

RECORDING OF GOVERNMENT LIABILITIES

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Liabilities of government are a key focus of macroeconomic analysis and the way in which they are recorded is important in facilitating this analysis. This paper discusses how government liabilities (and debt, which is a subset of liabilities—see below) are currently classified in the *System of National Accounts 1993 (1993 SNA)*, the *Government Finance Statistics Manual 2001 (GFSM 2001)*, and the *External Debt Statistics: Guide for Compilers and Users (Debt Guide)*. It also discusses other classifications that are useful for analytical purposes.

I. DEFINITION OF LIABILITY

A financial liability arises when a financial claim is created between two units. The debtor unit in a financial claim is contractually obligated to provide the payment or payments that the creditor unit has a right to receive according to the terms and conditions specified in a contract between the two units. Thus, a liability is an obligation to provide economic benefits to the unit holding the corresponding financial claim.

A financial claim is an asset because it is a store of value over which ownership rights are enforced and provides economic benefits to its owner through property income payments and/or holding gains. A financial liability is the counterpart to the financial asset created in a financial claim.

II. TIME OF RECORDING

The guiding principle for whether claims and liabilities exist and are outstanding is that of ownership. The creditor owns a claim on the debtor, and the debtor has an obligation to the creditor. On an accrual basis, corresponding flows are recorded when economic value is created, transformed, exchanged, transferred, or extinguished.

The liability should be recorded at the date of the change of ownership of the financial claim, which is when both the creditor and debtor should enter the claim and liability, respectively, in their accounts. This date may actually be specified in the contractual agreement between the creditor and the debtor to ensure matching entries in the books of both parties. If no precise date can be fixed, the date on which the creditor makes a payment or some other financial claim is decisive. For example, loan drawings are entered in the accounts when actual disbursements are made, which is when financial claims are established, and not necessarily when the agreement is signed.

III. VALUATION

Financial liabilities should be valued at current market prices whenever they are regularly traded on organized financial markets. Both the financial liability and the counterpart financial asset from the same financial claim should be assigned the same value in the balance sheets of the debtor and the creditor. The prices should exclude service charges, fees,

commissions and similar claims for services provided in carrying out the transaction. Financial claims that are not traded on organized financial markets should be valued by the amount that a debtor must pay to extinguish the claim.

IV. STOCKS AND FLOWS

The stock of liabilities is recorded in the balance sheet. The difference between the stock of liabilities in the balance sheet at the beginning of an accounting period and at the end of an accounting period is the sum of two flows, the net result of transactions in financial liabilities during the accounting period, and the net value of other economic flows that affect liabilities during the accounting period.

Transactions in liabilities consist of the incurrence and extinction of liabilities. There are two major categories of other economic flows: holding gains and losses, and other changes in the volume of assets. Holding gains (losses) result from price changes that may occur over the period of time that the liability is being held. Other changes in the volume of assets (liabilities) reflect changes in the quantity of a liability through events other than transactions. For example, when a government writes off debt because it no longer expects to be paid, it records the reduction in its financial assets and an other economic flow—see section on Debt Reorganization.

V. CLASSIFICATION OF FLOWS IN LIABILITIES

A. 1993 SNA

The *1993 SNA* classifies transactions in liabilities by type of financial asset (instrument). The different instrument types reflect the liquidity and legal characteristics of the instrument that describe the underlying creditor-debtor relationship. The liquidity of a financial instrument embraces characteristics such as negotiability, transferability, marketability, and convertibility. The instrument classification is as follows:

- Currency and deposits
 - Currency
 - Transferable deposits
 - Other deposits
- Securities other than shares
- Loans
- Shares and other equity
- Insurance technical reserves
- Other accounts payable
 - Trade credit and advances
 - Other

To facilitate further analysis the *1993 SNA* has a more comprehensive table “Table 11.3b Detailed flow of funds (financial liabilities).” This table records transactions in liabilities cross-classified by type of liability and the by the creditor sector. The instrument-types “securities other than shares” and “loans”, which are likely to be the most important instrument types for an analysis of government liabilities, are first sub-classified by original maturity—short-term and long-term. Short-term is defined as one year or less. Then for each of the two maturity categories there is a classification by the institutional sector of the creditor. The following institutional sectors are identified:

- Non-financial corporations
- Financial corporations
- Central government
- State and local government
- Other resident sectors
- The rest of the world

Other changes in the volume of liabilities is classified in the *1993 SNA* by cause, with the following causes being potentially applicable for liabilities:

- Catastrophic losses
- Uncompensated seizures
- Other volume changes in financial assets and liabilities n.e.c.
- Changes in classification and structure

Other changes in the volume of liabilities are also classified by instrument.

Holding gains (losses) are recorded in the *1993 SNA* in the Revaluation account. This account shows the nominal holding gains (losses) accruing on liabilities, which are then decomposed into neutral holding gains and real holding gains shown in two sub-accounts. All these types of holding gains (losses) are classified by instrument.

B. *GFSM 2001*

In the *GFSM 2001*, transactions in liabilities, holding gains (losses) in liabilities, and other changes in the volume of liabilities are also classified by residency (domestic or foreign), and then by instrument. In addition, transactions in liabilities are classified by the institutional sector of the creditor. There are different sector classifications for liabilities owed to domestic units compared with liabilities owed to foreign units. These are set out below:

- Domestic
 - General government
 - Central bank
 - Other depositary corporations
 - Financial corporations

- Nonfinancial corporations
- Households and nonprofit institutions serving households
- Foreign
 - General government
 - International organizations
 - Financial corporations other than international organizations
 - Other nonresidents

VI. CLASSIFICATION OF STOCKS OF LIABILITIES

A. 1993 SNA

The primary classification of liabilities in the *1993 SNA* and the *GFSM 2001* is by instrument (other classifications are discussed below).

In its balance sheet presentation, the *1993 SNA* has sub-classifications for each liability instrument type—see *1993 SNA*, Table 13.3b Stocks of financial liabilities analyzed by sector of debtor and creditor. For government the most important types of liability instruments are securities other than shares, and loans. These are both sub-classified by original maturity (short-term and long-term) and by the institutional sector of the creditor (the same creditor institutional sector classification set out above for flows).

B. GFSM 2001

The *GFSM 2001* classifies its balance sheet liabilities first by the residency of the holder of the liability (domestic or foreign) and then by instrument type, although its instrument classification is not quite as detailed as that used in the SNA. The *GFSM 2001* instrument classification is as follows:

- Currency and deposits
- Securities other than shares
- Loans
- Shares and other equity
- Insurance technical reserves
- Other accounts payable

VII. CLASSIFICATION OF DEBT IN THE *DEBT GUIDE*

The *Debt Guide* provides a comprehensive conceptual framework, derived from the *1993 SNA* and the fifth edition of the *Balance of Payments Manual (BPM5)*, for the measurement of gross external debt of the public and private sectors. It sets out a more comprehensive range of data on government external debt than that in the *1993 SNA* and the *GFSM 2001* in the context of external debt statistics for the whole economy.

Debt is a subset of liabilities. It consists of those liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future. The instrument types “shares and other equity” and “financial derivatives” do not have this characteristic and are not considered debt. Thus, debt consists of all the other instruments.

Government external debt is first classified by maturity of the debt—short-term and long-term—on an original maturity basis, with a secondary classification by debt instrument. The *Debt Guide* instrument classification is described in Chapter 3 of the *Debt Guide*. There is a close correlation between this instrument classification and that used in the *1993 SNA* and *GFSM 2001*. An important difference is that the *Debt Guide* instrument classification includes debt arrears as a separate instrument type whereas the *1993 SNA* and the *GFSM 2001* does not. In the *1993 SNA* arrears are not recognized separately but any arrears are included with the outstanding principal of the instrument that is in arrears. In the *GFSM 2001*, the same treatment is recommended but the arrears could be listed as a separate instrument. Also, the in the *Debt Guide* the instrument types are grouped differently making reconciliation between the two accounts difficult, although a concordance can be established.

As well as showing external debt of the government sector, the *Debt Guide* presents public sector and publicly guaranteed external debt. This is also classified by original maturity and instrument.

Further presentations of external government debt in the *Debt Guide* based on the following classifications are:

- Remaining maturity (short-term, long-term);
- Currency of issue (foreign, domestic);
- Interest rate composition (fixed-rate, variable-rate);
- Creditor institutional sector; and
- Location of issuance (domestic, foreign).

Information on net external debt (external financial assets are netted of gross external debt) is also recommended in the *Debt Guide*.

The *Debt Guide* has provision for the presentation of some flow data related to external debt—namely a debt-service payment schedule.

VIII. USEFUL SUPPLEMENTARY CLASSIFICATIONS

Recent economic developments highlight the importance of effective monitoring of government debt in macroeconomic analysis because: excessive government debt has been an important contributor to financial and economic crises in emerging market countries; government debt is influenced by many factors, many of which can be volatile, such as exchange rate movements and interest rates; and government debt sustainability in the medium term is an important focus of macroeconomic policy, especially in countries that

obtain external debt relief. To monitor and analyze government debt with respect to these factors it is considered desirable to have additional information about government debt compared with the classifications contained in the *1993 SNA* and the *GFSM 2001*.

In contrast to the expanded range of data about government external debt that is provided by applying the *Debt Guide*, data on total government debt (domestic and external) have not been expanded in any coherent and comprehensive way beyond what is in the *1993 SNA* and the *GFSM 2001*. Additional data have been collected by different agencies at different times in response to specific analytical needs.

The International Monetary Fund (IMF) has prepared a draft of a more comprehensive framework for reporting data about government debt. This draft debt data collection template is under discussion and being piloted by the Task Force on Financial Statistics. It is divided into two complementary blocks.

The first block focuses on debt liabilities of the general government. It contains unconsolidated quarterly data on debt of the central government and subnational governments (broken down by residency, maturity, instruments, and currency), as well as data on debt service. To provide additional information relevant to vulnerability analysis, there are memorandum items for contingent liabilities, including financial derivatives, government guarantees, and liabilities of the central bank. This block of data would form the statistical basis for vulnerability and debt sustainability analysis, and provide a measure of total government debt that is comparable across countries. The main unit of analysis is the general government and any contingent claims upon it (including from public corporations, the monetary authorities, and the private sector). Two main tables and a supplementary table are proposed as follows:

- The first table would show government debt data reported on an original maturity basis broken down by residency (domestic/external), maturity (short-term/long-term), and instrument.
- The second table provides government debt data on a remaining maturity basis broken down into currency (domestic/foreign), maturity (short-term/long-term), and instrument.
- Additionally, supplementary tables on debt-service payment schedules—principal and interest—are provided by residency and by currency.

The second block extends to the net financial assets of the entire public sector. It provides consolidated annual data on the assets and liabilities of the main sub-sectors of the public sector (general government, monetary authorities, financial public sector, and non-financial public sector). The disaggregation of assets and liabilities is intended to focus on long-term fiscal sustainability issues and multi-sector balance sheet analysis. The main unit of analysis is the entire public sector, providing a complete picture on net financial assets that users can

disaggregate as needed for their analytical purposes. One main table is proposed with four supplementary tables as follows:

- The main table would show public debt disaggregated by residency (domestic/external), currency (domestic/foreign), original maturity (short-term/long-term), and instrument.
- Two supplementary tables provide more detailed debt positions of the general government and the other public sub-sectors, respectively. Arrears are captured in a third supplementary table and in a fourth supplementary table there is information on the holders of public sector debt, broken down by residency and the sectoral composition of the debt financing instruments.

The instrument classification in both blocks of data would be based on that in the *Debt Guide*.