 (GFSM2001)

Until 2002 government finance statistics data of all member countries of the IMF were compiled in compliance with the GFSM 86, i.e. on a cash and not on an accrual basis, as it is the case with the other macrostatistics data, such as the BoP, the national accounts, monetary statistics data. At present the IMF requires from member countries to implement the IMF Manual on Government Finance Statistics, 2001, GFSM 2001 framework), developed to reflect public sector operations on an accrual basis and to harmonize the government finance statistics with the other macroeconomic statistics.

The System of National Accounts 1993, (SNA 93) has an underlying role for the GFSM 2001.

In GFSM 2001 the scope of the general government sector, the definition for resident, the distinction between transactions and other economic flows, as well as the accounting rules for the time for recording of transactions and assessment of flows and stocks for this sector are identical with those in SNA 93.

Unlike the GFSM 86 the new framework takes into account the transactions in kind as well as the financial transactions, revaluations and other economic flows, occurring as a result of writing off a debt or natural disaster.

The main difference between the GFSM 2001 and SNA 93 refers to consolidation of data for the general government sector. While in SNA 93 the transactions between the budget entities are compiled on a gross basis as revenue and expenses as well as assets and liabilities of the public sector, in the GFSM 2001 the transactions are eliminated on a consolidated basis.

Exception to this rule in the GFSM 2001 make the social security contributions for the employees, accrued by the government, considered first as payments from the government to the employees, than as payments from the employees to the social security funds. For this reason the above transactions are not consolidated in the general government consolidated report.

The key balancing items of the Government Finance Statistics GFSM 2001 comply with the requirements of European System of Accounts 95 (ESA95):

- gross operating balance is compiled by subtracting the expense (except for the consumption of fixed capital) from the revenue and shows the change in the total assets resulting from the government's transactions.
- net operating balance equals revenue less expense, the consumption of fixed capital included in the expense. It reflects the change in the net worth as a result if the government's operations.
- net lending/borrowing is a very important balancing item measuring the government's need of financing. It equals to gross operating balance plus gross acquisition of non-financial assets. The net borrowing position corresponds to the deficit of the consolidated general government as defined in EC Regulation 475/2000. Net lending/borrowing is compiled also as net operating balance less

the net acquisition of non-financial assets. It also equals to the net acquisition of financial assets less the net incurrence of liabilities.

- overall balance equals the net lending/borrowing adjusted with policy related net acquisition of financial assets. This adjustment relates to the privatization receipts which are considered as a financial position, and subsidies extended as loans would be recorded as an expense.
- primary balance equals to the overall balance plus the interest expenses.
- net (gross) saving equals net (gross) operating balance less net capital transfers of the government, net capital aid and capital taxes included.

For reflecting the impact of the inflation on the stock of debt in countries with high rate of inflation the operational deficit indicator is often used. It equals to the deficit on a cash basis decreased with the inflation part of the interest expenses.

Depending on the situation it may be necessary to clear the deficit from other fiscal effects, such as sale of public assets (in case they are included in the revenue part of the budget under the corresponding national methodology).

There are some other important indicators to characterize the wealth and the debt of the consolidated government:

- net wealth position – equals to the stock of assets less liabilities;
- net financial wealth position – financial assets less liabilities;
- gross debt position – all liabilities except for shares and equity and financial derivatives;
- contingent liabilities – government guarantees plus the net present value of the liabilities of the social security funds.

The relative share of the government debt, the revenues from taxes and the net liabilities of the social security funds to the GDP are very important indicators of the government policy's fiscal sustainability.

The relative share of the revenues from taxes and the public expenses to the GDP is indicative for the government share in the economy.
For many countries in transition the decrease of the government sector has been set forward as government policy for the sake of creating favorable environment for the development of the private sector.

Reporting on an accrual base fosters precise evaluation of the assets, liabilities and the net worth of the government, and their impact on the government's fiscal policy.

Comparative table of government operations on a cash and on an accrual basis

Cash (GFSM 86)	**Accrual** (GFSM 2001)
	Current transactions and capital transfers
	Revenue
Revenue and grants	Taxes
Revenue	Social security contributions
Revenue from taxes (social security	Grants

contribution included) Non-tax revenue Capital expenditure (disposal of fixed assets included) Grants **Expenditures and net lending** Current expenditures Goods and services Salaries and other compensations of employees Social security payments from the employer Other goods and services Interest payments Subsidies Transfers Capital expenditures and transfers Net lending	Other revenues **Expense** Compensation of employees Goods and services Interest Subsidies Grants Social benefits Transfers and other expenses
	Gross operating balance (revenue *less* expense, the consumption of fixed capital not included in the expense)
	Consumption of fixed assets
	Net operating balance (revenue *less* expense with consumption of capital included)
Deficit (-)/Surplus (+) on a cash basis	Transactions in non-financial assets Net acquisition of fixed assets (FA) Acquisition of FA *less* Disposal of FA *less* Consumption of capital Change in the inventory Net acquisition of other non-financial assets
Financing Domestic Bank Other Foreign	
Memorandum positions: Arrears settled Arrears newly incurred	**Net lending/borrowing** (revenue less expense less net transactions in non-financial assets)
	Transactions in financial assets and liabilities Policy related net acquisition of financial assets
	Overall balance (net lending/borrowing *less* policy related net acquisition of financial assets)
	Net acquisition of financial assets for liquidity purpose Domestic Central bank and financial corporations Other

	Foreign **Net incurrence of liabilities** Domestic Central bank and financial corporations Other Foreign

The different definitions of deficit serve different objectives. The deficit on a cash basis is linked directly with the money supply and the aims and objectives of the monetary policy. The deficit defined in compliance with the ESA 95 gives an all-comprising assessment of the financial position of the government as it includes the non-cash transactions which increase the liabilities. It defines correctly as well the financing transactions of the government. Meanwhile the compilation of the overall balance separating the policy related financial transactions (disposal of financial assets and lending to the non-financial and the financial sector) is also a crucial indicator for analyzing the impact of the budgetary decisions on the economy.

Thus a separate country may need to calculate various types of deficit corresponding to the various definitions. On the other part it should be stressed that the member countries pursue a national methodology complying as much as possible to the requirements of the EAS 95 in terms of calculation of the deficit for better harmonization of the government finance statistics with the European legislation.