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13 September 2008

STC/2008/137

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Dear Paul,

Ninth consultation on the updating of the 1993 SNA (draft chapters 18, 19, 22 and 26)

We would like to congratulate you with the approval of Volume 1 of the updated 1993 SNA. We welcome the modified definition of the reference rate to be used for the calculation of financial intermediation services indirectly measured (FISIM) in paragraph 6.166 and the treatment of exceptional losses of non-life insurance corporations as capital transfers, as also proposed by the ECB.

Nevertheless, we would like to raise two important points at this stage. First, we attach high importance to the proposed coding structure for the new SNA and would appreciate receiving some feedback on our comments on this subject. It could have implications for the currently well-established coding system used in the context of the 1995 ESA Transmission Programme and of ECB Regulations in the field of monetary and financial statistics. We have seen that this issue is also on the proposed agenda of the sixth AEG meeting in Washington DC from 12 to 14 November 2008.

Concerning chapter 27 'Links to monetary and financial statistics', you mention in your letter that this chapter has already passed through the world-wide review and received comments. In that context, we would appreciate if a new draft of this chapter is posted on the website taking into account the substantial comments provided by the ECB and other national central banks in 2007.

Please find attached the ECB comments on the generally well-written SNA draft chapters 18 (Elaborating the accounts), 19 (Population and labour inputs), 22 (The general government and public sectors) and 26 (The rest of the world accounts). The comments have been shared with the members of the Statistics Committee (STC) of the European System of Central Banks (ESCB).

Kind regards,

[Signed]

Steven Keuning

Encl.:

Four forms with comments on the draft SNA chapters 18, 19, 22 and 26

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Comments on draft SNA chapter:

Chapter 22: The general government and public sectors

Deadline for comments: 13 September 2008

Send comments to: sna@un.org

Your name:	Reimund Mink
Your country/organization:	European Central Bank
Contact (e.g. email address):	reimund.mink@ecb.int
Submission date:	Click here and enter your submission date

This template allows you to record your comments on draft SNA chapter 22 “The general government and public sectors” and, at the same time, makes it easy for us to use your comments in considering revisions to the draft chapter. You may complete any or all parts of the template.

There is no file comparing existing text with draft text for this chapter because the draft is all new text.

Save this template and send it as an attachment to the following e-mail address:

sna@un.org

Part I: General comments

In the space below, please provide any general comments. This may cover e.g. the structure of the chapter, issues missing and (lack of) consistency with other chapters of the 2008 SNA.

General comments:

General comment	<p>This chapter is too long. It entails many details which are already discussed in other chapters. For the reader it would be sufficient to refer to the corresponding sections or paragraphs (units, sectors, concept of control).</p> <p>It would be nice to have a detailed table of contents for this chapter.</p> <p>The chapter discusses in detail the government finance presentation of data - revenue and expense as defined in GFSM. Accordingly, it refers primarily to the net operating balance. These concepts are not commonly used in fiscal policy analysis. As known the ‘European system of government finance’ favours the use of revenue and expenditure with the balancing item net lending/net borrowing. As this concept is also common for other sectors, we would prefer to use these aggregates. The term outlay as a synonym for expenditure is not much used in practice.</p> <p>The balancing item net lending/net borrowing is one of the key measures for analysing fiscal policy. It is seen as an important measure to check the non-financial transaction accounts vis-à-vis the financial accounts (not only for general government). Furthermore, it refers to the net borrowing requirement of government and is a measure of this requirement vis-à-vis other resident sectors and the rest of the world. Net operating balance is seen as an alternative measure looking at the impact on net worth of government. In theory, net worth might be the appropriate measure to assess government’s and, generally, a sector’s economic performance. However, data on the stock of non-financial assets is still incomplete.</p>
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	<p>The term ‘<i>bailouts</i>’ has not been considered as a discussion item in preparing the new SNA.</p> <p>A decision tree is indicated for government and other public units but not presented in Figure 22.1 (section 5).</p> <p>In terms of debt, a net concept is discussed which is one option which has to be precisely defined (in terms of liabilities). At least, gross debt should be considered as well as the link between net lending/net borrowing and changes in gross debt.</p> <p>Section 6 on the subsector of general government is not in line with the paragraphs 4.129 and 4.130. In these paragraphs, the split of general government into central government, state government, local government and social security funds is described first and the breakdown into central, state and local government (all of them covering the corresponding social security funds) afterwards.</p> <p>Referring to previous comments the presentation of the ‘public sector’ needs to be modified as it is not seen as an ‘original’ institutional sector like households or general government. It is composed of general government and parts of the corporations sectors. The role of the central bank in this context has to be reconsidered. It is not preferable to treat the central bank as a public corporation but as a subsector of the financial corporations subsector without any further specification.</p> <p>It should be noted that Eurostat circulated a draft chapter on government accounts at the last FAWG meeting (June 2008) to be included in the revised ESA95. In our opinion it will be important to conciliate the structure and content of the chapters to be included both in the revised SNA and the revised ESA95. In our view, there will be an advantage that the chapter on government accounts is the same in both publications.</p>
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Part II: Comments on specific draft paragraphs and sections

All comments on specific draft paragraphs are welcome. They can be about e.g. scope, content and clarity. Proposing a concrete alternative text or table is also possible. For the paragraphs in separate sections, separate forms are used for providing and collecting comments (see below).

A. Introduction (paragraphs 22.1-22.12)

General comment	Concepts like net lending or borrowing, expense, expenditure, revenue, outlays, tax burden, net operating balance and debt are mentioned (for instance in 22.3, 22.5, 22.19, 22.20) but not yet defined.
22.3	Is there any difference between quasi-fiscal operations and quasi-fiscal activities? If yes, it should be explained.
22.8	It would be helpful to use the term <i>government finance statistics</i> presentation throughout the chapter. Different terms should not be applied like government financial accounts.
22.11	Last sentence: Include ‘to comply with <i>the</i> accounting ...’.
Click here and start typing.	

* Insert rows in this Word table for each paragraph on which you wish to comment.

B. Defining the general government and public sectors (paragraphs 22.13-22.66)

General comment	<p>The section should start with the definition of the general government sector as indicated in the title and not with the definition of the public sector.</p> <p>We suggest including an illustrative allocation of units to the general government sector and the public sector similar to figure 4.1 to turn it clearer and to eliminate a number of details which are already discussed in other chapters.</p>
22.14	The first sentence should read: <i>‘The criterion that determines whether a unit is treated as part of general government or not is’</i>
22.16	The sentence should read: <i>‘... units falling in the general government sector, the public sector or the private sector, it is helpful ...’</i>
22.18	The sentence should start: <i>‘Within a national economy ...’</i>
22.28	Drop the second <i>a</i> in the first sentence.
22.29	We suggest replacing the word “they” with “sales” after “if” in the first sentence.
22.28-22.40	<p>There are no real operational criteria in this part to determine whether output is sold at economically significant prices.</p> <p>The European practice of considering output sold at economically significant prices when sales cover more than 50% of costs is operational. The proposed text does not provide such an operational criterion.</p> <p>In par. 22.30 it is referred that “...the distinction between market and non-market may be made for a group of entities undertaking similar activities rather than on a case-by-case basis..... However, when compiling the general government sector accounts, this should never result in combining the accounts of market institutional units with those of non-market institutional units.”</p> <p>Conceptually and in practice the above statement is contradictory. If the analysis is made for a group of entities (which group?) it might happen that there will be a combination of the accounts of market and non-market units. In our opinion this analysis should be made on case-by-case basis.</p>
22.41	Figure 22.1 does not show the relationship between general government, the public sector and the other main sectors of the domestic economy. The figure should be self-explanatory, which is not the case here.
22.42a	<p>Our understanding is that the question mark should be deleted and the question should be converted into a statement and/ or, as suggested above, a decision tree could be introduced.</p> <p>Therefore replace the sentence “If it does not meet the criteria to be considered an institutional unit, is it part of the unit that controls it?” by “If it does not meet the criteria to be considered an institutional unit, it is part of the unit that controls it.”</p>
22.42b	The question should focus on distinguishing public from private, in a simpler manner. It can be as follows “the unit is public if it is controlled by general government. Private producers can be found in all sectors, except the sector general government. In contrast, public producers are found either in the corporations sectors (if they are market) or in the general government sector (if they are non-market)”.

	The above sentence is included in the ESA95 Manual on government deficit and debt.
22.45	Not sure whether a central bank should always be classified as a public corporation.
22.50	What are depreciation reserves? As far as I know they are not defined in the SNA. In the last sentence, the term government-owned should be used.
22.53	The reference to the activity performed on a market or non-market basis is not clear. It would be better to add in brackets something like “performed on a market or non-market basis (for instance, selling assets above/below market prices)...”.
22.54	In a, the last sentence should read: ‘... <i>classified as a non-financial corporation or a financial corporation according to the principal activities of the subsidiaries ...</i> ’.
22.55	Crises in the first sentence. In a, ‘... <i>as an other financial intermediary’ in the financial corporations sector.</i> ’
22.55a	Typo: “aninstitution” should be changed to “an institution”
22.57	See comment below, to par. 22.58 and 22.59.
22.58 and 22.59	<p>Not clear how <i>transactions should be imputed if there are no actual economic flows recorded between government and the SPE.</i></p> <p>Nonetheless, if such a reference exists for a non-resident SPE, a similar reasoning should be added to par. 22.57 (even taking into account that in general, the SPE could be acting like an independent institutional unit).</p> <p>It would be very useful if additional paragraphs in line with §8.24 - §8.26 of BPM6 were inserted.</p>
22.60 to 22.64	<p>It has to be clearly specified which types of units are involved in joint ventures: government units, public units and/or private units.</p> <p>In particular, par. 22.62 is rather confusing. It starts by referring the issue of control (public or private) and it ends by concluding about the sector classification within the public sphere (general government or public corporations).</p> <p>It will be better to replace the last sentence by “It will be in general government if it is a non-market producer and it will be classified in the (public) corporation sector if it is a market producer”.</p> <p>Nonetheless, the above might still not provide enough guidance because we seem to be in the case where the issue is to decide about the public (or private) control.</p> <p>In par. 22.64 the last sentence is not clear about the proposed accounting solution in national accounts when two units are jointly involved in a production process.</p>
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* Insert rows in this Word table for each paragraph on which you wish to comment.

C. The government finance presentation of statistics (paragraphs 22.67-22.92)

General comment	Our preference would be to concentrate on the concepts of revenue, expenditure and net lending/net borrowing because of their general use in fiscal policy analysis. See
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	general remarks.
22.70	Revenue also covers <i>sales</i> which are not listed in this paragraph.
22.75	It might be useful to illustrate the relationship between <i>expense</i> and <i>expenditure</i> . Generally, a table would be helpful showing the relationship between SNA and GFS aggregates.
22.76	Is it the reference to the fact that FISIM is not distinguished from interest accurate?
22.79 and 22.80	It would be preferable to use the term <i>expenditure</i> instead of <i>outlays</i> taking also into account the terminology generally applied. This also refers to the term <i>net operating balance</i> as the difference between <i>revenue</i> and <i>expense</i> .
22.81	The terms <i>surplus and deficit</i> should also be introduced as synonyms for <i>net lending/net borrowing</i> . Revenue also covers <i>sales</i> which are not listed in this paragraph.
22.83 and 22.84	Reference is made to the relationship between net lending/net borrowing and the change in government liabilities in 22.83. At this stage it is not clear what is meant. This becomes clearer at the beginning of 22.84 where reference is made to the <i>net level of government liabilities</i> . There is an inconsistency in the description of the impacts on debt in 22.84 assuming that a net concept of government liabilities is used: 84a and 84b refer to a net concept, but 84c and 84d refer to a gross concept because only changes in debt liabilities are mentioned in the latter cases.
22.85 and 22.88	<i>Financial transactions</i> instead of <i>transactions in financial assets and liabilities</i> .
22.88b/c 22.90	The terminology used in these paragraphs should be amended: <i>granting of loans; debt securities; interest receivable and payable; quadruple entry system</i>
22.88	Would propose to delete options d, e and f (also in line with 22.87).

* Insert rows in this Word table for each paragraph on which you wish to comment.

D. Accounting issues particular to the general government and public sectors (paragraphs 22.93-22.168)

General comment	The description of debt operations such as debt forgiveness is not specific to government. 22.111-22.122 could be deleted from the chapter.
22.101	This paragraph should be rephrased. It should say: “Taxes unlikely to be collected should not be allowed to impact general government net lending/net borrowing.”
22.106	The introduction of this paragraph is not precise enough. There are transactions where government is the direct counterpart sector of transactions with supranational organisations and not just the channelling agent. This should be made clearer in the introductory sentences.
22.107	Typo: “trasfer” should be changed to “transfer
22.110	The terminology used in this paragraph should be amended: liabilities instead of financial instruments or instruments; drop: ‘...all debt instruments are liabilities, but

	<p>some ...’</p> <p>The whole paragraph could be rephrased as follows: “Debt is defined as all liabilities that require payment or payments of interest and principal by the debtor to the creditor at a date or dates in the future. Shares, equity and financial derivatives are liabilities that are not part of debt. However, due to specific, legal, institutional or practical arrangements other liabilities, such as trade credits, may also be excluded from debt. The same arrangements may specify that the valuation of debt may moreover be at nominal value rather than at market value.”</p>
22.117	Is it proper to use the term “swap” to describe this instrument as a swap is usually used to describe a financial derivative?
22.120	Would it be possible to make this paragraph clearer? For instance, by distinguishing three possible forms of intervention: 1) when the government gives its guarantee; 2) when the government buys directly the assets; and 3) when the government creates an SPE. What kind of assets does it concern in terms of quality?
22.121- 22.122	Would it be possible to come up with an exact definition and exact treatment of debt issued on concessional terms? Some reference to the fact that this transfer equals the difference between market and current interest rates would be useful.
22.125	According to the terminology used in this paragraph: Use liability instead of financial liability.
22.129	<i>Interventions</i>
22.129- 22.130	These paragraphs seem to say that guarantees provided by government can be recorded as a capital transfer at inception. This topic is still under discussion in Europe. It seems best to delete option a from paragraph 22.129
22.134	“Units that purchase financial assets” should be replaced by “Units, created by general government, that purchase financial assets”
22.135- 22.137	<p>These paragraphs should clearly state what are the conditions that lead to the classification/reclassification of the securitisation operation as government borrowing (fiscal claims, DPP clause, possibility of substitution of assets, ex-ante and ex-post compensation). Please refer to Eurostat decision dated of 25.06.07.</p> <p>The sentence in Paragraph 22.136 “In the SNA, a stream of future receipts is not recognized as government asset that could be used for securitisation” is not correct as future flows can indeed be securitized; the issue is that they will be treated as borrowing and not as a sale of assets.</p>
22.137	This paragraph should be rephrased to make it absolutely clear that securitisations of future revenue flows should always be recorded as government borrowing.
22.138	This treatment clashes with the current Eurostat guidance that stipulates that all such payments impact the deficit.
22.140- 22.141	These two paragraphs overlap and could be merged into one.
22.142 and 22.143	These two paragraphs overlap as well.
22.144	<i>Shares and other equity</i>

22.155	Concerning the treatment of central banks see above.
22.156	<p>We would draw attention to the fact that this paragraph is not in line with the draft final chapter on “Payments between the central bank and government” of the Manual on Government Deficit and Debt (MGDD).</p> <p>With this in mind, we would suggest rephrasing 22.156a. in order to account also for the case where <u>the operational profit is zero or where there is an operational loss:</u> “These payments are recorded as dividends as long as they do not exceed the sum of the bank operational profits/losses. In this case the amount in excess of this sum is to be recorded as an equity withdrawal by government. Moreover, if the operational profit is zero or if there is an operational loss, no amount can be recorded as property income and the whole payment is withdrawal of equity by government.”</p> <p>Additionally, a reference should be made to the fact that these rules do not apply to payments made by central bank for services provided by government nor to the <u>payment of taxes. In particular, regular corporate taxes on profits paid by the central bank to government are recorded as tax on income, with the exception of taxes paid on exceptional transactions.</u></p>
22.157	The reference to paragraphs 6.148 to 6.153 should be replaced by 6.151 to 6.156, and paragraphs 7.121 to 7.125 should also replace paragraphs 7.114 to 7.118.
22.158 to 22.168	Taking into account that no final decisions have been made on the treatment of PPPs in the SNA it seems to be out of scope to have so many paragraphs on this still open issue.

* Insert rows in this Word table for each paragraph on which you wish to comment.

E. The public sector presentation of statistics (paragraphs 22.169-22.175)

General comment	The presentation of the public sector is not available in the file as posted on the UNSD website.
22.172	This paragraph should make clear which transactions exactly can be usefully consolidated.
22.174	The definition ‘Net lending or net borrowing for the total public sector is known as the public sector borrowing requirement’ is not precise. In some statistical frameworks in fact the borrowing requirement differs from net borrowing for two main reasons: 1) it includes the effects of net transactions in financial assets; 2) the impact of transactions is considered on a cash basis (and not on an accrual basis as for the net borrowing). The two aggregates can in principle be computed for both the general government sector and the public sector (=general government + public corporations).

Insert rows in this Word table for each paragraph on which you wish to comment.

Part III. Other specific comments

You are welcome to make other specific comments. To assist you in doing so, the following points are provided as a guide to the types of points on which you might wish to comment. Note, though, that you are not restricted to commenting on only these points.

1. Are the extended examples about how to decide when a unit supplying to government is market or non-market helpful/too extensive?

We think they are helpful.

2. Is the relationship between the SNA and GFS clear?

It would be preferable to have a table describing the links between the two concepts also taking into account that the GFS concepts deviates from the GFS in the European context.

3. Is the description of privatisation and nationalisation helpful/sufficient?

No comments.

4. Is the section on debt sufficiently comprehensive given the existence of other manuals e.g. external debt guide?

As indicated above there are some deficiencies in the description of government debt. It might be worthwhile to define and describe some of the core concepts (gross, net, non-consolidated, consolidated, market value, nominal value and the link between debt and net lending/net borrowing).

5. Do you have comments on the treatment of tax credits?

We would like to stick to the AEG decision treating tax credits on a gross basis. This position has also been reaffirmed by many AEG members.

Specific comments:

Specific comments	Click here and start typing.
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You are also welcome to comment directly on the PDF file of the draft chapter. Please do so by using Adobe Acrobat Version 6 or 7.

If you don't have Adobe Acrobat Version 6 or 7 and would like to make detailed comments, please send a message to sna@un.org requesting a version of the draft chapter that permits you to comment. To optimize your commenting tools, please download Adobe Reader 7.0 for free from <http://www.adobe.com/products/acrobat/readstep2.html>