

United States: Information Note on the United States' Fiscal Data

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Information Note on the United States' Fiscal Data

Prepared by the Statistics Department

Approved by the Statistics, Fiscal Affairs, and Western Hemisphere Departments

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Contents	Page
I. Applying the <i>GFSM 2001</i> Framework to U.S. Fiscal Data.....	2
A. General Issues	3
B. Preliminary Results	6
C. Next Steps	12
Tables	
1. United States: Statement of Federal Government Operations	14
2. United States: Integrated Balance Sheet for the Federal Government	15
3. United States: Statement of Sources and Uses of Cash for the Federal Government.....	16
Boxes	
1. Background for the Pilot Studies	3
2. Summary of National Accounting Practices.....	4
3. The <i>GFSM 2001</i> Statements and Core Balances	8
Appendices	
I. The <i>GFSM 2001</i> Tables.....	14
II. Reconciliation Tables Between <i>GFSM 2001</i> Data and Official Data.....	17

I. APPLYING THE *GFSM 2001* FRAMEWORK TO U.S. FISCAL DATA

1. ***This paper reports on a pilot study to present the U.S. fiscal data in a manner consistent with the Government Finance Statistics Manual (GFSM 2001).*** At an Executive Board seminar on November 16, 2005, Directors agreed that the use of the *GFSM 2001* framework would lead to greater transparency and consistency in the presentation of country fiscal data in staff reports (see Box 1 for background). This paper shows how the *GFSM 2001* operating statement, integrated balance sheet, and cash statement could be integrated into regular staff monitoring of the U.S. fiscal sector.
2. ***The study incorporates cash and accrual source data in a consistent and harmonized statistical framework, enhancing the accuracy and transparency of fiscal data.*** The source data are the *Budget of the United States Government*—mainly on a cash basis—as well as the *Financial Report of the United States Government*, the *National Income and Product Accounts (NIPAs)*, and the *Flow of Funds Accounts (FFAs)*—all on an accrual basis. While very different in nature and objectives, these source data are used to calculate the three *GFSM 2001* statements for the federal government. These statements highlight the underlying interrelationships between cash-based and accrual-based fiscal measures and provide useful information to strengthen the capacity to formulate fiscal policy and monitor fiscal developments.
3. ***The federal government deficit is larger when measured under GFSM 2001 than when derived from the accrual-based NIPAs.*** The discrepancies relate mainly to the treatment of employee pension funds covering federal government employees and military personnel. Following the *GFSM 2001* methodology, expenses should be imputed for the unfunded part of pension promises made to staff, with the net present value of future benefits imputed as a liability of the federal government. *In 2006, the expense imputation increases the deficit by 0.8 percent of GDP on an accrual basis, while the net present value of future benefits increases the federal government's debt by 10 percent of GDP.*
4. ***The pilot demonstrates that migration to GFSM 2001 is feasible for the U.S. in the short-term.*** Although adjustments to the official data are necessary to conform to *GFSM 2001* concepts and definitions, the areas in which changes are needed can be clearly identified and the required detailed data can be provided by the government accounting system and reporting formats. However, a full migration to the *GFSM 2001* framework would involve a coordinated effort on the part of all agencies compiling fiscal data to ensure data consistency.
5. ***Section A presents a general discussion of the source data and the institutional coverage used in the U.S. pilot study, followed in Section B by a description of the main results of the pilot.*** Finally, Section C suggests further work to improve the fiscal statistics in accordance with the *GFSM 2001* framework. Appendix I presents the *GFSM 2001* statements

for the U.S., and Appendix II provides reconciliation tables to bridge between *GFSM 2001* core balances and official data.

Box 1. Background for the Pilot Studies

The Executive Board seminar on November 16, 2005, discussed the joint Statistics/Fiscal Affairs Departments' paper "*Using the GFSM 2001 Statistical Framework to Strengthen Fiscal Analysis in the Fund.*" Directors noted that use of the *GFSM 2001* framework will lead to greater transparency and consistency in the presentation of country fiscal data in staff reports and agreed on the following:

- The Fund should move in a phased way to present fiscal data using the *GFSM 2001* framework in staff reports.
- The Statistics Department should conduct pilot studies to include the *GFSM 2001* operating statement, integrated balance sheets, and cash statements in Article IV consultation reports. The pilot studies should be done for volunteer countries, over the course of two years and within the Fund's budgetary envelope, to map out more fully the process involved in moving to the *GFSM 2001* framework.
- The staff should report to the Board on the experience with the pilot studies, together with migration path proposals to fully implement the *GFSM 2001* methodology.

For a more complete summary of the discussion, see the paper available online at <http://www.imf.org/external/np/pp/eng/2005/102505.pdf>, and the Public Information Notice (PIN) No. 05/167 available online at <http://www.imf.org/external/np/sec/pn/2005/pn05167.htm>.

A. General Issues

6. ***The United States was selected for a pilot study in consultation with the U.S. Executive Director's Office and the Western Hemisphere Department (WHD).*** While U.S. fiscal data are adequate for Fund's surveillance, the adoption of the *GFSM 2001* framework, which relies on the *System of National Accounts 1993 (1993 SNA)*, would improve fiscal policy analysis by fostering fiscal transparency and consistency in the presentation of country data. This is achieved through three channels: (i) the use of standardized statistical concepts and classifications; (ii) the full integration of cash-based and accrual-based fiscal data; and (iii) the reconciliation of stock and flow data in an integrated balance sheet.

7. ***The reclassification of existing source data into consistent GFSM 2001 accrual and cash-based formats contributes to fiscal transparency.*** This is particularly important since substantial debate and uncertainty have recently surrounded the official fiscal data on the financial position of the U.S. federal government. The authorities publish various sets of fiscal data, on a cash and an accrual basis, that differ in coverage and methodologies used (see Box 2). The discrepancies between the core balances shown in these various sets of official data are a potential source of confusion for the user of the United States' fiscal statistics.

Box 2. Summary of National Accounting Practices

At the federal government level, the responsibility for setting accounting and reporting requirements has been assigned to the Federal Accounting Standards Advisory Board (FASAB) since 1990. The FASAB was established based on a memorandum of understanding between its three sponsors—the Comptroller General of the United States, the Secretary of the U.S. Treasury, and the Director of the Office of Management and Budget (OMB). It is funded by appropriations from the three sponsoring institutions and the Congressional Budget Office; however, to enhance the FASAB’s independence, a majority of members are not federal government employees. The FASAB is recognized by the American Institute of Certified Public Accountants (AICPA) as a body that establishes generally accepted accounting principles (GAAP) for the federal government of the United States.¹ The GAAP requires all federal government entities to issue annual, audited financial statements.

Each year, the authorities issue two main reports that detail financial results for the federal government: the *Budget of the United States Government* on a cash basis, and the *Financial Report of the United States Government* on an accrual basis.

The *Budget of the United States Government* report, submitted by the OMB, contains mainly receipt/outlay information on a cash basis—except for interest on public debt that is recorded on an accrual basis—and it is prepared in accordance with budgetary concepts and accounting practices. This report represents the government’s primary financial planning and control tool. It is also the main source data used by IMF staff in the Article IV consultation reports.

The *Financial Report of the United States Government*, submitted by the Department of the Treasury in coordination with the OMB, presents consolidated and summarized financial information from the various federal government agencies and departments. It provides a comprehensive overview of the cost of the government’s operations, the sources used to finance them, the government balance sheet, and the outlook for its social insurance programs. It is prepared on an accrual basis in conformity with the U.S. GAAP. The United States Government Accountability Office (GAO) conducts the audit of the federal government’s financial information contained in the *Financial Report of the United States Government* in accordance with U.S. generally accepted auditing standards.

In addition, the Bureau of Economic Analysis (BEA) and the Federal Reserve Board (FRB) compile and disseminate the *National Income and Product Accounts (NIPAs)* and the *Flow of Funds Accounts (FFAs)*, respectively, which include the government sector. Except for the deviations discussed in this paper, the concepts supporting the government sector of the NIPAs and the FFAs are broadly consistent with the *GFSM 2001*, which is the international standard for government finance statistics.²

¹ In general, there is notable agreement in the fundamental requirements of the U.S. and the IPSASB financial reporting model.

² Consequently, the NIPAs and the FFAs are also broadly consistent with *The System of National Accounts, 1993 (1993 SNA)*, which is the international standard for national economic accounts.

8. ***The primary source data used for the study were statistics compiled by the Bureau of Economic Analysis (BEA) and the Federal Reserve Board (FRB).*** The *Budget of the United States Government* report and the *Financial Report of the United States Government* were used as complementary sources. Because none of these sources fully complies with the *GFSM 2001* statistical concepts and definitions, the official figures were adjusted based on data provided by the authorities and staff estimates.¹

9. ***The institutional coverage in this pilot study is the consolidated central government, which in the United States is referred to as the federal government.*** It comprises the budgetary central government—including the government employee pension funds²—and the social security funds.³ Article IV staff reports use an institutional coverage for government that is similar to the pilot, with a few insignificant exceptions.⁴

10. ***The main discrepancy between the pilot study results and the data in Article IV staff reports relates to partially funded government employee pension funds.***⁵ Article IV staff reports, which are based on fiscal data published in the *Budget of the United States Government* report, and the *GFSM 2001* treat social security funds similarly (except for timing differences between the accrual and cash accounting). According to the international statistical standards, contributions to and payments from these funds are recorded as revenue and expense transactions, thus affecting the cash surplus/deficit of the budget. No liabilities for future social security benefits are recognized (although FASAB has proposed changing this).⁶ However, there are significant discrepancies between Article IV staff reports and the *GFSM 2001* regarding the treatment of government employee pension funds.

¹ The BEA reports data to the Statistics Department for publication in the *Government Finance Statistical Yearbook (GFSY)*. In the context of the U.S. pilot study, the BEA discussed and agreed with STA on additional adjustments to the data submitted for publication in the *GFSY* to fully conform to the *GFSM 2001* framework.

² The partially funded government employee pension funds include the Civil Service Retirement and Disability Fund, Foreign Service Retirement and Disability Fund, and Military Retirement Fund.

³ These are normally referred as “trust funds” in official documents. The most significant are the following: the Federal Old-Age and Survivors Insurance Fund and the Federal Disability Insurance Fund are collectively known as “Social Security”; and the Federal Hospital Insurance Fund and the Federal Supplementary Medical Insurance Fund are collectively known as “Medicare.”

⁴ Based on data published in the *Budget of the United States Government*, Article IV staff reports include transactions of the U.S. territories and Puerto Rico and the net surplus of government corporations.

⁵ These unfunded government employee pension schemes correspond to “non-autonomous, defined benefit schemes” in the *GFSM 2001* framework.

⁶ Following the *GFSM 2001* methodology unfunded liabilities of Social Security and Medicare are not included in the balance sheet of the government. However, they should be included as a memorandum item.

11. ***Whereas Article IV staff reports treat government employee pension funds similarly to social security, GFSM 2001 considers government employee pension benefits to be deferred compensation.***⁷ Following the *GFSM 2001* methodology, to the extent that the employee retirement fund is unfunded, it is necessary to impute an expense transaction equal to the actuarial estimate of pension commitments made during the period minus reserves built up to meet the future payments. The imputed expense results in an increase in net lending/borrowing of the government, the counterpart of which is an increase in liabilities to government employees. According to the *GFSM 2001* methodology, the net present value of future benefits to employees should be shown in the government's balance sheet as a liability (see Appendix II for more detail).

12. ***Given the available data, migration to the GFSM 2001 framework is feasible in the short term.*** Although a complete migration may take time, the government accounting system and reporting formats are broadly adequate for the implementation of the *GFSM 2001* methodology. Consequently, the advantages of migrating to the *GFSM 2001* methodology in terms of enhancing fiscal transparency and improving fiscal analysis can be readily achieved. However, if the authorities decide to fully implement the *GFSM 2001* methodology, the migration strategy would require coordinated efforts on the part of all the agencies reporting fiscal data, particularly the BEA, the FRB, and the Treasury to come to a set of consistent source data.

B. Preliminary Results

13. ***This section presents an overview of the advantages of using GFSM 2001 for the United States.*** The numerical results presented in this section should be considered illustrative due to unresolved data issues.⁸ Summary tables compiled in accordance with the *GFSM 2001* (Tables 1, 2, and 3) are shown in Appendix I. Tables 1 and 2—the Statement of Government Operations and the Integrated Balance Sheet, respectively—are based on data published by the BEA, FRB, and the OMB. Table 3—the Statement of Sources and Uses of Cash—is based on data published in the *Budget of the United States Government*. The staff adjusted the official data, primarily in terms of institutional and transactional coverage, to conform to the *GFSM 2001* statistical principles. Box 3 provides a description of the main aggregates and balances of analytical significance used in these tables.

⁷ They are considered to be part of an actual or implicit contract between the government and its employees, to compensate them for their services.

⁸ To avoid overloading the authorities with additional data requirements, the U.S. pilot study was prepared with readily available fiscal data. The BEA assisted STA staff by providing additional data breakdowns and agreeing on the adjustments made to data reported in the NIPAs to conform to the *GFSM 2001* statistical concepts and definitions. Main unresolved data issues are related to calendar-based versus fiscal year-based fiscal data, as well as to preliminary data provided by the BEA for 2006.

14. ***The U.S. pilot study draws attention to:***

- the larger federal government deficit if the obligations of unfunded government employee pension funds are recognized;
- the existence of data gaps that preclude deriving a measure of federal government net worth, as well as a full integration of stock and flow data; and
- the need to reconcile cash-based and accrual-based fiscal data in order to foster fiscal transparency.

The following paragraphs discuss the findings of the pilot study on the basis of three tables, namely, the Statement of Government Operations and the Integrated Balance Sheet on an accrual basis, and the Statement of Sources and Uses of Cash.

15. ***The Statement of Government Operations (Appendix I, Table 1) shows the transactions of the federal government on an accrual basis.*** Two important balances can be derived from this table: (i) the net operating balance (NOB), which measures changes in net worth resulting from transactions and is a key indicator of the ongoing sustainability of government operations; and (ii) net lending/borrowing (NLB), which captures the financial impact of government operations on the rest of the economy.

16. ***Net worth has decreased by 14.4 percent of GDP over the four-year period under analysis, although at a diminishing rate.*** While the deterioration of net worth has been significant, as shown by the accumulated NOB over the period, the authorities achieved equilibrium in the primary net operating balance in 2006.⁹ This indicates an improvement in the sustainability of government operations. As the net acquisition of nonfinancial assets was maintained at low levels, the NLB closely mirrors the evolution of the NOB in terms of magnitude and trend.¹⁰ This net borrowing requirement has been financed by an increase in liabilities, primarily in the form of securities.

17. ***The net borrowing position of the federal government shown in Table 1 is higher than that reflected in the accrual-based NIPAs by 0.7 percent of GDP, on average.*** The discrepancy is primarily related to the treatment of obligations of government employee pension funds. In Table 1, imputed social contributions were included as compensation of

⁹ The primary net operating balance is equal to the NOB minus interest.

¹⁰ GFS accrual concepts of NOB and net acquisition of nonfinancial assets can be considered as rough approximations of the 1993 SNA concepts of government net saving and investment, respectively. This conclusion does not hold for the traditional cash-based presentations used in most country staff reports.

Box 3. The *GFSM 2001* Statements and Core Balances

The **Statement of Government Operations** (Appendix I, Table 1) records transactions on an accrual basis. The statement distinguishes among the following transactions:

Revenue	Transactions that increase net worth.
Expense	Transactions that reduce net worth.
Net acquisitions of nonfinancial assets	Transactions that affect the stock of nonfinancial assets, without changing net worth (acquisitions minus disposals).
Financing	Transactions that affect the stock of financial assets and liabilities, without changing net worth (net acquisition of financial assets minus net incurrence of liabilities)

The analysis of government operations is supported by two key fiscal indicators:

Operating balance	Summary measure of the effects of revenue and expense transactions on net worth. Net operating balance (NOB) equals revenue minus expense. The gross operating balance (GOB) equals revenue minus expense other than consumption of fixed capital. ¹
Net lending/borrowing	Financial resources that the government absorbs from, or releases to, other sectors of the economy on a net basis. It is calculated as the NOB minus the net acquisition of nonfinancial assets. Net lending/borrowing is also equal to the net acquisition of financial assets minus net incurrence of liabilities.

The **Integrated Balance Sheet** (Appendix I, Table 2) focuses on an assessment of the sustainability of government operations from a fiscal perspective. It includes the government's net worth at the beginning and end of each fiscal year, as well as the related transactions and other economic flows. The sustainability of fiscal policy depends in part on how the government's net worth changes over time. Changes in net worth can be explained not only by the government's transactions but also by other economic flows attributable to gains or losses resulting from changes in the prices of assets and liabilities, as well as other changes in their volume.

Net worth	The total stock of assets minus liabilities. The net worth in period (t) can also be calculated as the net worth of the previous period (t-1), plus changes in net worth in period (t) due to transactions (the NOB), plus changes in net worth in period (t) due to other economic flows.
Net financial worth	The stock of financial assets minus liabilities.

The **Statement of Sources and Uses of Cash** (Appendix I, Table 3) shows purely cash flows associated with revenue and expense transactions and transactions in nonfinancial assets, which yield the cash surplus/deficit. The assessment of the government's level of cash holdings and its determinants is a key element in analyzing fiscal policy, its interrelationships with the monetary policy and liquidity analysis.

Cash surplus/deficit	Net cash inflow from operating activities minus the net cash outflow from net acquisitions of nonfinancial assets.
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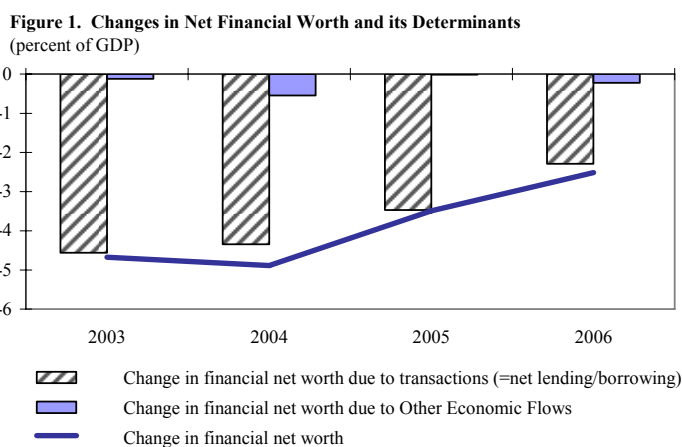
^{1/} The NOB/GOB exclude net acquisition of nonfinancial assets. The latter does not affect net worth because it represents only an accumulation of assets in exchange for an accumulation of liabilities or use of existing assets.

employees affecting the NOB and the NLB accordingly, with the counterpart entry being the increase in liabilities as insurance technical reserves.

18. **Table 1 indicates a high degree of vertical integration—that is, consistency between the data on operating transactions and financing.** In general, statistical discrepancies may arise between the NLB and its financing (net acquisition of financial assets minus net incurrence of liabilities) due to data deficiencies. The BEA and the FRB periodically reconcile both datasets and, in the case of the federal government, the statistical discrepancy accounts for only 0.2 percent of GDP, on average.

19. **However, the Integrated Balance Sheet (Appendix 1, Table 2), shows horizontal integration to be less robust on account of specific data gaps revealed by the pilot study.** When compiling the Integrated Balance Sheet, data gaps are particularly apparent in the lack of data on nonproduced assets, while the valuation of the stock of assets and liabilities precludes a complete explanation of differences between opening and closing balance sheet. In this regard *GFSM 2001*, by presenting stock and flow data in an integrated framework, as shown in Table 2, fosters data consistency and facilitates the analysis of changes in net worth.

20. **The lack of data on the stock of nonproduced assets precludes deriving a measure of net worth for the federal government.** This is particularly important in light of the significant stock of natural resources owned by the U.S. federal government, which would increase its net worth.¹¹ However, an estimate of the change in net worth due to transactions can be obtained from NOB as presented in Table 1 (Statement of Government Operations). In the absence of a comprehensive stock measure, the NOB constitutes an indicative measure of the sustainability of fiscal policy. In addition, a more restrictive concept, the net financial worth, which is equal to the difference between financial assets and liabilities, shows a significant decline throughout the period, although at a diminishing rate (see Figure 1).



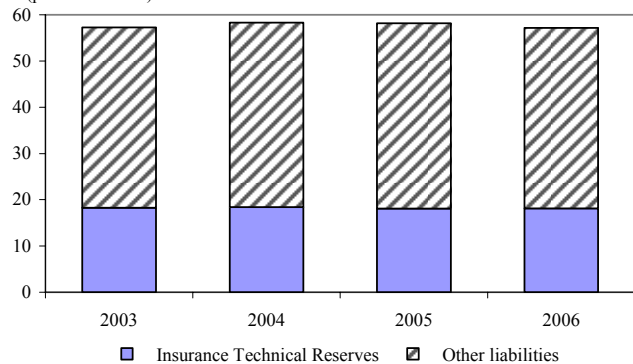
21. **Data constraints imply that a full explanation of changes in net financial worth cannot be provided.** Table 2 explains changes in net financial worth by transactions (NLB)

¹¹ While most countries do not have this information, Australia and New Zealand have been publishing consistent series for the last 10 years, which can be considered as best practice from a methodological standpoint.

and holding gains and losses and other volume changes. However, holding gains and losses cannot be calculated because of the valuation criteria used to report assets and liabilities. *GFSM 2001* prescribes the valuation of assets and liabilities at market prices. However, the NIPAs and the Flow of Funds Accounts value financial assets and liabilities at historic cost.¹² Consequently, the deterioration of the net financial worth is primarily explained by changes in transactions (NLB), as it is shown in Figure 1. It should be noted that in preparing the U.S. pilot study, the staff partially estimated the so-called “other economic flows.” In particular, based on data published in the *Financial Report of the U.S. Government*, any changes in the net present value of future benefits to government employees—insurance technical reserves—that were not explained by imputed social contributions were recorded as other economic flows.¹³ These include primarily changes in the discount rates used in the calculation of the net present value, as well as changes in the eligibility conditions of retirement programs.

22. ***Despite existing data gaps, the Integrated Balance Sheet (Table 2) provides an important insight into the composition of government liabilities.*** Following *GFSM 2001* concepts and definitions, the net present value of future benefits to government employees (insurance technical reserves) is included as a liability of the federal government. In the case of the federal government, this liability represents 18 percent of GDP, on average (see Figure 2). These obligations are not recorded at all in a cash-based system, and they are only partially recognized in the accrual-based data reported by the BEA and the FRB (8 percent of GDP, on average).

Figure 2. Composition of Federal Government Liabilities (percent of GDP)



23. ***Differing treatment of government employee pension funds explains a 10 percent of GDP discrepancy between total liabilities in the pilot study and in the official figures.*** The BEA and the FRB, following the NIPAs methodology, recognize a federal government liability to employees as long as dedicated financial assets exist.¹⁴ This results in a partial

¹² For liabilities this is close to face value, which is the contractually agreed amount that the government will have to refund to the creditor at maturity.

¹³ Changes in insurance technical reserves due to divergences between the interest rates used in the net present value calculation and actual interest rates are classified as other economic flows—holding gains/losses. Changes as a result of factors other than interest rates used in the calculation of actuarial estimates (such as expected survival rates, conditions impacting on eligibility for and value of benefits, etc) are classified as other economic flows—changes in volume.

¹⁴ In the case of the federal government, these financial assets are nonmarketable securities held by the federal government for the purpose of paying the pension liabilities due in the near future.

recognition of total liabilities owed to government employees of 8 percent of GDP on average. However, the *GFSM 2001* recognizes the full liability with government employees calculated as the net present value of future benefits (18 percent of GDP). Consequently, the adjustment made in the pilot study to account for the unfunded part of the scheme represents 10 percent of GDP, on average.

24. ***Unlike the government employee pension funds, social security schemes do not give rise to liabilities in the GFSM 2001 framework.*** Nevertheless, in order to provide a more informed basis for conducting long-term fiscal policy and fiscal sustainability analysis, the *GFSM 2001* recommends including them as a prominent memorandum item to the balance sheet.¹⁵ Even if they are not strict obligations in a legal sense, there is a general expectation that contributions in current periods will lead to benefits being paid to those making the contributions in the future. Because of timing differences, contributions and benefit payments will initially result in net revenues, but over time this flow will be reversed and the government will accumulate substantial future obligations as expense exceed revenue. Following the international standards, these obligations, which in the case of the U.S. represented 320 percent of GDP in 2006, are not included in the balance sheet of the federal government.¹⁶

25. ***The Statement of Sources and Uses of Cash (Appendix I, Table 3) shows cash flows associated with revenue, expense, and nonfinancial assets transactions.*** The main source for this table is the *Budget of the United States Government*. These data were adjusted to ensure internal consistency with the data presented in Tables 1 and 2.¹⁷

26. ***Although the cash deficit in Table 3 is similar to that in the Budget, revenue and expense categories have been adjusted to account for discrepancies in coverage.*** On the one hand, adjustments have been made to the institutional coverage to exclude: (i) transactions of the U.S. territories and Puerto Rico, and (ii) current surplus of nonfinancial public corporations. On the other hand, adjustments made to the transactional coverage exclude: (i) employee contributions to government pension funds; (ii) subsidy expenses related to direct loans; (iii) deposit insurance expense for resolving failed banks and thrift institutions; (iv) proceeds from sales of nonproduced assets; and (v) other coverage adjustment.

27. ***Cash deficits were financed primarily by new issuance of government securities, repayments of direct loans, and, to a lesser extent, reductions in the stock of cash.*** The latter has been reduced from 0.9 percent of GDP in 2003 to 0.5 percent in 2006. The stock of

¹⁵ The FASAB too, in recent recommendations, has emphasized the importance of such sustainability analyses.

¹⁶ Data published in the 2006 Financial Report of the U.S. Government.

¹⁷ Tables 1 and 2 present data on a calendar year basis, while data presented in Table 3 are on a fiscal year basis. Discrepancies do not have significant impact on the conclusions derived from the analysis.

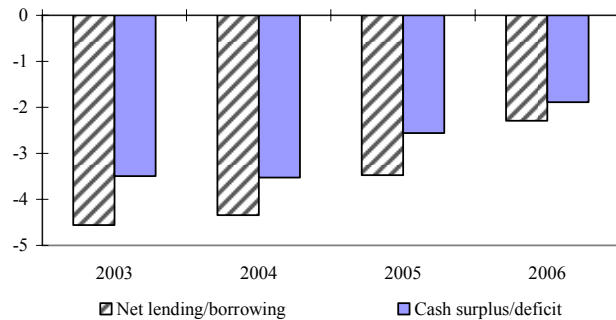
cash is included in the Integrated Balance Sheet (Table 2) as part of total financial assets. In this way, both cash-based and accrual-based measures of fiscal performance are clearly linked using the *GFSM 2001* framework.

28. ***Figure 3 suggests a difference between cash-based fiscal operations and the comparable accrual aggregate (NLB)***

shown in Table 1. Fiscal analysis based exclusively on cash or accrual data may produce inaccurate signals with regard to the overall fiscal position. In the case of the U.S. federal government, the accrual balancing item, the NLB, is higher than the cash deficit in every year. The difference between the two measures is a result of:

(i) the accrual data including expense items which do not have a cash equivalent, and (ii) timing differences in the recording of revenue and expense. The former item includes the imputed accruing liabilities for the government employee pension obligations during the period (see Table D in Appendix II for details).

Figure 3. Net Lending/Borrowing and Cash Surplus/Deficit (percent of GDP)



C. Next Steps

29. ***The BEA broadly agreed that they would work toward improving the dissemination of fiscal data in accordance with GFSM 2001.*** In this regard, the authorities plan to continue research to improve the consistency of U.S. fiscal data with the *GFSM 2001* standards for the purposes of reporting to the Fund.

30. ***To migrate the U.S. fiscal data into the GFSM 2001 framework, staff will continue to work with the authorities to compile more comprehensive and detailed data in the following areas:***

- Other economic flows (Table 2): staff will continue to work with the BEA to expand the range of data available on other economic flows, particularly that disseminated in the context of the International Investment Position (IIP).
- Valuation of stocks at market value (Table 2): staff will work with the BEA to improve the valuation of stocks of assets and liabilities to conform to the *GFSM 2001* concepts and definitions.
- Cash payments for operating activities by economic classification (Table 3): readily available source data on a cash basis did not allow for the classification of cash

payments for operating activities by economic type. Staff will continue to work to obtain the full detailed set of categories set out in Table 3.

- Coverage: staff will continue to work with the BEA to extend the results of this pilot to the state and local governments.

APPENDIX I

The GFSM 2001 Tables

Table 1. United States: Statement of Federal Government Operations

	2003	2004	2005	2006	
				Preliminar	
	(Calendar year, in billions of dollars)				
Transactions affecting net worth:					
1	Revenue	1,909	2,037	2,289	2,527
11	Taxes	1,093	1,175	1,391	1,562
111	Taxes on income, profits and capital gains	981	1,056	1,265	1,449
114	Taxes on goods and services	68	71	76	74
115	Taxes on international trade and transactions	21	23	25	27
116	Other taxes	0	0	0	0
12	Social contributions	759	802	855	920
13	Grants	0	0	0	0
14	Other revenue	57	60	43	45
2	Expense	2,391	2,526	2,703	2,825
21	Compensation of employees	374	395	412	428
22	Use of goods and services	333	374	401	339
23	Consumption of fixed capital	28	29	31	104
24	Interest	212	220	253	280
25	Subsidies	48	44	57	52
26	Grants	410	422	446	451
27	Social benefits	967	1,018	1,082	1,171
28	Other expense	21	22	22	0
GOB	Gross operating balance 1/	-454	-460	-383	-194
NOB	Net operating balance	-482	-489	-414	-298
Transactions in nonfinancial assets					
31	Net acquisition of nonfinancial assets 2/	10	11	12	1
311	Fixed assets	10	11	12	14
312	Change in inventories	1	0	0	0
313	Valuables	0	0	0	0
314	Nonproduced assets	0	0	-1	-13
NLB	Net lending/borrowing 3/	-493	-500	-426	-299
Transactions in financial assets and liabilities (financing):					
32	Net acquisition of financial assets	34	-3	15	6
3202	Currency and deposits	-17	-35	-1	-2
3203	Securities other than shares	0	0	0	0
3204	Loans	-3	3	-3	5
3205	Shares and other equity	1	2	1	0
3206	Insurance technical reserves	0	0	0	0
3207	Financial derivatives	0	0	0	0
3208	Other accounts receivable	53	26	22	3
323	Monetary gold and SDRs	-1	0	-5	0
33	Net incurrence of liabilities	544	453	396	267
3302	Currency and deposits	1	1	1	1
3303	Securities other than shares	396	362	307	183
3304	Loans	0	0	0	0
3305	Shares and other equity	0	0	0	0
3306	Insurance technical reserves	77	75	71	75
3307	Financial derivatives	0	0	0	0
3308	Other accounts payable	70	16	18	9
	Discrepancy Net lending/borrowing and financing	-17	44	45	38
	(Calendar year, in percent of GDP)				
1	Revenue	17.7	17.7	18.7	19.3
2	Expense	22.1	21.9	22.0	21.6
NOB	Net operating balance 1/	-4.5	-4.2	-3.4	-2.3
	Primary net operating balance 1/	-2.5	-2.3	-1.3	-0.1
31	Net acquisition of nonfinancial assets 2/	0.1	0.1	0.1	0.0
NLB	Net lending/borrowing 3/	-4.6	-4.3	-3.5	-2.3
32	Net acquisition of financial assets	0.3	0.0	0.1	0.0
33	Net incurrence of liabilities	5.0	3.9	3.2	2.0
Memorandum items:					
	GDP at market prices (billions of dollars)	10,809	11,518	12,266	13,061

Sources: BEA data submission, and STA staff estimates.

1/ The net operating balance equals revenue minus expense, when expense includes the consumption of fixed capital. The gross operating balance equals revenue minus expense other than consumption of fixed capital.

2/ Acquisitions minus disposals and consumption of fixed capital.

3/ Net lending/borrowing equals the net operating balance minus the net acquisition of nonfinancial assets. It is also equal to the net acquisition of financial assets minus the net incurrence of liabilities.

Table 2. United States: Integrated Balance Sheet for the Federal Government

(Calendar year, in billions of dollars)	2003				2004				2005				2006 Preliminary			
	Closing balance	Transactions	Holding Gains and Losses	Other volume changes	Residual	Closing balance	Transactions	Holding Gains and Losses	Other volume changes	Residual	Closing balance	Transactions	Holding Gains and Losses	Other volume changes	Residual	Closing balance
Net worth and its changes:	...	-489	...	...	...	-414	...	...	...	...	-298	...	...	...	...
Nonfinancial assets 1/	1,499	11	...	...	...	12	...	...	...	...	1	...	...	...	...
Fixed assets	1,499	11	87	0	-4	1,593	0	78	0	-3	1,681	14	0	0	0	1,695
Inventories	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Valuables	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Nonproduced assets	...	0	...	...	...	-1	...	...	...	...	-13	...	...	...	...	...
Net Financial Worth:	-5,539	-500	1	-112	49	-6,102	-426	-2	-19	19	-6,529	-299	0	-72	42	-6,858
Financial assets	653	-3	1	-40	3	615	15	-2	9	-32	605	6	0	0	1	611
Currency and deposits	102	-35	0	0	1	68	-1	0	0	-2	66	-2	0	0	-4	59
Securities other than shares	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans	286	3	0	0	0	289	-3	0	0	0	286	5	0	0	0	291
Shares and other equity	-40	2	0	0	0	-42	1	0	0	0	-43	0	0	0	0	-43
Insurance technical reserves	0	0	1	0	-1	0	0	-2	0	2	0	0	0	0	0	0
Financial derivatives	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other accounts receivable	213	26	0	-40	3	202	22	0	9	-31	202	3	0	0	3	208
Monetary gold and SDRs	13	0	0	0	1	14	-5	0	0	-1	8	0	0	0	2	10
Liabilities	6,922	453	0	73	-1	6,716	396	0	28	-5	7,135	267	0	72	-4	7,469
Currency and deposits	28	1	0	0	0	29	1	0	0	0	30	1	0	0	0	30
Securities other than shares	4,033	362	0	0	0	4,395	307	0	0	0	4,702	183	0	0	0	4,885
Loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shares and other equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Insurance technical reserves	1,973	75	0	73	0	2,121	71	0	28	0	2,219	75	0	72	1	2,366
Financial derivatives	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other accounts payable	157	16	0	0	-1	172	18	0	0	-5	184	9	0	0	-5	188
<i>Discrepancy between Net lending/borrowing and financing</i>	0	-44	0	0	44	0	-45	0	0	45	0	-38	0	0	38	0
Memorandum items:																
Net financial worth (in percent of GDP)	-51.2					-53.0					-53.2					-52.5
<i>Change in Net financial worth</i>	-2.7					-1.7					-0.3					0.7
Gross Debt (in percent of GDP)	57.3					58.3					58.2					57.2
<i>of which: Insurance technical reserves</i>	18.3					18.4					18.1					18.1
NPV of Social Security and Medicare (in percent of GDP) 3/	...					305					308					320

Sources: BEA data submission, and STA staff estimates.

1/ For 2006 the stock of nonfinancial assets was estimated by the addition of the flows on nonfinancial assets to the stock reported for 2005.

2/ Other economic flows consist of holding gains and losses and other changes in the volume of assets and liabilities.

3/ Source: 2006 Financial Report of the United States Government. Corresponds to the net present value of 75-year actuarial projections of benefit payments under current law for Social Security and Medicare in excess of their scheduled contributions and earmarked taxes.

Table 3. United States: Statement of Sources and Uses of Cash for the Federal Government

(Fiscal year)	2003	2004	2005	2006 Preliminary
(In billions of dollars)				
Cash flows from operating activities:				
Cash receipts from operating activities (inflows +)	1,856	1,955	2,204	2,500
Taxes	1,057	1,134	1,346	1,554
Social contributions	708	729	790	833
Grants	0	0	0	0
Other receipts	91	92	69	112
Cash payments for operating activities (outflows -)	-2,130	-2,240	-2,454	-2,633
Compensation of employees	...	...	...	...
Purchases of goods and services	...	...	...	...
Interest	...	...	...	...
Subsidies	...	...	...	...
Grants	...	...	...	...
Social benefits	...	...	...	...
Other payments	...	...	...	...
<i>Net cash inflow (+) from operating activities</i>	<i>-273</i>	<i>-285</i>	<i>-250</i>	<i>-133</i>
Cash flows from investments in nonfinancial assets:				
Purchases of nonfinancial assets (cash outflows -)	-104	-121	-64	-113
Sales of nonfinancial assets (cash inflows +)	0	0	0	0
<i>Net cash outflow (-) from investments in nonfinancial assets</i>	<i>-104</i>	<i>-121</i>	<i>-64</i>	<i>-113</i>
CASH SURPLUS (+)/DEFICIT (-) 2/	-377	-406	-314	-246
Cash flows from financing activities:				
Net acquisition of financial assets other than cash (cash outflows -)	42	0	21	11
Securities other than shares	20	3	2	2
Loans	22	-3	19	9
Monetary gold and SDRs	-1	-1	-1	-1
Net incurrence of liabilities (cash inflows +)	402	371	334	254
Securities other than shares	373	382	297	237
Loans	24	-16	33	13
Insurance technical reserves	5	5	5	4
Financial derivatives	0	0	0	0
<i>Net cash inflow (+) from financing activities</i>	<i>360</i>	<i>371</i>	<i>313</i>	<i>244</i>
NET CHANGE IN THE STOCK OF CASH 3/	-17	-35	0	-2
(In percentage of GDP)				
Cash receipts from operating activities (inflows +)	17.2	17.0	18.0	19.1
Cash payments for operating activities (outflows -)	-19.7	-19.4	-20.0	-20.2
Net cash inflow (+) from operating activities	-2.5	-2.5	-2.0	-1.0
Net cash outflow (-) from investments in nonfinancial assets	-1.0	-1.0	-0.5	-0.9
CASH SURPLUS (+)/DEFICIT (-) 2/	-3.5	-3.5	-2.6	-1.9
Net acquisition of financial assets other than cash (cash outflows -)	0.4	0.0	0.2	0.1
Net incurrence of liabilities (cash inflows +)	3.7	3.2	2.7	1.9
Net cash inflow (+) from financing activities	3.3	3.2	2.6	1.9
NET CHANGE IN THE STOCK OF CASH 3/	-0.2	-0.3	0.0	0.0
Memorandum:				
THE STOCK OF CASH (billions of dollars, end of the fiscal year) 4/	102	68	66	59
THE STOCK OF CASH (in percentage of GDP) 4/	0.9	0.6	0.5	0.5
Budget outlays (billions of dollars) 6/	2,160	2,293	2,472	2,655
<i>National Defense</i>	405	456	495	522
<i>Nondefense</i>	1,755	1,837	1,977	2,134

Sources: Budget of the United State Government, Financial Report of the United State Government, and staff estimates.

1/ Central government is equivalent to Federal government.

2/ Net cash inflow from operating activities less the cash outflow from investments in nonfinancial assets.

3/ Cash surplus/deficit plus the net cash inflow from financing activities.

4/ Corresponds to operating cash published in Note 2 of the Financial Report. Minor inconsistencies with the net change in the stock of cash remain.

5/ Discrepancy between net change in the stock of cash in Table 1 and Table 3, due to differences in data sources.

6/ Budget outlays as defined in the Budget of the United States documents.

APPENDIX II

Reconciliation Tables Between *GFSM 2001* Data and Official Data

This appendix presents summary tables for the federal government that reconcile the *GFSM 2001* core balances shown in the Statement of government operations (Table 1), the Integrated balance sheet (Table 2), and the Statement of sources and uses of cash (Table 3), with the corresponding official data.

a) Reconciliation of net lending/borrowing included in Table 1 (*GFSM 2001*) and net lending/borrowing published by the BEA (NIPAs).

Table A. Reconciliation of federal government net borrowing position between <i>GFSM 2001</i> and NIPAs				
(% of GDP)	2003	2004	2005	2006 /1/
GFSM 2001 (Table 1, line NLB)	-4.6	-4.3	-3.5	-2.3
NIPAs (BEA, Table S-7, line 32)	-3.8	-3.7	-2.9	-1.5
Discrepancy	-0.7	-0.6	-0.5	-0.8
<i>Explained by:</i>				
<i>Imputed social contributions</i> /2/	0.7	0.6	0.6	0.6
<i>Other</i>	0.0	0.0	-0.1	0.2
/1/ Preliminary data.				
/2/ Included as part of compensation of employees in the <i>GFSM 2001</i> framework.				

b) Reconciliation of total liabilities included in Table 2 (*GFSM 2001*) and total liabilities published by the FRB (Flow of Funds Accounts) and BEA (NIPAs).

Table B. Reconciliation of federal government liabilities between GFSM 2001 and Flow of Funds				
(% of GDP)	2003	2004	2005	2006 /1/
GFSM 2001 (GFSM 2001, Table 2)	57.3	58.3	58.2	57.2
Flow of Funds (FRB, Table L.106)	47.2	48.0	48.1	47.1
Discrepancy	10.1	10.3	10.1	10.1
<i>Explained by:</i>				
Unfunded employee pension funds	10.4	10.7	10.5	10.8
• <i>Insurance technical reserves</i> /2/	17.9	18.1	17.7	17.8
• <i>Nonmarketable securities held by pension plans</i> /3/	-7.5	-7.4	-7.2	-7.0
Other	-0.2	-0.4	-0.5	-0.6
Memorandum items /4/				
NPV of Social Security and Medicare /5/	...	305.3	308.3	319.9
/1/ Preliminary data.				
/2/ Net present value of future benefit payments to government employees, net of contributions.				
/3/ FRB estimate of insurance technical reserves. Excluded to avoid double-counting.				
/4/ Not included as liabilities following the <i>GFSM 2001</i> principles.				
/5/ Net present value of 75-year actuarial projection of benefit payments under current law, in excess of their scheduled contributions and earmarked taxes. Based on the 2006 Financial Report of the U.S. Government.				

c) Reconciliation of cash surplus/deficit included in Table 3 (*GFSM 2001*) and the unified balance published in the *Budget of the United States Government* report.

Table C. Reconciliation of federal government cash deficit between the <i>GFSM 2001</i> and Budget				
(% of GDP)	2003	2004	2005	2006 /1/
Cash surplus/deficit (GFSM 2001, Table 3)	-3.5	-3.5	-2.6	-1.9
Budget deficit (Budget of the United States Government report)	-3.5	-3.6	-2.6	-1.9
Discrepancy	0.0	0.1	0.0	0.0
<i>Explained by:</i>				
<i>Institutional coverage</i>	-0.2	-0.1	-0.1	0.0
U.S. territories and Puerto Rico	-0.1	-0.1	-0.1	-0.1
Net current surplus of government corporations	0.0	0.0	0.0	0.0
<i>Transactional coverage</i>	0.2	0.1	0.0	0.0
Employee contributions to pension funds	0.1	0.1	0.1	0.1
Direct loans	0.0	0.0	0.0	0.0
Deposit insurance	0.0	0.0	0.0	0.0
Net purchases of nonproduced assets	0.0	0.0	0.0	0.0
Other	0.1	0.0	0.0	-0.1
/1/ Preliminary data.				

d) Reconciliation of net lending/borrowing (Table 1) and cash surplus/deficit (Table 3) both following the *GFSM 2001* methodology.

Table D. Reconciliation of federal government net lending/borrowing and cash surplus/deficit (<i>GFSM 2001</i>)				
(% of GDP)	2003	2004	2005	2006 /1/
Net lending/borrowing (Table 1)	-4.6	-4.3	-3.5	-2.3
Cash surplus/deficit (Table 3)	-3.5	-3.5	-2.6	-1.9
Discrepancy	-1.1	-0.8	-0.9	-0.4
<i>Explained by:</i>				
<i>Timing differences</i>	-0.3	-0.3	-0.2	0.1
<i>Imputed social contributions</i>	-0.7	-0.6	-0.6	-0.6
<i>Other</i>	-0.1	0.1	-0.1	0.0
/1/ Preliminary data.				