

Three new chapters for the ESA95 Manual on government deficit and debt

Eurostat has issued three new chapters of the ESA 95 Manual on government deficit and debt¹. These are the result of several decisions taken by Eurostat from October 2003 to March 2004 specifying the treatment in national accounts as regards transactions with units classified within the general government sector.

These new chapters in the Manual have been submitted for the opinion of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB), and endorsed as described in annex.

Classification of funded pension schemes

The new Chapter I.3 of the Manual deals with the classification of some funded pension schemes where government is involved either as a manager of the flows of contributions and pension benefits or as a guarantor for the risk of defaulting payments of pensions².

This chapter specifies that, if a government unit is responsible for the management of a defined contributions funded pension scheme, the scheme cannot be treated in national accounts as a social security scheme. The unit managing the scheme must be classified as a public financial corporation. Therefore, the flows of contributions and benefits under the scheme are not recorded as government revenue or expenditure and do not have an impact on government deficit or surplus.

This chapter also states that where a government unit simultaneously manages two different kinds of schemes, one funded and the other unfunded, two different institutional units must be distinguished in national accounts, each of them referring to one identifiable scheme. The corresponding flows under each scheme should be recorded according to the sector classification of the unit responsible for the scheme. The unit managing the defined contributions funded scheme should be classified outside the general government sector.

Finally, this chapter points out that the existence of an explicit guarantee, covering a majority of participants in a scheme that is not classified as a social security scheme, is not a sufficient condition for classifying the scheme as a social security scheme, the government guarantee being considered as a contingent liability, not recorded in national accounts as a government liability according to the general ESA95 principles.

Lump sum payments to government in the context of the transfer of pension obligations

The new Chapter II.5.3 of the Manual deals with the accounting treatment in national accounts of payments to government by a corporation in the context of the transfer to government of pensions obligations under a scheme that the corporation operated for its own employees.

Eurostat has taken a decision in the cases of an employer unfunded scheme³ and an employer funded scheme⁴. In both cases, the payment received by government in this context is to be recorded as government revenue and has a positive impact on government surplus or deficit. The pension obligations taken over by government are not recorded in the form of a liability of government, according to the ESA95 classification.

Long term contracts between government units and non-government partners

The new chapter IV.2 of the Manual deals with the treatment of Public-private-partnerships, as defined in a recent Eurostat decision⁵.

This new chapter specifies the main features of the arrangements that are to be covered by the new rules for treatment in national accounts, notably when the contract foresees an initial capital expenditure and a related provision of services that are mainly purchased directly by government units and not by the final users.

In order to assess the impact on government deficit or surplus and debt, the key issue is the advance classification of the assets involved in the partnership contract, either as government assets or recorded in the balance sheet of the partner.

In accordance with national accounts rules, this classification is essentially based on the analysis of the risks attached to the specific partnership and borne by the contractual parties. If a majority of such risk is clearly borne by the non-government partner, the assets are not recorded on the government's balance sheet and no initial capital expenditure is recorded in government accounts.

1. The PDF version of the ESA 95 Manual on government deficit and debt, including the new chapters, is available for free download from the Eurostat Website. [ESA 95 Manual](#). Each of these new chapters in the Manual follows a similar structure: background of the issue, clarification of the treatment to be implemented, possible additional rationale, simplified numerical examples (if necessary) and key reference to ESA95.
2. See News Release 30/2004 of 2 March 2004.
3. See News Release 120/2003 of 21 October 2003.
4. See News Release 26/2004 of 25 February 2004.
5. See News Release 18/2004 of 11 February 2004.

CMFB opinion

concerning the new chapters of the ESA 95 Manual on Government Deficit and Debt related to:

- Lump sum payments to government in the context of the transfer of pension obligations
- Long-term contracts between government units and non-government partners
- Classification of funded pension schemes and impact on government finance

1. On Eurostat's request the CMFB Chairman, with the assistance of the CMFB Executive Body, invited the CMFB Members, on 13 July 2004, to endorse the new chapters of the ESA 95 Manual on Government Deficit and Debt on the issues mentioned above. The deadline for returning the consultation form was 11 August 2004. Eighteen (18) national statistical institutes and eighteen (18) national central banks from the Member States returned the questionnaire. A total of thirty-six (36) national institutions, from all twenty-five (25) Member States, responded to the consultation form. The ECB also provided a reply.

2. The results of the consultation were as follows:

2.1 On the question: *Do you endorse the content of the new chapter "Lump sum payments to government in the context of the transfer of pension obligations" in the Manual?*

A very large majority of the responding national institutions answered **Yes**.

Accordingly, the CMFB endorses the content of the new chapter "Lump sum payments to government in the context of the transfer of pension obligations". It also suggests that this chapter incorporates the clarifications recommended by CMFB Members, in so far as they do not change the substance.

2.2 On the question: *Do you endorse the content of the new chapter "Long-term contracts between government units and non-government partners" in the Manual?*

A very large majority of the responding national institutions answered **Yes**.

Accordingly, the CMFB endorses the content of the new chapter "Long-term contracts between government units and non-government partners". It also suggests that this chapter incorporates the clarifications recommended by CMFB Members, especially regarding the treatment of leasing transactions in the framework of this set of rules, in so far as they do not change the substance.

2.3 On the question: *Do you endorse the content of the new chapter "Classification of funded pension schemes and impact on government finance"?*

A very large majority of the responding national institutions answered **Yes**.

Accordingly, the CMFB endorses the content of the new chapter "Classification of funded pension schemes and impact on government finance". It also suggests that this chapter incorporates the clarifications recommended by CMFB Members, especially regarding the treatment of possible important redistribution effects and the assessment of government

guarantees specific to funded pension schemes, in so far as they do not change the substance. In particular, it was advised that section 1.3.2.3 of this chapter relating to the government guarantees should be made fully consistent with the Eurostat decision of 2 March 2004 on the “classification of funded pension schemes in case of government responsibility or guarantee”.

3. This opinion has been transmitted to Eurostat and will be kept in the records of the CMFB secretariat.

(Signed)

Jean CORDIER
CMFB Chairman

Paris, 30 August 2004