



STATISTICS

GFSAC–19/06

September 12-13, 2019

Meeting of the IMF Government Finance Statistics  
Advisory Committee  
Washington, D.C.

**Seeing Public Value—The Case for Balance Sheet  
Targeting in U.K. Fiscal Policy**

Prepared by Richard Hughes

**DISCLAIMER: The views expressed herein are those of the author and should not be attributed to the IMF, its Executive Board, or its management.**



# Seeing Public Value

*The case for balance sheet targeting in UK fiscal policy*

Richard Hughes

Research Associate @ Resolution Foundation

IMF Government Finance Statistics Advisory Committee

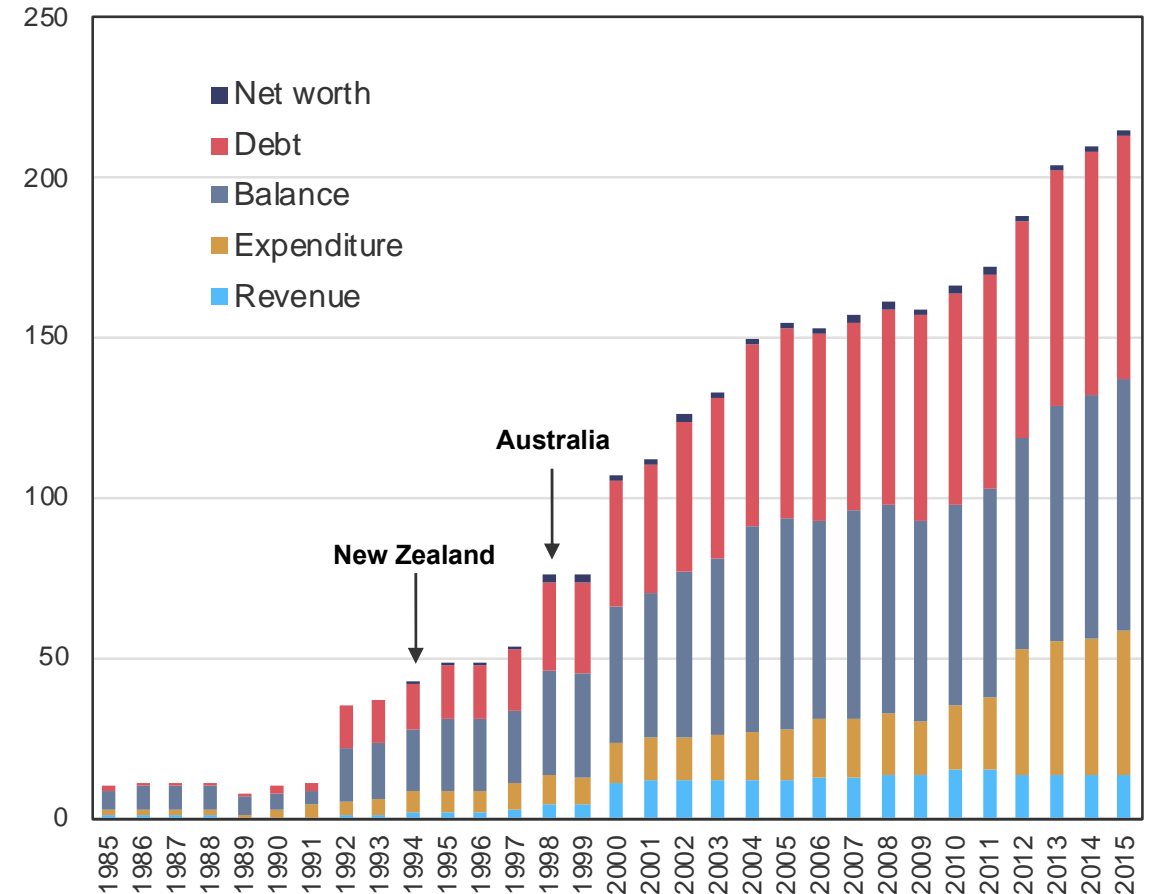
12-13 September 2019

Washington DC

# Going with the flows: The limits of current fiscal targets

- Fiscal policymaking focuses almost exclusively on flows (revenue, expenditure & borrowing)
- Only stock that enters the discussion is debt
- Artefact of our reliance on national accounts statistics for real-time fiscal data
- Statisticians only needs flows + debt to calculate “G” in  $C+I+G+X-M = GDP$
- Some governments produce balance sheets for accounting and audit purposes, but data is:
  - Infrequent (annual)
  - Late (12-36 month time lag)
  - Backward looking (no forecast)
  - Idiosyncratic (national GAAPs)

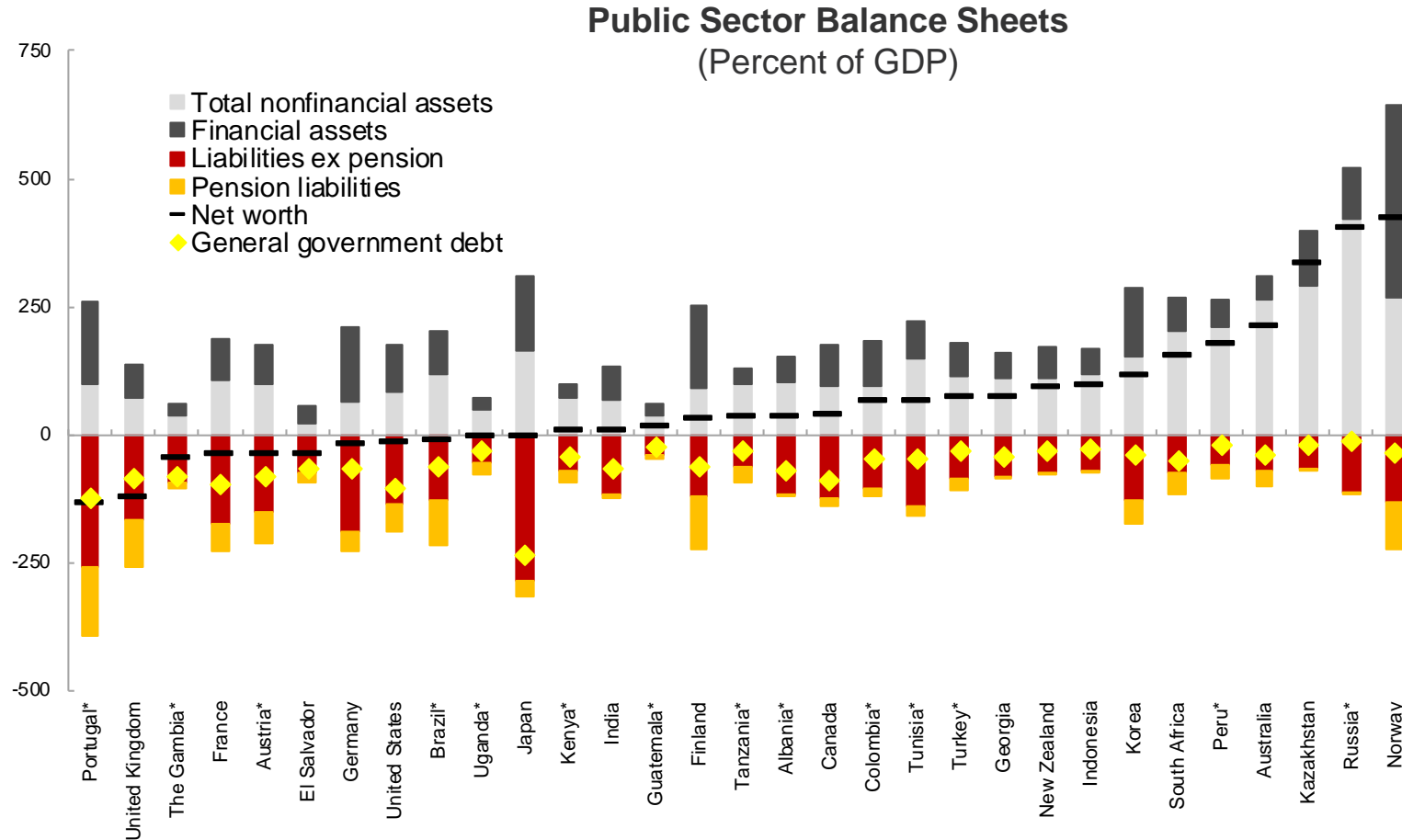
Number of Fiscal Rules by Type



Source: IMF Fiscal Rules Database

# Time to take stock: Why balance sheets matter (1)

*Balance sheets are much more varied and interesting than debt*



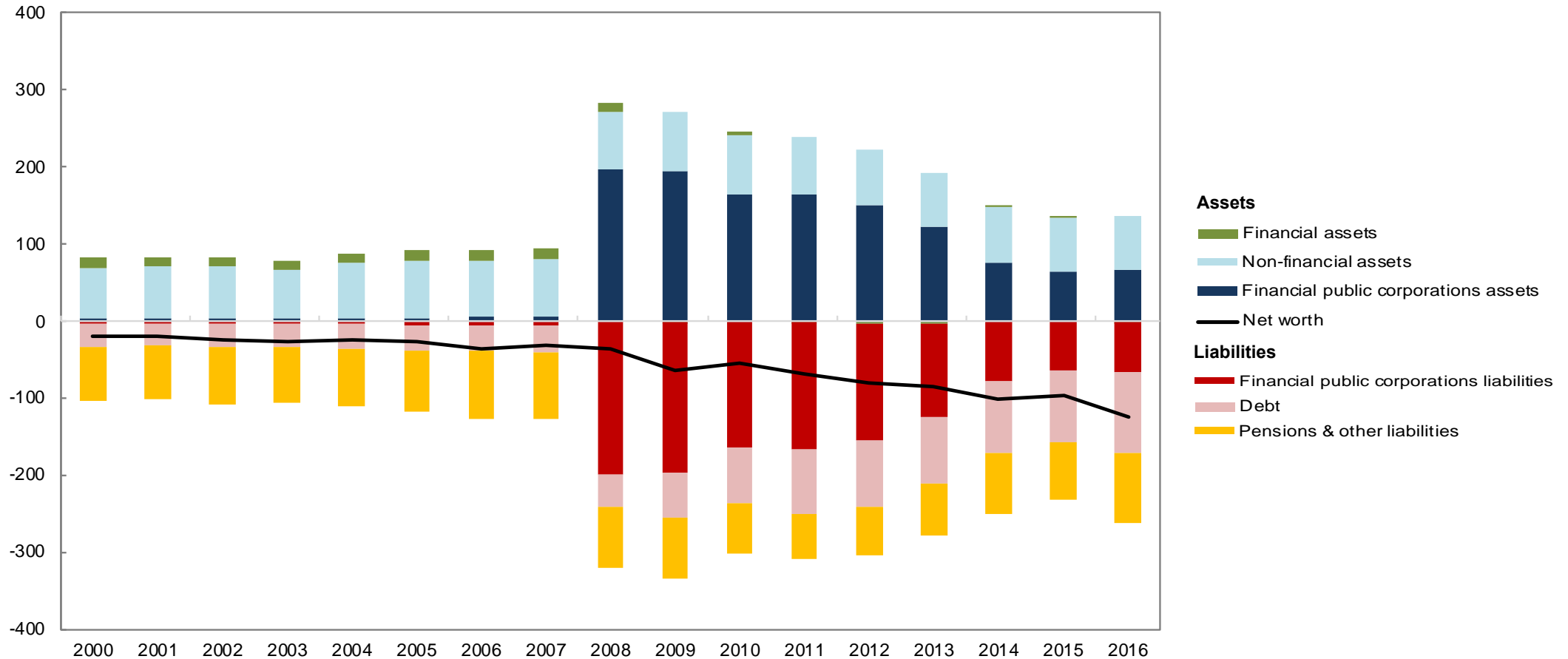
Source: IMF staff estimates.

\*Based on a single year of data, in most cases compiled as part of the Fiscal Transparency Evaluation: Albania, 2013; Austria, 2015; Brazil, 2014; Colombia, 2016; The Gambia, 2016; Guatemala, 2014; Kenya, 2013; Peru, 2013; Portugal, 2012; Tanzania, 2014; Tunisia, 2013; Turkey, 2013; Uganda, 2015.

# Time to take stock: Why balance sheets matter (2)

*Balance sheets were a key mechanism for socialising risk during the crisis*

**UK Public Sector Balance Sheet**  
(Percent of GDP)

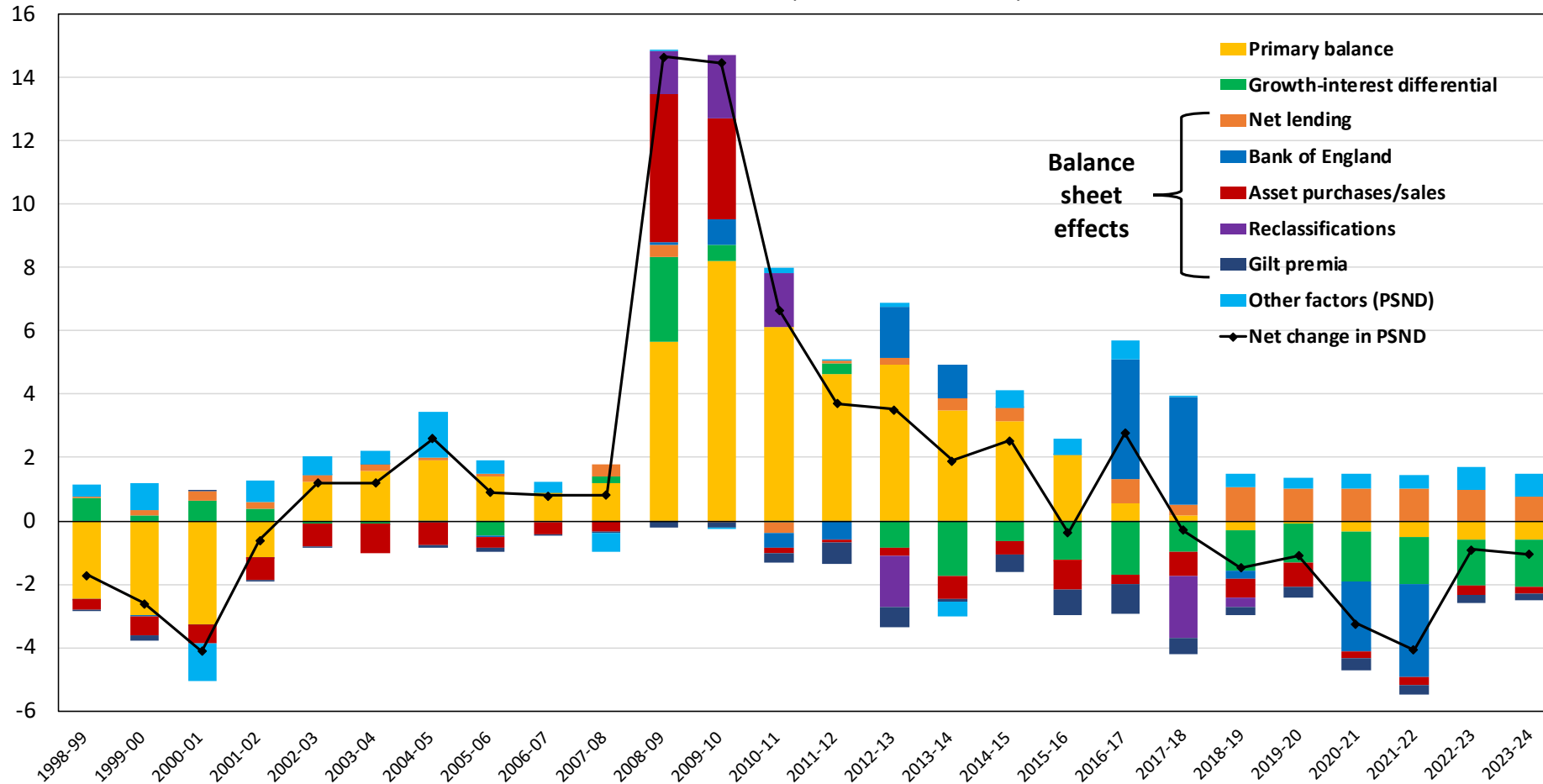


Source: IMF Fiscal Monitor 2018, *Managing Public Wealth*

# Time to take stock: Why balance sheets matter (3)

*Government continues to use its balance sheet for macro and micro policy purposes*

**Sources of year-on-year changes in debt-to-GDP ratio**  
(Percent of GDP)



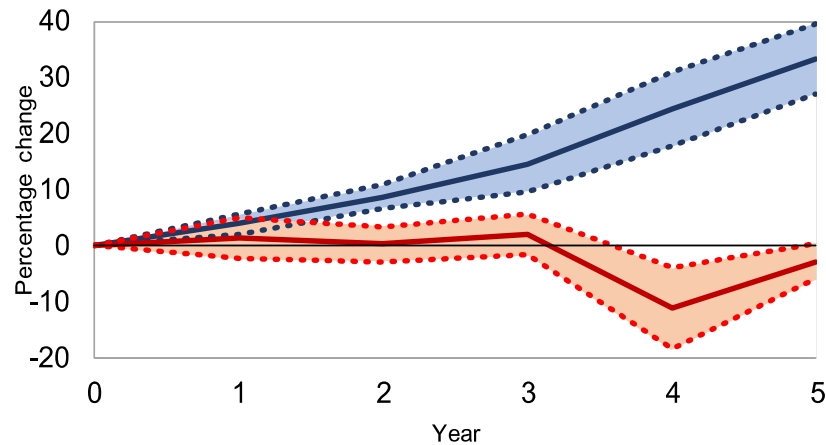
Source: ONS Public Finances Statistics and OBR Economic and Fiscal Outlook

# Time to take stock: Why balance sheets matter (4)

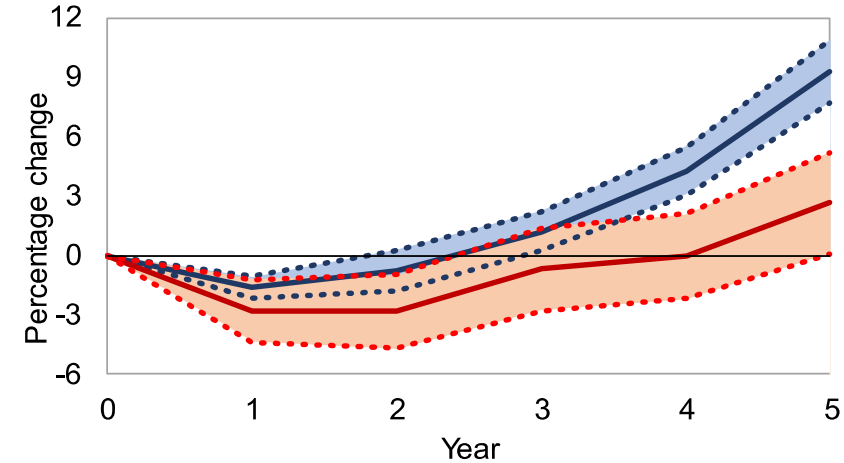
*Government with stronger balance sheets enjoy better macroeconomic performance*

**Figure 4. Recovery and Fiscal Policy in the Aftermath of Economic Recessions**

1. Real Government Expenditure per Capita



2. Real GDP per Capita



— Strong balance sheets    — Weak balance sheets

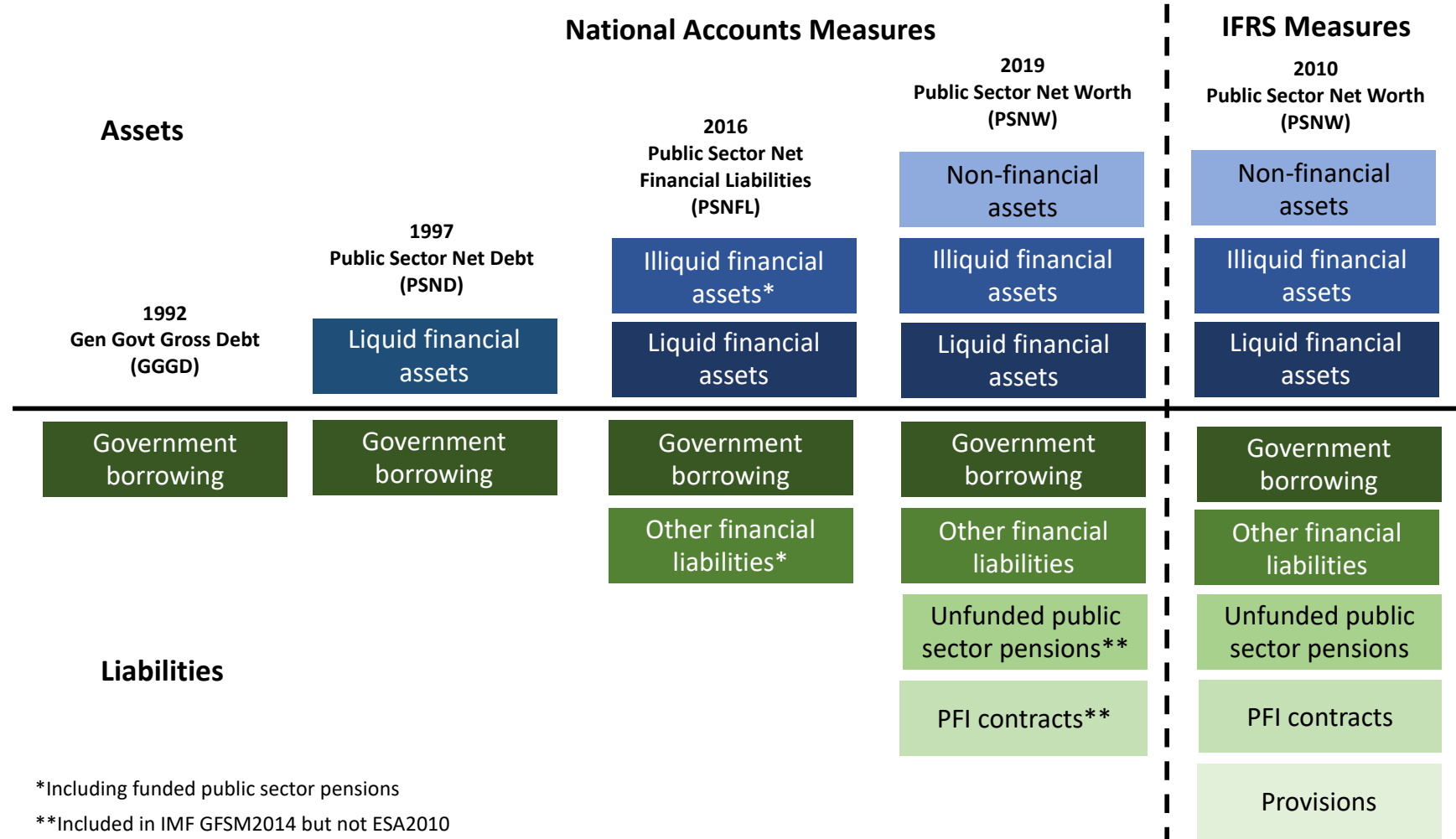
Note: Blue line represents sample of countries that entered the recession with a strong initial balance sheet, and the red line is for those those entering the downturn with a weak balance sheet. The sample is restricted to the sample of recession episodes and the dotted lines represent the 90 percent confidence bands.

Source: Seyed Reza Yousefi (2019), Public Sector Balance Sheet Strength and the Macroeconomy, IMF Working Paper 19/170, August



# Time to take stock: Why balance sheets matter (5)

*UK balance sheet data is increasingly comprehensive, timely, and reliable*

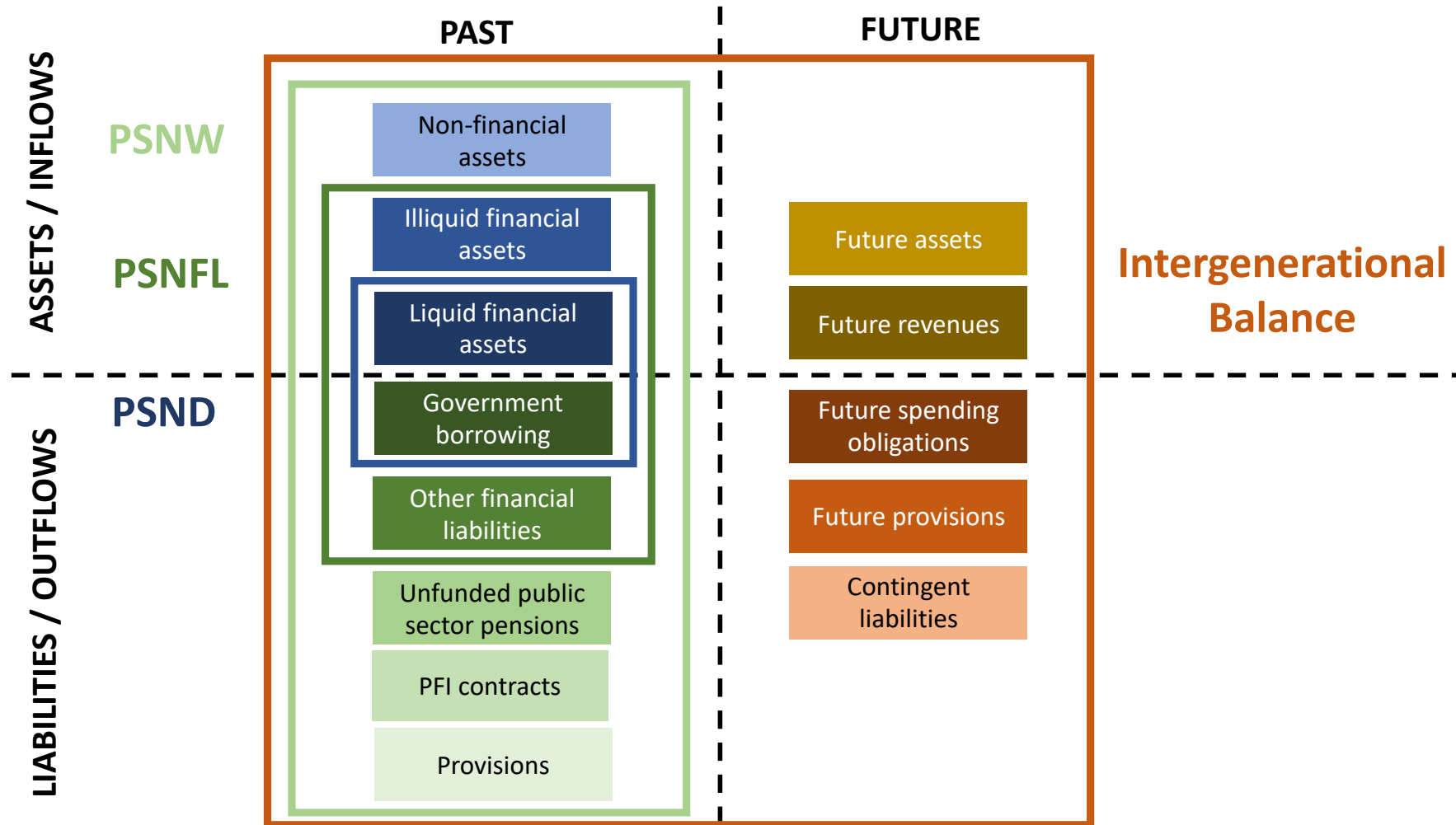


\*Including funded public sector pensions

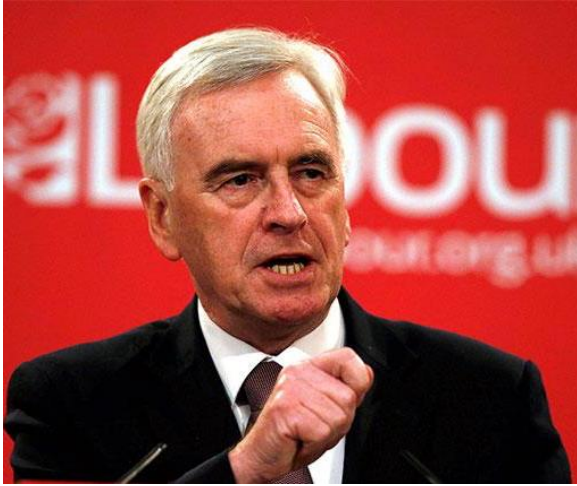
\*\*Included in IMF GFSM2014 but not ESA2010

# Targeting the balance sheet: What are the options?

*Backward-looking vs. forward-looking measures*



# Targeting the balance sheet: Is it (net) worth it?



*“By focusing on the cost of government borrowing (currently close to an all-time low, thanks to tiny interest rates) rather than the enormous social and financial returns on investing that money, the right creates a narrative that investment costs society rather than benefits it.”*

**Shadow Chancellor John McDonnell**  
Guardian, 26 November 2017



*“If it's borrowing to finance great infrastructure projects and there is an opportunity to borrow at low rates and do things for the long term benefit of the country then we should do them.”*

**Prime Minister Boris Johnson**  
Sky News, 2 July 2019



*“All governments can better manage their resources. They should start by bringing data together to come up with a rough estimate of public sector assets, liabilities, and wealth. Over time... governments will be able to show their citizens the full extent of what they own and owe, and better use public wealth to meet society’s economic and social goals.”*

**IMF Fiscal Director Vitor Gaspar**  
IMF Blog, 9 October 2018

# Developments in UK Public Sector Finances – GFSM and wider balance sheet reporting

**Foyz Khatun**

Head of public sector analysis and projects

Office for National Statistics, UK

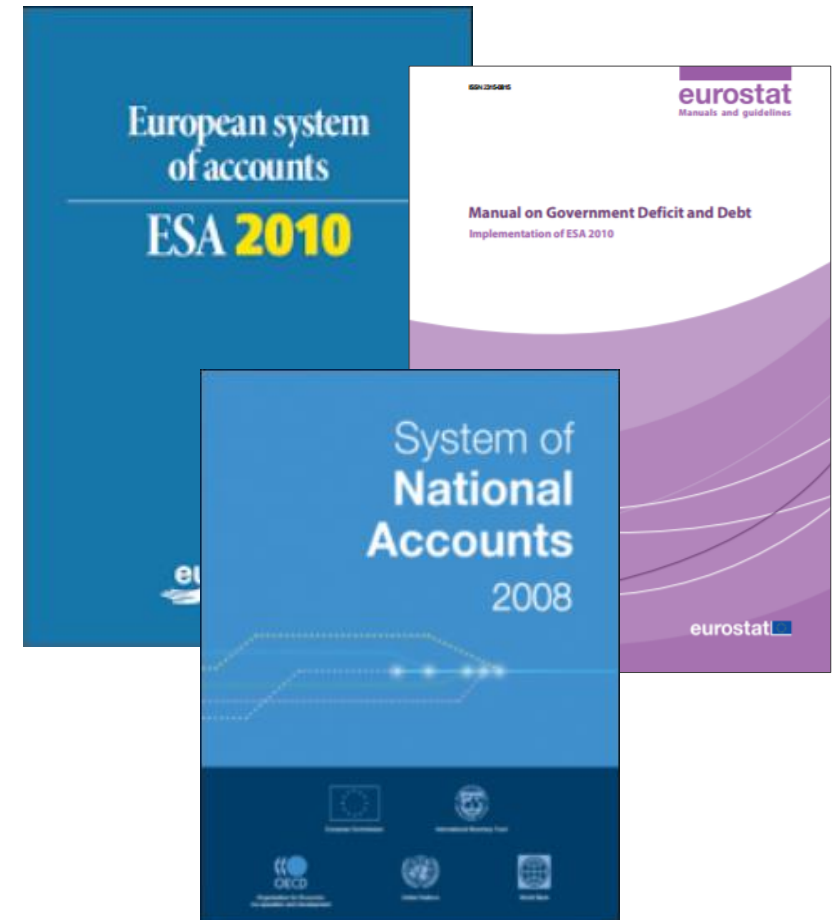
Foyzunnesa.khatun@ons.gov.uk

# Overview

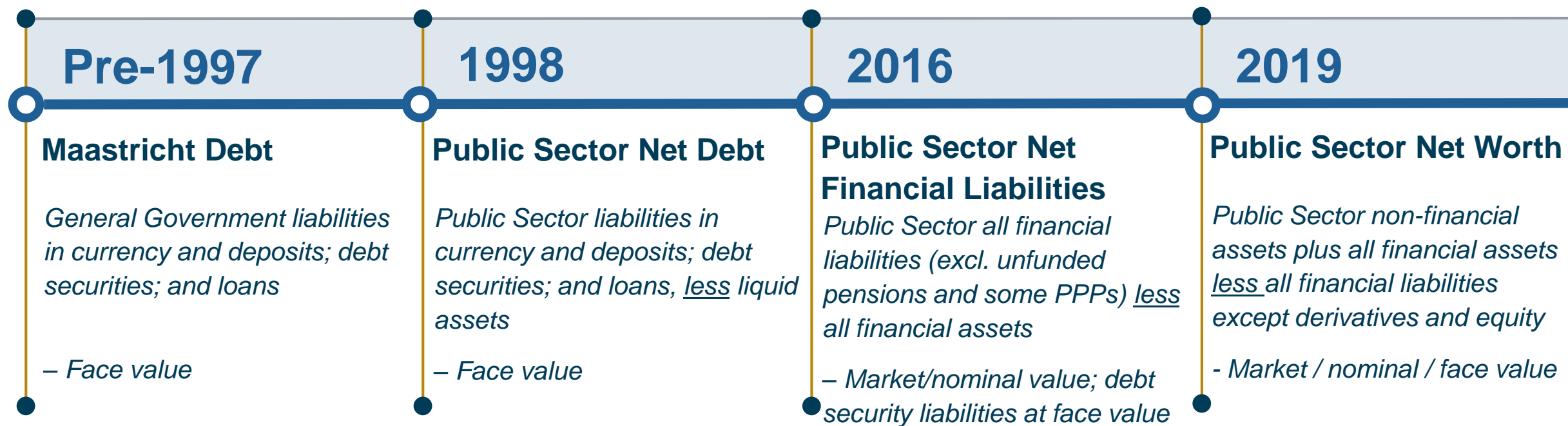
- What public finance statistics does UK produce?
- UK balance sheet metrics
- Why are we introducing more GFSM compliant data?
- Where does GFSM supplement the UK public sector finances?
- How did we get to GFSM 2014?

# UK monthly public sector finances

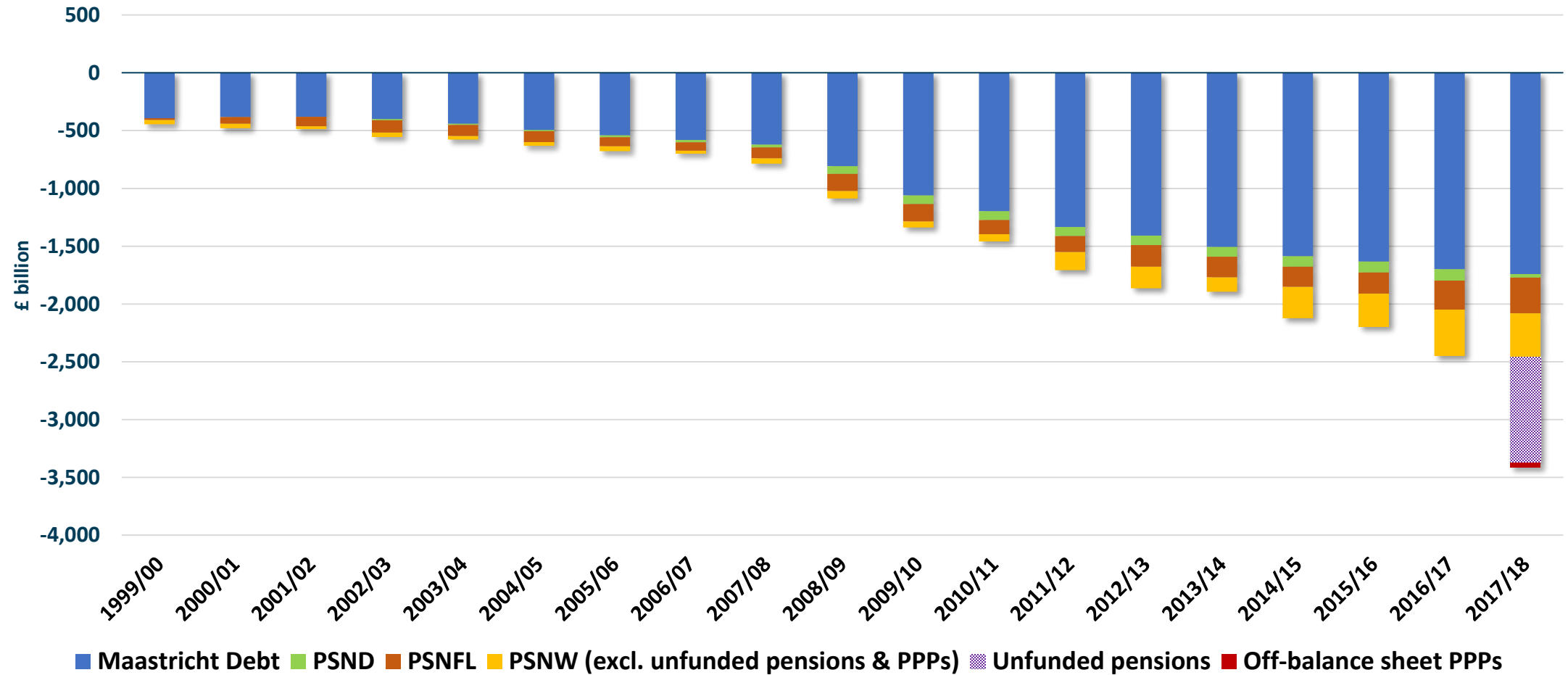
- primary source of UK fiscal statistics
- focus on public sector
- compiled in accordance with ESA 2010 and Eurostat's Manual on Government Deficit and Debt (MGDD)
- ESA 2010 concepts based on SNA 2008
- main balances – deficit and net debt
- deficit = net borrowing
- net debt  $\neq$  ESA 2010 / SNA 2008 concept



# UK debt / balance sheet metrics



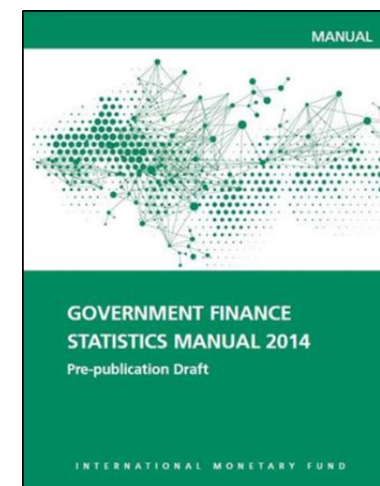
# Liabilities of UK balance sheet metrics





# Why are we introducing more GFSM compliant data?

- Provide a wider view of public sector assets and liabilities
- IMF [Fiscal transparency evaluation](#) – 2016
- HMT [Managing Fiscal Risks](#) - 2017
- G20 DGI and SDDS+



# Where does GFSM 2014 supplement the UK Public Sector Finances?

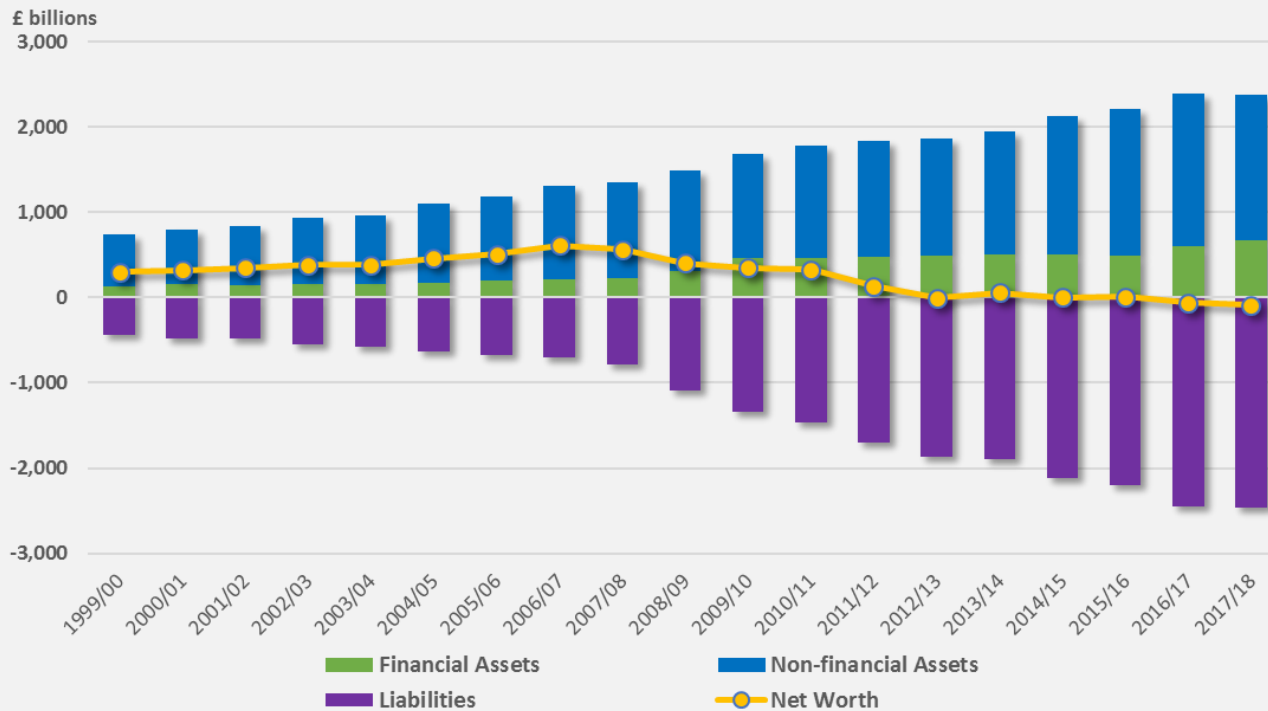
## 1. Wider coverage of assets and liabilities

- Definitions of gross and net debt extend to wider coverage of financial instruments
- Unfunded employment-related pension liabilities recognised, whereas in ESA 2010 they are not
- Non-financial assets recognised (land, buildings, equipment, intellectual property)
- Different valuations e.g. market, nominal and face value

## 2. Integrated framework that brings together information currently available (to limited degrees) in different publications

- Full balance sheet focus, including nonfinancial assets and public sector net worth
- Information on contingent liabilities and state pension obligations brought together under the GFSM *Summary Statement*

# Balance sheet presentation under Government Finance Statistics Manual 2014 (GFSM 2014)



## 2017/18

£ millions

Stocks	Flows		Stocks
Opening Balance Sheet	Transactions	Other Economic Flows	Closing Balance Sheet
	Revenue	Holding Gains   Other Volume Changes	
	£835,572		
	-		
	Expense		
	£849,040		
	=		
Net Worth	Net operating balance	Change in net worth due to other economic flows	Net Worth
-£62,342	-£13,468	-£18,799	-£89,749
=	=	=	=
Non-financial Assets	Net investment in non-financial assets	Other economic flows in nonfinancial assets	Non-financial Assets
£1,791,880	£28,355	-£114,380	£1,705,855
+	+	+	+
Net financial worth	Net lending/borrowing	Change in net financial worth due to other economic flows	Net financial worth
-£1,854,222	-£41,823	£95,581	-£1,795,604
=	=	=	=
Financial Assets	Net acquisition of financial assets	Other economic flows in financial assets	Financial Assets
£596,074	£85,143	-£16,797	£664,420
-	-	-	-
Liabilities	Net incurrance of liabilities	Other economic flows in liabilities	Liabilities
£2,450,296	£122,106	-£112,378	£2,460,024

# How did we get to GFSM 2014?

## 1. Changes to fiscal framework in 1997/98:

- Move to national accounts concepts and link to budgeting

## 2. Government-wide reporting of public finance statistics:

- Various aspects of public sector assets, liabilities and revenue/expense published across government
- Based on national accounts, GFSM (Yearbook) and commercial accounting

## 3. Consistency between ESA / SNA / GFSM:

- Such as accrual accounting; balance sheet concepts; supplementary tables (pensions, contingent liabilities)

# ...not without challenges!

## Main challenges:

1. Differences between ESA 2010 / MGDD and GFSM 2014
  - Methodological:
    - i. Employment-related pensions
    - ii. Public-private partnerships (arguably)
    - iii. Other, lower impact, differences
  - Presentational:
    - i. Debt coverage
    - ii. Valuation
    - iii. Taxes
2. Data issues – pensions, public corporations, non-financial assets

# Dealing with ESA/GFSM differences

## Pensions:

1. Supplementary table on pensions for unfunded schemes (ESA Table 2900) – [liability estimate of £917 bn for 2015](#)
2. Further work to disaggregate public sector pension funds

## PPPs:

1. Main sources of data – HM Treasury's Whole of Government Accounts (IFRS based); devolved administrations
2. 2017/18 value of sheet PPPs: [capital value: £60 bn; liability: £45 bn](#) (ESA/MGDD off-balance sheet: £50bn capital value; £39bn liability)

## Presentation and valuation:

1. Largely mapping from ESA 2010 to GFSM 2014
2. Derivation of nominal value for debt securities

# Summary

- **Wider view** of public sector assets and liabilities
- **June 2019:** introduced Statement of Operations, Balance Sheet and Other Economic Flows in June 2019 (excl. unfunded pensions and most PPPs)
- **Challenges:** ESA/MGDD and GFSM differences, data issues
- **October 2019:** inclusion of unfunded pensions and greater coverage of PPPs

# Questions?