Chapter II

Selection and Preparation of Data

Introduction

The compilation of government finance statistics requires selection of appropriate primary sources (II.A to II.E), adjustment of underlying data to meet appropriate, consistent standards (II.F to II.J), and combination of statistics for the component parts of a government to represent that government as a whole, all governments in the country at a particular level, or the entire general government sector (II.K and II.L).

This chapter sets out a number of statistical standards and outlines steps for the selection and preparation of data to meet them. Each section opens with summary operating instructions, in italics, which are followed by more detailed explanation and discussion. A survey of budgetary and accounting systems is provided as background to the data compilation process along with an examination of issues encountered in the application of this process in budgetary systems based on the French system (II.M and II.N).

Because properly and consistently prepared data are a prerequisite for the application of any analytical framework or classification of transactions, standards and procedures of data selection and preparation are dealt with in this chapter before moving on to analytical and classification questions in the chapters which follow. Questions of organization and classification of data, which may be encountered in the course of data preparation, are generally deferred for purposes of clarity to succeeding chapters.

A brief description of the various steps in the data selection and preparation process is provided below for the additional perspective it may impart on the significance of various elements in the compilation of data.

The primary source of government statistics is usually the government accounts. There are many kinds of government accounts, however. While some accounts register only transactions, others show also internal or offsetting entries. A knowledge of how the accounts are kept and what the entries represent must precede the selection of data. Some variations in accounting systems are discussed in Sections II.M and II.N at the end of this chapter.

To meet the needs of financial and economic analysis, one must examine also how the available accounts relate to the various stages of expenditure and revenue collection (II.A.1). For government finance statistics, data on total revenue and expenditure should be as close to the payments stage as possible. Statistics on disaggregated detail should be based on the most reliable data available. Generally, these will be data that can be obtained from government accounts relating to transactions; they will incorporate a minimum of notional items, and their use will avoid, so far as possible, the need for supplementary estimates for their classification or completion. When a choice must be made between disaggregated data that are considered otherwise equally reliable, preference should be given to those that pertain to transactions nearest to the stage of cash receipts and cash payments. Data on revenue should be on the basis of cash receipts rather than accruals or assessments. Data on expenditures should relate to payments or a stage between delivery and payments; data relating to a stage preceding both delivery and payments are not a desirable basis for government finance statistics as they represent neither actual performance of the operation nor payments. Compromises and conventions may nonetheless be necessary in compiling payments-based statistics, however, as when payments are made through nonreporting accounts or in debt instruments (II.A.5 and II.A.6). Transactions exclusively in kind, however, involving either barter or the unrequited flow of goods and services to or from government with no payment flow of cash or fixed-term contractual obligations in the opposite direction, are not included in the statistics except as memorandum items (II.A.7). Disaggregated statistics, if not on a cash basis, should be related by identified adjustment items to total cash receipts and cash payments.

Cash basis statistics appropriate for the measurement of payment flows between the government and the rest of the economy must be distinguished from accrual basis accounts, which are utilized in business for the determination of cost, profit, and net worth but cannot be fully applied in government (II.A.3). A clearer understanding of the relationship between cash basis reporting and other data systems is provided by an examination of the nature of cash flows (II.A.4). Data practices discussed in this chapter relate to government; those relating to nonfinancial public enterprises are discussed in Section VI.A. Cash basis statistics alone cannot meet all the needs for analysis of government operations, however, and several examples of noncash data important for the analysis of government are presented (II.B).

The accounts selected for the compilation of government finance statistics should not represent all payments and receipts fulfilling a particular year's budget authorization or tax assessments but only those taking place in a chronological time period (II.C). Selection of accounts must also be influenced by the frequency with which the data are to be compiled (II.D).

In the compilation of data for local governments, the large number of government units and their varying accounting practices frequently make it most practical to employ sample survey methods. Data may be collected by questionnaire from a relatively small number of units constituting a randomly chosen stratified sample of all local governments, utilizing mail solicitation and some field visits (II.E).

Preparation of consistent, appropriate statistics may require several adjustments. The statistics should show the full magnitude of government revenue and expenditure. Any offsets which have been entered in the accounts—subtracting the cost of collection from taxes, for example, or the student fees from education expenditures—should be identified and replaced (II.F). Taxes collected for other governments in an agency capacity, however, should be attributed to them and not to the collecting government, which should show only its own revenue (II.G). With regard to industrial activities within government, it is not gross sales or the total costs of production which are included for government finance but only the government's net income or outlay deriving from these activities (II.H). While their gross receipts and payments may be useful for analysis of technical, economic, or costing relationships, they cannot be added in with other government revenues as an approximation of government disposable income nor with other outlays as expenditures for the performance of government functions. When the operating costs and proceeds of industrial sales by government units to the public are identifiable, therefore, the difference between them is reflected in the statistics for government. Memorandum items on departmental enterprises' gross industrial sales to the public and related operating expenditures are provided, however, to gauge the volume of operations.

Data may sometimes be found in government accounts for activities considered to be outside government—that is, industrial operations carried out by units either corporate in nature or selling to the public on a large scale, or financial operations either primarily engaged in both incurring liabilities and acquiring financial assets in the market, accepting demand, time, or savings deposit liabilities, or performing functions of the monetary authorities. To separate such activities from the statistics for government, any of their transactions shown in the accounts should be removed—or netted—from the statistics and their effect on the government finances should be offset by an entry for an equivalent government transaction with the sector or subsector to which they are assigned (II.I and II.J). Separation of monetary authorities' transactions from government is particularly important so as to ensure that statistics for financing a balance of payments deficit or surplus are not confused with those for financing the government's operations (II.J.1).

Adjustment and correction of the data must be followed by consolidation, the combination of data from separate government accounts, funds, and agencies to derive statistics for transactions between the rest of the economy and a government as a whole. Essentially, this involves the identification and elimination of transactions between the different parts of government so as to avoid double counting, and the aggregation of all "external" transactions in uniformly defined categories (II.K). When only central government data are involved this may be limited to intragovernmental consolidation (II.K.1). When statistics for the general government sector are compiled, the procedure leads from intragovernmental consolidation to intergovernmental consolidation of all governments at the same level, for example, state or local governments (II.K.2), and finally, to intergovernmental consolidation of statistics for all levels (II.K.3). Particular questions may arise along the way in consolidation with sinking funds (II.K.1.1) and with social security funds (II.K.1.2). Consolidated statistics for all or part of general government may be further consolidated with selected data for nonfinancial public enterprises attached to them, or for all nonfinancial enterprises, to measure the finances of the entire nonfinancial public sector or a portion of the nonfinancial public sector, such as that part operating at the central government level. The procedures appropriate for this type of consolidation are discussed in Section VI.B.

To obtain properly and consistently prepared data, finally, it is useful to follow appropriate procedures, deriving the principal aggregates from the accounts of each part of government in turn and making all the necessary adjustments to ensure proper coverage, cash basis, chronological timing, appropriate netting or grossing and classification before excluding payments and receipts within the circle of units covered and calculating the resulting consolidated totals (II.L).

II.A. Basis of Reporting

II.A.1. Stages of Expenditure and Revenue Collection

Choice of statistics to be compiled for each government should be based on analysis of the stages at which expenditure and revenue collection occur and their relation to the available government accounts.

The transactions that take place in government operations may occur at a variety of stages in the revenue and expenditure cycle. Statistics may exist on the basis of each of these stages and it is important to understand both what each stage represents and what implications it holds for the data so reported.

The following section distinguishes a number of such stages or bases, not all of which, of course, may exist in all countries and budgetary systems. These stages may be listed and briefly described as follows.

Expenditure

(1) The *budget proposal* or *estimates* are presented by the executive to the legislature or to some legislating executive council. This constitutes a request for spending authority accompanied by an estimate of expected revenues. It may be subjected to revision by the legislature which may be either unlimited or limited by constitutional provision—such as the requirement that revenues be found to match any increase in expenditures.

(2) *Appropriations* refer to the budget voted by the legislature. These may vary significantly between countries in one main respect: by ordering the executive to make the specified expenditures or by authorizing the executive to make expenditures up to the amounts specified. The authorization to spend may be given to individual ministries and departments or it may be granted specifically to the chief executive or his representative who retains the power to subsequently authorize spending by the ministries.

(3) *Allocations* or *allotments* may then be made by the chief executive or his designee—the finance minister or the budget director, for example—authorizing the ministries to commit and/or pay out specified funds within a given time period within the limits of the amounts appropriated.

(4) *Commitments* may then be entered into by the ministries, within the limits of the allocations if required, for immediate purchase of goods and services or in contracts providing for future delivery.

(5) *Deliveries* under such contracts or purchase orders then take place signifying actual receipt by the government of goods and services and giving rise to a government liability for payment to be made at some future date. Passage to the government of legal title to the goods, and hence liability for future payment, may occur on delivery, shipment, or completion of specified stages of construction in advance of actual delivery, as set out in the purchase contract.

(6) *Payment orders* may then be prepared or issued by the receiving ministry or by a central office certifying that delivery, shipment, or construction progress has been made and that payment should be forthcoming.

(7) *Checks* or *warrants issued* by the treasury or by ministries' payment officers are then sent to

suppliers as payment for the goods and services received as specified in the payment orders. It should be noted that in some countries or regions, when the banking system may not be highly developed, separate checks may not in fact be issued and the payment orders may serve as an instrument calling for direct cash payment by the treasury. (Payment orders issued for which checks or warrants have not yet been issued or paid are sometimes referred to as "floating debt.")

(8) *Checks paid* result when the government checks are presented at banks and there is a corresponding debit to the accounts of the treasury or the ministries. It is checks paid and the resulting debits that are reflected in the monetary accounts.

Revenues

The most extensive list of possible stages occurs in connection with the income tax and particularly the income tax on corporate profits. These stages for a typical case may be described as follows.

(1) Income is *earned* in a taxable period and a *liability* then *accrues* for payment of a tax upon the income at some future time.

(2) The taxpayer *assesses* and *declares* the estimated amount of tax due while the taxable period is still in progress on the basis of his expectations of what his income and tax liability for the year will be. In some cases, however, assessment and payment may not be required until after the close of the taxable period and installment payments may be based upon assessment of income in the previous year.

(3) Parts of the assessed tax liability become *due* for payment without penalty on each of several dates.

(4) The taxpayer *pays* the tax either on these dates without penalty or afterward with penalty and the payment is *received* by the government.

(5) The taxpayer files his *tax return* and corrected assessment after the close of the taxable year.

(6) The government reviews the taxpayer's return and issues the *government's assessment* of tax liability.

(7) Through negotiations or adjudication the taxpayer and the government come to an *agreed assessment*.

(8) The taxpayer *pays* any amount remaining due or receives a *refund* or *tax credit* (against future liabilities) for any amount previously overpaid.

(9) The *assessment* is subsequently *reopened* either by the government on the basis of new information or by the taxpayer, perhaps because of losses in later years which he is entitled to carry back and subtract from the tax due for the previous taxable periods.

(10) The altered tax liability may lead the taxpayer to *pay* additional taxes or to receive a *refund* or *tax credit*.

A far shorter series of stages is usually involved in the collection of *taxes from employees*. Their tax liability too *accrues* as income is earned but their *tax payments* may be regularly *withheld* from wages and salaries on the basis of tax withholding tables and passed on to the government by employers, with the adequacy of amounts withheld reviewed in tax returns filed after the close of the fiscal year. In some countries, withholding payments obviate almost completely the need for subsequent individual returns and assessments.

A shorter series of stages usually characterizes also the *collection of taxes on sale*.

(1) Sales take place during a taxable period and the taxpayer, usually the seller, incurs a *liability* to the government for taxes thereon to be paid at some future date.

(2) At a specified date after the close of the taxable period the taxpayer files a return declaring the amount of sales or of cash receipts arising from sales and the amount of tax *due* thereon and *pays* this tax liability due without penalty on that date.

(3) The return and payment are verified by the government and a *supplementary assessment* is issued if necessary.

(4) The taxpayer *pays* any additional amount due or receives a *tax credit* or *refund* for any amount previously overpaid.

(5) A periodic *audit* of past returns is made by a government field auditor against the taxpayer's books and any necessary *supplementary assessment* is issued.

(6) Through negotiation or adjudication the taxpayer and the government come to an *agreed assessment* or a *judgment* is handed down by a court.

(7) The taxpayer *pays* any amount remaining due with interest and penalty or receives a *refund* or *tax credit*.

Collection of *customs duties involves* a different set of stages.

(1) Goods are *imported* and go into an approved transit shed, customs area, or warehouse under supervision of the customs authorities.

(2) A customs entry form accompanied by the shipping documents is filed by the importer or his representative *declaring* contents of the shipment. This is certified by the customs agent.

(3) An *assessment* of customs *due* is made by the customs agent. In some cases this may represent review of an assessment made by the importer as part of his declaration of the contents of the statement.

(4) If complete documentation is not available at the time, a *provisional declaration* and assessment are made.

(5) Assessment is *paid*, or in some cases charged against the importer on a credit basis and subsequently *paid*.

(6) Goods are *released* from customs.

(7) If complete documentation is not available until later, *final assessment* is then made.

(8) Final assessment is *paid* or a *tax credit* or *refund* received.

Many of these stages may be registered as entries in government accounts. It is important to ascertain which stage an entry in fact represents; whether data on different stages are being confused; and whether data for the desired stages can be derived.

II.A.2. Cash Basis Reporting

Statistics for total revenue and expenditure should be based on transactions as close to the payment stage as possible, and in the case of expenditure, preferably not preceding both payment and delivery. Statistics for the disaggregated components should be based upon the most reliable data, in the case of expenditure between the payment and delivery stages, and should identify any differences from the payment-based totals.

Statistics based on payments are to be preferred for total government revenue and expenditure, measuring aggregate government impact on the monetary accounts and the rest of the economy. Payments data represent the best ready approximation of the flows of funds and resources; they avoid problems of valuing resource flows; they correspond most closely with other financial statistics; and they constitute the basis on which most governments keep their accounts. Aggregate statistics should be as close to the payment stage as possible with any identifiable discrepancy from actual payments explicitly shown. Not all of these advantages apply also to cash data for the components of government operations, however. Disaggregated statistics, therefore, should be based on the most reliable data in the government accounts. In the case of expenditure this should be at the stage between delivery and payment which represents the most accurate reporting of actual operations. An examination of the nature of cash flow reporting and its relationship to other data systems is presented in Section II.A.4. It may be noted, however, that payments data must be adjusted to an accrual basis common to other sectors to permit the measurement of all sectors' production, income, consumption, capital accumulation and finance in the national accounts.

For expenditure, data at the stages of *checks paid* (8), cash disbursed, or *checks* or *warrants issued* (7) represent the most desirable basis on which to depict the government's financial transactions reconcilable with the monetary accounts. When data cannot be obtained on this basis, statistics based on *payment orders* (6) or *deliveries* (5) are an acceptable measure of government expenditure (references are to stages listed in Section II.A.1).

For revenue, data representing the tax payments received by government, net of refunds paid out, during the period covered should be utilized. Such payments will represent the aggregate of actual receipts minus refunds from the several payment stages in the revenue collection process outlined in Section II.A.1, above: taxes *paid* after the original assessment, taxes *paid* or *refunded* after subsequent assessments, and taxes *paid* or *refunded* after any subsequent reopening of the account.

For income taxes this would be stages 4, 8, and 10; for sales taxes, stages 2, 4, and 7; and for customs duties, stages 5 and 8.

Government borrowing may take place through lender payments to government, through lender payments to government suppliers, as under project loans, or through lender provision of goods and services to government, as under supplier credits. Borrowing should be reported when payment is received by government, when lender payment is made to government suppliers, or when terms of supplier credit contracts for creation of debt are fulfilled, respectively.

Government lending should be reported when the government makes payment, and repayments of government lending when they are received by government.

The payments basis recommended for government finance statistics in this Manual differs somewhat from the SNA, which, for all sectors of the economy, calls for the reporting of purchases when delivered, taxes and contractual payments when due without penalty, and only noncontractual unrequited transfers when payment is actually made. Payment flows are central to a government's concerns, however, because they determine the government's ability to pay its bills and, by influencing the liquidity of the community, activate or validate the demand for goods and services in the rest of the economy. Unlike other sectors, moreover, governments cannot keep account of many liabilities to or from government when they are generated or due, as discussed in Sections II.A.3 and II.A.4, below. In a monetized market economy most economic policy decisions must be taken in monetary terms. Thus, monetary policy, fiscal policy, incomes policy, and balance of payments policy are all formulated basically in financial terms and draw primarily upon statistics measuring payments and financial balances. For the formulation of fiscal policy and its coordination with other economic policies, therefore, statistics on government receipts from and payments to the rest of the economy are necessary.

Payments data form the basis for most government accounting systems and usually represent the most reliable numbers generated by the administrative accounting system, necessitating fewer rough estimates. In a monetized market economy, moreover, the amount paid usually provides the best approximation of the value of goods and services involved. Data for deliveries may frequently be less readily available and less accurate than those for payments. There may be no central office with information on the total of goods and services received by the government. Reporting of deliveries may not occur until a request for payment is submitted by the receiving ministry to some central authority for either certification or the compilation of reports. Sometimes payment orders for past deliveries are not submitted until they can be accommodated under monthly or quarterly payment allotments assigned to each ministry by the central authority. Considerable delay may thus separate receipt of merchandise from submission of payment orders. Reports based on payment orders submitted, therefore, may constitute an inadequate indicator of deliveries.

In the reporting of tax revenues, use of payment basis data avoids numerous difficulties that may arise through use of the taxes-due basis. Some of these are evident from the numerous stages, outlined above, at which revision of statistics on taxes due may be necessary. Thus, when current assessment and payment of corporate income taxes are required in the course of the income year, the accrual of tax liabilities may prove to be mistakenly estimated by the corporation itself, owing to unforeseen changes in its earnings for the year as a whole. As a result, corporate tax accruals utilized for national accounts purposes may require considerable subsequent adjustment from the initial statistics of estimated taxes declared to be due. Extended negotiations of tax assessment may add further delays and uncertainties to initial declarations of tax liabilities due. When tax legislation permits companies to take a "loss carryback," that is, the reduction of taxes due in previous years to reflect losses subsequently incurred, the measurement of government revenue due may require the repeated adjustment of data for past years. There is some question as to how well such data reflect the actual effect of the government on the economy in the past if the data are retroactively adjusted in this manner. Such problems are avoided when the impact on the economy is measured by the tax payments actually received each year.

In practice a choice between data representing different stages of the revenue or expenditure process is not always possible, as only one kind of statistics, usually close to a payments basis, may be available for the broad range of government operations in the government accounts. Such data should be used for the disaggregated detail of statistics compiled in accordance with this Manual, with explicit global adjustments supplied, if necessary, to bring the aggregate data to a payments basis.

When payments-based data are extracted from accounts maintained on an accrual basis, for social security funds, for example, additional adjustments are necessary. Revenues and expenditures recorded in an operating statement on an accrued basis must be adjusted by balance sheet changes during the period in accrued revenues not yet received and accrued expenses not yet paid, respectively. Transactions involving capital assets, financial assets, and liabilities may not be found on accrual-based operating statements, moreover, and may have to be calculated from changes in balance sheet entries, for fixed capital assets, for example, since the end of the previous period.

It must be noted, finally, that statistics on payment flows cannot possibly meet all of a government's needs. Supplementary statistics on the noncash stages of the revenue collection and expenditure process are indispensable for the proper conduct of government operations. They are discussed in Section II.B.

II.A.3. Contrast With Accrual Data for Business

The preference for payment-based data for reporting government operations contrasts with statistics on business, which should be on an accruals basis so as to measure an enterprise's net worth and income and provide cost data necessary for pricing goods and services to be put on sale. Because such concepts are generally not applicable to government and a full knowledge of liabilities accruing to and from government is not possible, accrual data on government operations are appropriate only for partial and supplementary purposes.

While payments provide the best basis for reporting data on government operations, they stand in contrast to statistics for enterprises. Because of the different nature of business operations and the needs of business management, enterprises require accrual accounts and cannot operate with cash data alone. This can be seen most directly from an examination of the nature of accruing liabilities.

It is important to distinguish accruing liabilities, which are generated whenever previously specified occurrences give rise to an obligation to pay some time in the future, from fixed-term contractual liabilities such as bonds, notes, and bank loans. Accrued liabilities—the accumulated stock of liabilities which have been generated but not yet extinguished—play an important role in business accounting as a means of keeping track of goods and services delivered to others or received from others in the interim before payment is made. Such accrued liabilities payable and receivable form an integral part of business accounting. Thus, the net worth of an enterprise at any time is calculated as the sum of the value of all its stocks: accrued liabilities receivable, accrued liabilities payable, inventories, fixed capital assets, land, intangible assets, cash and deposits, financial assets and debts. Changes in these stocks, other than by revaluations, are generated by the flows of accruing liabilities, goods and services, money, and fixed-term and other contractual obligations. The retained income of a business during any period is measured as the change in its net worth between the opening and closing dates. Accruing liabilities are a vital part also of the cost calculations which a business must make in determining the prices at which it can sell what it produces. All such calculations—net worth, income, costs—must include accruals of liabilities if they are to serve the needs of business.

While businesses keep track of accruing liabilities as direct participants in the transactions that generate them—by making or taking delivery of the goods and services involved, for example—governments generally cannot do this. The accrual of most liabilities to government occurs as the result of transactions and activities in which the government does not directly participate, such as the earning of income by taxpayers or the sale of taxable goods and services. Such accruing liabilities are reported to government only when tax returns are filed or tax liabilities are paid. Similarly, many government liabilities to others accrue under law as a result of developments in which governments do not directly participate, such as unemployment or disability, and come to the government's attention only when claims for payment are filed. An important part of accruing liabilities to and from government, therefore, must remain outside of government knowledge and cannot be included in any government accounting system. As a result, the full measurement of accrued liabilities and of the related business accounting concepts of net worth, income, and total accrued costs cannot be carried out for government.

The business concepts of net worth and income, moreover, are not meaningful for government. While management of government finances requires data on government debt and government claims on others, the combination of these amounts with the value of a government's fixed capital assets—buildings, roads, bridges, dams, equipment, etc.—does not yield a total "net worth" useful for either government housekeeping purposes or for macroeconomic policy purposes. Nor does government income taken as the change in "net worth" over any period provide an appropriate measure of the inflow of income to government. Unlike businesses, governments do not incur corresponding production costs for most of the funds they receive, so that gross revenue and grants, less only the operating costs associated with any government industrial sales to the public, can be taken to represent government income, rather than utilizing the net income concept appropriate for business (see Sections II.F and II.H). Use of accrual data for calculation of costs does find some application in government, but is generally limited to particular programs, comparisons between alternate proposals, or the pricing of the limited range of goods or services for which governments levy charges. Within these limits, accrual accounting systems are useful in enabling management to exercise certain controls, inasmuch as they provide data on all available resources and on expenses that can be compared with some measure of output.

Further discussion on accrual data for business is contained in Section VI.A.

It should be noted that the term accrual is sometimes used to refer to accounting systems other than those based on the recording of revenues and expenditures when they accrue. In some cases the term is used to describe a system in which there are long complementary or liquidation periods provided for the collection of revenues or the payment of expenditures originally included in the budget of a previous financial year. In other cases the term is used to denote accounting systems that cover obligational authority or administrative approval of expenditure rather than payment.

II.A.4. Nature of Cash Flows

Government transactions may be viewed as a combination of two flows, one into government and one out from government, with each flow consisting of either goods and services, money, "nothing," or liabilities. Cash basis statistics report all transactions involving money flows and generally exclude transactions combining only flows of goods and services, liabilities, or nothing.

An understanding of the nature of cash flows can serve to clarify the relationship between cash basis reporting and other data systems and provide useful guidance as to which transactions are to be included in cash basis data, when, and with what valuation. An examination of the nature of cash flows is presented in this section.

In all transactions there are two parties, sometimes referred to as transactors. Different things flow between transactors: goods and services, money, and liabilities. In most transactions there are two flows: goods in one direction, for example, and money in the other. Many government transactions, however, involve a payment for which nothing flows in return, that is, no concurrent, equivalent counterpart is provided in exchange. No specific, quantifiable, benefit, product, service, or obligation flows to the payer in return for the payment. For purposes of symmetry of analysis it is useful to classify "nothing" as another kind of flow. This makes it possible to view all government transactions as a combination of two flows, one into government, the other out, away from government, with the flows consisting of either goods and services, money, nothing, or liabilities.

Liabilities, as noted in Section II.A.3, can be of two kinds, accruing liabilities, which are generated whenever previously specified occurrences give rise to an obligation to pay some time in the future, and fixed-term contractual liabilities such as bonds, notes, and bank loans. Both accruing liabilities and fixed-term contractual liabilities, in turn, are distinguishable between liabilities of others to government and liabilities of government to others.

Accruing liabilities play a special role in the sequence of flows. Between every liability-generating occurrence (delivery, passage of title, receipt of taxable income, etc.) and payment the accrual and extinction of a liability intervenes. Extinction can follow accrual instantaneously, as in a cash sale, or only after prolonged delay, as with overdue bills. No intervening accrual and extinction of a liability occurs before payment, however, when there is no preceding liability-generating occurrence, as with spontaneous gifts or advance payments. In the case of government repayment of borrowing it is a fixed-term contractual liability, rather than an accrued liability, which is extinguished.

Accruing liabilities can be followed in the accounts of both transactors when the opposite flow is of goods and services, money, or fixed-term contractual liabilities. When liabilities accrue with nothing flowing in the opposite direction, as in the accrual of taxpayer liabilities to government on receipt of taxable income, there is no opposite flow upon which both transactors can base an entry for an accruing liability in their accounts. While taxpayers can enter their accruing liabilities in their accounts on the basis of their taxable income, the government is not a direct participant in the liability-generating occurrence—receipt of taxable income—and does not have the information necessary to make such an entry in its accounting system, as noted in Section II.A.3. As a result, and because flows in exchange for nothing predominate in government operations, governments generally keep their accounts on a cash basis and this is the reporting basis recommended in this Manual.

To clarify the nature of cash flow reporting and its relation to other reporting systems, an array of all possible combinations of flows is presented in Chart 4, below. This divides all flows into seven categories: goods and services, accruing liabilities of others to government, accruing liabilities of government to others, money, nothing, fixed-term contractual liabilities of others to government and fixed-term contractual liabilites of government to others. By arraying the flows out from government across the top and the flows into government down the side, a matrix can be constructed classifying all government transactions by the kinds of inflows and outflows that are involved. Thus, when goods and services flow into government and an accruing government liability flows out, a government purchase occurs. When the accrued government liability flows back to government and money flows out from government, government payment for the purchase occurs. Though extinction of the liability may follow accrual instantaneously, as in a cash sale, the process of accrual and extinction is assumed in the table to intervene. Similarly, when an individual receives taxable income, an accruing taxpayer liability flows to government and nothing flows from the government to the taxpayer in return. When the tax payment is subsequently made, the accrued taxpayer liability flows from government back to the taxpayer while money flows from the taxpayer into government. When money flows out from government and nothing flows into government in exchange, a government gift or transfer payment is involved. When government transfer payments are made to satisfy a previously accrued liability under the law, however, it is an accrued government liability, rather than nothing, that flows back into government in exchange for the money flowing out from government. Services flowing out from government with nothing flowing into government in return represent the normal government provision of public services to the community.

Reporting systems can be designed for different purposes and based on different kinds of flows. Thus, reports on the flows of goods and services are useful for the study of production relationships or for input-output analysis. Reports on the flows of accrued liabilities are essential for the calculation of net worth and income in business accounting, as noted in Section II.A.3. For government, however, the preferable basis for reporting recommended in this Manual is money flows.

Each reporting system records transactions falling into the row and column of the matrix representing the type of flow on which it is based. For cash basis reporting only those flows are recorded which fit into the row and column representing money flows, with the exception of certain combined transactions involving fixed-term contractual liabilities, discussed in Section II.A.6, below. Thus, except as memorandum items, cash-based statistics should not report: barter transactions; gifts, grants, or taxes given to government in the form of goods and services; government gifts to others in the form of goods and services or debt instruments; and exchanges of debt instruments for other debt instruments.

The choice of a reporting system affects also *when* transactions are to be recorded. As reflected in the discussion of stages of revenue and expenditure and cash basis reporting in Sections II.A.1 and II.A.2, flows are to be recorded only when payment is made rather than when delivery of goods and services takes place, when government liabilities to others accrue, or when accrual of taxpayer or other liabilities to government takes place. Similarly, in transactions involving lending or borrowing, flows are to be recorded when payment is made rather than when obligations or securities are created, registered, or delivered.

Flows are valued, on a cash reporting basis, by the amount of payment. Regardless of any value

Chart 4. Flows Into and Out from Government

In \ Out	Goods and services	Others' accrued liabilities	Accrued government liabilities	Money	Nothing	Others' fixed-term contractual liabilities	Government's fixed-term contractual liabilities
Goods and services	Barter	Others' accrued liabilities paid off in goods and services	Liabilities accruing on purchases, wages, and interest	—	Transfers, grants, or gifts received in goods and services	Repayments of lending in goods and services	Purchases paid for with contractual debt or debt instruments
Others' accrued liabilities	Sales proceeds, fees, and property income accruing	—	—	—	Taxes, gifts, and grants accruing	—	Government debt issues not yet paid for
Accrued government liabilities	Accrued government liabilities paid off in goods and services	Accrued government liabilities offset, against others' accrued liabilities	—	Payment for accrued liabilities on purchases, wages, interest, and transfers	Accrued government liabilities cancelled or excused	Accrued government liabilities offset against others' fixed-term contractual liabilities	Government fixed-term contractual debt issued to unpaid creditors
Money	—	Payment received for accrued taxes, fees, property income and sales	—	—	Spontaneous gifts and grants received	Repayments of lending	Borrowing
Nothing	Gifts or grants of goods and services given — Public goods and services provided	Others' accrued liabilities cancelled or excused	Government liabilities accruing for transfers, gifts, and grants	Spontaneous gifts and grants given	—	Gifts of or cancellation of loans to others	Gifts of government debt to others
Others' fixed-term contractual liabilities	Sales on fixed-term contractual credit or lending in goods and services	Lending to consolidate others' accrued liabilities	Accruing government obligations to lend or purchase equities	Lending	Gifts of others' fixed-term contractual liabilities received	Refinancing of lending	Capitalization of enterprises with government debt — Lending with government debt issues
Government's fixed-term contractual liabilities	Amortization paid in goods and services — Sales for government issues	Others' accrued liabilities paid off in government debt instruments	—	Amortization	Cancellation or gift to government of government debt	Repayments of lending with government debt issues	Refinancing of borrowing

other than sale price that may be placed upon goods and services or securities purchased or sold by government, the flow is reported as the amount of money or fixed-term contractual obligations paid. Valuation of flows in kind is not undertaken except for memorandum items (see Section II.A.7).

While the matrix of Chart 4 serves to clarify the relationships between various flows and reporting systems, it does not permit identification of the kinds of flows for which government payments are made. This is because all money flows other than spontaneous gifts and advance payments are shown as an exchange for accrued liabilities in a matrix that includes the intervening process of accrual and extinction of liabilities. To classify money flows by the corresponding opposite flows of goods and services, nothing, or fixed-term contractual liabilities of government or of others, it is necessary to bridge the intervening process of accrual and extinction of liabilities and show money flows arrayed against the flows for which the liabilities were accrued. This is done in a smaller matrix (Chart 7), omitting the flows of accrued liabilities, and is explored in Chapter III as a foundation for the Manual's analytical framework.

II.A.5. Payment Through Separate Accounts

Where insignificant payments are made through late or nonreporting paymasters' accounts, they may be considered to be outside government. Where substantial unreported payments are made through separate ministries or agencies, however, aggregate expenditures should be calculated on the basis of treasury payments to them minus the net increase reported in their deposits adjusted for any separate receipts.

Payments by late or nonreporting paymasters may be considered of little significance when funds usually stay in their hands for short periods only and their total payments are not large in relation to total government expenditure. When such paymasters and their cash and deposit holdings are considered to be outside the coverage of government being reported, treasury payments to them are counted as payments to the rest of the economy. This is acceptable so long as the flow of payments through paymaster accounts is a regular one with little significant variation and this may be a necessary compromise when paymaster funds are held largely in cash.

Such a solution is not desirable, however, for substantial payments made through ministries or agencies that retain sizable and variable deposit balances for extended periods of time. This may occur, for example, under a system of spending allocations or exchequer issues by which the treasury or paymaster general transfers funds to spending agencies empowered to make payments for budgeted purposes. In such circumstances, changes in ministry deposit levels should be used to arrive at a figure for their payments to the public. Assuming only treasury payments to the ministries flow into ministry accounts, a rise may be taken to represent a lag in the flow of government payments to the rest of the economy and a decline, a speeding up. If other receipts also flow into these accounts, separate data on them will be necessary for adjustment purposes. Without an adjustment for such lags and leads, data on payments by the treasury to the ministry accounts can introduce substantial distortions into the measurement of government payments to the rest of the economy.

Unadjusted data on treasury payments to decentralized agencies can lead to similar distortions, so long as funds remain unspent in the agencies' accounts. Current information on the transactions or deposit levels of decentralized agencies carrying out government programs, therefore, are of considerable importance. They can often be the key to reliable measurement not only of the actual payment of funds to the rest of the economy but of the government's use of resources and the accomplishment of government programs.

II.A.6. Payment in Debt Instruments

Statistics should include as expenditure and borrowing any government purchase of goods and services which, though involving no immediate cash payment, generates a fixed-term contractual obligation. Statistics should include as revenue and amortization any repayment of government borrowing through redemption as tax payments.

To attain consistency in treatment of transactions in which payments are made or received in government debt instruments, the various parts of the operation are shown as separate transactions.

Some governments may borrow and redeem debt only in capital markets and collect taxes and make expenditures only in cash. All such transactions would of course appear separately in the statistics. Some governments, however, may borrow money in capital markets and accept the debt instrument at maturity in payment of taxes. Other governments may make expenditures for which they issue debt instruments—or incur a fixed-term contractual obligation—to be paid for in cash at maturity. Such revenue, expenditure, borrowing, and repayment transactions should also be shown separately in the statistics so that comparability is maintained between governments that follow different borrowing practices.

Securities that are issued for cash and which may be used for the payment of taxes should be shown as government borrowing when issued and as both a tax revenue and debt redemption—plus interest payment if sold on a discount basis—when redeemed. When a government makes a purchase for which it pays in the form of a fixed-term security or contractual obligation redeemable in cash, this should be shown as both an expenditure and a borrowing transaction at the time of purchase and as a debt redemption when it is redeemed in cash. The borrowing and expenditure should be reported when the terms of the supplier credit contract for creation of the debt are fulfilled. Such borrowing generally occurs where government access to capital markets at acceptable interest rates is limited so that it becomes attractive to borrow from suppliers—usually foreign suppliers of capital goods for repayment in the medium term. In other cases, payment for purchases with fixed-term contractual obligations may involve land purchases paid for with long-term bonds.

Such transactions, which represent a combination of government borrowing and the purchase of goods and services or a combination of the repayment of borrowing with receipt of government revenue, should be included in government finance statistics. A variety of other practices involving government debt instruments, however, should be excluded. Thus, the noncash issuance of government debt for the capitalization of a public enterprise, or for endowment of an institution that will benefit from future interest and/or amortization payments, should not be shown as government expenditure. Cash payments of interest and amortization on such debt—as on all debt—would of course be shown under expenditure and financing, respectively, when they occur. As a form of delayed government subsidy there may be noncash issuance also of government securities redeemable as tax payments. These are, in effect, transferable tax credits and should not be shown in the primary government finance statistics either at time of issue or when received as taxes; they should appear as separate memorandum items in the financing table (D.13) and in separate working tables (see Working Table 4) permitting their combination with cash tax revenues for some analytical purposes. All noncash issuance of debt repayable in cash should be shown as such in a memorandum item to the financing statistics (D.12) and in greater detail in supplementary noncash data discussed in Section II.B.

Government expenditures that give rise to a "floating debt" of unpaid obligations—rather than issuance of a fixed-term contractual debt instrument—should not be included in the statistics for either expenditure or borrowing. If consolidation of floating debt occurs through issuance of government securities to suppliers, it should at this point be included in expenditure and borrowing. Changes in the government's floating debt of unpaid obligations are shown as an expenditure table and financing table memorandum item (C.17 and D.14) and in greater detail in supplementary noncash data discussed in Section II.B.

Related to government purchases paid for with securities or fixed-term contractual debt are official foreign loans received by the government in kind. Governments and international organizations making loans for particular projects or programs frequently make payments directly to suppliers on evidence of contract fulfillment and advise the borrower that payment has been made. The recipient government should in such cases be shown as making an expenditure equal to the value provided and simultaneously receiving a loan for an equal amount. Both expenditure and borrowing should be reported when lender payments are made to the suppliers, thereby creating the debt. Grants received in kind, however, should not be included in the statistics for either expenditure or grants but should be shown only as a memorandum item to the table on revenue and grants (A.28).

Another kind of transaction, affecting statistics for government revenue, involves an extension of credit to taxpayers. In some countries, such as those with French budgetary systems, taxpayers are permitted to meet their customs duty liabilities through promissory notes. These are accepted by the treasury in its capacity as a banking institution—as a part of the financial institutions sector rather than the government sector—and either discounted at the central bank or other banks, or retained until collection upon maturity several months later. Because credit through such customs bills is considered to be extended to the liable taxpayer by the banking function of the treasury and by other financial institutions, and not by the government itself, the government should be shown as receiving the revenues when the taxes are paid in the form of customs bills. When no financial institutions' function is involved, however, delayed tax payments should be shown as revenue only when the funds are received.

II.A.7. Transactions in Kind

Statistics should not include, except as memorandum items, barter flows of goods and services, nor flows of goods and services for which there are no flows of payment—either in cash or in fixed-term contractual obligations—in the opposite direction.

In transactions of goods and services flowing in one direction and payment in either money or debt instruments flowing in the other direction, it is the payment flow that is recorded in government finance statistics. There are transactions, however, in which goods and services flow in both directions, with no payment in money or debt instruments, and other transactions in which goods and services flow in one direction, with no flow of payment in either money or debt instruments in the other direction. Such in-kind transactions should not be included in government finance statistics but should be shown as memorandum items if they are of particular interest for analysis or policy.

Transactions in which goods and services flow in both directions—that is, barter transactions—may involve various forms of exchange of property, goods, or services between governments or between a government and individuals or enterprises. Thus, two governments may agree to exchange land or buildings to their mutual advantage, or to perform reciprocal services for each other, with no payment required. The cost to each government of rendering the services, for example, wages and salaries and the purchase of supplies, would appear in statistics for its expenditures, but the outflow of the service to the other government and the service received in return would not be reflected in the statistics.

One form of barter involves payment of a part of government employees' compensation in kind, that is, in housing, food, clothing, or other goods and services furnished free of charge or at reduced prices. The amount of such employees' compensation in kind is added to cash wages and salaries by compilers of the national accounts in order to value more fully the services of government employees, which form a component of the gross domestic product (GDP). Such payments in kind to employees are not shown as a part of wages and salaries (C.1.1) in government finance statistics, however; they are included rather as other purchases of goods and services (C.1.3) when the government makes payments to purchase the housing, food, clothing, or other goods and services to be supplied to its employees as part of their compensation.

Transactions of goods and services flowing in one direction with no payment of money or debt instruments in return may involve flows of goods and services out from government or into government. Flows of goods and services out from government with no payment flowing in return represent the predominant form of government operation, since a primary function of government is the provision of nonmarket goods and services to the community for collective consumption. As there is no sales process by which to measure or value this output of goods and services flowing out from government, it is assumed in the national accounts to be equal to the cost of the input goods and services flowing into government in order to produce this output. In government finance statistics there is no attempt to measure this outward flow of goods and services from government to the community. Its value is reflected only in the statistics for government purchases of the inputs that go into the goods and services the government later provides, in kind and generally without payment, to the community. For purposes of analysis, however, government finance statistics identify in memorandum items to the expenditure table particular outflows in kind going from government to other communities—abroad or at other levels of government (C.16).

Transactions involving flows of goods and services into government with no payment in money or debt instruments in exchange are also excluded from government finance statistics. Thus, taxes collected in kind would not be registered in the statistics at all except as sales when the goods are sold. Gifts of buildings, paintings, land, etc., received by a government in kind would not be reflected in government finance statistics, other than as memorandum items (A.29), except if they are sold. A more frequent instance of inflows of goods and services to government with no payment in money or debt instruments flowing out in return involves grants in kind received from foreign governments, international organizations, or other levels of government. These may consist of a variety of goods and services: new or used military equipment, relief food, the building of a road or a hospital, provision of technical assistance, and training in either the donor or recipient country. Since they involve no payment in money or debt instruments, such grants or transfers in kind are not included in government finance statistics. Because they contribute to consumption or capital formation in the recipient country or region, however, they are of interest for analytical purposes and are included as memorandum items to the table on revenue and grants (A.28).

For inclusion in memorandum items, transactions in kind should be recorded upon delivery of the goods or provision of the services. The amounts recorded should generally follow the valuation set by the donor; independent valuations should be avoided if possible.

II.B. Supplementary Noncash Data

Supplementary statistics for the noncash stages of revenue collection and expenditure should be compiled where possible as an indispensable aid for the proper conduct of government operations.

Payment statistics alone cannot meet all the needs for economic and financial analysis of government operations and their effects upon the economy. They should be supplemented by statistics on government contract awards, which influence suppliers' activities and employment, and on a government's unpaid bills, which influence the business community's demand for bank credit. In addition, each of the stages of revenue and expenditure and their combinations carry significance for particular government purposes, such as internal financial management, financial control by central budgetary bodies, tax administration, appropriate treasury management through control of the incurring of liabilities, management of cash inflows and outflows, and accountability to audit bodies and the legislature. The compilation of appropriate statistics for such purposes forms an important supplement to payment statistics in the conduct of government operations.

Considerable analytical significance may thus attach to the difference between the different stages of expenditure. These stages are listed in Section II.A.1, above, as comprising: (1) budget proposals, (2) appropriations, (3) allocations or allotments, (4) commitments, (5) deliveries, (6) payment orders, (7) checks or warrants issued, and (8) checks paid. It may be useful to compile statistics revealing:

(a) Budget proposals reduced or increased (1-2);
(b) Appropriations withheld or awaiting allocation by the executive (2-3);
(c) Allocations of authority to commit (or spend) not yet utilized (3-4);
(d) Commitments for expenditure on which deliveries are still to be made (4-5);
(e) Deliveries received for which payment orders have not yet been issued (5-6);
(f) Payment orders written for which checks have not yet been issued or paid, sometimes identified as "floating debt" (6-7 or 6-8); and
(g) Checks issued but not yet paid, normally referred to as float or items in transit (7-8).

Statistics for each of these may be presented in separate tables or they may be combined for comparison of their separate movements as in Working Table 1. Not all entries may be applicable in some countries, but compilation of data for applicable stages is likely to be useful. Separate tables, if appropriate, may be compiled for individual programs or functions, like Working Table 2 on highway construction contracts.

More specialized tables may be utilized for particular budgetary systems. Thus, Working Table 3 shows one feasible presentation of data on appropriations and payment orders in a budget system permitting a one-year carryover before lapse. It indicates that of the total budget appropriations each year, a significant variation occurred in the percentage carried over to the following year both in the form of unused appropriations and in payment orders for which checks were not yet written. The detection of a rising volume of carried-over appropriations and payment orders should serve to alert

Working Table 1. Stages of Expenditure
(cumulative amounts in millions of units of national currency at end of period)

	Year n				Year n + 1			
	March	June	September	December	March	June	September	December
1. Budget proposals	1,587	1,587	1,753[1]	1,753	1,926	1,926	2,083[1]	2,083
2. Appropriations	1,521	1,521	1,675[2]	1,675	1,817	1,817	1,948[2]	1,948
3. Allocations	380	764	1,297	1,671	454	908	1,452	1,929
4. New commitments	416[3]	761	1,286	1,663	497[3]	893	1,438	1,906
5. Deliveries	321	715	1,221	1,594	449	860	1,427	1,883
6. Payment orders	315	707	1,204	1,590	430	843	1,272	1,841
7. Checks issued	313	698	1,173	1,576	422	830	1,253	1,817
8. Checks paid	302	667	1,129	1,518	428	798	1,187	1,746
Differences between stages								
a. Budget proposals reduced (1−2)	66	66	78	78	109	109	135	135
b. Appropriations awaiting allocation (2−3)	1,141	757	378	4	1,363	909	496	19
c. Unused allocations (3−4)	13	3	11	8	26	15	14	23
d. Commitments awaiting delivery (4−5)	95	46	65	69	48	33	11	23
e. Deliveries awaiting payment orders (5−6)	6	8	17	4	19	17	155	42
f. Payment orders awaiting issue of checks (6−7)	2	9	31	14	8	13	19	24
g. Checks issued awaiting payment (7−8)	11	31	44	58	−6	32	66	71

[1]Reflects supplementary proposals.
[2]Reflects supplementary appropriations.
[3]Includes carry-over of previous year's commitments amounting to 49 into Year n and 69 into Year n + 1.

Working Table 2. Government Expenditure Arising from Contract Awards for Highway Construction Projects
(cumulative amounts in millions of units of national currency at end of period)

	Year n				Year n + 1				Year n + 2			
	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.
1. Budgetary appropriations	200	200	200	200	300	300	300	300	320	320	320	320
2. Budgetary allocations	200	200	200	200	300	300	300	300	320	320	320	320
3. Contracts awarded	45	85	105	185	200	200	300	300	—	140	320	320
4. Work completed	30	85	95	185	—	150	200	290	—	140	220	320
5. Progress payments	20	60	65	145	40[1]	—	200	290	—	140	140	320
6. Allocations against which contracts have not yet been awarded (2−3)	155	115	95	15	100	100	—	—	320	180	—	—
7. Work to be completed on contracts awarded (3−4)	15	—	10	—	200	50	100	10	—	—	100	—
8. Work completed but not yet paid for (4−5)	10	25	30	40	—	150	—	—	—	—	80	—

[1] Payment relates to work completed in previous year.

Working Table 3. Budget Appropriations, Carry-overs, Lapsed Appropriations, and Total Payment Orders Issued

	For Current Budget Year						For Previous Budget Years			All Budget Years	
	Initial Budget Appropriations	Subsequent Additions	Total Budget Appropriations	Payment Orders Issued	Appropriations Carried Over	Lapsed Appropriations	Payment Orders Carried In	Payment Orders Issued for Appropriations Carried In	Total Payment Orders	Total Payment Orders	Payment Orders Carried Over
	(In millions of units of national currency)										
Current Expenditures											
Year n	9,285	2,109	11,394	10,878	198	318	...	825	...	...	156
Year n+1	11,166	1,326	12,492	12,045	171	276	156	159	315	12,360	87
Year n+2	13,419	2,673	16,092	14,892	885	315	87	153	240	15,132	324
Year n+3	18,228	4,236	22,464	21,024	849	591	324	825	1,149	22,173	408
Year n+4	22,176	5,985	28,161	26,877	834	450	408	774	1,182	28,059	651
Capital Expenditures											
Year n	4,434	2,208	6,642	4,533	1,650	459	...	897	...	...	219
Year n+1	4,599	3,804	8,403	7,308	660	435	219	1,464	1,683	8,991	249
Year n+2	6,918	6,177	13,095	11,640	1,278	177	249	624	873	12,513	144
Year n+3	11,517	5,907	17,424	15,033	2,238	153	144	888	1,032	16,065	645
Year n+4	17,121	3,993	21,114	17,547	3,192	375	645	1,935	2,580	20,127	1,962
Public Debt											
Year n	2,868	3,249	6,117	5,793	105	219	...	903	...	...	465
Year n+1	3,051	1,305	4,356	4,158	57	141	465	54	519	4,677	48
Year n+2	3,954	387	4,341	3,963	378	—	48	39	87	4,050	78
Year n+3	4,341	510	4,851	4,107	744	—	78	150	228	4,335	366
Year n+4	5,763	297	6,060	5,526	534	—	366	444	810	6,336	1,116
Totals											
Year n	16,587	7,566	24,153	21,204	1,953	996	...	2,625	...	...	840
Year n+1	18,816	6,435	25,251	23,511	888	852	840	1,677	2,517	26,028	384
Year n+2	24,291	9,237	33,528	30,495	2,541	492	384	816	1,200	31,695	546
Year n+3	34,086	10,653	44,739	40,164	3,831	744	546	1,863	2,409	42,573	1,419
Year n+4	45,060	10,275	55,335	49,950	4,560	825	1,419	3,153	4,572	54,522	3,729
	(In percent of total budget appropriations)										
Current Expenditures											
Year n	81.5	18.5	100.0	95.5	1.7	2.8	...	7.2	...	...	1.4
Year n+1	89.4	10.6	100.0	96.4	1.4	2.2	1.2	1.3	2.5	98.9	0.7
Year n+2	83.4	16.6	100.0	92.5	5.5	2.0	0.5	1.0	1.5	94.0	2.0
Year n+3	81.1	18.9	100.0	93.6	3.8	2.6	1.4	3.7	5.1	98.7	1.8
Year n+4	78.7	21.3	100.0	95.4	3.0	1.6	1.5	2.7	4.2	99.6	2.3
Capital Expenditures											
Year n	66.8	33.2	100.0	68.2	24.9	6.9	...	13.5	...	...	3.3
Year n+1	54.7	45.3	100.0	87.0	7.8	5.2	2.6	17.4	20.0	107.0	3.0
Year n+2	52.8	47.2	100.0	88.9	9.8	1.3	1.9	4.8	6.7	95.6	1.1
Year n+3	66.1	33.9	100.0	86.3	12.8	0.9	0.8	5.1	5.9	92.2	3.7
Year n+4	81.1	18.9	100.0	83.1	15.1	1.8	3.0	9.2	12.2	95.3	9.3
Public Debt[1]											
Year n	46.9	53.1	100.0	94.7	1.7	3.6	...	14.8	...	...	7.6
Year n+1	70.0	30.0	100.0	95.5	1.3	3.2	10.7	1.2	11.9	107.4	1.1
Year n+2	91.1	8.9	100.0	91.3	8.7	0.0	1.1	0.9	2.0	93.3	1.8
Year n+3	89.5	10.5	100.0	84.7	15.3	0.0	1.6	3.1	4.7	89.4	7.5
Year n+4	95.1	4.9	100.0	91.2	8.8	0.0	6.1	7.3	13.4	104.6	18.4
Totals											
Year n	68.7	31.3	100.0	87.8	8.1	4.1	...	10.9	...	...	3.5
Year n+1	74.5	25.5	100.0	93.1	3.5	3.4	3.3	6.7	10.0	103.1	1.5
Year n+2	72.4	27.6	100.0	90.9	7.6	1.5	1.2	2.4	3.6	94.5	1.6
Year n+3	76.2	23.8	100.0	89.8	8.6	1.6	1.2	4.2	5.4	95.2	3.2
Year n+4	81.4	18.6	100.0	90.3	8.2	1.5	2.5	5.7	8.2	98.5	6.7

[1]Includes interest and amortization.

Working Table 4. Issuance and Redemption of Tax Credit Certificates
(in millions of units of national currency)

		Certificates Issued		Certificates Redeemed Through Payment of:					
		During Month	Cumulative	Income Tax	Sales Tax	Customs	Total	Cumulative Total Redeemed	Amount Out-standing
Year n	April	41	(ISSUANCE BEGUN)						
	May	72							
	June	73							
	July	91							
	August	140							
	September	88							
	October	94							
	November	108							
	December	93							
	Total	800	800					0	800
Year n + 1	January	114							
	February	141							
	March	135							
	April	129		15	0	0	15		
	May	187		54	7	0	61		
	June	136		64	0	1	65		
	July	121		88	6	3	97		
	August	100		87	4	1	92		
	September	175		89	16	5	110		
	October	137		77	0	13	90		
	November	170		91	15	10	116		
	December	118		19	19	9	47		
	Total	1,663	2,463	584	67	42	693	693	1,770
Year n + 2	January	138		45	54	7	106		
	February	135		138	5	8	151		
	March	154		159	11	7	177		
	April	166		106	1	3	110		
	May	192		136	22	8	166		
	June	214		176	2	6	184		
	July	221		122	7	8	137		
	August	190		113	0	15	128		
	September	252		136	19	18	173		
	October	238		133	0	21	154		
	November	159		62	22	25	109		
	December	165		29	12	21	62		
	Total	2,224	4,687	1,355	155	147	1,657	2,350	2,337
Year n + 3	January	233		42	40	25	107		
	February	156		187	17	17	221		
	March	155		166	16	8	190		
	April	213		106	0	18	124		
	May	259		124	47	34	205		
	June	203		240	4	23	267		
	July	267		169	31	21	221		
	August	159		131	0	12	143		
	September	206		148	33	30	211		
	October	226		137	2	20	159		
	November	233		135	37	38	210		
	December	225		19	0	44	63		
	Total	2,535	7,222	1,604	227	290	2,121	4,471	2,751

Working Table 5. Income Tax Collections by Base Year and Collection Year
(in millions of units of national currency unless otherwise indicated)

	Collection Year						
	Year n + 1	Year n + 2	Year n + 3	Year n + 4	Total	GDP	Taxes as Percent of GDP in Base Year
Total collections	7,065	8,787	9,129	8,616			
Arrears (unallocated)	30	1,377	765	12			
Allocated to base years	7,035	7,410	8,364	8,604			
Year n	2,379				6,969[1]	112,830	6.2
Year n + 1	4,656	2,085			6,741	117,600	5.7
Year n + 2		5,325	2,532		7,857	124,890	6.3
Year n + 3			5,832	2,604	8,436	123,810	6.8
Year n + 4				6,000	8,250[2]	131,010	6.3
	Variation from Previous Year *(In millions of local currency)*						
Without arrears		375	954	240			
With arrears		1,722	342	−513			
	(In percent of previous year)						
Without arrears		5.3	12.9	2.9			
With arrears		24.4	3.9	−5.6			

[1]4,590 paid in Year n.
[2]2,250 to be paid in Year n + 5.

Working Table 6. Sales Tax Collections by Rate Category

Rate Category (percent) (1)	Collection (millions of national currency) (2)	Percent of Total Nonpenalty Collections (3)	Implied Sales Tax Base $\frac{(2) \times 100}{(1)}$ (millions of national currency) (4)	Percent of Total Sales Tax Base (5)	Average Tax Rate (percent) (6)=(2)÷(4)	GDP[1] (billions of national currency) (7)	Sales Tax Base as Percentage of GDP (8)=(4)÷(7)
Year n							
15	564	15.8	3,760	4.3			0.90
10	543	15.2	5,430	6.3			1.30
8	210	5.9	2,625	3.0			0.63
3	2,248	63.1	74,933	86.4			17.94
Penalties	53						
Total	3,618	100.0	86,748	100.0	4.17	41,762	20.77
Year n + 1							
15	528	13.6	3,520	3.6			0.73
10	668	17.1	6,680	6.9			1.39
8	156	4.0	1,950	2.0			0.40
3	2,547	65.3	84,900	87.5			17.62
Penalties	52						
Total	3,951	100.0	97,050	100.0	4.07	48,192	20.14
Year n + 2							
15	681	15.7	4,540	3.9			0.82
10	342	7.9	3,420	3.0			0.62
8	130	3.0	1,625	1.4			0.29
3	3,192	73.4	106,400	91.7			19.14
Penalties	40						
Total	4,385	100.0	115,985	100.0	3.78	55,565	20.87
Year n + 3							
15	966	18.9	6,440	5.0			0.99
10	480	9.4	4,800	3.7			0.74
8	154	3.0	1,925	1.5			0.29
3	3,501	68.7	116,700	89.8			17.92
Penalties	42						
Total	5,143	100.0	129,865	100.0	3.96	65,122	19.94

[1]GDP adjusted for two-month lag between sales and tax collection by combining 2/12 of previous year GDP with 10/12 of current year GDP.

authorities to an impending increase in the need for cash which, if not met, would result in an increase in the floating debt.

Floating debt may assume considerable significance in some countries, as governments may delay meeting their obligations for goods and services received and may accumulate a backlog of unpaid obligations. In some countries, it should be noted, the term floating debt signifies not unpaid obligations but the unconsolidated portion of outstanding government securities sold with maturities of less than a year. The term is used here, however, to mean the accumulating floating debt of unpaid obligations. Though such unpaid obligations should not be included in statistics for either expenditure or financing, they may nonetheless have important monetary effects. Enterprises supplying the government but receiving no payment may find it necessary to seek additional credit from the banking system, giving rise in effect to indirect bank financing of government. Such developments are significant for monetary and economic analysis and should be shown in special supplementary tables on the level of the floating debt and in a separate memorandum item to the primary government finance statistics showing changes in the floating debt (C.17 and D.14). The availability of statistics on floating debt, however, varies widely from country to country, depending upon the existence of adequate accounts for goods delivered or payment orders written for which checks or warrants have not yet been issued.

Another form of government debt that is not shown in the cash statistics arises from delayed government tax credits given through noncash issuance of government securities redeemable as tax payments. Working Table 4 presents statistics on the issuance and redemption of such tax credit certificates for use in conjunction with the cash statistics. Because they are neither issued nor redeemed for cash or goods and services, such tax credit certificates are not included in the statistics on government expenditures, revenue or financing except as a memorandum item (D.13).

Supplementary statistics on the various stages of tax collection may also contribute additional insight into government operations. Such statistics may be based, for example, on the several dates of recording connected with various stages of income tax collection: the dates of earning the income, of assessment, and of payment. As noted above, assessment may be based on current earnings, or those of the preceding year, or even earlier years, and additional assessments may be made in later years when arrears may be involved. Working Table 5 presents statistics for collections each year deriving from arrears and from income earned in each previous year. Such analysis of the sources of revenue growth should assist in relating collections to the year in which income was earned and in the evaluation of future revenue prospects.

Detailed statistics for other taxes may shed additional light upon the structure of tax collections and their relation to the economy. Data in Working Table 6, based upon the collection of sales tax revenues at each tax rate, show the size of the sales tax base in each period and its relation to GDP.

It is important that, within each government, noncash statistics like these, portraying the underlying developments giving rise to cash revenues and expenditures, be maintained as an essential aid to analysis and policymaking in the conduct of government operations.

II.C. Timing

Transactions should be recorded in the period in which they actually occur rather than in the budget period for which they were authorized. Where government accounts assign transactions during a complementary period to the previous budget year, adjustment of the data is necessary.

Budget and accounting systems may record transactions when they actually take place or for the period when their original authorization occurred. When a budget is drawn up for activities to be carried out or paid for during the same fiscal year, counting payments or deliveries during that fiscal year will indicate how well it has been executed. Some budgets are drawn up for obligations under which activities may be carried out or paid for also during subsequent fiscal years, however, and for such a budget a report on deliveries or payments during the current fiscal year can give no indication at all of whether the budget itself has been carried out. Indeed, only a total of deliveries or expenditures for these budgeted obligations during succeeding years as well can indicate whether the budget has in fact been executed. In a number of countries, therefore, revenues and expenditures are assigned by the accounting system not to the year in which they actually take place but to the budget year under which they were originally provided for.

In about one third of all countries the carry-over of uncompleted collections and payments under a budget is permitted but is limited to a liquidation or complementary period of shorter duration, generally of one to three months. While complementary periods are utilized in roughly half of all Latin American countries and countries following the French budgetary system, they are found in only one sixth of countries using the U.K. budgetary system. In French budgetary system countries, the budget system developed over the years from an obligations budget that permitted the fulfillment of expenditure commitments and collection of revenue assessments over a long complementary period, to an extended cash budget in which the complementary period was reduced to two months or less. This gave way in about half the countries to a full cash period budget in which appropriations lapse at the end of the fiscal year. In some countries, complementary periods are limited to the carry-over of expenditures or of capital or investment budgets.

While accounting practices that assign transactions to their budget of origin may have merit for purposes of legislative control, audit, or efficient management, their results require substantial adjustment for purposes of economic and financial analysis. Of prime importance to such analysis is what government activities have been carried out during a particular period, so that their effects upon the economy during this period can be studied in conjunction with data on monetary, economic, and balance of payments developments. For this purpose, government transactions must clearly be assigned to the time period in which they actually occur rather than to their budget of origin. Where budget and accounting systems still assign transactions to the budget year for which they were authorized, adjustment of the data will be necessary, sometimes on the basis of differentiated accounts for the complementary period showing separate data for operations assigned to the current and previous fiscal years. Adjustment for revenue and expenditure of complementary periods is illustrated in Working Table 9 in Section II.L.

It may be found in some instances that adjustment for the complementary period may be possible for aggregate payments but not for the disaggregated data in each revenue or expenditure category. Disaggregated data should in these circumstances be utilized in the form available, with a global adjustment to the correct total attributed to complementary period transactions. The magnitude of adjustment for complementary periods, it should be noted, will depend upon whether growth, decline, or uneven behavior makes transactions during one complementary period markedly different from a year before.

Appropriate timing for the recording of particular types of transactions is discussed in Sections II.A.2 on Cash Basis Reporting, II.A.6 on Payment in Debt Instruments, and II.A.7 on Transactions in Kind.

II.D. Frequency

Government finance statistics should be compiled on an annual basis for full disaggregated detail and on a quarterly or monthly basis for the aggregates and major components.

Annual statistics provide the best basis for measurement and intercountry comparison of overall and disaggregated government operations but more frequent, quarterly or monthly, data on aggregates and salient elements are necessary for operational and policy purposes.

Annual Data

Because of seasonal variations in revenue and expenditure, monthly and quarterly data do not offer an adequate basis for intercountry comparison or comprehensive analysis of the magnitude, structure, performance, or trend of government operations and finances. This can only be provided by data for a full year. The need for tax and expenditure comparison and analysis in conjunction with other economic statistics makes government finance data on a *calendar year* basis most useful and this should be the first choice of compilers. Detailed statistics may only be available on a fiscal year basis in some countries, however, and when this does not coincide with the calendar year only the aggregates regularly reported monthly or quarterly can be compiled for calendar years. Such monthly or quarterly data may not be fully valid, however, because settlements and adjustments may occur around the end of a fiscal year and may have to be allocated to the final month or quarter or retroactively to all months or quarters. Fiscal year data may sometimes be the best available, therefore, for the full range of detail and classification. Fiscal year data are in such circumstances fully acceptable, though their application would require adjustment of the economic data used to match or approximate the fiscal year period. Procedures for the conversion of fiscal year data to a common time period are discussed in Section II.K.

Monthly or Quarterly Data

While annual data offer the best overall measure of government finance, they are not adequate for purposes of financial management and economic policy formation. Treasury cash management, for example, will require daily, or at the very least weekly, data on government deposit balances and on total payments and receipts. Officials concerned with fiscal policy, monetary policy, budgetary management, and debt management will require monthly, or at the least quarterly, data on total receipts and payments so as to follow current developments and trends and make projections necessary to determine any need for future action. Data on total receipts and payments will not be adequate, however, to explain why changes are taking place and whether they can be expected to continue. Selective information on the major elements that may be responsible for a change—such as the principal tax and nontax revenue items, and expenditures on wages and salaries, interest, transfers and capital, as well as expenditures by ministry—will also be necessary on a monthly or quarterly basis.

Obstacles to the compilation of adequate monthly or quarterly data may arise from administrative practices in some circumstances, however, and corrective action may be necessary.

(1) Where governmental activities of significant magnitude are carried out outside the principal accounts by units reporting only annually to the central authorities, more frequent reports of data required for the compilation of consolidated government finance statistics will have to be instituted. Where the activities of such annually reporting units are of minor significance, and their own receipts from outside government are minor or nonexistent, transfers to them from the principal accounts, eliminated as intragovernmental in compilation of comprehensive data, may be included in the data as an appropriate substitute for their expenditure along with adjustments for changes in their deposits, as described in Section II.A.5, Payment Through Separate Accounts.

(2) Where monthly or quarterly data are available only in summaries prepared for particular administrative purposes and do not provide items necessary for the compilation of government finance statistics, such as the magnitude of intragovernmental transactions to be eliminated in arriving at consolidated totals, it will be necessary to add the requisite items to the regular summary. Compilation of additional items, and of the entire consolidated set of data, is greatly facilitated when the accounts are maintained by computer, permitting the generation of monthly or quarterly data by programs or equations to be repeated at the desired intervals.

(3) Where substantial suspense or clearing accounts significantly affecting the classification of transactions are cleared only annually or with considerable delay, a re-examination of accounting practices to reduce the use of such accounts or provide for their clearing more frequently will be necessary.

While efforts proceed for the improvement of accounting and reporting standards and for more frequent reporting, compilation of statistics omitting such unreported activities and representing "available central government" can be utilized, keeping in mind the limitations such data may have.

The compilation of monthly or quarterly statistics consistent with annual totals may sometimes encounter the problem of end-of-year adjustments. This may be the result of various causes: the accumulation during the year of undistributed categories of payments or collections, the once-a-year transfer to government of monies or liabilities from other accounts or from outside of government, etc. While such practices have little effect on annual data, they pose problems for the compilation of consistent monthly or quarterly statistics. In some cases consistency is attained by the assignment of such items to the final month of the fiscal year. This would be appropriate when profits are transferred to government once a year, for example. Where this is not appropriate, however, other choices remain: equal distribution of the adjustment items retroactively in equal portions over the months or quarters of the year; the presentation of a separate "thirteenth month" item showing separately such end-of-year transactions or adjustments; or, if provision for a "thirteenth month" is not feasible, showing monthly or quarterly totals that do not add to the annual totals but which are so indicated by appropriate footnotes. In general, the weight of advantage appears to be with assignment of end-of-year adjustments to the final month or to a "thirteenth month." This would present a better foundation for comparison of monthly and quarterly data with similarly reported monthly or quarterly data in subsequent years.

II.E. Sample Surveys of Local Governments

Because local governments may be numerous and follow differing accounting practices, it is often most practical to collect data from a relatively small, stratified sample of all units by means of mailed questionnaires and field visits.

Because local governments are usually numerous and follow different accounting practices, the compilation of data on their operations may call for particular collection procedures. In some cases data on local government operations may already be available through administrative agencies exercising a supervisory or review function, either in a central government ministry of interior or of local government affairs or in agencies operating at the regional government level and concerned with local governments within their geographic area. It is preferable to make use of such administrative data where they exist or to arrange for their modification or expansion to meet government finance statistics needs.

In the absence of such existing data sources, however, it will be necessary to establish new procedures for the collection of appropriate data on the operations of local governments. Such an undertaking should seek to accommodate also other government statistical needs so as to avoid duplication of effort in the reporting and collection of data.

Where large numbers of local government units exist it may not be practical to collect data from all local governments each year. Instead, sample survey methods may be used, collecting information by mail or field visit from a scientifically selected representative sample of local government units, with data for all local government units collected less frequently, perhaps at five- or ten-year intervals.

Since the size of the sample required will depend upon the variability of the units involved, the precision of results can be increased and the size and cost of the sample reduced by dividing the units of government into relatively homogeneous groups or strata, for example, by size of outlay or receipts or by some substitute indicator such as population. It may thus be possible to sample a smaller proportion of smaller towns than of average-size towns, for example, while maintaining full coverage of the largest towns. The estimated total for all local governments would then be arrived at by extrapolating the data collected for the randomly chosen sample in each stratum to build up an estimate of that stratum as a whole and then summing the data for all strata. A stratified sample survey of this kind may give a reasonably accurate picture of local government operations with a relatively small number of government units, under 3 percent of all government units in some countries, for example.

In the design of the questionnaire to be used in the survey collection of data from local governments, simplicity, clarity, and detailed instructions are particularly important. Solicitation of questionnaires through the mail is likely to predominate, but field visits, particularly to larger local governments, will also be necessary. Careful review of questionnaire responses, both for internal consistency and for comparison with other available information, should also be undertaken so as to identify and correct possible misunderstandings of questionnaire instructions. Surveys may be carried out in some instances through regional government agencies, reflecting constitutional and administrative relationships, in which case special attention will be necessary to maintain comparability of results.

II.F. Gross Treatment of Nonindustrial Payments and Receipts

Nonrepayable government payments and receipts should be shown on a gross basis, with no offsets of negative revenues or negative expenditures, except for agency, corrective, and trust transactions, and net treatment of industrial sales to the public with identifiable costs.

To portray fully all of the revenues raised by government to meet its needs and all of the outlays it actually makes, nonrepayable receipts and payments should as a general principle be shown on a gross basis. Thus, fees collected in a court, for example, should not be counted as an offset to the cost of running that court and subtracted as a "negative expenditure." Nor should the cost of collecting taxes be deducted from tax receipts as "negative revenue." Both the gross costs of the courtroom and the gross collections of the taxes should be shown, as expenditures and revenues, respectively. Similarly, the court fees should be shown as revenue and the costs of tax collection as expenditure. Classification of transactions as negative revenues or negative expenditures, involving minus entries in either category, should be avoided so that the statistics can reflect the full magnitude and impact of government revenue raising and its disposition for the provision of public goods on behalf of the community.

An adjustment of significant magnitude may sometimes be required to eliminate the "negative expenditures" shown in some accounts and include them in the total revenues. Such "negative expenditures" are in some budget systems referred to as appropriations-in-aid, and constitute nontax revenues arising in the course of a department's business, for example, fees for services, rentals, and proceeds of incidental sales. To show the funds that the legislature is required to vote for the operation of these departments, such revenues are sometimes deducted from the total costs of running the department as "negative expenditures," with only the remaining amount shown as a cost or appropriation. To fully reflect the magnitude of both government revenues and expenditures, such nontax revenues should be shown under their appropriate revenue classification and expenditures should be adjusted to show the full amount spent undiminished by any such offset of "negative expenditures." While the deficit or surplus is unaffected by such equal increases in both revenues and expenditures, the magnitude of both will, of course, be augmented.

Exceptions to this principle consist of industrial sales to the public with identifiable costs, reductions to revenue reflecting refunds of collections, reductions to expenditures reflecting recoveries of expenditures, agency transactions, and trust transactions. In addition, some financial operations may be shown on a net basis, for example, when the rollover or repeated issue and redemption of short-term debt may be shown only as a net addition to financing rather than as the repeated flow-through represented by gross borrowing and redemption. The net treatment of industrial sales to the public with identifiable costs is discussed in Section II.H, below.

The adjustment transactions to be applied to nonindustrial activities are basically of a correcting nature or involving amounts to which the government itself cannot lay claim. The following types of transactions, therefore, are to be excluded from both receipts and payments statistics compiled for governments.

Corrective Transactions

Statistics should represent transactions net of refunds or other correcting adjustments. Statistics for revenue should be less than gross revenue collections by the amount of *any revenue refunds paid out during the period*. Statistics for expenditure should be less than gross disbursements to the extent of *any amounts recovered of previous payments made*. Though they operate to reduce amounts to be reported as revenue and expenditure, adjustment or correcting transactions need not be shown as separate items in the statistics. In some cases statistics for refunds and recoveries may be available only as aggregated adjustments to total revenue and total expenditure. Where possible, however, these correcting adjustments should be made at the most disaggregated level for which statistics are compiled. Thus, refunds of sales taxes made when domestic goods are exported should be subtracted from sales tax revenues, and drawbacks of import duties made when temporarily imported goods are re-exported should be subtracted from import duties revenues. Adjustment for corrective transactions is illustrated in Working Table 9 in Section II.L.

Corrective transactions to be netted against government revenue or expenditure should comprise only the actual return of an amount of money previously paid as the result of a process reevaluating the correctness of the previous payment. Should government payment—whether called a tax refund, tax credit, or by any other term—exceed the amount of the tax previously paid in, the excess would be classified as an expenditure rather than as a correction to tax revenue.

Private Trust Transactions

Private trust funds are funds that receive assets to be held in trust for a particular private individual or corporation, for example, when a government assumes the obligation of applying money to a specified use benefiting the private party for whom the fund is established, or when the government holds deposits or other monies pending fulfillment of certain conditions or pending determination of ownership. Essentially, private trust funds are a means by which the government acts as trustee or agent for private individuals or corporations. Private trust fund transactions are not considered to be a part of government activity. To the extent that unused trust funds remain in the government accounts, however, they should be shown as providing financing to the government.

Agency Transactions

Agency transactions are financial transactions a government undertakes in the capacity of agent for others, that is, without government discretion as to the amounts to be collected or paid. Generally, monies received for or from another government or individuals in an agency capacity are excluded from the government's payments and receipts. This exclusion, however, does not apply to purchase and sale of realty and of tangible property—included in figures on expenditure and revenue—nor to the extension and repayment of contingent loans or advances by one government to another—also included in figures on lending minus repayments or borrowing. Agency transactions may arise both in intergovernmental relations and in government dealings with private trust matters.

When a government acts as agent, carrying out collection or payment activities on behalf of another government, and has no discretion as to the amount of collection or its distribution, the transactions should be shown only in the statistics for the beneficiary government, as if it had collected the monies itself, and not at all as a transaction of the agency government. It may be shown by the agency government as a memorandum item for agency transactions, but this would not be counted in reaching a total for that government's transactions or for the consolidated total for general government. Adjustment for agency transactions is illustrated in Working Table 9 in Section II.L.

Transactions carried out for the government by other organizations or individuals acting in an agency capacity should be attributed to the government on whose behalf they are performed. Thus, payments collected on behalf of the government by the monetary authorities, or social expenditures made on behalf of the government by a nonfinancial public enterprise, should be attributed to the government.

When one government passes funds on to another to be distributed in specified amounts or proportions to other governments or individuals, this would be considered an agency transaction. Thus, a common type of agency transaction is that in which regional governments act as agents of the central government in distributing specified amounts or proportions of central government aid to local governments within their jurisdictions.

The most common type of agency transaction, however, involves the collection of taxes by one government for another and considerable care is necessary in distinguishing whether the collecting government is distributing the proceeds of its own taxes or acting as an agent for the collection of another government's taxes. This depends upon the attribution of taxes to collecting or beneficiary governments, discussed in the next section.

II.G. Attribution of Tax Revenues to Collecting or Beneficiary Governments

Tax revenues may be attributed to noncollecting beneficiary governments when they have participated in determining the tax or the distribution of its proceeds or receive revenues based on the tax collected or arising in their territory, or under a tax law leaving no discretion to the collecting government. Taxes attributed to beneficiary governments involve only agency transactions by the collecting government and are not shown in its statistics except as memorandum items.

When a government collects taxes and pays them over in whole or in part to other governments, it is necessary to determine whether the revenues should be considered to be those of the collecting government which it distributes to others or those of the beneficiary governments which the collecting government receives and passes on only as their agent. As constitutional provisions vary widely among countries, it is not possible to formulate a single rule by which taxes may be attributed to either the collecting or beneficiary government in all countries. Constitutional arrangements may endow state and local governments in some countries with an independence that clearly distinguishes their tax revenues as those over which they have some measure of exclusive or participatory control. State and local governments in other countries, however, may be assigned particular taxes for which full control over rates, structure, and distribution of proceeds is exercised by the central government. A dividing line is not easy to draw between collection for the beneficiary governments of their own taxes and the distribution to them of transfer payments determined on the basis of need, performance, or other considerations by the collecting government.

As a general guide it may be useful to attribute tax revenues to noncollecting beneficiary governments (1) when they have exercised some influence or discretion over the setting of the tax or distribution of its proceeds; or (2) when under provisions of the tax law they automatically receive a given percentage of the tax collected or arising in their territory; or (3) when they receive tax revenue under a tax law leaving no discretion to the collecting government.

A number of more specific rules may be set down as guidelines for the attribution of tax collections among collecting and beneficiary governments.

(1) Tax revenues not distributed to any government other than the government collecting them should be shown as revenue of the collecting government.

(2) Tax revenues which a government collects and unilaterally earmarks at its discretion for distribution to another government should be shown as revenue of the collecting government and an intergovernmental transfer to the beneficiary government.

(3) Tax revenues that a government collects on behalf of another government, with the beneficiary government unilaterally determining the amount of the taxes and distribution of their proceeds, should be shown as revenue of the beneficiary government. They may be shown by the collecting government only as a memorandum item for agency transactions.

(4) Tax revenues collected by one government and transferred to another with the amount or distribution decided upon jointly by both governments, or on the basis of the tax collected or arising in the territory of the beneficiary government, are to be shown as revenues of the ultimate beneficiary government and by the collecting government only as memorandum items for agency transactions.

(5) If a regional or central government authorizes or requires local collection of a particular tax and permits local retention of part or all of the proceeds, the local shares are not classified as intergovernmental revenue or expenditure, but as tax revenue of the local governments ultimately receiving the proceeds.

The distribution of taxes attributed to the collecting government is shown as an intergovernmental transfer paid by the collecting government and received by the beneficiary government, and these intergovernmental payments and receipts are eliminated in the intergovernmental consolidation of the general government sector. Since taxes collected and passed on by a government in an agency capacity are not shown in that government's statistics for revenue or expenditure, they do not enter into any process of consolidating that government's statistics with those for other governments.

Revenues retained by a government to cover the costs of collecting taxes in an agency capacity are shown as nontax revenues of the collecting government and as a purchase of services by the beneficiary government. The full amount of taxes collected is included in tax revenues of the beneficiary government and in any memorandum item for agency transactions of the collecting government.

II.H. Net Treatment of Industrial Activity

Because the proceeds of departmental enterprise sales to the public and the corresponding operating expenditures by or for departmental enterprises are in the nature of gross sales and costs of production, they should not be included in total government revenues and expenditures. Only the cash operating surpluses or deficits of such sales should be included in government revenues or expenditures, respectively, along with their nonoperating and capital transactions treated on a gross basis.

The major departure from gross treatment of government transactions involves sales to the public by industrial activities —departmental enterprises—which are within government. Such activity is discussed in Section I.H. Because departmental enterprises obtain sales proceeds from the public only by incurring corresponding production costs, the nature of their activity differs from activities in

Working Table 7. Calculation of Cash Operating Surplus or Deficit for Departmental Enterprise Sales to the Public

1. *Operating Revenue*

Amounts derived directly from operations in selling goods and services to the public, including sales to governments other than the parent government; comprising revenue from sales of services or goods, rentals of operating property, customers' forfeitures and penalties, advertising revenue, and the like.

Excludes:

Amounts from sales to the rest of the parent government or its agencies.

Discounts given on sales and refunds of gross receipts from sales.

Amounts derived from investments or from other capital transactions, contributions from the parent government or from other governments.

Sales proceeds accrued but not yet received (accounts receivable).

2. *Operating Expenditure*

Expenditures, excluding depreciation, for identifiable expenses incurred in providing the goods and services sold to the public (e.g., expense of production and distribution of services and commodities produced for sale to the public, collection of own revenues, and general administration of the activity).

Includes:

Tax payments other than on profits (but not payments in lieu of taxes).

Payments to employee welfare and retirement funds, social security schemes, and other direct payments for employee benefits. Payments for all other expenses, except depreciation, arising directly from the current operation and maintenance of facilities for the purpose of making sales to the public, whether paid to the rest of the economy or to the rest of the parent government by the departmental enterprise or paid to the rest of the economy by the rest of the parent government for the departmental enterprise.

Note: Any identifiable costs of departmental enterprise sales to the public paid by departmental enterprises to the rest of the parent government or paid to the rest of the economy by the rest of the parent government for the departmental enterprise and included here are subtracted also from total government expenditures.

Excludes:

Any recorded or identifiable cost of goods and services sold or furnished without charge to the rest of the parent government.

Expenses relating to interest and administration of debt and investments.

Depreciation charges.

Payments relating to capital outlays, investments, retirement of debt, and contributions to parent government.

All other payments and charges not directly related to current operation of activity and facilities maintained for the purpose of making sales to the public.

Expenses incurred but not yet paid for (accounts payable).

3. *Cash Operating Surplus or Deficit on Sales to the Public*

(Item 1 minus item 2.)

ment, their transactions with government are not excluded from government statistics as intragovernmental but are included on the same basis as government transactions with the rest of the economy. Second, the limitation to the operating account of the cash surplus or deficit from departmental enterprise sales to the public contrasts with the treatment of public enterprises covered in government accounts, for which an overall deficit or surplus is calculated including capital and nonoperating transactions. Public enterprises are expected to meet their capital and nonoperating needs, as well as maintaining retained reserves, before transferring net profits to government. Departmental enterprises do not share these characteristics, and their capital and nonoperating needs remain a charge upon the government itself, shown gross in the statistics for the government and separate from their cash operating surplus or deficit on sales to the public.

II.I. Separation of Public Enterprises Covered in Government Accounts

The transactions of any public enterprise integrated in government accounts should be separated from statistics for the government, with a government current transfer entered to meet the current account portion of any overall deficit of the enterprise, a government capital transfer to meet any capital account portion, a payment of profits to government to reflect the current account portion of any overall surplus of the enterprise, and a capital transfer to government to reflect the capital account portion of any overall surplus.

As government is defined by its nature rather than by its institutional and accounting distinctions, some parts of a government's accounts may be found to cover activities considered to be outside the government. This could consist of an industrial activity included in the government's accounts but incorporated or making sales to the public on a large scale and therefore classified as a public enterprise, outside government. Prominent examples may be units engaged in the provision of postal services, telephone and telecommunication services, power and water, and railroads and other modes of transportation.

To measure the government excluding such activities, and to yield statistics for the public enterprises as well, their transactions should be separated from the government accounts. When these activities are carried out through separate accounts encompassing current and capital transactions and separately maintained balances, these accounts should be treated as representing public enterprises outside government; only actual transactions with the rest of the government should be shown.

When a public enterprise's activities are mingled with other activities in a government's accounts, so that no identifiable balances, reserves, or borrowings can be specifically attributed to the enterprise, no attempt should be made to impute to it any portion of the government's deposits, liquid asset holdings, or borrowings. Separation should be limited to the public enterprise's current and capital transactions discernible in the accounts and should proceed as follows. The enterprise's receipts and payments should be separated from the government statistics and assigned to it as a public enterprise. Any identifiable transaction between the rest of the government and that activity should be shown as a government transaction with that public enterprise, appropriately classified. A separate current account surplus or deficit, and a separate capital account surplus or deficit, should be calculated for the public enterprise if possible and these should be combined to obtain the enterprise's overall surplus or deficit. The portions of current and capital surpluses or deficits that are offset against each other in arriving at the enterprise's overall surplus or deficit are assumed to be covered within the enterprise, with the remaining overall surplus or deficit covered by transactions with the government.

In the absence of any indication of transactions to or from the rest of the government covering the enterprise's surplus or deficit, any overall surplus should be shown as a payment of profits to the government, to appear in the government's current nontax revenue, to the extent that it reflects a current account surplus, and as a capital transfer to government, to appear as a part of government capital revenue, to the extent that it reflects a capital account surplus. If there is an overall deficit, it should be shown as covered by a subsidy, that is, a current transfer, from government to the extent that it reflects a current account deficit, and, a capital transfer from government, to the extent that it reflects a capital account deficit. This treatment is outlined in Chart 6 and illustrated numerically in Working Table 8.

In the absence of adequate data for the separate calculation of current and capital surpluses or

Chart 6. Recommended Treatment of Surplus or Deficit of Public Enterprise Separated from Government Accounts*

	Current Deficit	Current Surplus
Capital Deficit	Overall deficit Current deficit = subsidy from government 1 Capital deficit = capital transfer from government	If overall deficit = capital transfer from government 4 If overall surplus = payment of profits to government 5
Capital Surplus	If overall deficit = subsidy from government 2 If overall surplus = capital transfer to government 3	Overall surplus Current surplus = payment of profits to government 6 Capital surplus = capital transfer to government

*Numbers correspond to cases in Working Table 8.

Working Table 8. Treatment of Surplus or Deficit of a Public Enterprise to be Separated from Government Accounts[1]
(in millions of units of national currency)

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
Included in General Account						
Sales of postal services	173	173	173	173	173	173
Current expenditure of post office	195	196	176	157	104	157
Included in Development Fund						
Capital receipts of post office	13	58	58	13	13	58
Capital expenditure of post office	46	46	46	46	46	46
Overall deficit (−)/surplus	−55	−11	9	−17	36	28
Current deficit (−)/surplus	−22	−23	−3	16	69	16
Capital deficit (−)/surplus	−33	12	12	−33	−33	12
Entries to be made in government finance statistics						
Payment of profits to government					36	16
Capital transfer to government			9			12
Subsidy from government	22	−11				
Capital transfer from government	33			17		

[1]Cases correspond to numbered examples in Chart 6.

deficits, an overall surplus should be shown as a payment of profits to the government and an overall deficit as covered by a subsidy, that is, a current transfer, from the government. Adjustment for operations of a nonfinancial public enterprise included in the government's accounts is illustrated in Working Table 9 in Section II.L.

II.J. Separation of Financial Institution Functions Covered in Government Accounts

The transactions of any financial institution functions integrated in the government accounts should be separated from statistics for the government and assigned to the appropriate financial institutions subsector. A government transaction with that subsector should be entered in the statistics for the government to meet that function's net outflow or inflow.

Any financial institution functions performed by government are considered by this Manual to be operations of the financial institutions sector and should be separated from the statistics for government. Such functions embrace management of the monetary system and international reserves, acceptance of demand, time, or savings deposits, or both the incurrence of liabilities and the acquisition of financial assets in the market (see Section I.J).

To separate such financial institution functions from the statistics for government: (1) all claims and liabilities attributable to such functions should be separated out and attributed to a public financial institution in the appropriate financial institutions subsector; (2) all transactions between that function and the rest of the economy or world, however they appear in the government accounts, should be separated out and attributed to that subsector; (3) any identifiable transactions between the rest of the parent government and that function should be shown as government transactions with that subsector, appropriately classified; (4) any remaining surplus or deficit of that function's revenues and expenditures (as described in Chapters III and IV) should be shown as covered by an appropriate transaction between the parent government and that subsector as described in Section II.I; and (5) any remaining net inflow or outflow of that function's lending or financing operations (as described in Chapters III and IV) should be shown as covered by an appropriate lending or financing transaction between the parent government and that function. Similar adjustments would be made in money and banking statistics, as discussed in Section V.A.

When a financial institution function within the government accounts operates as a separate unit with its own separate account, separate balances, and separate financing, its separation from government is relatively straightforward. Its transactions with both the public and the rest of the parent government may be completely identifiable, leaving no residual surplus or deficit for its revenues and expenditures and no net inflow or outflow on its lending and financing operations.

When a financial institution function found within the government accounts does not operate with its own separate account and balances, however, a residual deficit or surplus of its identifiable revenues and expenditures should be calculated, to be covered by an offsetting transaction with the parent government, as described in Section II.I, along with a government lending or financing transaction covering any net inflow or outflow on the financial institution function's lending and financing operations. When a financial institution function, for example the acceptance of deposits, is performed by a unit performing also governmental functions, a full separation will not be possible; only the financial institution function and any identifiable revenues or expenditures deriving from it, for example interest payments and receipts, should be separated from the statistics for government and covered by appropriate offsetting transactions.

The effect of separation and removal upon the magnitude of aggregate government operations and the government's deficit or surplus will depend upon how transactions of the financial institution function were originally entered in the government accounts and upon how the transactions with government covering the function's residual surplus or deficit on revenues and expenditures and net inflow or outflow on lending and financing operations are to be entered. This may vary widely.

In some instances, when only a single type of transaction is involved, separation of a financial institution function from government will involve little change in the government statistics, merely the substitution of a government transaction with the financial institutions subsector for a government transaction with the public. Thus an increase in deposits net of withdrawals at a treasury's savings account facility may have been shown as government borrowing from the households sector when the function was included in the government accounts. Separation of the function would involve removal of the entry in the government statistics for net borrowing from households, determination of a net inflow to the government in that amount from the treasury savings facility, and introduction of an equal entry in the government statistics for government borrowing from the treasury savings facility. The effect upon government finance statistics would be replacement of borrowing from households with borrowing from the other financial institutions subsector, to which the treasury savings facility has been assigned. Should the revenues and expenditures of treasury savings facility operations be separately identifiable, they would be separated from the statistics for government, with any residual deficit or surplus covered by an offsetting transaction as described in Section II.I.

A net increase in demand deposits at a treasury checking or demand deposit facility (to be found in some countries following the French budgetary system) would lead to a similar change. Such activities are regarded in this Manual as outside government and a part of the deposit money banks subsector. Any such net increase in demand deposits shown in the government accounts as borrowing from nonbank sources would be replaced in the government statistics, therefore, with an entry for net borrowing from deposit money banks.

When a unit found in the government accounts is authorized to both acquire financial assets and incur liabilities in the capital market, and is, in consequence, classified as a financial institution, its separation from the statistics for government may have greater consequences than replacement of government transactions with the public by transactions with a financial institutions subsector. Its lending and financing operations may be netted against each other and replaced in the statistics for government by a single lending or financing transaction covering the net inflow or outflow. Thus a housing loan fund found in the government accounts which both makes housing loans and borrows in the market would be classified as a financial institution and separated from the statistics for government. Both its lending and borrowing would be excluded from the statistics for government with only the net inflow or outflow covered by a government transaction, perhaps showing government lending to the financial institutions subsector equal to the portion of the housing loan fund's lending minus repayments not covered by its borrowing from the public.

Transactions imputed to cover the residual net inflow or outflow from a financial institution function's lending or financing operations to be excluded from government should be determined by the same criteria used in the classification of all government lending and financing transactions. As noted in Chapters III and IV, lending transactions would cover government provision of repayable funds or equity capital for purposes of public policy, repayments would cover repayment of such lending or sale of equity, while financing would cover repayable funds received or paid out by government for purposes of government liquidity management. Uniform treatment of such imputed offsetting transactions over time is important for the maintenance of consistent data on lending and financing.

Acceptance of taxpayers' promissory notes for payment of customs duties and sales taxes in some of the countries that use the French budgetary system is regarded as an extension of credit to taxpayers by the deposit money bank function of the treasury. This would be shown in government finance statistics as government receipt of tax revenues in cash and in the monetary accounts as deposit money bank credit to the private sector, with any treasury lending or deposit-accepting activities found in the government accounts separated out as described above.

Procedures for the separation from the statistics for government of any monetary authorities' transactions found in the government accounts are set out in the following section.

II.J.1. Monetary Authorities' Transactions

All monetary authorities' function transactions should be removed from statistics for government and assigned to the monetary authorities subsector. Any net inflow to government from such transactions should be reflected as an increase in government net borrowing from the monetary authorities or a decrease in government deposits with the monetary authorities and any net outflow as a decrease in such borrowing or a buildup of deposits.

Of particular significance for the compilation of useful government finance statistics is the separation from government of any monetary authorities' transactions, that is, transactions concerned with management of international reserves and the monetary system. This separation is necessary for appropriate measurement of the government's role in the evolution of monetary conditions and the balance of payments. This treatment is of considerable importance since government revenue and expenditure exert a major influence on monetary conditions and the balance of payments. Mixing the financing of balance of payments surpluses or deficits with government finance transactions would make it extremely difficult to carry through analysis of government operations. To facilitate the compilation of more useful and consistent statistics for government, therefore, all monetary authorities' functions, whether exercised by the central bank or the government, are treated as being carried out by the monetary authorities, with the necessary adjustments made in government finance statistics and money and banking statistics.

Removal of monetary authorities' transactions from government should follow the same principles and procedures outlined for all the functions of financial institutions as discussed in Section II.J, above. Transactions of the monetary authorities shown in the government accounts should be eliminated; transactions with the rest of the parent government, if any, should be shown; and any residual net inflow or outflow for the monetary authorities' function remaining in the government accounts should be covered by an increase or decrease in net borrowing from the monetary authorities or by changes in government deposits with the monetary authorities.

When the issue of currency has been included in government accounts as either a revenue entry or a financing entry, this should be removed from the statistics for government with the inflow to government shown instead as government net borrowing from the monetary authorities. Seigniorage profits on the issue of coin, however, whether coming from the central bank or from a function of the monetary authorities to be separated from government, are included in government revenue along with other central bank profits transferred to government.

Transactions with the International Monetary Fund are sometimes included in a government's accounts, but as these are directly connected with management of a country's international reserves they are to be included in the monetary authorities' function. If transactions involving payments to the Fund are shown in government accounts as either expenditures, government lending, or repayment of government borrowing abroad, these transactions should be eliminated and the residual monetary authorities' outflow in the government accounts should be covered by a government payment reducing government net borrowing from the monetary authorities or increasing government deposits with the monetary authorities. Similarly, if transactions involving receipt of funds from the IMF are shown in government accounts as a revenue entry, as repayment of government lending, or as government borrowing abroad, these entries should be eliminated and the residual monetary authorities' inflow in the government accounts should be covered by government net borrowing from the monetary authorities or a reduction in government deposits with the monetary authorities. Treatment of transactions with the IMF is illustrated in Working Table 9 in Section II.L.

Adjustments would also be made in money and banking statistics to accommodate this separation of monetary authorities' functions from government. This most frequently takes the form of adjustments in Monetary Authorities' Claims on Central Government (*IFS* line 12a) or more rarely in Central Government Deposits with the Monetary Authorities (*IFS* line 16d). In assigning to the monetary authorities the treasury's notes and coin issue, which would not be shown as a direct government liability or asset, the incorporation of a liability into the account of the monetary authorities is accompanied by a corresponding addition to the Monetary Authorities' Claims on Central Government. The incorporation into money and banking statistics of additions to a government's international reserves is offset by a deduction from the Monetary Authorities' Claims on Central Government (or occasionally an addition to Central Government Deposits with the Monetary Authorities).

A distinction is drawn between transactions with the IMF—a monetary institution affecting a country's international reserves—and transactions with international development agencies such as the International Bank for Reconstruction and Development (the World Bank), the Asian Development Bank, the Inter-American Development Bank, etc. While transactions with the International Monetary Fund are separated from government and classified with the monetary authorities subsector, transactions with nonmonetary international organizations are not. Contributions and subscriptions to nonmonetary international organizations are to be shown as transactions of government; like other government transactions they are undertaken to carry out government policy objectives rather than for the management of international reserves. Recurrent contributions to international organizations are shown as current transfers (C.3.5.1) and capital transfers to them as capital transfers (C.7.2.1). Subscriptions to the share capital of the World Bank or regional development banks, which are returnable in the event a country's membership in the institution is terminated, are classified as government lending (C.9.1). Loans received by government from international development institutions would appear as government borrowing from abroad (D.6.1 and E.9.1).

Any government interposition, for balance of payments purposes, between domestic debtors and external creditors—as through the assumption of the rescheduled debts of others or the operation of special deposit accounts to receive national currency deposits for subsequent settlement of arrears or other rescheduled external obligations—is considered a monetary authorities' function to be removed from statistics for government and assigned to the monetary authorities subsector. Payment flows between the government and this function are treated as transactions with the monetary authorities subsector and classified according to the nature of the transaction.

II.K. Consolidation

In compiling statistics for a sector or subsector of government, it is necessary to eliminate transactions between all units within the circle of government being measured and combine in a common set of categories the sum of their "external" transactions crossing the circle to and from the rest of the economy. This process is referred to as consolidation.

Consolidation is an imperfect science. Unless all transactions taking place with other parts of government are identified in the underlying accounts, their complete elimination cannot be accomplished. However, because payments and receipts between units within a circle of government should be equal, it is possible to eliminate the transaction if evidence of either receipt or payment is found. The missing side of the transaction, if it cannot be identified in the accounts, should nonetheless be assumed to have taken place and should be eliminated from the appropriate categories and totals. One test of the completeness of the underlying data, indeed, is the equality of receipts and payments reported as taking place between units within a circle of government, though discrepancies of timing and valuation may sometimes exist. Incomplete reporting will frequently occur for payments and receipts of many taxes, fees, or purchases which take place between government units. More substantial transactions such as transfers, loans, and property purchases, however, are more likely to be shown and to enter into the consolidation process.

Consolidation involves not only the elimination of transactions but also the combination of external transactions in a common set of categories. This can involve problems of reclassification when the categories used by the different government units are not the same.

There are three levels of consolidation required to assemble the transactions of the general government sector: (1) the consolidation within each government, which involves the elimination of *intragovernmental* transactions; (2) the consolidation of all governments at a single level, eliminating only *intergovernmental* transactions between regional governments or between local governments, for example; and (3) the consolidation of the central, regional, and local governments into the general government sector as a whole, which involves the elimination of *intergovernmental* transactions between levels of government.

At each level of consolidation, it is useful to preserve in memorandum items the principal flows eliminated in consolidation, so that compatible data for individual units of government may be compiled and analyzed as necessary. Procedures facilitating such a course of action are outlined in Section II.L and leave to the last step in the derivation of data the elimination of transactions between units being consolidated.

Consolidation is necessary also in the presentation of statistics on government debt. Holdings of a government's debt by units within that government should be shown as intragovernmental debt and holdings by other units in the general government sector as intergovernmental debt. The total consolidated debt of central government would exclude only intragovernmental debt; the consolidated debt of states, or local governments would exclude also intergovernmental debt held by other states, or local governments, respectively, and the consolidated debt of the general government sector would exclude all intergovernmental debt. Where they are excluded, intragovernmental and intergovernmental debt should be shown as memorandum items.

Should it be necessary to consolidate units of government that have different fiscal years, an attempt should be made to recast the data by using quarterly or monthly data if possible so as to make them coincide with the predominant or standard fiscal year. When such data are not available less exact methods may have to be used. Data for the nonstandard fiscal year may be allocated between two standard fiscal years in proportion to the time falling into each. This procedure is weakened, however, where pronounced growth or inflation significantly expands operations as the year progresses, underlining the need for the development of quarterly or monthly data. The elimination of transactions between units to be consolidated should be based, if possible, on data for units with the standard fiscal year. In the absence of such data, when the elimination of transactions must be based on data from units with nonstandard fiscal years, seasonal characteristics of such transactions, such as payment on fixed dates, may sometimes permit their assignment to a particular part of the year. Where no seasonal characteristics are evident and data from units with the standard fiscal year are inadequate, transactions to be eliminated in consolidation should be attributed to two standard fiscal years in proportion to the time of the nonstandard fiscal year falling into each.

II.K.1. Intragovernmental Consolidation

To compile statistics for the activities of a single government, the accounts for all of its budgets, funds, units, and agencies should be collected and consolidated, eliminating payments and receipts between units of this government and combining all "external" transactions in commonly defined categories.

The necessity for intragovernmental consolidation arises from definition of a government by its nature and characteristics and this may embrace any number of institutional or accounting units. Many governments administer their finances through control devices called funds or accounts established to support specific activities or to attain certain objectives. Some governments operate almost exclusively through a general fund with only minor or extraordinary operations carried on elsewhere. Others utilize a variety of funds, each for a different purpose. There may be separate accounts for ordinary or operating budgets and for capital, investment, or development budgets. Or there may be a main budget account, an extrabudgetary account, and many special accounts. In some cases there may be a central administration with its own accounts and separate decentralized agencies operating with accounts of their own. In many instances also there are separate sinking funds, set up to retire the government debt. When a government operates through many separate funds, agencies, and instrumentalities, their financial reports are designed to reveal the operations and status of each fund or unit. Statistics on government finance, on the other hand, are intended primarily to show financial information for each government as a whole and its transactions with the rest of the economy, without distinguishing within these figures transactions of particular funds, groups of funds, or particular organizational segments of the government. It is necessary, therefore, to eliminate transactions between the individual funds and units and to combine statistics for the remaining "external" transactions to show totals for the entire government's transactions with the rest of the economy. Though governments may sometimes have reports showing combined or consolidated figures for their funds or agencies, the basis of combination or consolidation may differ, so that care must be taken to eliminate intragovernmental transactions on a consistent basis.

Generally, the accounts of the various units themselves must be examined in some detail to identify those intragovernmental receipts and payments which must be eliminated in consolidation and to classify other transactions by some uniformly defined categories so that they can be aggregated. Working Table 9, discussed in greater detail in Section II.L, illustrates how this may be done from the accounts of five parts of a central government. Transactions from these accounts are classified into intragovernmental payments and receipts which should be eliminated and into other categories of transactions comprising the principal aggregates discussed in Chapter III: revenue, grants, expenditure, lending minus repayments, domestic financing, and financing abroad. Identification of intragovernmental transactions to be eliminated would normally be carried out in the process of reviewing and classifying all transactions in the separate accounts. Appropriate procedures for completing the derivation process are discussed in Section II.L. One unit's payment to another unit in the government should have its counterpart in the other unit's receipts, so that intragovernmental payments and receipts should be equal. When intragovernmental payments are not reported to be equal to intragovernmental receipts, inquiry into the accounts is necessary to find the missing counterpart in the categories and totals where it is believed to be included.

Some intragovernmental transactions that are eliminated in consolidating statistics for government arise from the operation by governments of centralized ancillary agencies and enterprises, such as a common purchasing office, central motor pool, single building and maintenance department, and single personnel administration. Such ancillary agencies may have large intragovernmental payment transactions. Some governments keep these intragovernmental transactions within their internal bookkeeping system and eliminate them in the overall accounts. In other cases, adjustment is necessary to eliminate double counting in the consolidated statistics. Both the intragovernmental purchases and sales transactions should be eliminated in the consolidation process. Transactions between the rest of a parent government and a departmental enterprise selling to the public would also be eliminated in consolidation as intragovernmental while external payments by or for the departmental enterprise to meet the identifiable costs of its sales to the public would be netted against the proceeds of the departmental enterprise sales to the public (see Section II.H).

When statistics are to be compiled for only some parts of a government's activities—as for a quarterly or monthly time series omitting accounts available only annually—consolidation should eliminate only transactions within the circle of government covered. Payments to and from units of the government covered only in the annual statistics, for example, would not be eliminated in consolidation for the quarterly statistics. Compilation of annual statistics for the full coverage of the government would thus involve not only aggregation of transactions by the two parts of the government but also the elimination of transactions between them.

A question that may arise in compiling statistics for a local or regional government involves treatment of *joint governmental activities* undertaken by several governments in common. Occasionally governments join forces to carry out specific projects or activities (e.g., health departments, hospitals, jointly operated bridge facilities, etc.). This may be done in three ways, each of which has a different effect on the reporting of financial statistics for the participating governments.

(1) Governments may establish an independent special district to carry out the desired objective. In such cases, transactions with the specific district are intergovernmental in nature and should be so treated.

(2) One government may be solely responsible for administration of the activity, but other governments may share in its financial support. Then all transactions of the activity are part of the operations of the administering government and other governments' shares in the financial support should be classified as intergovernmental revenue and expenditure.

(3) Participating governments may administer jointly an activity under such conditions that the activity is not an independent unit of government. A joint activity of several local governments that has substantial revenues arising from its own operations, substantial employment, or substantial debt not issued in the name of the participating governments, should be classified for reporting purposes as an agency of *one* of the participating governments and treated as prescribed in the preceding paragraph. Such activities should be classified on the basis of the circumstances covering each case.

Joint activities between different levels of government which do *not* have substantial revenues from operations, employment, or debt, should be included in the finances of *each* of the parent levels of government to the extent of its respective participation as follows:

Revenue of each parent level government should include any taxes or other revenues it collects to be turned over to the joint agency or activity.

Borrowing and debt of each parent level of government should include any debt it issues on behalf of the joint agency or activity.

Expenditure of each parent level of government should include any amount it pays (e.g., for salaries, other expenses) on account of, and any contributions it makes directly to, a joint agency or activity. Such amounts should be classified according to the functions involved and as appropriately as possible by economic character.

Data for the parent level of government should exclude any revenue or expenditure of the joint agency or activity as such, and any joint agency debt not issued in the name of the parent level of government.

II.K.1.1. Consolidation with Sinking Funds

Wherever data are available, sinking funds should be considered a part of government, with government payments to sinking funds eliminated as intragovernmental; sinking fund payments to the public shown as debt redemption or acquisition of liquid assets; and sinking fund holdings excluded from total parent government debt as intragovernmental.

Government sinking funds are made up of segregated contributions provided by the government for the gradual or eventual redemption of government debt. The practice of establishing sinking funds for the redemption of public debt became common among borrowers in the U. K. capital market during the late eighteenth century as a sign of prudence in fiscal policy. Aside from eventually extinguishing the debt, sinking funds may be meant to inspire confidence in it and assist in maintaining a market for government securities.

A variety of practices exist among sinking funds as to both their operation and the degree of control exercised by government. Some sinking funds retire or purchase only the government securities for which they are established. Other sinking funds may purchase and sell other securities of the parent government as well while still others purchase and sell also securities of other governments or institutions, domestic and foreign, usually seeking those with similar maturity dates and the possibility of maximizing yield. In recent years considerations of exchange risk have also become significant elements. Some sinking funds have also been assigned other responsibilities, such as the conduct of government lending programs or even the collection of earmarked taxes.

A distinction may be drawn between *contractual sinking funds* created and governed by the original debt contract, and *supplementary sinking funds*, set up by debtor government legislation designed to assure prudent and orderly retirement of its debt. While government discretion in operation of a sinking fund is in both cases limited, the possibility of amending its own legislation lies open to the government in regard to supplementary sinking funds.

This distinction may be recognized in balance of payments statistics for foreign reserves, which may incorporate the foreign assets of supplementary sinking funds but not those of contractual sinking funds. In practice some sinking funds are operated within the policy objectives and management decisions of the government while others may be highly independent of government, whether because of contractual provisions, management arrangements, or other elements.

Though, unlike most other parts of central government, sinking funds manage their investment also for purposes of liquidity and maximization of yield, they are by their nature a part of government. The disadvantages that result from the absence of data on sinking fund operations are threefold. (1) There is the possibility of inaccuracies in the specification of which government debt is, in fact, amortized; thus government "amortization" payments to a sinking fund established for retirement of a domestic debt may, in fact, result in sinking fund purchases of other domestic securities, the government's foreign debt, or other foreign securities, with different economic consequences. (2) There may be understatement of actual debt retirement, as a sinking fund will utilize not only the payment it receives from government for repayment of a debt but also its interest earnings on the debt it holds. In the absence of data from the sinking fund itself, it may be difficult to correct for amortization undertaken with interest earnings; government interest payments to the sinking fund may not be separately identifiable in the government's accounts and the sinking fund may also receive interest on other securities. (3) There may be lags of varying length between the time government debt retirement payments are made to a sinking fund and the time the sinking fund makes the corresponding securities purchases from the rest of the economy and the world. Though the government may have little control over the operations of some of its sinking funds, therefore, there are clear advantages to including data on sinking fund operations with the government whose debt they service so as to measure more accurately government debt repayments to the rest of the economy and the world.

Problems may sometimes arise regarding the availability of current data on the operations of some sinking funds. In these circumstances there may be no choice but to count payments to a sinking fund as debt repayments to the public, despite the shortcomings discussed above.

When data on a sinking fund's operations are available, making it possible to treat it as a part of government, treasury payments to the sinking fund should be treated as intragovernmental and eliminated from consolidated government receipts and payments. Only the sinking fund's transactions with the rest of the economy or world should be counted in the consolidated total. A sinking fund's purchase from the rest of the economy or the world of the particular issue for which it was established or of other securities of the parent government should be shown as debt redemption. Sinking fund acquisition of deposits and the securities of other governments or institutions should be shown as an increase in government deposits and liquid assets, in a separate subcategory for sinking fund deposits and liquid assets if desired. Sinking fund purchases or sales of securities should be recorded at the amount actually paid rather than at the par or market value of the securities concerned.

Consolidation of sinking funds in a government's statistics is illustrated in Working Table 9 in Section II.L.

II.K.1.2. Consolidation with Social Security

To consolidate statistics for a social security fund with those for the rest of the government to which it is attached or at whose level it operates, all payments and receipts between the two should be eliminated, including debt transactions and the government's social security contribution as an employer. Contributions withheld from government employees are not eliminated in consolidation as they are considered to have been paid to employees before collection by the government in an agency capacity.

Social security funds are separately organized social security schemes that hold their assets and liabilities separately from the rest of government. Social security funds may operate nationally, at the central government level, or may be organized separately in each region or locality. They are considered by this Manual to be a part of the level of government at which they are organized and operate (Section I.F). Because similar functions are often carried out by separately organized social security funds, by social security schemes in government which are not separately organized as funds, and by other parts of government, there are advantages of comparability in consolidating at each level of government also those separate social security funds that are controlled, attached, or affiliated with it, or which operate at that level.

When separately organized social security funds constitute an independent center of financial decision making, however, it may be of analytical interest to show separate statistics for them in addition to the consolidated data in which they are included. Such separate statistics should be shown net of intragovernmental transactions but with memorandum items indicating the intragovernmental transactions eliminated.

Consolidation of statistics for a social security fund with those for the rest of the government to which it is attached or at which level it operates should follow the same procedure as other consolidation exercises: payments and receipts between the social security fund and the rest of the government should be eliminated and their transactions with others combined in commonly defined categories. A number of particular questions may arise, however.

Social security contributions may be withheld from the wages of government employees by the government for transfer to the social security accounts. Like the withholding of taxes on employees' wages by employers in the private sector, government withholding and transmittal of its employees' social security contributions are in the nature of agency transactions for the account of others and should not be shown in the government's revenue and expenditure statistics. The withheld and transferred employee contributions, therefore, appear in government receipts only once—when they are received by the social security system.

Some governments make payments to social security systems from tax revenues in the nature of contributions to the solvency of the scheme, sometimes matching a part or all of the contributions of employers and employees. Such payments by government and their receipt by the social security funds should be eliminated in consolidating the data for the social security funds and the contributing government.

The largest transaction between the rest of the government and social security schemes is often the government's contribution to social security as an employer. Such a contribution should be excluded from both government expenditures and receipts as intragovernmental. It should be listed as a memorandum item (C.12) to the table on the economic classification of government expenditure, however, so as to facilitate national accounts compilation of government labor costs as a component of government production costs.

Inclusion of government employer contributions to social security in total government revenues and expenditures rather than as memorandum items, despite their intragovernmental character, is sometimes advocated as a means of attaining comparability between government and the rest of the economy. This is not recommended by this Manual. There are, in fact, marked differences between the government and enterprise sectors in the valuation of costs and product and these limit the use of such data for purposes of comparison. While enterprise payments of employer social security contributions constitute a cost to the firm which reduces the operating surplus portion of market price sales proceeds, this is not the case with government employer contributions to social security. The SNA includes the government employer contribution to social security in valuing the labor input to government and in valuing, as the sum of all inputs to government, the product of government, since there is no market price government sales proceeds by which the product of government could be valued. However, a decision by the government to pay for its employees' social security retirement benefits not by an employer contribution but by a transfer of general revenues covering the social security deficit would lead to different national account numbers for government labor costs, government product, and GDP without any change in aggregate government receipts or payments. As the residual provider of old age and other social benefits, the government may not, like enterprises, have clearly delineated labor costs.

There are other significant differences in the valuation of government and enterprise costs and product, reflecting the different nature of the two types of activities. These include, besides the absence of a market sales price for government product, omission of an operating surplus for government, omission of inter-period adjustment for government use of inventories, and limitations on the calculation of depreciation allowances for previous capital expenditures by government. These limitations on the application to government of enterprise-type valuation and cost accounting—which must encompass both past and future costs as well as current period costs—underline the need to keep any considerations of comparability with enterprises separate from the compilation of government finance statistics on the different kinds of payment flows between government and the rest of the economy and the world in each chronological period. Any employer contribution to social security by the government, in consequence, is excluded from government expenditures and revenues as intragovernmental and listed separately as a memorandum item.

Employer contributions by governments to social security schemes organized and operating at other levels of government, as by local governments to a national social security scheme, for example, would be counted in the separate statistics for each level of government but eliminated in consolidated statistics for general government and shown as a separate memorandum item.

Another aspect of social security fund operations involved in the consolidation process is the investment of social security surpluses in government debt. The important role played by social security systems in mobilizing funds that serve to finance other government operations makes it appropriate to delineate most carefully the portion of government financing, debt, amortization, and interest payments actually transacted with social security funds and to eliminate them all as intragovernmental, while showing them separately as memorandum items. The result may often be a sizable reduction in government financing from the rest of the economy and a corresponding reduction in public debt held outside the government. Transactions in the government's debt must be direct between the government and the social security fund to be eliminated from financing as intragovernmental, however. Social security fund purchases of the government debt in the market would be shown as government debt redemptions. All social security holdings of the government's debt, however acquired, would be shown as a memorandum item for intragovernmental debt in the debt statistics and would be excluded from consolidated government debt (F.12.2).

An illustration of how such items would be treated in the consolidation of a social security fund with the rest of government is provided in Working Table 9, discussed in detail in Section II.L.

II.K.2. Intergovernmental Consolidation Within One Level of Government

Compilation of statistics for a single level of government other than central government must begin with statistics for individual governments freed of intragovernmental transactions, must eliminate transactions between governments within this level, and must aggregate statistics for all other transactions, maintaining separate categories for transactions with other levels of government to be eliminated in subsequent consolidation into general government as a whole.

While the intragovernmental consolidation of statistics for a single government can draw upon whatever detail may be found in the government's accounts, intergovernmental consolidation of statistics for an entire level of government is dependent upon the adequacy of previously compiled statistics for each individual government concerned. These must have separate statistics for transactions with other governments and compatible classifications of all categories of transactions if adequate statistics are to be prepared for the entire level of government and for the general government sector thereafter.

Working Table 11 in Section II.L illustrates the process by which statistics of individual governments, in this case state governments, may be consolidated to compile statistics for the level of government as a whole. It may be noted that separate statistics should be provided for all categories which will be needed subsequently. In this case, for purposes of illustration, only revenue, grants, transfers made, other expenditures, lending minus repayments, net borrowing domestically and abroad, and investment for purposes of liquidity management are delineated. These aggregate categories are discussed in Chapter III. In practice, entries should be provided also for more disaggregated revenue and expenditure classifications, discussed in Chapter IV. Consolidation of data for the many separate state and/or local governments in most countries, therefore, may be expected to depend upon statistical reporting on a uniform basis or upon the collection of individual governments' budgetary accounts maintained in accordance with uniform accounting standards. Where a large number of local governments makes collection of data for all units on a frequent basis unfeasible, data from a validly selected sample of local governments, as discussed in Section II.E, can yield acceptable results.

In the consolidation of statistics for a single level of government, which forms an intermediate step toward subsequent consolidation of general government, separate statistics should be collected if possible for transactions not only within this level of government but with other levels of government as well. This facilitates evaluation of consistency in the reported payments and receipts between levels of government and permits the identification of transactions to be eliminated in consolidation of general government.

The maintenance of separate categories for transactions with other levels of government is also essential for the compilation of statistics on general government expenditure classified by function. To permit the classification by function of consolidated general government expenditures without the double counting that would result from the simple addition of expenditures for each function made by each level of government, transfers to other levels of government for each function must be identified and eliminated. A sample of such data for transfers to other levels of government classified by function is shown in Working Table 14 in Section II.L. It may also be noted in Working Table 11 that only payments and receipts between governments at the same level need be equal to each other.

Other issues relevant to the intergovernmental consolidation within a single level of government are discussed in the following section, Section II.K.3.

II.K.3. Intergovernmental Consolidation of General Government

Consolidation of statistics for general government requires adequate consolidated statistics for each level of government, elimination of payments and receipts between levels of government and aggregation of their other transactions, and preservation of data on these eliminated transactions, particularly for transfers and borrowing, to show the interrelationships between levels of government.

While statistics for general government offer the best picture of tax structure and resource allocation through government, they must be accompanied by separate statistics for each level or subsector of government if the structure and interrelationship of government are to be understood. As a result, it is preferable in consolidating the component statistics for different levels to identify separately each level's payments to and receipts from each other level of government. This is illustrated in Working Table 12 of Section II.L which shows transactions with each other level of government falling under revenue, grants, transfers, other expenditures, lending minus repayments, domestic and foreign net borrowing, and investment for liquidity management purposes. These classifications are discussed in Chapters III and IV.

Not all levels of government would be expected to show transactions of every kind with all other levels of government. Local governments, for example, would normally be more dependent upon higher levels of government so that they may show receipts of grants and net borrowing from states and central government but no transfers or lending to them. The separation of intergovernmental payments and receipts into these various categories provides additional insight into the nature of the relationship between levels of government. There is significance in whether one level of government receives grants or loans from another, and whether parts of its taxes are collected for it by another level of government, which should be shown in a memorandum item. Statistics for transfers between all levels of government can be usefully presented in a matrix, shown in Working Table 13 in Section II.L. A separate matrix could be attempted for loans between governments of different levels but this may face some inconsistencies resulting from purchase of securities in the market. As later explained in Section IV.C, loans between governments are shown in the lending minus repayments category of the lending government and in the net borrowing category of the borrowing government. A government's purchases of another government's securities for purposes of managing its liquidity or earning a return, however, are shown in the category for investment for liquidity management purposes. Only direct borrowing between governments is likely to appear in the net borrowing category whereas governments may purchase other governments' securities not only directly but in the capital market as well. The net borrowing reported as having been made from other governments, therefore, need not be expected to equal reported lending minus repayments plus investment for liquidity management purposes in the securities of other governments. All intergovernmental debt would be shown separately and eliminated in statistics for the consolidated debt of the general government sector (F.1.2).

Of the different kinds of payments between governments, some are rather unlikely to be separately identifiable and are therefore not normally eliminated in consolidation of the statistics. Chief among these are purchases and some tax payments between governments.

Some commodities and market services may be purchased by a government either from another government or from private individuals or organizations. Similarly, governments may levy taxes on facilities and transactions of other governments in the same manner that such taxes are levied on corresponding privately owned facilities and private transactions. Ordinarily, records do not distinguish between governmental and nongovernmental taxpayers. Therefore, any such tax and purchase transactions between governments are usually reported with similar transactions carried out with the nongovernment sector, that is, as taxes paid and collected and as purchases made or sales proceeds received. While it would be desirable to identify separately taxes paid by one government to another so that they may be shown as intergovernmental revenue and expenditure and eliminated in the consolidation of general government, in practice this may not always be possible and this element of double counting may be unavoidable. More readily identifiable in some cases are government employer contributions to social security schemes operating at other levels of government and these may be eliminated on the basis of information found in either revenue or expenditure data.

Also more likely to be identifiable is reimbursement of one government by another for administrative or supporting services, such as tuition costs, hospital care, care of prisoners, and construction of public improvements. These should be treated as intergovernmental revenue and expenditure and eliminated in consolidation to the extent that transactions are identifiable.

A payment of a different kind arises when a government collects taxes in an agency capacity on behalf of another government. The total revenues collected should be shown as revenues accruing to the beneficiary government and should not appear at all in the collecting government's statistics, except as a memorandum item. However, any cost of collection for which the collecting government is reimbursed, or which it subtracts from the amount collected before transferring the proceeds, should be shown as an intergovernmental payment from the beneficiary government to the collecting government for the purchase of the administrative services. The intergovernmental reimbursement should be eliminated from both payments and receipts in consolidation.

The most frequent and easily identifiable transactions between governments are unrequited transfers. These may take the form of unconditional block grants, or earmarked grants-in-aid perhaps conditional upon performance of particular functions or upon the allocation of matching funds for the same purpose by the receiving government itself. Identification of the functions for which intergovernmental transfers are given is important both for the overall classification of government expenditures at each level of government and for the elimination of intergovernmental transfers for each function in the compilation of data for consolidated general government expenditures classified by function. For this purpose Working Table 14 in Section II.L may be utilized.

In consolidating local government data obtained through sample surveys with central or state government data based on complete coverage, measurement of intergovernmental transactions to be eliminated in consolidation should generally be based on data compiled through complete rather than sample survey coverage.

Prevalent in some countries are tax sharing arrangements. Whether proceeds transferred by the collecting government to the beneficiary government constitute an intergovernmental transfer depends upon whether they are considered to be derived from a tax of the collecting government or of the beneficiary government, discussed in Section II.G. If proceeds of the collecting government's tax are involved, it is considered an intergovernmental transfer from the collecting government and an intergovernmental grant receipt by the beneficiary government, both transactions being eliminated in consolidation. If proceeds of a beneficiary government's tax are involved, collection and payment of the proceeds by the collecting government are considered agency transactions to be eliminated as such, and receipt of the proceeds by the beneficiary government is considered a tax receipt rather than receipt of an intergovernmental grant. No intergovernmental transfer is considered to take place in the case of government transactions undertaken in an agency capacity.

Where supranational authorities operate in a country, as described in Section I.G, they are considered as one more level of government. Consolidation of general government, therefore, would exclude all transactions between supranational authorities and other levels of government and would aggregate supranational authorities' other transactions with the transactions of other levels of government. Supranational authorities' headquarters operations, however, are not considered a part of general government in any single country but are treated separately.

II.L. Derivation Procedures

Statistics for the principal aggregates of government operations should be compiled by means of a derivation table showing the amount and source of all data and adjustments. Compilation should proceed through the accounts of each part of government in turn, making adjustments necessary to ensure proper coverage, cash basis, chronological timing, appropriate netting or grossing, and classification, while maintaining a balance between receipts and payments of each unit. All intragovernmental payments and receipts within the circle of units covered should then be excluded and the resulting consolidated totals for all units calculated.

To promote systematic procedures, leave a clear record of the compilation process, and facilitate consistency in future work, data for the principal aggregates should be compiled by means of a derivation table showing the amounts and sources of all data and adjustments. An example of a derivation table in matrix format is shown in Working Table 9. As illustrated in the derivation table, organization of the compilation process should follow a number of procedural principles.

(1) Compilation should be directed first toward the derivation of data for the principal aggregates (defined in Chapter III): revenue, grants, expenditure, lending minus repayments, domestic financing, and financing abroad. Subsequent compilation of the more detailed components of these aggregates is carried out by means of classification keys, discussed in Section IV.E.

(2) Adjustments should be made to meet all the standards set out in this Manual with regard to proper coverage, cash basis, chronological timing, appropriate netting or grossing, classification and, as a last step, the exclusion of all intragovernmental transactions, as discussed in Section II.K.

Adjustments to meet each of these standards are illustrated in Working Table 9. Post Office operations integrated in the General Account are excluded, with only the overall surplus retained in revenue, to attain proper coverage. Accrued social security contributions and benefits not yet paid are excluded to maintain a cash basis. Complementary period transactions are subtracted and those of the previous complementary period added to achieve chronological timing. Adjustments are made for corrective transactions, for example, tax refunds and customs drawbacks, and for operations of a departmental enterprise, for example, Government Printing Office, to carry out proper netting. Grants are excluded from revenues and debt amortization from expenditure to attain appropriate classification, and transactions between accounts are excluded, as a final step, to complete consolidation of the data.

(3) Compilation should be carried out separately within each complete account or set of accounts before moving in turn to the accounts of other parts of government for which data are available. In Working Table 9, for example, compilation proceeds in turn through the General Account, the Development Fund, the Road Construction Agency, the Sinking Funds, and the Social Security Fund. In a French budgetary system the treasury accounts would constitute a complete set of accounts. The other side of an intragovernmental transaction shown in one set of accounts should be entered, if not already registered, under the other transactor's set of accounts in the derivation table so that entries for all accounts are complete and both intragovernmental receipt and payment can be eliminated in consolidation.

(4) The starting point in the compilation process should be the entry of data from the national source reflecting the basic equilibrium in each complete account or set of accounts. Equilibrium is to be found in flow statements in the equality between total inflows and total outflows plus the change during the period in the stock of items flowing. Equilibrium is found in stock statements (i.e., balance sheets) in the equality between the change in total assets and the change in total liabilities plus the net of inflows and outflows affecting one asset or liability on the balance sheet without producing offsetting changes in others. Thus a flow statement of payments and receipts would be balanced by addition of the change in cash balances over the period. Changes in a balance sheet that includes deposits and loans as assets and government debt to others as liabilities would be balanced by the net flow of transactions involving no loans or government debt, since changes in loans or debt (other than by cancellation or revaluation) are reflected in offsetting changes in debt and deposits or loans and deposits. Equilibrium is established in the derivation table for each complete account or set of accounts, with entries for receipts, payments, and other changes in assets and liabilities converted into the implied payment or receipt: increased liabilities and decreased financial assets implying a receipt, decreased liabilities and increased financial assets implying a payment.

(5) Equilibrium should be maintained within each account or set of accounts throughout the compilation process up to, but not including, the final step of consolidation. This should be done by matching every addition or adjustment to receipts or payments with a corresponding entry having an offsetting effect on receipts or payments. Matching offsetting items are not necessary for reclassification adjustments, however, as such adjustments constitute shifts between categories of receipts or payments without altering the totals of receipts and payments. The totals of adjusted receipts and adjusted payments for each account or set of accounts should be equal, therefore, before adjustment is made for the exclusion of intragovernmental flows in consolidation. Totals for each account in Working Table 9, for example, show receipts equal to payments adjusted for other changes in assets and liabilities both before and after additions and adjustments but before consolidation with other accounts.

(6) To avoid possible omissions in the addition of components, it is generally preferable to begin with totals—receipts, payments, and other changes in assets and liabilities being in equilibrium—and subtract inappropriate components. This is usually possible, in the derivation of revenues from total receipts and of expenditures from total payments. Data for grants, lending, and financing, however, may have to be compiled through the addition of components, in some cases the receipt or payment components subtracted in the derivation of revenue and expenditure.

(7) Data on lending and financing may sometimes be available only as changes between the beginning and end of a period in balance sheet entries for assets and liabilities. Here too the initial data entered into the derivation table should reflect the equilibrium between receipts, payments, and other changes in assets and liabilities within each account or set of accounts, and each addition and adjustment should be matched by a corresponding offsetting item to maintain the equilibrium before

Working Table 9. Derivation of Principal Government Finance Statistics Aggregates from Government Accounts: Matrix Format
(in millions of units of national currency)

Item	Amount	Additions and Adjustments before Consolidation		Eliminated in Consolidation		Reclassification	Revenue	Grants	Expenditure	Lending minus Repayments	Financing Abroad	Domestic Financing	Source
		Receipt	Payment	Receipt	Payment								
General Account													
Totals in national source													
Receipts	3,232	3,232					3,232						1,p.3
Payments	3,225		3,225						3,225				1,p.3
Other changes in assets and liabilities													
Currency and deposits	+18		18									−18	1,p.1
Investments for liquidity management purposes	+8		8									−8	1,p.1
Trust Fund liabilities	+7	7										7	1,p.2
Deposit liabilities	+12	12										12	1,p.2
Total		3,251	3,251				3,232		3,225	—	—	−7	
Additions and adjustments before consolidation													
Receipts													
Post Office receipts	36	−36					−36						1,p.13
Post Office surplus	4	4					4						1,p.13
Government Printing Office (GPO) sales to the public	16	−16					−16						1,p.15
Operating surplus of GPO sales to the public	3	3					3						1,p.15
Loan repayments	61					61	−61			−61			1,p.15
Domestic borrowing	229					229	−229					229	1,p.16
Borrowing abroad	130					130	−130				130		1,p.16
Receipts in complementary period	176	−176					−176						4,p.5
Tax refunds	8	−8					−8						1,p.120
Customs drawbacks	5	−5					−5						1,p.120
Taxes collected as agent for local governments	127	−127					−127						1,p.5
Receipts in previous complementary period	152	152					152						5,p.5
Medical fees offset against payments	8	8					8						1,p.12
Payments													
Post Office expenditures	32		−32						−32				1,p.135
Post Office deficit													1,p.13;6
Operating costs of GPO sales to the public	13		−13						−13				6
Operating deficit of GPO sales to the public													1,p.15
Tax refunds	8		−8						−8				1,p.20
Customs drawbacks	5		−5						−5				1,p.20
Lending	223					223			−223	223			1,p.249
Amortization of domestic credit	88					88			−88			−88	1,p.115
Amortization of foreign debt	146					146			−146		−146		1,p.117
Transactions with IMF	15					15			−15			−15	1,p.118
Payments in complementary period	182		−182						−182				4,p.6
Taxes collected as agent for local governments	122		−122						−122				1,p.25
Payments in previous complementary period	143		143						143				5,p.6
Payments offset against medical fees	8		8						8				1,p.12
Other changes in assets and liabilities													
Currency and deposits—complementary period	−6	−6										−6	4,p.1
Currency and deposits—previous complementary period	+9		9									−9	5,p.1
Liabilities for taxes collected as agent	+5	5										5	1,p.2
Total General Account before consolidation		3,049	3,049				2,611	—	2,542	162	−16	109	
Eliminated in consolidation													
Receipts													
Interest from Road Construction Agency	21			21			−21						2,p.6

Working Table 9 (*continued*). Derivation of Principal Government Finance Statistics Aggregates from Government Accounts: Matrix Format

(in millions of units of national currency)

Item	Amount	Additions and Adjustments before Consolidation: Receipt	Additions and Adjustments before Consolidation: Payment	Eliminated in Consolidation: Receipt	Eliminated in Consolidation: Payment	Reclassification	Revenue	Grants	Expenditure	Lending minus Repayments	Financing Abroad	Domestic Financing	Source
Loan repayments from Road Construction Agency	17			17						17			2,p.6
Borrowing from Social Security Fund	19			19								−19	3,p.4
Payments													
Transfers to Development Fund	500				500				−500				1,p.114
Transfers to Road Construction Agency	100				100				−100				1,p.82
Contribution to Sinking Funds	55				55				−55				1,p.116
Interest to Sinking Funds	24				24				−24				1,p.260
General contribution to Social Security Fund	230				230				−230				1,p.130
Employer contribution to Social Security Fund	41				41				−41				1,p.18, 29,32, 38,39, 43,47, 52,65, 69,73, 83,96, 118, 125, 137, 138, 140, 143;6
Interest to Social Security Fund	31				31				−31				3,p.5
Lending to Road Construction Agency	30				30					−30			2,p.3
Amortization to Social Security Fund	6				6							6	3,p.5
Other changes in assets and liabilities													
Deposit liabilities to Road Construction Agency	−3				3							3	2,p.2
Total General Account after consolidation		3,049	3,049	57	1,020		2,590	—	1,561	149	−16	99	
Development Fund													
Totals in national source													
Receipts	1,465	1,465					1,465						1,p.145
Payments	1,474		1,474						1,474				1,p.145
Other changes in assets and liabilities													
Currency and deposits	−6	6										6	1,p.145
Short-term liabilities to banks	+3	3										3	1,p.145
Total		1,474	1,474				1,465	—	1,474	—	—	9	
Additions and adjustments before consolidation													
Receipts													
Grants from abroad	93					93	−93	93					1,p.147
Loan repayments	51					51	−51			−51			1,p.146
Domestic borrowing	185					185	−185					185	1,p.147
Borrowing abroad	350					350	−350				350		1,p.147
Supplier credits	62	62									62		1,p.146
Payments													
Lending	223					223			−223	223			1,p.150, 174, 180, 205, 221;6
Amortization of domestic debt	88					88			−88			−88	1,p.245
Amortization of foreign debt	146					146			−146		−146		1,p.246
Payments in complementary period	121		−121						−121				4,p.7
Payments in previous complementary period	106		106						106				5,p.7

Working Table 9 (*continued*). Derivation of Principal Government Finance Statistics Aggregates from Government Accounts: Matrix Format
(in millions of units of national currency)

Item	Amount	Additions and Adjustments before Consolidation: Receipt	Additions and Adjustments before Consolidation: Payment	Eliminated in Consolidation: Receipt	Eliminated in Consolidation: Payment	Reclassification	Revenue	Grants	Expenditure	Lending minus Repayments	Financing Abroad	Domestic Financing	Source
Purchases with supplier credits	62		62						62				1,p.146
Other changes in assets and liabilities													
Currency and deposits—complementary period	−121	−121										−121	4,p.1
Currency and deposits—previous complementary period	−106	106										106	5,p.1
Total Development Fund before consolidation		1,521	1,521				786	93	1,064	172	266	91	
Eliminated in consolidation													
Receipts													
Transfers from General Account	500			500			−500						1,p.114
Payments													
Transfers to Road Construction Agency	50				50				−50				1,p.215
Employer contribution to Social Security Fund	18				18				−18				1,p.146, 156, 166, 176, 186, 202, 220;6
Total Development Fund after consolidation		1,521	1,521	500	68		286	93	996	172	266	91	
Road Construction Agency													
Totals in national source													
Receipts	669	669					669						2,p.1
Payments	683		683						683				2,p.2
Other changes in assets and liabilities													
Currency and deposits	−8	8										8	2,p.3
Short-term liabilities to banks	+6	6										6	2,p.3
Total		683	683				669		683			14	
Additions and adjustments before consolidation													
Receipts													
Domestic financing	116					116	−116					116	2,p.2
Payments													
Amortization of domestic debt	28					28			−28			−28	2,p.2
Total Road Construction Agency before consolidation		683	683				553	—	655	—	—	102	
Eliminated in consolidation													
Receipts													
Transfers from General Account	100			100			−100						1,p.82
Transfers from Development Fund	50			50			−50						1,p.250
Borrowing from General Account	30			30								−30	2,p.3
Payments													
Interest to General Account	21				21				−21				2,p.1
Employer contribution to Social Security Fund	9				9				−9				2,p.1
Amortization to General Account	17				17							17	2,p.3
Other changes in assets and liabilities													
Deposits with General Account	−3			3								−3	2,p.3
Total Road Construction Agency after consolidation		683	683	183	47		403	—	625	—	—	86	
Sinking Funds													
Totals in national source													
Receipts	88	88					88						1,p.260

Working Table 9 (*continued*). Derivation of Principal Government Finance Statistics Aggregates from Government Accounts: Matrix Format
(in millions of units of national currency)

Item	Amount	Additions and Adjustments before Consolidation: Receipt	Additions and Adjustments before Consolidation: Payment	Eliminated in Consolidation: Receipt	Eliminated in Consolidation: Payment	Reclassification	Revenue	Grants	Expenditure	Lending minus Repayments	Financing Abroad	Domestic Financing	Source
Payments													
Operating payments	5		5						5				1,p.261
Purchases of government domestic debt	32		32									−32	1,p.267
Purchases of government foreign debt	30		30								−30		1,p.267
Other changes in assets and liabilities													
Holdings of other domestic securities	+13		13									−13	1,p.268
Holdings of other foreign assets	+9		9								−9		1,p.268
Domestic currency and deposits	−3	3										3	1,p.268
Foreign currency and deposits	+2		2								−2		1,p.268
Total Sinking Funds before consolidation		91	91				88	—	5	—	−41	−42	
Eliminated in consolidation													
Receipts													
Contribution from General Account	55			55			−55						1,p.116
Interest from General Account	24			24			−24						1,p.260
Total Sinking Funds after consolidation		91	91	79			9		5		−41	−42	
Social Security Fund													
Totals in national source													
Receipts	1,112	1,112					1,112						3,p.5
Payments	1,102		1,102						1,102				3,p.5
Other changes in assets and liabilities													
Receipts, above, awaiting collection	+18	−18					−18						3,p.1
Benefit payments, above, awaiting payment	+24		−24						−24				3,p.2
Other payments, above, awaiting payment	+4		−4						−4				3,p.2
Holdings of securities for liquidity management purposes	+16		16									−16	3,p.1
Currency and deposits	+4		4									−4	3,p.1
Social Security Fund total before consolidation		1,094	1,094				1,094	—	1,074	—	—	−20	
Eliminated in consolidation													
Receipts													
General contribution from General Account	230			230			−230						1,p.130
Employer contribution from General Account	41			41			−41						1,p.18, 29,32, 38,39, 43,47, 52,65, 69,73, 83,96, 118, 125, 137, 138, 140, 143;6
Employer contribution from Development Fund	18			18			−18						1,p.146, 156, 166, 176, 186, 202, 220;6

Working Table 9 (*concluded*). Derivation of Principal Government Finance Statistics Aggregates from Government Accounts: Matrix Format

(in millions of units of national currency)

Item	Amount	Additions and Adjustments before Consolidation		Eliminated in Consolidation		Reclassi-fication	Revenue	Grants	Expendi-ture	Lending minus Repay-ments	Finan-cing Abroad	Domestic Finan-cing	Source
		Receipt	Payment	Receipt	Payment								
Employer contribution from Road Construction Agency	9			9			−9						2,p.1
Employer contribution from Social Security Fund	8			8			−8						3,p.8
Interest from General Account	31			31			−31						3,p.5
Payments													
Employer contribution to Social Security Fund	8				8				−8				3,p.8
Other changes in assets and liabilities													
Holdings of central government securities	+13				13							13	3,p.4,5
Social Security Fund total after consolidation		1,094	1,094	337	21		757	—	1,066	—	—	−7	
Totals after consolidation													
General Account		3,049	3,049	57	1,020		2,590	—	1,561	149	−16	99	
Development Fund		1,521	1,521	500	68		286	93	996	172	266	91	
Road Construction Agency		683	683	183	47		403	—	625	—	—	86	
Sinking Funds		91	91	79	—		9	—	5	—	−41	−42	
Social Security Fund		1,094	1,094	337	21		757	—	1,066	—	—	−7	
Grand total after consolidation		6,438	6,438	1,156	1,156		4,045	93	4,253	321	209	227	

Sources: 1. Financial Report of the Accountant General; 2. Annual Report and Financial Statements of the Road Construction Agency; 3. Annual Report of the Accounts of the Social Security Fund; 4. Monthly Statement of Receipts and Payments of the Treasury, January, Year N + 1; 5. Monthly Statement of Receipts and Payments of the Treasury, January, Year N; 6. Worksheets of the Budget Directorate.

Working Table 10. Derivation of Principal Government Finance Statistics Aggregates from Government Accounts: Time Series Format
(in millions of units of national currency)

Year Ending December 31:	N − 2	N − 1	N	N + 1	Source
REVENUE					
General Account:					
Receipts			3,232		1,p.3
Less: Post Office receipts			−36		1,p.13
Post Office surplus			4		1,p.13
Less: Government Printing Office sales to the public			−16		1,p.15
Operating surplus of GPO sales to the public			3		1,p.15
Less: Loan repayments			−61		1,p.15
Less: Domestic borrowing			−229		1,p.16
Less: Borrowing abroad			−130		1,p.16
Less: Receipts in complementary periods			−176		4,p.5
Less: Tax refunds			−8		1,p.120
Less: Customs drawbacks			−5		1,p.120
Less: Taxes collected as agent for local governments			−127		1,p.5
Receipts in previous complementary period			152		5,p.5
Medical fees offset against payments			8		1,p.12
Less: Interest from Road Construction Agency			−21		2,p.6
Development Fund:					
Receipts			1,465		1,p.145
Less: Grants from abroad			−93		1,p.147
Less: Loan repayments			−51		1,p.146
Less: Domestic borrowing			−185		1,p.147
Less: Borrowing abroad			−350		1,p.147
Less: Transfers from General Account			−500		1,p.114
Road Construction Agency:					
Receipts			669		2,p.1
Less: Domestic Financing			−116		2,p.2
Less: Transfers from General Account			−100		1,p.82
Less: Transfers from Development Fund			−50		1,p.250
Sinking Funds:					
Receipts			88		1,p.260
Less: Contribution from General Account			−55		1,p.116
Less: Interest from General Account			−24		1,p.260
Social Security Fund:					
Receipts			1,112		3,p.5
Less: Receipts, above, awaiting collection			−18		3,p.1
Less: General contribution from General Account			−230		1,p.130
Less: Employer contribution from General Account			−41		1,p.18,29,32,38, 39,43,47,52,65,69, 73,83,96,118,125, 137,138,140,143;6
Less: Employer contribution from Development Fund			−18		1,p.146,156,166, 176,186,202,220;6
Less: Employer contribution from Road Construction Agency			−9		2,p.1
Less: Employer contribution from Social Security Fund			−8		3,p.8
Less: Interest from General Account			−31		3,p.5
Total			4,045		
GRANTS					
Development Fund:					
Grants from abroad			93		1,p.147
Total			93		
EXPENDITURE					
General Account:					
Payments			3,225		1,p.3
Less: Post Office expenditures			−32		1,p.135

Working Table 10 (*continued*). Derivation of Principal Government Finance Statistics Aggregates from Government Accounts: Time Series Format
(in millions of units of national currency)

Year Ending December 31:	N − 2	N − 1	N	N + 1	Source
Less: Operating costs of GPO sales to the public			−13		6
Less: Tax refunds			−8		1,p.20
Less: Customs drawbacks			−5		1,p.20
Less: Lending			−223		1,p.249
Less: Amortization of domestic credit			−88		1,p.115
Less: Amortization of foreign debt			−146		1,p.117
Less: Transactions with IMF			−15		1,p.118
Less: Payments in complementary period			−182		4,p.6
Less: Taxes collected as agent for local governments			−122		1,p.25
Payments in previous complementary period			143		5,p.6
Payments offset against medical fees			8		1,p.12
Less: Transfers to Development Fund			−500		1,p.114
Less: Transfers to Road Construction Agency			−100		1,p.82
Less: Contribution to Sinking Funds			−55		1,p.116
Less: Interest to Sinking Funds			−24		1,p.260
Less: General Contribution to Social Security Fund			−230		1,p.130
Less: Employer contribution to Social Security Fund			−41		1,p.18,29,32,38,39, 43,47,52,65,69,73 83,96,118,125,137, 138,140,143;6
Less: Interest to Social Security Fund			−31		3,p.5
Development Fund:					
Payments			1,474		1,p.145
Less: Lending			−223		1,p.150,174,180,205, 221;6
Less: Amortization of domestic debt			−88		1,p.245
Less: Amortization of foreign debt			−146		1,p.246
Less: Payments in complementary period			−121		4,p.7
Payments in previous complementary period			106		5,p.7
Purchases with supplier credits			62		1,p.146
Less: Transfers to Road Construction Agency			−50		1,p.215
Less: Employer contribution to Social Security Fund			−18		1,p.146,156,166,176, 186,202,220;6
Road Construction Agency:					
Payments			683		2,p.2
Less: Amortization of domestic debt			−28		2,p.2
Less: Interest to General Account			−21		2,p.1
Less: Employer contribution to Social Security Fund			−9		2,p.1
Sinking Funds:					
Operating payments			5		1,p.261
Social Security Fund:					
Payments			1,102		3,p.5
Less: Benefit payments above, awaiting payment			−24		3,p.2
Less: Other payments, above, awaiting payment			−4		3,p.2
Less: Employer contribution to Social Security Fund			−8		3,p.8
Total			4,253		
LENDING MINUS REPAYMENTS					
General Account:					
Less: Loan repayments			−61		1,p.15
Lending			223		1,p.249
Loan repayments from Road Construction Agency			17		2,p.6

Working Table 10 (*continued*). Derivation of Principal Government Finance Statistics Aggregates from Government Accounts: Time Series Format
(in millions of units of national currency)

Year Ending December 31:	N − 2	N − 1	N	N + 1	Source
Less: Lending to Road Construction Agency			−30		2,p.3
Development Fund:					
Less: Loan repayments			−51		1,p.146
Lending			223		1,p.150,174,180, 205,221;6
Total			321		
DEFICIT/SURPLUS			−436		
FINANCING			436		
FINANCING ABROAD					
General Account:					
Borrowing abroad			130		1,p.16
Less: Amortization of foreign debt			−146		1,p.117
Development Fund:					
Borrowing abroad			350		1,p.147
Supplier credits			62		1,p.146
Less: Amortization of foreign debt			−146		1,p.246
Sinking Fund:					
Less: Purchases of government foreign debt			−30		1,p.267
Holdings of other foreign assets			−9		1,p.268
Foreign currency and deposits			−2		1,p.268
Total			209		
DOMESTIC FINANCING					
General Account:					
Currency and deposits			−18		1,p.1
Investments for liquidity management purposes			−8		1,p.1
Trust Fund liabilities			7		1,p.2
Deposit liabilities			12		1,p.2
Domestic borrowing			229		1,p.16
Less: Amortization of domestic credit			−88		1,p.115
Less: Transactions with IMF			−15		1,p.118
Less: Currency and deposits—complementary period			−6		4,p.1
Currency and deposits—previous complementary period			−9		5,p.1
Liabilities for taxes collected as agent			5		1,p.2
Less: Borrowing from Social Security Fund			−19		3,p.4
Amortization to Social Security Fund			6		3,p.5
Deposit liabilities to Road Construction Agency			3		2,p.2
Development Fund:					
Currency and deposits			6		1,p.145
Short-term liabilities to banks			3		1,p.145
Domestic borrowing			185		1,p.147
Less: Amortization of domestic debt			−88		1,p.245
Less: Currency and deposits—complementary period			−121		4,p.1
Currency and deposits—previous complementary period			106		5,p.1
Road Construction Agency:					
Currency and deposits			8		2,p.3
Short-term liabilities to banks			6		2,p.3
Domestic financing			116		2,p.2
Less: Amortization of domestic debt			−28		2,p.2
Less: Borrowing from General Account			−30		2,p.3
Amortization to General Account			17		2,p.3
Deposits with General Account			−3		2,p.3
Sinking Funds:					
Less: Purchases of government domestic debt			−32		1,p.267
Holdings of other domestic securities			−13		1,p.268

Working Table 10 (*concluded*). Derivation of Principal Government Finance Statistics Aggregates from Government Accounts: Time Series Format
(in millions of units of national currency)

Year Ending December 31:	N − 2	N − 1	N	N + 1	Source
Domestic currency and deposits			3		1,p.268
Social Security Fund:					
Holdings of securities for liquidity management purposes			−16		3,p.1
Currency and deposits			−4		3,p.1
Holdings of central government securities			13		3,p.4,5
Total			227		

Sources: 1. Financial Report of the Accountant General; 2. Annual Report and Financial Statements of the Road Construction Agency; 3. Annual Report of the Accounts of the Social Security Fund; 4. Monthly Statement of Receipts and Payments of the Treasury, January, Year N + 1; 5. Monthly Statement of Receipts and Payments of the Treasury, January, Year N; 6. Worksheets of the Budget Directorate.

Working Table 11. Intergovernmental Consolidation of Government at the State Level
(in millions of units of national currency)

	State A	State B	State C	State D	Total for All States	To Be Eliminated: Receipts	To Be Eliminated: Payments	Consolidated Total
REVENUE	307	364	174	337	1,182			
From other state governments	6	15	2	9	32	32		
From central government	3	8	4	6	21			
From local governments	—	4	—	2	6			
Other revenue	298	337	168	320	1,123			
Revenue excluding that from other state governments	301	349	172	328	1,150			1,150
GRANTS	61	128	41	85	315			
From other state governments	—	—	—	—	—			
From central government	61	128	37	74	300			
From local governments	—	—	—	—	—			
Other grants	—	—	4	11	15			
Grants excluding those from other state governments	61	128	41	85	315			315
EXPENDITURE	365	479	165	435	1,444			
Transfers	103	173	77	141	494			
To other state governments	—	—	—	—	—			
To central government	—	—	—	—	—			
To local governments	88	146	52	118	404			
Other	15	27	25	23	90			
Transfers excluding those to other state governments	103	173	77	141	494			494
Other expenditure	262	306	88	294	950			
To other state governments	7	13	4	8	32		32	
To central government	—	9	1	5	15			
To local governments	19	23	7	13	62			
Other	236	261	76	268	841			
Other expenditure excluding those to other state governments	255	293	84	286	918			918
Expenditure excluding that to other state governments	358	466	161	427	1,412			1,412
LENDING MINUS REPAYMENTS	62	147	35	81	325			
To other state governments	5	3	1	2	11		11	
To central government	—	—	—	—	—			
To local governments	46	136	28	69	279			
Other lending minus repayments	11	8	6	10	35			
Lending minus repayments excluding that to other state governments	57	144	34	79	314			314
DEFICIT/SURPLUS	−59	−134	15	−94	−272			
DEFICIT/SURPLUS EXCLUDING TRANSACTIONS WITH OTHER STATE GOVERNMENTS	−53	−133	18	−93	−261			−261
FINANCING	59	134	−15	94	272			
Net borrowing	67	118	9	87	281			
From other state governments	3	—	2	6	11	11		
From central government	39	47	7	38	131			
From local governments	—	—	—	—	—			
From other domestic	25	60	—	40	125			
From other abroad	—	11	—	3	14			
Net borrowing excluding that from other state governments	64	118	7	81	270			270

Working Table 11 (*concluded*). **Intergovernmental Consolidation of Government at the State Level**
(in millions of units of national currency)

	State A	State B	State C	State D	Total for All States	To Be Eliminated: Receipts	To Be Eliminated: Payments	Consolidated Total
Investment of liquid assets (increase negative)	−8	16	−24	7	−9			
In securities of other state governments[1]	—	—	—	—	—			
In securities of central government	−8	16	−18	7	−3			
In securities of local governments	—	—	−6	—	−6			
Investment in liquid assets other than in securities of other state governments	−8	16	−24	7	−9			−9
Financing (excluding transactions with other state governments)	56	134	−17	88	261			261
TOTAL						43	43	

[1]Investments in the securities of another state do not involve intergovernmental transfers to be eliminated if the securities are purchased in a secondary market. Only purchases of securities which involve direct intergovernmental transactions should be eliminated.

Working Table 12. Consolidation of the General Government Sector
(in millions of units of national currency)

	Eliminated in Consolidation						Financing		
	Receipts	Payments	Revenue	Grants	Expenditure	Lending minus Repayments	Domestic	Foreign	Sources
Central government			4,045	93	4,253	321	227	209	1
Eliminated in consolidation									
Revenue from state governments	15		−15						2
Transfers to state governments		300			−300				3,p.131
Transfers to local governments		121			−121				3,p.135
Other expenditure to state governments		21			−21				3,p.136
Lending minus repayments to state governments		131				−131			3,p.249
Lending minus repayments to local governments		71				−71			3,p.174
Total after consolidation	15	644	4,030	93	3,811	119	227	209	
State governments			1,150	315	1,412	314	247	14	2
Eliminated in consolidation									
Revenue from central government	21		−21						2
Revenue from local governments	6		−6						4
Grants from central government	300			−300					3,p.131
Transfers to local governments		404			−404				2
Other expenditure to central government		15			−15				2
Other expenditure to local governments		62			−62				2
Lending minus repayments to local governments		279				−279			2
Net borrowing from central government	131						−131		3,p.249
Investment of liquid assets in local government securities	−6						6		2
Total after consolidation	452	760	1,123	15	931	35	122	14	
Local governments			301	554	1,092	83	320		4
Eliminated in consolidation									
Revenue from state governments	62		−62						2
Grants from central government	121			−121					3,p.135
Grants from state governments	404			−404					2
Other expenditure to state governments		6			−6				4
Net borrowing from:									
Central government	71						−71		3,p.249
State governments	285						−285		2
Total after consolidation	943	6	239	29	1,086	83	−36	—	
Totals after consolidation									
Central government	15	644	4,030	93	3,811	119	227	209	
State governments	452	760	1,123	15	931	35	122	14	
Local governments	943	6	239	29	1,086	83	−36	—	
Total general government	1,410	1,410	5,392	137	5,828	237	313	223	

Sources: 1. Working Table 9; 2. Working Table 11; 3. Financial Report of the Accountant General; 4. Intergovernmental Consolidation of Government at the Local Government Level.

Working Table 13. Transfers Between Subsectors of General Government
(in millions of units of national currency)

Receiving Subsector / Transferring Subsector	Central Government (A)	State, Regional, or Provincial Governments (B)	Local Governments (C)	Total Transfers Paid (D)
I. Central Government		300	121	421
II. State, Regional, or Provincial Governments	—		404	404
III. Local Governments	—	—		—
Total Transfers Received	—	300	525	825

Working Table 14. Intergovernmental Transfers Classified by Function
(in millions of units of national currency)

Year Ending December 31:	N − 2	N − 1	N	N + 1
I Total Intergovernmental Transfers			825	
of which: From central government			421	
of which: From state governments			404	
of which: From local governments			—	
1 General Public Services			3	
of which: From central government			3	
of which: From state governments			—	
of which: From local governments			—	
2 Defense			1	
of which: From central government			1	
of which: From state governments			—	
of which: From local governments			—	
3 Public Order and Safety			3	
of which: From central government			2	
of which: From state governments			1	
of which: From local governments			—	
4 Education			292	
of which: From central government			42	
of which: From state governments			250	
of which: From local governments			—	
5 Health			111	
of which: From central government			100	
of which: From state governments			11	
of which: From local governments			—	
6 Social Security and Welfare			168	
of which: From central government			112	
of which: From state governments			56	
of which: From local governments			—	
7 Housing and Community Amenities			26	
of which: From central government			26	
of which: From state governments			—	
of which: From local governments			—	
8 Recreational, Cultural and Religious Affairs			3	
of which: From central government			3	
of which: From state governments			—	
of which: From local governments			—	
9 Fuel and Energy			9	
of which: From central government			9	
of which: From state governments			—	
of which: From local governments			—	
10 Agriculture, Forestry, Fishing and Hunting			6	
of which: From central government			5	
of which: From state governments			1	
of which: From local governments			—	
11 Nonfuel Mining and Mineral Resources, Manufacturing and Construction			—	
of which: From central government			—	
of which: From state governments			—	
of which: From local governments			—	
12 Transportation and Communication			68	
of which: From central government			47	
of which: From state governments			21	
of which: From local governments			—	
13 Other Economic Services			33	
of which: From central government			33	
of which: From state governments			—	
of which: From local governments			—	
14 Other Transfers			102	
of which: From central government			38	
of which: From state governments			64	
of which: From local governments			—	

consolidation. Balance sheets may be used also to ascertain the nature of the flows by which they are brought into equilibrium. Inclusion of unpaid tax assessments in assets, for example, would indicate that the balancing revenue flow includes not only tax receipts but also unpaid assessments, requiring adjustment of the revenue data to a cash basis.

(8) Consolidation—the addition of similar external transactions and the exclusion of intragovernmental payments and receipts within the circle of units covered—should be carried out after other adjustments and reclassifications have been made and the unconsolidated total has been calculated for each account or set of accounts. In consolidation, each intragovernmental payment excluded should be matched by an equal intragovernmental receipt or receipts excluded elsewhere in the accounts. While total intragovernmental receipts need not equal total intragovernmetal payments for each account or set of accounts, they should be equal in the aggregate for all accounts covered in the derivation table. Total receipts should equal total payments for each account or set of accounts before consolidation but not necessarily after consolidation. After consolidation, however, total receipts should equal total payments for the aggregate of all accounts covered in the derivation table as illustrated in Working Table 9.

The matrix format of Working Table 9 is necessary for the establishment of compilation procedures in the initial year. For the continued derivation of data for other years, the matrix format should be converted into a time series format. This is done by listing in turn for each major aggregate—revenue, grants, expenditure, lending minus repayments, financing abroad, and domestic financing—the lines from the matrix table having entries of data in that column. This is illustrated in Working Table 10. In utilizing the time series derivation table for the compilation of data for subsequent, or previous, years, lines may be inserted for additional items which may become necessary, so long as the balancing procedures are maintained.

This derivation procedure for each government, whether central, state, or local, is followed by consolidation of all governments at a single level, discussed in Section II.K.2 and illustrated in Working Table 11, and by consolidation of all levels of government to obtain data for general government, discussed in Section II.K.3 and illustrated in Working Table 12. Consolidation of data for general government is facilitated by matrix presentation of transfers between levels of government shown in Working Table 13. For the compilation of data on general government expenditures classified by function, classification by function of transfers paid by each level of government is also required and is shown in Table 14.

II.M. Budgetary and Accounting Systems

Selection and preparation of data on government finance are affected by significant variations in budgetary and accounting practices. The resulting differences in the government accounts are reflected in the coverage of government, the time period covered, the availability of data for various stages in the revenue and expenditure process, and the nature of the transactions the data represent. A brief outline of budgetary and accounting systems is provided here as background to the process of compiling government finance statistics.

While there are few established or rigid patterns of budgeting and accounting, there have developed over the years certain systems reflecting the common constitutional, legal, and administrative heritages. Broadly these include the British-based budgetary systems, the French-based financial systems, the U.S. budgetary system, and Latin American practices, reflecting a common Spanish origin modified by each country's separate administrative experience much like the evolution more recently taking place in systems derived from British and French origins. Though variations within each system exist, reflecting political, constitutional, and economic policy differences, certain general features of these systems can be identified and some are delineated below.

Budgetary Systems

With few exceptions, countries follow annual budgeting systems. Where multiyear budgets are prepared, to match presidential tenure, for example, they are usually revised or updated annually.

Budgets are frequently formulated on a basis showing all external transactions and all transactions with other units of government as well, permitting detailed control of each operating unit. In some systems, only the amount above a unit's expected fee or sales income necessary to meet its requirements may be voted in the budget. Although appropriations by the legislature may exclude such fee or sales income, many budget documents show them in detail. In some cases, such as in the United States, total expenditures are reduced by the sales proceeds of administrative property, which are treated as offsets to expenditures.

Most budgets are formulated on the basis of cash revenue, though several countries budget revenues on an assessment basis. Budget presentation of expenditures varies more widely. British budget systems generally budget expenditures on a payment basis. In French budget systems, budgeted expenditures usually refer to payments either in checks issued or checks paid. Latin American practice varies from checks issued, to treasury transfers to the accounts of paymasters or ministries, to payment orders issued by the spending agencies. In the United States and the Philippines, the budget documents refer also to the obligational authority approved by the legislature.

The structure of budgets varies widely. While current and capital distinctions are the most common, there are also routine and investment budgets, ordinary, operational, development budgets, etc. Current and capital distinctions are not followed in the United Kingdom, the United States, or France. The earlier practice of showing above-and-below-the-line distinctions in the United Kingdom, roughly reflecting current categories above the line and most capital categories below the line, has influenced the adoption of current and capital distinctions in a number of former British colonies, such as India, Pakistan, Sri Lanka, and the Caribbean countries. In English- and French-speaking Africa, a more recently developed practice is the formulation of separate development budgets devoted primarily to programs and projects financed by foreign grants and loans.

In some countries the budgets are divided into a general or main budget and numerous special accounts and related revolving funds set up for specific purposes. This is the case, for example, in Japan, Korea, the Philippines, and Thailand. Such special accounts are not prevalent in British budget systems. Latin American budgets are frequently characterized by the earmarking of budget revenues for particular projects, programs, and agencies and by the assignment to decentralized agencies of some revenues that consequently may not appear in the budget. While earmarking is relatively insignificant in the British budget systems, it generally occurs in systems based on the French model.

The coverage of budgets also varies. Expenditures financed out of grants and domestic loans are excluded in some countries using the French budget system. Most Latin American budgets include expenditures financed by foreign grants and domestic and external borrowing, though expenditures financed by foreign borrowings are excluded in some countries. In systems modeled after the British format, expenditures out of both domestic and external borrowing are generally included in the budget, often in the capital or developmental budget. The budgets of local governments and public enterprises are generally not included in the central government budgets in any of the systems. The budgets of some public enterprises along with those for decentralized agencies are, however, included in the "annexed budgets" of countries using the French budget system, and are sometimes appended to Latin American budgets.

Accounting Systems

A principal variation in accounting systems is the number of funds through which government transactions are carried out. In British budget systems there are usually: (1) a consolidated fund through which all revenues and related receipts and expenditures pass; (2) a contingency fund for meeting unforeseen expenditures pending parliamentary approval; and (3) a public account of monies received as special deposits from the public.

In the United States and countries influenced by its practices, a general account forms the main part of the accounting system and a number of other special accounts are set up for particular purposes. In the French system the treasury predominates and maintains a universal fund. Some Latin American countries maintain a single fund while others operate through a large number of separate funds. Whatever the nature or number of the ledger accounts, a unified cash position is usually maintained with no separate cash balances for the different funds. There are exceptions, however, as in some Latin American countries, where each ministry or fund may maintain a separate cash balance.

Budgeted funds are allotted to the spending agencies in several ways. In some countries using the U.K.-based budget systems there is a system of exchequer issues: the paymaster general issues warrants transferring funds to spending agencies empowered to spend the money for budgeted purposes. In countries with a French budget system, budgeted amounts are conveyed to the spending agencies by a decree indicating the amounts and the budget chapters under which they are available. Payment is made by the treasury, however, and it retains the government funds. Quarterly allocations of budgeted funds or commitment authority are made to the spending agencies in some Latin American countries and in U.S.-influenced systems. In a few Latin American countries, however, the full budgeted amounts are authorized for commitment or spending through a presidential decree immediately following the approval of the budget.

The recording of expenditures follows different practices. In the French budget systems, expenditures are recorded in two stages: namely, by the spending agency (i.e., authorizing officials, *ordonnateurs*) and by the treasury (accounting officials). Recording by the administrative agencies is usually based first on commitments (*engagements*) and then on the issuance of payment orders (*ordonnancement*) following delivery of goods and services, while the treasury's accounts record payments, when checks are issued in a little more than half of the countries and when checks are paid in the rest. In Latin America, expenditure transactions are generally recorded at several stages: obligation, payment order, treasury transfer of funds to the spending agencies, delivery of goods, checks issued, and checks paid. Payment is recorded in most cases when checks are issued. In U.K. and U.S. budget system countries, expenditures are usually recorded on the basis of checks issued. Payments made by cash disbursement rather than by check are generally recorded at the time of disbursement.

Practices differ also in the recording of receipts. Among countries using the British and Spanish budget systems, four out of five record receipts when the checks are deposited to the government's account at a bank. Among French and other budget system countries, however, about half record receipts when the checks are deposited and half when the checks are received by the government. Virtually all countries record receipts of cash when actually received.

Transactions thus recorded are usually aggregated on a weekly or monthly basis, though they may sometimes become available only after a considerable lapse of time. Transactions in a complementary period are usually recorded separately from others so that a separate identification is generally possible. In French budget systems, accounts are compiled by the treasury on a calendar basis but are converted to a fiscal year basis where calendar and fiscal years differ. In British budget systems, accounts are compiled on a fiscal year basis. In all systems classification of transactions in the accounts broadly follows the pattern used in the budget documents.

Institutional differences are marked also with respect to operation of the treasury and its role in the payment system. In the French system, the treasury is reponsible for government cash management and may extend overdrafts and advances to the government out of savings deposits and demand deposits it accepts as a financial institution from private individuals, other levels of government, and public enterprises, and through the postal checking account. In Latin America, government cash management may be performed by the central bank or a designated commercial bank and the treasury does not usually handle cash. In some British budget systems the treasury is organized as a part of government but its financial position is managed by the central bank, with any overdrafts extended to government separately recorded.

Closed Accounts

While budget proposals usually contain, primarily as a basis for comparison, data on budgetary results of past years, the principal statement on budgetary outcome is contained in the closed accounts, produced by the comptroller or auditor general or some other accounting or auditing agency after the close of the budgetary period. Closed accounts may be cash accounts, recording actual receipts and payments, or mixed cash and accrual accounts, recording also obligations or expenditure commitments and expectations of future tax collections, as well as the carry-overs of pending revenues and expenditures from preceding budgets.

Thus, closed accounts may in some instances reflect legal appropriations and their execution without respect to timing, and may remain "open" for several months or more after the end of the fiscal year.

Closed accounts are usually based on some form of a *ledger* which enters each transaction as it occurs. However, closed accounts may be based on straight ledger accounts, which report transactions of all kinds without differentiation, or they may distinguish between current transactions and capital transactions, or between some concept of ordinary and extraordinary transactions. Recombination of these portions of the closed accounts is necessary to arrive at the aggregates and the component categories. Classification will have to be re-examined, however, as budgets entitled development budgets or ordinary budgets may not be confined to capital or current expenditures.

In many countries, transactions are accounted for not only in their ledger bookings but by their effect on the *balance sheet* of the government. All of a unit's transactions are thus unified and reflected in both the change in cash holdings between the beginning and the end of the accounting period and in the increase or decrease of financial assets and liabilities reported. Such balance sheets, therefore, report cash transactions in unison with changes in the cash and debt position. While such closed accounts and unified balance sheets are quite useful they may appear only with some delay.

In many countries, the immediately available and published accounts refer only to a part of the government, usually the budget or the treasury proper, leaving considerable portions of central government unaccounted for. Accounts may be immediately available only for budgetary and not extrabudgetary operation or for treasury accounts and not special funds.

Where the central bank is the sole and effective agent of the treasury, however, both the government's separate accounts for its principal transactions, and all other accounts could be available at the central bank. If intragovernmental transfers between such accounts are identified they can be eliminated from total credits and debits to derive appropriate statistics for external transactions. More differentiated coding systems, attempted in some countries with the help of computers, permit further classification.

II.N. Application in French Budgetary Systems

A number of characteristic procedures are involved in the selection and preparation of suitable data in countries with French budgetary systems. These are concerned with ensuring proper coverage of the statistics, adjusting data to represent payments in a chronological time period, separating the treasury's financial institution functions from government, and consolidating the diverse funds and accounts.

Coverage

An examination of activities properly included in central government can begin with scrutiny of treasury accounts. These are generally distinguishable into four principal categories covering: (1) budgetary operations; (2) special funds and annexed budgets; (3) treasury banking functions and other activities; and (4) the holding of liquid assets.

Budgetary accounts include detailed revenue and expenditure accounts in which definitive transactions are recorded and a number of transit accounts in which items are recorded pending classification or identification. New sets of accounts are opened each year and closed at the end of the year, after which the transit accounts are completely cleared.

The accounts of special funds, agency budgets, extrabudgetary operations, and annexed budgets relate to the operations of central government, nonprofit institutions which may be inside or outside government depending upon predominant government financing and control, and public enterprises outside government. Special funds may typically include price stabilization funds. Though practice varies, central government activities usually embrace most of the special funds, agency budgets, and extrabudgetary operations while annexed budgets usually include some nonfinancial public enterprises, public financial institutions, and decentralized agencies.

Accounts relating to banking and other treasury activities cover both central government functions and treasury financial institution functions considered to be outside government. Accounts for the treasury's banking activities involve acceptance of demand, time, and savings deposit liabilities to the private sector, public enterprises, and others; the extension of short-term credit (as through the discount of customs bills for the payment of taxes); current account transactions (other than grants) with institutions abroad; transactions with domestic financial institutions such as the postal checking system; and a number of suspense accounts and other technical accounts. Central government functions in these accounts would cover domestic and foreign borrowing through bond, note, and bill issues; loans and advances, on favorable terms, to public enterprises and other entities under authority of the budget law (*loi de finance*); and receipt of grants and other governmental transactions abroad.

Accounts reflecting liquid asset holdings of various kinds, such as cash and deposits at the central bank, are not maintained separately for government functions or banking functions.

Adjustment to Cash and Chronological Time

Government accounts data in French budgetary systems may require adjustment to both a chronological time and a cash payments basis.

It is the practice in about half of the countries using French budgetary systems to enter expenditures, and in some countries also revenues, in the accounts of a budget year during a complementary period lasting generally two or three months after the year's end. To compile government finance data on a chronological basis, items recorded for a budget year in the complementary period must be deducted from revenue and expenditure for that budget year while items recorded in the first few months of the year on account of the preceding budget must be added. This adjustment also permits reconciliation of the budget surplus or deficit with the financing statement, which usually is on a strictly annual basis. Information on transactions recorded during the complementary period may be derived by comparing the treasury accounts for the last day of the fiscal year with the definitive account (*comptes definitifs*) for the budget year issued after the close of the complementary period. However, it may not always be possible to carry out this adjustment for all of the disaggregated detail in the revenue and expenditure accounts.

Adjustment of receipts to a cash basis presents few difficulties. Revenues are generally recorded when checks are received by the government or deposited to the government's account. Transfers of profits from monopolies or other government enterprises, however, may sometimes be recorded when due, so that adjustments must be made for amounts due but not received during the accounting period. Customs duties and other indirect taxes are sometimes paid in French budgetary systems through promissory notes accepted by the treasury in its capacity as a financial institution. This transaction is considered for purposes of government finance statistics and money and banking statistics as an extension of credit by the treasury financial institution function to the taxpayer, who pays the government in cash. When such customs bills are utilized, therefore, government receipts are considered to be in cash. Further transactions in these bills are not for the government's account. The treasury usually discounts most or all of these notes with the central bank. Money and banking statistics show customs bills held at the central bank as credit to the private sector and those held at the treasury as deposit money bank credit to the private sector.

Expenditures in French budgetary systems are recorded first as commitments (*engagements*) when an order for the purchase of goods or services is signed. The amount to be paid is established when goods or services have been delivered and the bill received (*liquidation*), though this step may not be shown in treasury accounts. The documents are next verified and, if found proper, a payment order is prepared by the spending ministry (*ordonnancement*). Payment orders are then cleared by the treasury (*visement*) and the check is signed and released (*mandatement*). As a final step payment is recorded, either when checks are issued or paid. Disaggregated expenditure accounts usually reflect payment orders issued. These are equal to checks issued as any discrepancy between the two is usually eliminated by adjusting the former before accounts are published.

Data on payments made are usually not shown in the same detail but information for principal categories can usually be obtained from the treasury. Data for total expenditures and major categories can generally be compiled on a cash basis, therefore, with more disaggregated data on a payment orders basis. The difference between total cash payments and total payment orders is commonly shown in a particular treasury account as arrears (*arriérés de paiement*) or as cash vouchers issued and in circulation (*bons de caisse*). The amount of arrears should be shown in government finance statistics as an adjustment item between the disaggregated expenditures on a payment orders basis and total expenditures on a cash payments basis. An additional adjustment item may be necessary to reflect complementary period adjustments, which may only be possible for total expenditures. In addition to a delay between payment orders issued and actual payments, arrears may also be incurred by delaying the processing of incoming bills prior to the issuance of payment orders. Arrears of this nature are usually not reflected in treasury accounts and can generally be measured only with information from the individual ministries on the amount of unprocessed bills. These amounts may be of considerable significance and may be shown as a memorandum item. Changes in reported arrears should also be shown as a memorandum item if not necessary in the body of the table for adjustment from a payment orders basis to a payments basis.

Separation of Industrial and Financial Institution Functions

Separation of industrial and financial institution functions from the government statistics involves identification of the accounts and transactions for such activities, their removal from the statistics, and the entry of any appropriate transfer or financing transactions.

Separation of industrial activities would probably begin with an examination of the annexed budgets covered in treasury accounts, which might include utilities, ports, and sometimes parts of postal operations and the postal checking system. Other industrial activities either incorporated or selling to the public on a large scale and therefore not included in government may be found among special funds, such as price stabilization funds.

Separation of the treasury's financial institution functions from government is also based on the treasury's accounts. It involves separation from government of the demand, time, or savings deposit liabilities accepted by the treasury, the extension of such short-term credit as that on customs bills, and other banking functions. All treasury liquid asset holdings, however—including all treasury deposits at the central bank—are assigned to government and no attempt is made to attribute some part of deposit or liquid balances to the treasury's banking function. Instead, the resulting surplus of receipts over payments assigned to the treasury banking function is covered by an entry for government net borrowing from the treasury banking function, corresponding to a money and banking statistics entry for deposit money banks' claims on government.

Consolidation

While treasury accounts in the French budgetary system conveniently encompass all central government operations, a significant portion of these activities is usually not reflected in the general budget but in numerous other separate accounts. A considerable amount of intragovernmental consolidation is required, therefore, to compile complete statistics for central government external transactions. This may be difficult at times, as revenue and expenditure in special accounts may be shown with little or no detail in the treasury balance sheets. In these cases additional information will have to be requested from the agencies concerned so that intragovernmental transfers can be identified as to their origin and destination and eliminated from the appropriate expenditure and revenue categories. To carry out consolidation it may sometimes be practical to first eliminate all transfers between accounts of the same kind (e.g., from one special account to another) and subsequently those between different kinds of accounts (e.g., those between the general budget and the special accounts). Consolidation may sometimes be complicated because certain operations are channeled through a number of accounts or because there are offsetting transfers between two or more accounts.

Consolidation of financing operations and their reconciliation with government debt statistics is greatly facilitated in the French treasury system because the treasury usually controls and records the financial transactions of the central government agencies. When government agencies are allowed to maintain significant deposits with the deposit money banks or to keep substantial cash balances on hand, however, additional information will be necessary from the agency concerned so that data on government deposits and cash holdings can be adjusted accordingly. Particular attention may be necessary also with regard to transactions among the treasury, the central bank, and the postal system, as these three institutions may maintain a number of accounts with each other with offsetting balances that partly cancel out.