

STATISTICAL COMMISSION and ECONOMIC COMMISSION FOR EUROPE **WORKING PAPER No 1**

CONFERENCE OF EUROPEAN STATISTICIANS

OECD Meeting of National Accounts Experts
UN/ECE session on issues of concern
to economies in transition
(OECD, Paris 12 October 2001)

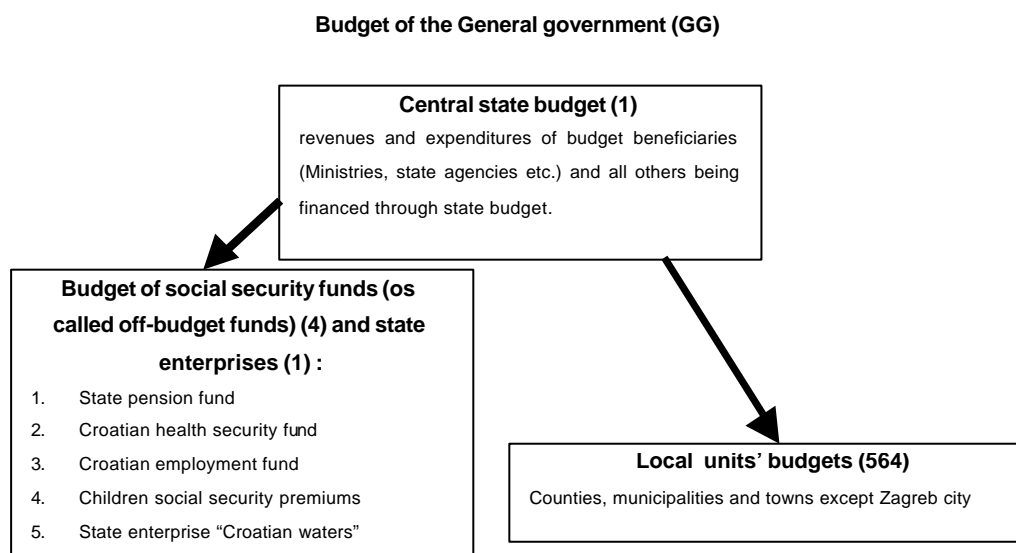
GENERAL GOVERNMENT SECTOR – MEASUREMENT PROBLEMS

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GENERAL GOVERNMENT SECTOR – MEASUREMENT PROBLEMS

Definition of GG (General government in Croatia) follows roughly the definitions specified in SNA 93 and ESA 95. **Namely all non-profit institutions (NPI) which are controlled and financed by General government being classified in this sector.** Mechanical criteria set up in ESA-95 (all institutional units which cover more than 50% of their revenues through the market being classified outside GG sector, all others being classified in this sector) are not being applied anyway in Croatia.¹ Namely, we follow one wider set of criteria for inclusion or exclusion one institutional unit in GG sector (kind of management – i.e. if management is tightly bound in its decision making with government officials or not, if one institutional unit – e.g. different type of funds bears risk commensurable with risk bearing by financial intermediaries – like banks, if social security funds is financed primarily through contributions of its beneficiaries and transfers from GG budget or they are being financed through saving deposits of their beneficiaries etc.)² **Present GG sector in Croatia can be illustrated by the following figure:**



¹ Production costs are the sum of intermediate consumption, composition of employees, consumption of fixed capital and other taxes on production.

² At the moment in Croatia here is process of so called Retirement system reform. So far Retirement system was based on the so called principle of **generation solidarity**, i.e. all contributions being levied from all active employees were being used for pension payments on behalf of current pensioners. As pension benefits usually exceeds contributions' levies plus own pension fund's revenues (like portfolio investments on financial markets), which makes the minor part of total Pension fund revenues, the difference between Pension fund's revenues and pension fund's benefits being financed through Central state transfer. From the beginning of 2002. year the new Retirement system will be based on saving principle, it means potential future pension beneficiaries will be saving during their whole lifetime expecting to receive pension benefits in the future. Instead of only one pension fund which is active presently here will be many private pension funds which will operate similarly to all other financial depository institutions - like banks. This institutional change in the area of retirement system will certainly require change in statistical classification of pension funds (they would have to be reclassified from GG sector into sector of Non-financial corporation).

The figure displayed above indicates there is good foundation in Croatia for reclassification of GG institutional units by ESA 95 GG subsectors, i.e.: a) central government (S.1311), c) local government (S.1312), d) social security funds (S.1314).³ Despite the fact all state institutional units are available at 5-digit NACE level (LKAU NACE level), at the moment we are not able to make unique classification of these units by GG subsectors because here is not consent among all relevant producers of official statistics. **Due to the fact we don't have uniquely built official state statistical system we neither have one unique statistical register for all producers of official statistics (13 producers in total) nor we know how we would update it in the case we had it.** This immediately implies we can at the moment make only rough classification of GG institutional units by six ESA 95 institutional sectors. Consequently, until the end of this year we are expecting to have experimental set of **Current accounts** by institutional sectors for 1997 and 1998 year (PRODUCTION ACCOUNT through USE OF DISPOSABLE INCOME ACCOUNT) plus CAPITAL ACCOUNT from the set of **Accumulation accounts**. **However, we are aware of the fact that there are many wrong classifications by institutional sectors what causes miss-measurements of key macroeconomics variables by sectors.**

Although we avail of all GG institutional units on 5-digit NACE level (LKAU level) we can't make unique reclassification unit by unit according to SNA 93/ESA 95 standards. Namely, there is substantial disorder in Croatian statistical system; consequently there are several administrative registers led by different state institutions which are fully or partly involved in production of statistics, let's mention some of them: register of institutional units being led by **Institute for public payment** (so called ZAP)⁴, registers of banks being led by **Croatian national bank**, register being led by our institution (**Central bureau of statistics**) and register being led by **Ministry of finance**. At the moment our institution doesn't have enough power to obtain central role in official statistical system as an institution responsible for imposition of statistical standards including classifications.

The key problem we face with is the fact that we must in compilation of annual and quarterly GDP rely ourselves on external institutions like ZAP. Namely, it supplies us with all relevant financial data. This institution prepares for us five data bases: database of financial (i.e. accounting) data for non financial enterprises, banks and saving institutions, insurance companies, non-profit institutions, government institutions financed through budget. In order to achieve full comprehensiveness (i.e. coverage of physical units like crafts) we use data of Pension fund and Tax collection unit (within Ministry of finance) to assess income (i.e. GDP) of all physical units. **Unfortunately our business statistics are not able to supply us (i.e. National accounts) with adequate financial data. They supply us almost exclusively with quantitative measures (i.e. quantitative and volume indices).** Admittedly, we use these quantitative measures as indices in compilation of our GDP figures at constant prices – production side, but this almost certainly produces classification inconsistencies between GDP figures at constant prices and GDP figures at current prices (since the data used for compilation of GDP figures at current prices being provided through

³ Here is not state government sector in Croatia because Croatia is not federal state.

⁴ From this point we will use the abbreviation ZAP.

ZAP on institutional bases and the data used for compilation GDP figures at constant prices being provided through our own business statistics on pure kind of activity basis).

The situation with GG sector is almost the same as the situation in all other sectors. The sources are two folds: **through ZAP (*databases for non-profit and budget institutions*)** and **through Ministry of finance (*Budget plan and realisation of budget plan by all state budgets and off-budget funds*)**. As already mentioned above all off-budget funds being classified in Central government (CG) because they are, due to deep social implications, under government control. These funds (i.e. social security or off-budget funds) have their own budgets and management autonomy but they almost regularly receive transfers when their own revenues (levied through contributions with specified purposes or through portfolio investments) are not sufficient to cover their expenditures. **There it is necessary to make consolidation of total revenues and expenditures within Central government - CG (i.e. Central state budget + off-budget funds) as well as within GG (CG + Local units) to obtain real measure of true fiscal burden of whole national economy.**

The more appropriate approach we use, instead of revenues/expenditures consolidations, is cost approach for measuring GG production and consumption; bearing in mind there is no overlapping among different costs items at different GG levels as there is in the case of revenues/expenditures approach. Using databasis for budget institutions and non-profit institutions we can extract data for the following cost components: *composition of employees* (i.e. wages and salaries and employers social contributions), *consumption of fixed capital*, *other indirect taxes* and *intermediary consumption*.

Using the two alternative sources mentioned above we can, and we do, make two parallel calculations of GG production and consumption (the first one based on CBS/ZAP data prepared according to ESA 95 and the second one based on MF data prepared according to GFS statistics). **It is important to point out we achieve high degree of congruency in GG production and consumption figures when we are applying these two different approaches.**

Having in mind all obstacles and difficulties mentioned above we can calculate GG production (on costs principles) which consists of market and non-market GG production. Non-market GG production being calculated like difference between GG production minus market GG production (valued at market prices). **Non market GG production is equal to GG consumption which consists of the two parts: collective government production and individual government production (including NPISH-s).**

Important point that should be considered is borderline for dividing NPISHs from NPI belonging to GG sector. ⁵ NPI belonging to GG sector are institutional units which are under stronger government impact and which are predominantly financed through transfers.

These institutions are mainly:

- education, all educational level,
- health system, all features of health care,
- social custody and social protection,
- culture, libraries, museums, sport, recreation, environmental protection, other.

Other part of NPI are NPISHs provide services to the citizens and they are financed in major part by members' fees, contributions, donations or by sale part of the production on the market.

These institutions are mainly:

- business organisations' unions,
- Labour unions, political and religious communities,
- citizens' and households' communities and
- other societies: educational, scientific, recreational, sport, voluntary firemen organisations, children custody, invalids' custody and the like.

Above depicted breakdown of GG consumption enable us to construct so called actual concept of private consumption: private consumption financed by households plus NPISHs consumption (transfers to households) plus individual consumption by government (following COFOG classifications).

Government productivity is far from our achievements. There is no statistical research in this field in Croatia. So far we use assumption of constant productivity of GG. Particularly when we compile GG production and consumption (namely, number of GG employees is used as indicator while we compile GG GDP item at quarterly level).

Due to ever larger share of capital revenues in Croatian budget, in the period 1997-2000, coming from privatisation of public enterprises we are facing problem how to treat privatisation transactions in the experimental set of accounts (particularly in capital and financial account). As we have been just now in the process of compilation experimental capital account, recommendations and particularly accounting examples from EUROSTAT *Manual on government debt and deficit* will be very useful in our practical work.

⁵ From this NPI is used for Non profit institution.