1. Introduction

This chapter describes the purpose of this manual, the uses of government finance statistics, the structure of the government finance statistics system, major methodological changes from the previous edition of this manual, and methods of implementing the revised system.

A. Purpose of the manual

1.1 This second edition of the Government Finance Statistics Manual (GFS Manual or revised GFS Manual) describes a specialized macroeconomic statistical system (the GFS system) designed to support fiscal analysis. The manual provides the economic and accounting principles to be used in compiling the statistics and guidelines for the presentation of fiscal statistics within an analytic framework that includes appropriate balancing items. The manual does not treat systematically the practical aspects of compiling the statistics. These aspects of the GFS system will be addressed in a compilation guide.

1.2 The primary purpose of the GFS Manual is to provide a comprehensive conceptual and accounting framework suitable for analyzing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector of any country. The concept of a sector is described in Chapter 2. In short, the general government sector consists of entities that implement public policy through the provision of primarily nonmarket services and the redistribution of income and wealth, with both activities supported mainly by compulsory levies on other sectors. The public sector consists of the general government sector plus government-controlled entities, known as public corporations, whose primary activity is to engage in commercial activities.

1.3 Public finance analysts have traditionally used fiscal statistics to analyze the size of the public sector; its contribution to aggregate demand, investment, and saving; the impact of fiscal policy on the economy, including resource use, monetary conditions, and national indebtedness; the tax burden; tariff protection; and the social safety net (see Chapter 4, Box 1). In addition, analysts have become increasingly interested in assessing the effectiveness of spending on poverty alleviation, the sustainability of fiscal policies, net debt, net wealth, and contingent claims against government, including the obligations for social security pensions.

1.4 Achieving these analytic goals often requires the use of statistics for the public sector rather than the general government sector. Public corporations, non-financial as well as financial, can carry out government fiscal policies in a variety of ways, and analysis of their fiscal activities frequently requires statistics on all of their activities rather than isolated statistics on specific transactions. Even when statistics are compiled for only the general government sector, some information on public corporations is required to reflect the level and change in the level of equity ownership of public corporations held by units of the general government sector.

1.5 The basic concepts, classifications, and definitions employed in this manual depend on economic reasoning and principles that should be valid universally regardless of the circumstances in which they are applied. Therefore, the GFS system is applicable to all types of economies regardless of the institutional or legal structure of a country’s government, the sophistication of its statistical development, the

---

1 The first edition was published in 1986 with the title A Manual on Government Finance Statistics. It will be referred to as the 1986 GFS Manual.
2 Balancing items summarize the net value of the activities covered by a set of accounting entries, such as the net value of total revenue less total expense. Chapter 4 provides details on the analytic framework and its balancing items.
system of government financial accounting, or the extent of public ownership of for-profit entities. Nevertheless, the fact that countries differ greatly in their governmental and economic structures means that the various parts of this manual will not be equally relevant.

1.6 This edition of the *GFS Manual* updates the internationally recognized standards for the compilation of statistics required for fiscal analysis that were established by the 1986 *GFS Manual*. The revised standards have been harmonized with the corresponding standards of other internationally recognized macroeconomic statistical systems to the extent consistent with the goal of supporting fiscal analysis. The other statistical systems are the overarching System of National Accounts (hereafter referred to as the 1993 *SNA*) and two specialized systems that are focused on the balance of payments and monetary and financial statistics.³ This manual draws heavily on the text of the 1993 *SNA* to avoid an inference that a different meaning is intended.⁴

B. Uses of the GFS system

1.7 The GFS system is designed to provide statistics that enable policymakers and analysts to study developments in the financial operations, financial position, and liquidity situation of the general government sector or the public sector in a consistent and systematic manner. The GFS analytic framework can be used to analyze the operations of a specific level of government and transactions between levels of government as well as the entire general government or public sector.

1.8 One method used in the GFS system to produce summary information on the overall performance and financial position of the general government or public sector is through the use of a set of balancing items, such as the net operating balance, net lending/borrowing, and the change in net worth. Such balancing items are most effectively defined and measured within an integrated and comprehensive accounting framework such as the GFS system.

1.9 In contrast to summary measures, the detailed data of the GFS system can be used to examine specific areas of government operations. For example, one might want information about particular forms of taxation, the level of expense incurred on a type of social service, or the amount of government borrowing from the banking system.

1.10 The harmonization of the GFS system with other macroeconomic statistical systems means that data from the GFS system can be combined with data from other systems to assess general government or public sector developments in relation to the rest of the economy. Similarly, the establishment of internationally recognized standards permits government finance statistics to be used in cross-country analyses of government operations, such as comparisons of ratios of taxes or expense to gross domestic product.

C. Structure and features of the GFS system

1.11 The GFS system pertains to the general government and public sectors as defined in the 1993 *SNA* and Chapter 2 of this manual. These sectors are defined in terms of institutional units, which are economic entities that are capable of owning assets, incurring liabilities, and engaging in economic activities and transactions with other entities in their own right. These characteristics render institutional units a subject of economic and statistical interest that can be satisfied by compilation of a full set of accounts for them, including balance sheets.

1.12 Two types of flows are recorded in the GFS system: transactions and other economic flows.⁵ For the most part, transactions are interactions between two institutional units that take place by mutual agreement. The *Statement of Government Operations* (see Chapter 4) records the results of all transactions during an accounting period. They are classified as revenue, expense, net acquisitions of nonfinancial

---


⁵Flows reflect the creation, transformation, exchange, transfer, or extinction of economic value. Transactions and other economic flows are defined and described in greater detail in Chapter 3.
assets, net acquisitions of financial assets, or net incurrences of liabilities. Transactions that generate revenue or expense result in a change in net worth. Other types of transactions result in equal changes to assets and/or liabilities and do not result in a change to net worth.

1.13 Other economic flows include price changes and a variety of other economic events that affect the holdings of assets and liabilities, such as debt write-offs and catastrophic losses. The *Statement of Other Economic Flows* (see Chapter 4) summarizes these changes in assets, liabilities, and net worth.

1.14 The *Balance Sheet* (see Chapter 4) for the general government or public sector is a statement of the stocks of financial and nonfinancial assets owned, the stock of claims of other units against the owners of those assets in the form of liabilities, and the sector’s net worth, equal to the total value of all assets less the total value of all liabilities.

1.15 The comprehensive treatment of transactions and other economic flows in the GFS system enables the opening and closing balance sheets to be reconciled fully. That is, the stock of a given type of asset or liability at the beginning of an accounting period plus the changes in that stock indicated by transactions and other economic flows equals the stock at the end of the period. Such an integrated statistical system permits the effects of policies and specific economic events to be described and analyzed fully.

1.16 Various classifications are applied to the flows and stocks recorded in the GFS system. For example, each revenue transaction is classified according to whether it is a tax or another type of revenue; expense transactions are classified by purpose and by economic type; assets are classified according to whether they are financial or nonfinancial; and financial assets and liabilities are classified both by type of instrument and the sector of the unit that issued the asset held by government or that holds the liability issued by government.

1.17 Despite harmonization of the GFS system with the *1993 SNA*, there are differences between the two statistical systems. The most important difference is that the focus of the GFS system is on financial transactions—taxing, spending, borrowing, and lending—while the *1993 SNA* also focuses on the production and consumption of goods and services. As a result, the treatment of government productive activities in the GFS system differs substantially from the treatment of those activities in the *1993 SNA*. Significant differences relate to the treatment of own-account capital formation, retirement schemes for government employees, and the degree of consolidation (for more details, see Appendix 3).

1.18 In many cases, the compilation of government finance statistics will be the first step in the compilation of statistics for the general government sector of the national accounts. For this reason, some data that normally would not appear in a standard GFS presentation should be maintained in subsidiary records because they are needed for the national accounts. For example, the detailed estimates of retirement schemes for government employees should be maintained so that the different treatment of such schemes in the *1993 SNA* can be accommodated.

1.19 Definitions of concepts in the GFS system are the same as in the *1993 SNA*, but the coverage of a particular category of transactions may be slightly different. For example, compensation of employees recorded as an expense in the GFS system does not include the compensation of employees engaged in own-account capital formation, but compensation of employees in the *1993 SNA* includes the compensation of all employees. The definition and composition of compensation of employees, however, is identical in both systems. Using the same name when the coverage is different could be misleading. To note where the coverage or some other aspect of a concept differs from the same concept in the *1993 SNA*, the indicator “[GFS]” is added after the GFS title and an explanation of the difference is provided.

1.20 Contingencies, such as loan guarantees and implicit guarantees to provide social benefits when various needs arise, can have important economic influences on the general economy but do not result in transactions or other economic flows recorded in the GFS system until the event or condition referred to actually occurs. As a result, provision is made for recording contingencies as memorandum items.

D. Methodological changes from the 1986 GFS system

1.21 The methodology for compiling government finance statistics described in this manual differs substantially from the methodology of the 1986
The following paragraphs summarize the major differences. Details are provided in Appendix 1.

1. Coverage

1.22 The focus of the coverage of the revised GFS system is the general government sector as defined in the 1993 SNA, which is defined on the basis of institutional units. The coverage of the 1986 GFS Manual is defined on a functional basis and includes the relevant transactions of any unit carrying out a function of government. Frequently, units of the broader public sector carry out some functions of government. To capture the fiscal transactions and activities taking place outside the general government sector, the compilation of statistics of the public sector and identification of the transactions between units of the general government sector and public corporations are encouraged.

2. Basis of recording economic events

1.23 In the revised GFS system, flows are recorded on an accrual basis, which means that flows are recorded at the time economic value is created, transformed, exchanged, transferred, or extinguished. In the 1986 GFS Manual, transactions are recorded when cash is received or paid.

1.24 Using the accrual basis also means that nonmonetary transactions are fully integrated in the revised GFS system. In the 1986 GFS Manual only selected nonmonetary transactions were recorded as memorandum items.

3. Valuation

1.25 Flows as well as assets, liabilities, and net worth are valued at current market prices in the revised GFS Manual, but with a provision for recording the nominal value of debt securities as a memorandum item. In the 1986 GFS Manual, debt securities are valued at the amount the government is obligated to pay when the debt matures, which may differ from both the nominal value and the current market value.

4. Balance sheets

1.26 Complete balance sheets, which include all stocks of financial assets, nonfinancial assets, liabilities, and net worth, are included in the revised GFS system. The 1986 GFS Manual includes only stocks of certain debt liabilities.

5. Integration of flows and stocks

1.27 The comprehensive recording of transactions and other economic flows permits a full integration of flows and stocks and the reconciliation of differences between the opening and closing balance sheets. Such a reconciliation of the stocks of the debt liabilities included in the 1986 GFS Manual is not possible without the collection of additional information.

6. The analytic framework

1.28 In the revised GFS system several new balancing items are introduced. Associated with this change is the view that analysis of the general government sector or the public sector must include a variety of considerations and that no single measure is sufficient for all purposes. In the 1986 GFS Manual, the emphasis of the analytic framework is focused on a single balancing item, the overall deficit/surplus.

1.29 The revised definitions of revenue and expense as changes in net worth resulting from transactions lead to a revision of the treatment of transactions in nonfinancial assets from the 1986 GFS Manual and the introduction of new balancing items. Previously, cash transactions in nonfinancial assets were treated as capital revenue and expenditure, which affected the overall deficit/surplus. Now the difference between revenue and expense is a balancing item, the net operating balance, that measures the change in net worth resulting from transactions.

1.30 All transactions involving the acquisition or disposal of financial assets are now treated as financial transactions, and net lending/borrowing is a balancing item defined as the net acquisition of all financial assets less the net incurrence of all liabilities from transactions. In the 1986 GFS Manual, the net acquisition of financial assets for policy purposes was designated as lending minus repayments and treated like expenditure in deriving the overall deficit/surplus. Provision is made in the revised system, however, for another balancing item, the overall balance, which allows the net acquisition of selected financial assets to be treated similarly to the net acquisition of financial assets for policy purposes in the 1986 GFS Manual (see Chapter 4).
E. Implementation of the revised GFS system

1.31 Some countries may be able, at least initially, to compile only a small part of the revised GFS system. It is not appropriate to lay down general priorities for data collection when economic circumstances may vary so much from one country to another. In practice, priorities usually are best established by national authorities that are familiar with the situation, needs, and problems of the individual countries in question.

1.32 It is recognized that the implementation of the fully integrated GFS system presented in this manual will take some time and will need to progress at a pace determined by the differing needs and circumstances of the country involved. In particular, many countries will need to revise their underlying accounting systems to reflect the accrual accounting principles and revised classifications of the GFS system.6

1.33 Nonetheless, it is likely that many countries will follow a similar path as they implement the system. For example, a possible first step on the migration path could be that countries would adopt the revised classification structure of the Statement of Government Operations or Statement of Sources and Uses of Cash and adjust their existing cash-based statistics to allow for known deficiencies, such as by incorporating information on revenue or expense arrears. Another step might be the assembly of balance sheet information on financial assets and liabilities that would enable estimates to be made of the other economic flows of the system as they relate to these financial items. A more difficult step is likely to be the collection of a complete set of information about the stocks of nonfinancial assets held at a given time and their valuation at current market prices. Finally, a fully developed accrual accounting system could be introduced that provides for complete balance sheets to be prepared.

F. Structure of the manual

1.34 The remainder of this manual can be divided into two general topics. Chapters 2 through 4 develop the concepts used in the system, and Chapters 5 through 10 describe the classifications used and the types of flows or stocks included in each classification category.

1.35 Chapter 2 describes the coverage of the general government sector, the division of the sector into sub-sectors, and its expansion to the public sector. Chapter 3 first summarizes the concepts of transactions, other economic flows, and stocks of assets and liabilities. It then describes the accounting rules governing their recording, including timing, valuation, and consolidation. Chapter 4 describes the analytic framework, which is the presentation of transactions, other economic flows, and balance sheets in a manner that permits the calculation of balancing items as summary measures of the activities of the general government sector.

1.36 Chapters 5 through 10 describe the classifications of transactions, other economic flows, and stocks of assets and liabilities. Chapter 5 is devoted to revenue transactions, which represent increases in net worth. Chapter 6 describes expense transactions, which decrease net worth. Chapter 7 describes the balance sheet and the classification of stocks of assets, liabilities, and net worth. Chapter 8 provides a classification of transactions in nonfinancial assets, and Chapter 9 provides a classification of transactions in financial assets and liabilities. Finally, Chapter 10 covers other economic flows.

1.37 The manual includes four appendixes. Appendix 1 describes the methodological changes from the 1986 GFS Manual; Appendix 2 describes the treatment of various debt and debt-related transactions and other economic flows; Appendix 3 summarizes the relationships between the GFS system and the 1993 SNA; and Appendix 4 lists all of the classification codes used in the GFS system. An annex to Chapter 2 describes social protection, while an annex to Chapter 6 reproduces the Classification of the Functions of Government.

---

6Although the GFS system is described in standard accounting terms, it is important to remember that it is a statistical reporting system that might differ in important ways from the underlying financial accounting system from which most of the GFS statistics will be derived.