



Government Finance Statistics IMF Statistics Department

Expense

Contents of Lecture

- **Definition of expense**
- **Accrual recording of expense**
- **Main economic types of expense**
- **Characteristics of expense transactions**
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Definition of Expense

**Expense is a set of exchange and transfer
transactions that reduce net worth**

Accrual Recording of Expense

- **Expense should be recorded when the activities, transactions, or other events occur that create the unconditional obligation of general government units to make payments or otherwise give up resources**
 - **Exchanges**: when ownership changes hands or when services are delivered
 - **Transfers**: when all eligibility criteria are met
 - **Consumption of fixed capital**: continuously over life of asset (internal transaction)

Own-account Capital Formation

- **Not included in expense!**
 - **Wages and salaries**
 - **Use of goods and services**
 - **Consumption of fixed capital**
 - **Subsidies**

Main Economic Types of Expense

- **Eight** main categories:
 - Compensation of employees
 - Use of goods and services
 - Consumption of fixed capital
 - Interest
 - Subsidies
 - Grants
 - Social benefits
 - Other expense

Characteristics of Expense Transactions (1/2)

Type of transaction	Characteristic
Compensation of employees	Exchanges
Use of goods and services	Exchanges
Consumption of fixed capital	Imputations (internal transactions)
Property expense	Exchanges

Characteristics of Expense Transactions (2/2)

Type of transaction	Characteristic
Subsidies	Transfers
Grants	Transfers
Social benefits	Transfers
Other transfers	Transfers

Compensation of Employees (1/6)

21 Compensation of employees

211 Wages and salaries

2111 Wages and salaries in cash

2112 Wages and salaries in kind

212 Social contributions

2121 Actual social contributions

2122 Imputed social contributions

Compensation of Employees (2/6)

- **Defined as:**
 - **total remuneration, in cash or in kind, payable to a government employee in return for work done during the accounting period, except for work connected to own-account capital formation**
- **Measured by:**
 - **value of remuneration in cash or in kind an employee becomes entitled to receive from employer for work done during relevant period, whether paid in advance, simultaneously, or in arrears of the work itself (accounts payable)**

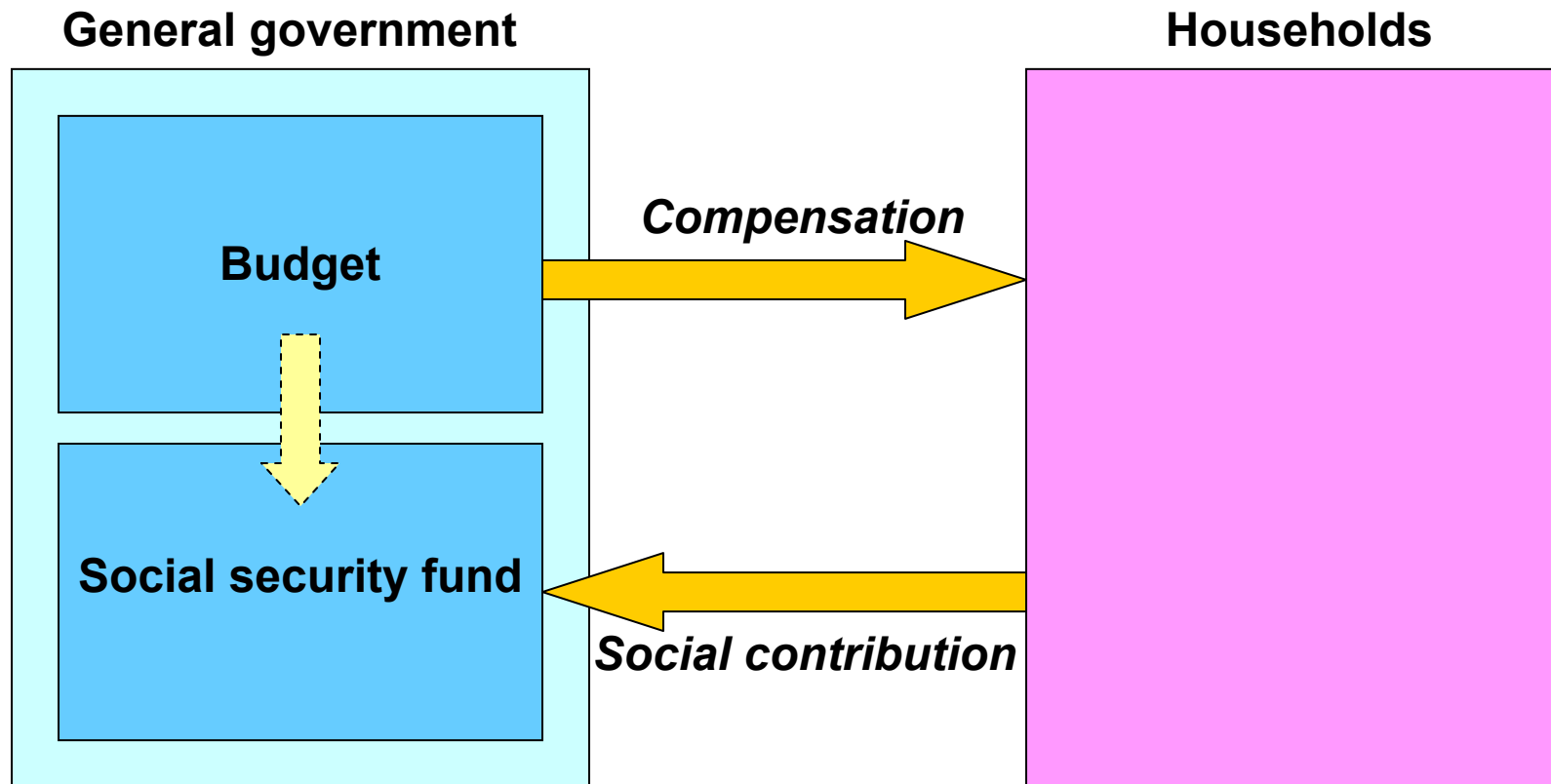
Compensation of Employees (3/6)

- **Compensation of employees include:**
 - All benefits that are part of an actual or implied contract between the employer and employee
 - Remuneration in cash and in kind
 - Contributions made on behalf of employees to social insurance schemes

Compensation of Employees (4/6)

- **Compensation of employees exclude:**
 - Payments not related to employment contracts
 - Payments to contractors and out-workers
 - Compensation paid to employees engaged in government own-account capital construction
 - These transactions are included in Table 3, Classification of Assets and Liabilities, item 311, Fixed Assets

Compensation of Employees (5/6)



Compensation of Employees (6/6)

- **2122 Imputed Social Contributions**
 - Represents the imputed value of future benefits payable to government employees under unfunded social insurance schemes
 - The imputation may be difficult to estimate because actuarial data on the number, age distribution, and life expectancy of current and past employees may not be available

Use of Goods and Services (1/5)

22 Use of goods and services

- **Consist of:**
 - goods and services **used** for production of market and nonmarket goods and services
 - goods **purchased for resale** minus **the change in inventories** of work in progress, finished goods, and goods held for resale
- **Value is recorded when goods or services are actually used rather than when they were required**

Use of Goods and Services (2/5)

- **Calculation:**
 - **Not usually recording actual use of goods in production directly, but units have**
 - **Records of materials and supplies intended to be used**
 - **Records of changes in amounts of such goods held in inventory**
 - **Thus, derive estimate of use of goods and services during accounting period**
 - **Purchases of materials & supplies minus change in inventories**

Use of Goods and Services (3/5)

- **Use of goods and services include:**
 - **Goods and services, and reimbursements for goods and services, used by employees in performing their work**
 - **Expense on inexpensive durable goods**
 - **Expense on repair and maintenance of fixed assets**
 - **Purchases of weapons of destruction**
 - **Goods and services used by government to produce nonmarket goods and services that are distributed to households**

Use of Goods and Services (4/5)

- **Use of goods and services exclude:**
 - Goods acquired as fixed assets or valuables
 - Goods and services used in own-account capital formation
 - Major renovation and reconstruction
 - Military facilities that can be used for civilian purposes
 - Goods and services transferred to other governments or international institutions

Use of Goods and Services (5/5)

- **Use of goods and services exclude (continued):**
 - **Goods and services distributed to households but not produced by donor governments**
 - **Goods and services used as compensation of employees in kind**
 - **Fees and charges collected for goods and services provided by government**
 - **Consumption of fixed capital**

Consumption of Fixed Capital

23 Consumption of fixed capital

- Is the decline in the current value of the stock of fixed capital and intangible assets due to physical deterioration and normal obsolescence
- Is calculated by revaluing the stock of assets to average prices of the current period, using the present value of future rentals over the remaining life of the asset
- Current period CFC may be calculated by applying a linear or geometric rate of decline to the remaining life of the asset

Interest Expense (1/4)

24 Interest

241 To nonresidents

242 To residents other than general government

243 To other general government units

Interest Expense (2/4)

- **Payable by units that incur certain kinds of liabilities (deposits, securities other than shares, loans, and accounts payable)**
- **Interest is expense that govt unit (debtor) incurs for use of the principle outstanding, which is the economic value that has been provided by the creditor**
- **Accrues continuously over period liability exists**

Interest Expense (3/4)

- Amount of interest accrued in a period may differ from amount paid
- Interest should be accrued
 - From the debtor's standpoint
 - According to rate determined when contract is established, **except for**
 - Index-linked securities (including floating rate notes)

Interest Expense (4/4)

- Accrued, but unpaid interest is **added to the outstanding principal** of underlying instrument
- The same accrual recording method should be used for all interest-bearing instruments
- Payments related to derivatives are not interest

Subsidies (1/3)

25 Subsidies

251 To public corporations

2511 To nonfinancial public corporations

2512 To financial public corporations

252 To private enterprises

2521 To nonfinancial private enterprises

2522 To financial private enterprises

Subsidies (2/3)

- **Current, unrequited payments that government units make to market enterprises on the basis of the levels of their production or the quantity or value of the goods and services they produce, sell, or import**
- **Only payable to producers**
- **Only current transfers (not capital transfers)**
- **Can be on products or on production in general**

Subsidies (3/3)

- **Subsidies include:**
 - Transfers to public corporations and quasi-corporations for losses incurred on their productive activities
- **Subsidies exclude:**
 - Transfers directly to households as consumers
 - Transfers to other government units
 - Payments to finance acquisition of capital assets
 - Certain interest payments under loan guarantees

Grants Expense (1/4)

26 Grants

261 To foreign governments

2611 Current

2612 Capital

262 To international organizations

2621 Current

2622 Capital

263 To other general government units

2631 Current

2632 Capital

Grants Expense (2/4)

- **Defined as:**
 - **Noncompulsory current or capital transfers from one government unit to another government unit or an international organization**
- **Should be valued at current market prices**
 - **If not available, explicit costs incurred in providing resources or amounts that would be received if resources were sold**

Grants Expense (3/4)

- **Should be recorded when:**
 - **All requirements and conditions for receiving them are satisfied, and the donor unit has an unconditional obligation**
 - **Determining this may be complex, as there is a wide variety of eligibility conditions that have varying legal powers**
 - **If recipient never has a claim on the donor, grant should be attributed to the time payment is made**

Grants Expense (4/4)

- **Grants exclude:**
 - **Compulsory amounts payable to other governments or international organizations**
 - **Voluntary payments to market produces**
 - **Voluntary payments to households**

Social Benefits (1/3)

27 Social benefits

271 Social security benefits

2711 In cash

2712 In kind

272 Social assistance benefits

2721 In cash

2722 In kind [GFS]

273 Employer social benefits

2731 In cash

2732 In kind

Social Benefits (2/3)

- **Defined as:**
 - **Transfers in cash or in kind to protect the entire population or specific segments of it against certain social risks**
- **Examples:**
 - **provision of medical services**
 - **unemployment compensation**
 - **social security pensions**

Social Benefits (3/3)

- **Not all social benefits are treated as expense**
 - Payments of pensions and other retirement benefits through employer social insurance schemes are treated as reductions in liabilities
 - Social benefits produced by a general government unit and transferred to households are expenses, but not social benefits → classified as compensation of employees, use of goods and services, and consumption of fixed capital
 - Transfers to households outside the circumstances covered by social insurance, e.g., natural disasters

Other Expense (1/5)

28 Other expense

281 Property expense other than interest

2811 Dividends (public corporations only)

2812 Withdrawals from income of quasi-corporations (public corporations only)

2813 Property expense attributed to insurance policy holders [GFS]

2814 Rent

282 Miscellaneous other expenses

2821 Current

2822 Capital

Other Expense (2/5)

- **Property expense** is the expense payable by a government unit to the owner of a financial asset, or a tangible nonproduced asset when the government unit makes use of such an asset (e.g., dividends, rent)
 - Interest is separately classified in category 24
- Distinguish between **current and capital miscellaneous other expenses**

Other Expense (3/5)

- **Miscellaneous other expenses include:**
 - Current transfers to nonprofit institutions serving households (membership dues, voluntary donations, etc.)
 - Current and capital taxes, compulsory fees, and fines imposed by one level of govt on another
 - Net tax credits, when amount of tax credit exceeds amount of tax otherwise receivable and excess is paid to taxpayer
 - Fines and penalties imposed by courts of law

Other Expense (4/5)

- **Miscellaneous other expenses include (continued):**
 - **Payments for compensation for injuries or damages caused by natural disasters**
 - **Capital transfers to market enterprises and nonprofit institutions serving households (in cash or in kind)**
 - **To finance all or part of costs of acquiring NFAs**
 - **to cover large operating deficits accumulated over two or more years**
 - **to cancel a debt by mutual agreement with debtor**
 - **to assume a debt**

Other Expense (5/5)

- **Miscellaneous other expenses include (continued):**
 - **Scholarships and other educational benefits**
 - **Non-life insurance premiums payable to insurance corporations to obtain cover against various events or accidents (current transfers)**
 - **Purchases of goods and services from market producers that are distributed directly to households for final consumption other than social benefits**