

## **SOME CLARIFICATIONS ON NEW EDP TABLES**

### **"Working balance (+/-) of entities not part of central government"**

According to national arrangements, inflows and outflows of some non-government bodies might be included in the working balance (first line in EDP Table 2A). These bodies should however not be part of the general government sector (GG) as defined by ESA95 (e.g. public corporations or quasi-corporations classified in S.11 or S.12).

In order to eliminate these flows while calculating central government B.9, a special adjustment line appears in EDP Table 2A. In the previous version of EDP tables the line was labelled "Net borrowing (-)/lending (+) of State entities not part of central government". In the new EDP table, this line is renamed to "Working balance of entities not part of central government".

The reason for the change of the title is the following:

The accounting basis, as well as the coverage of inflows/outflows in the first line of EDP Table 2A, depends on the national arrangements (e.g. accrual, cash, financial and non-financial flows). It is supposed that a balance of inflows and outflows of other than government bodies which might be included in the first line in EDP Table 2A, does not reflect B.9 balancing item as defined by ESA95. Therefore it is more appropriate to refer to a "working balance" rather than a B.9 of those entities.

In fact, Member States are expected to include here the same adjustment as in the corresponding line of the previous version of EDP Table 2A.

Similar reasoning applies also to EDP Tables 2 of state government, local government and social security funds sub-sectors.

### **"Net borrowing (-) or net lending(+) of other central government bodies "**

In order to ensure the coverage of the sub-sector according to ESA95, B.9 of other government bodies which were not included in the first line of EDP Table 2A (working balance), should be reported here (e.g B.9 of government agencies; B9 of NPIs classified in sector S13), as it was the case in the previous version of EDP Table 2A.

The same applies to EDP Tables 2 of state government, local government and social security funds sub-sectors.

### **Difference between "Non-financial transactions not included in the working balance" and "Other adjustments"**

The purpose of the item "Non-financial transactions not included in the working balance" is to include in EDP B.9 of GG those non-financial flows of the core (main) entity/entities, which are not recorded in the starting line of EDP Tables 2 as well as not included in B.9 of other government bodies.

For instance, the following adjustments might be reported here:

- adjustments relating to net acquisition of non-financial assets and capital grants in case an accrual working balance (the first line of EDP Tables 2) is based on a profit and loss account;
- inclusion of revenue and expenditure booked in "extrabudgetary accounts" of the core (main) unit/groups of units, which do not enter the working balance. These extra-budgetary accounts are not institutional units, but special purpose accounts/funds which belong to the main entity (e.g. usually state budget for S1311). In some countries these can be reserve funds, state financial asset funds, social need funds of the state budget, cultural funds, etc. This adjustment should not be confused with the B.9 of extra-budgetary funds which are institutional units reported under "Net borrowing (-) or net lending of other government bodies" (if they are not included in the working balance).

We would however expect that specific methodological adjustments, such as reclassification of transactions (financial versus non-financial) or reclassification of flows (other change in volume versus transaction), or imputation of transactions (e.g. debt assumption, PPPs etc) are not recorded under "Non-financial transactions not included in the working balance", but under "Other adjustments".

### **"Interest flows attributed to swaps and FRAs<sup>1</sup>"**

On the basis of the Regulation 2558/2001, for the purposes of the EDP reporting, net borrowing (-)/ net lending (+) of general government (EDP B.9) includes *"streams of interest payments resulting from swaps arrangements and forward rate agreements"*.

These streams of interest payments enter in EDP Tables 3 EDP net borrowing/net lending (EDP B.9) as well as currency and deposits (F.2).

These flows are also reported, depending on national practise, under *Securities other than shares* (F.3) or under *Net incurrence (-) of liabilities in financial derivatives* (F.34). The fourth entry is to be reported under the item *Difference between interest (EDP D.41) accrued (-) and paid(+)* ( of which: interest flows attributable to swaps and FRAs).

### **Portfolio investments by government**

In general terms, investments in equity can be divided into two broad categories: direct investments and portfolio investments. Portfolio investments represent passive holdings of shares which, unlike direct investments, do not entail active management or control of the issuer by the investor.

In the case of general government portfolio equity investment, this usually consists of listed shares and mutual fund shares being part of social security funds' reserve assets or current liquid assets of other government units.

There should be consistency between portfolio investments reported in EDP Tables 3 and in the Questionnaire relating to EDP notification tables (Table 10.1)

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<sup>1</sup> The issue of reporting adjustment for swaps in EDP tables 3 was discussed back in 2007 in the FAWG meeting of June 11-12, Document B.3.2