



Government Finance Statistics IMF Statistics Department

Consolidation

Contents of Lecture

- **What is consolidation?**
- **Why consolidation?**
- **What to consolidate?**
 - **Some problem areas**
- **Social contributions by government as employer**
- **Difference from *GFSM 1986***

What is Consolidation?

(1/3)

- Process of presenting data for a **set of units that were treated as if they constitute a single unit**
 - Ensure that there is no double-counting
- **Two levels of consolidation in GFS**
 - Intra level
 - Within a level of government
 - Inter level
 - Between levels of government

What is Consolidation?

(2/3)

- **Two types of intra level consolidation**
 - **Within a government unit**
 - E.g., ministries and departments that are part of the same unit (budgetary central government)
 - **All government units within one level of government**
 - E.g., budgetary, extrabudgetary, and social security funds constituting central government

What is Consolidation?

(3/3)

- **Inter level**
 - **Consolidation of different levels of government into general government sector**
 - **Central + State + Local = General Government**
- **Consolidation involves elimination of transactions and stock holdings between entities/units that are consolidated**

Why Consolidation?

- **Use GFS data to measure relations between**
 - Components/subsector of general government and rest of economy
 - entire general government and rest of economy
- **Thus, eliminate transactions and reciprocal financial assets and liabilities within the subsector** from the data to avoid double-counting
 - Only need **external transactions and reciprocal financial assets and liabilities** for fiscal analysis

What to Consolidate?

(1/3)

- **Eliminate those transactions and debtor/ creditor relationships that occur between two transactors belonging to the same institutional sector, or subsector, that we are treating as a single entity**
- **Sales of market establishments, e.g.,**
 - **Payments of government department to the government printing office for acquisition of printed material**

What to Consolidate?

(2/3)

- **Payments for services, e.g.,**
 - **Payments of expenses related to collection of taxes in an agency capacity of one level of government to another**
 - **Reimbursements for administrative services (tuition fees, hospital care)**
- **Grants to other government units, e.g.,**
 - **Transfers from central government to local government**

What to Consolidate?

(3/3)

- **Loans and associated repayments, as well as interest payments, e.g.,**
 - **Loans from social security fund to budgetary central government**
- **Holdings of debt, e.g.,**
 - **Acquisition of local government bonds by central government**
- **Taxes paid by one government unit to another**

Some Problem Areas

(1/3)

- **While desirable, elimination of all transactions is not always possible in practice, particularly for some taxes and some purchases of goods and services**
 - **some are rather unlikely to be separately identifiable, and are therefore not normally eliminated in consolidation of the statistics**
 - **Ordinarily, records do not distinguish between governmental and nongovernmental taxpayers**
 - **Usually reported with similar transactions carried out with the nongovernment sector**

Some Problem Areas

(2/3)

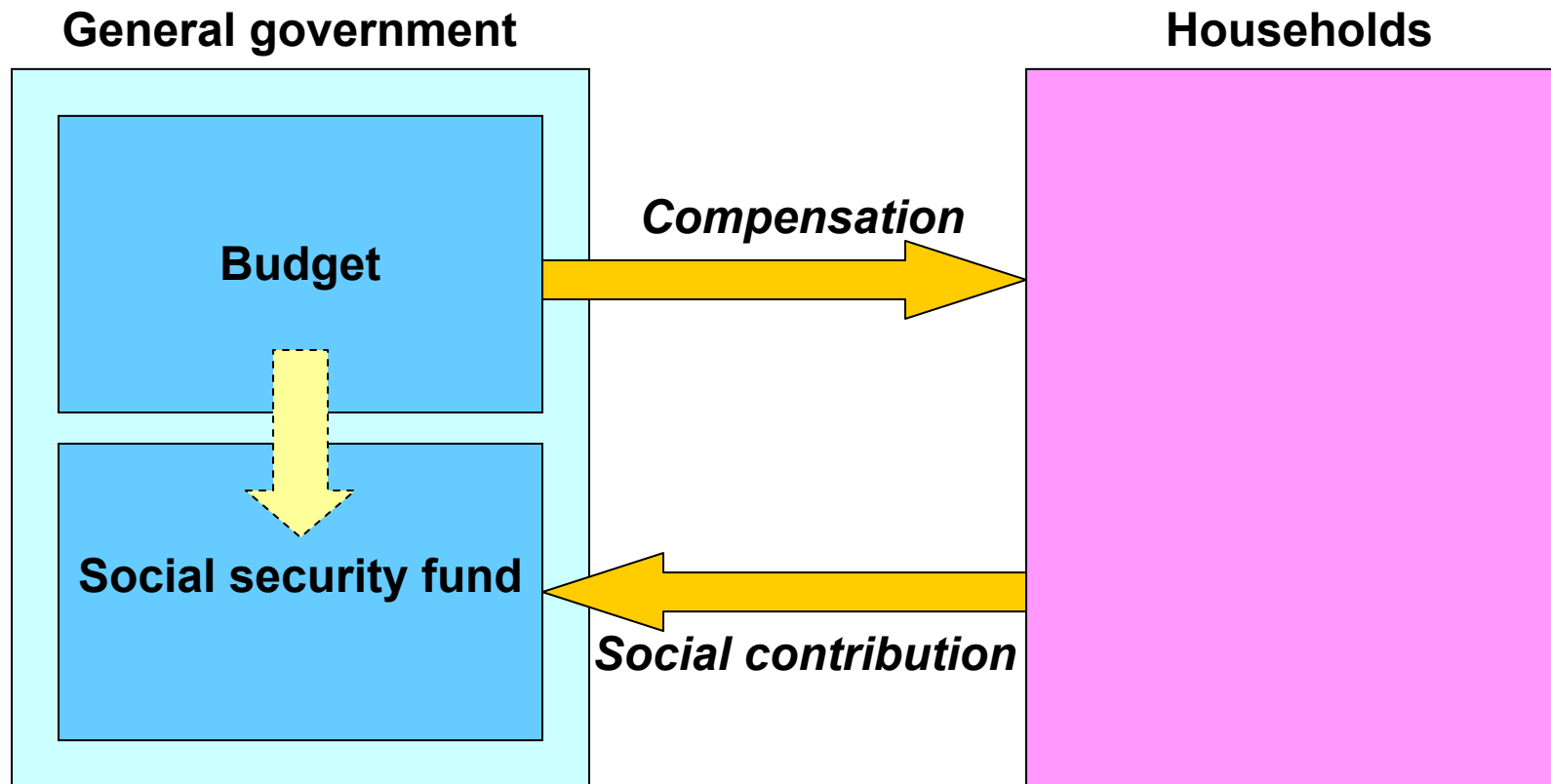
- **Thus, in practice**
 - **This element of double counting may be unavoidable**
 - **Therefore, the inclusion of taxes on products (e.g., sales taxes, VAT, excises, and import duties) paid by government entities indistinguishably in the value of the goods or services they purchase may mean that these taxes are not able to be consolidated due to lack of details**

Some Problem Areas

(3/3)

- **In any case, the treatment of the taxes should be symmetrical**
 - **included in both revenue and expense (when not consolidated)**
 - **excluded from both revenue and expense (when consolidated)**

Rerouting of Social Security Contributions by Govt as Employer



Social Security Contributions by Government as Employer

- Because rerouted, social security contributions by government as employer **are not consolidated** when units' data are presented as a single entity
 - A major difference from GFSM 1986 methodology, where it was eliminated

Different Presentation from GFSM 1986

(1/2)

| <u>GFSM 1986 presentation</u> | Budget account | Social security fund | Consol. central govt. |
|-------------------------------|----------------|----------------------|-----------------------|
| Revenue and grants | 120 | $55-20=$ 35 | 155 |
| <i>of which grant from BA</i> | <i>0</i> | <i>20</i> | <i>0</i> |
| Expenditure and L – R* | $180-20=$ 160 | 23 | 183 |
| <i>of which grant to SS</i> | <i>20</i> | <i>0</i> | <i>0</i> |
| Deficit/Surplus | $120-160=$ -40 | $35-23=$ 12 | -28 |
| Financing | +60 | -32 | +28 |

* Assume $L-R=0$

Different Presentation from GFSM 1986

(2/2)

| <u>GFSM 2001 presentation</u> | Budget account | Social security fund | Consolidation | Consol. central govt. |
|-------------------------------|----------------|----------------------|---------------|-----------------------|
| Revenue | 120 | 55 | 20 | $120+55-20 = 155$ |
| Expense | 165 | 23 | 20 | $165+23-20 = 168$ |
| Net operating balance | -45 | 32 | 0 | -13 |
| NFAs | 15 | 0 | 0 | 15 |
| Net lending/ borrowing | -60 | 32 | 0 | -28 |
| Financing | +60 | -32 | 0 | +28 |