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THE RELATIONSHIP BETWEEN GOVERNMENT ACCOUNTS AND NATIONAL ACCOUNTS, WITH SPECIAL REFERENCE TO THE NETHERLANDS

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National accounts are a macro-economic accounting system that is compiled on the basis of a globally harmonized accounting standard, that is SNA93/ESA95. To a large extent, the SNA93/ESA95 accounting principles are also suitable for government (micro-)accounting purposes, if only because the accounts drawn up according to this standard are comparable across (types of) units and over time. That facilitates performance monitoring and benchmarking. In addition, the ESA95 guidelines and procedures deal with innovative transactions and accounting, which increases the credibility of the accounts. Finally, accounts for government units are then directly comparable with the macroeconomic accounts, which facilitates the link between forecasts for the national economy and drawing up government budgets. This paper also describes the present conversion of government accounts to national accounts for the government sector in the Netherlands and the plans of the Dutch government to change from a cash-based to an accrual government accounting system.

1. INTRODUCTION

Several years ago, Richard Ruggles (1996) remarked: "Currently, governments are faced with the need to evaluate both the macro and micro aspects of their policies related to old age entitlements, health care, education, the environment and poverty. The national accounts alone are not sufficient for this task. Both the need and the technical feasibility of linking the macro framework with micro data have increased." Following his pioneering work, national accountants are now paying much more attention to the so-called micro-macro links.

Conversely, the interest of budgetary authorities in the macro accounting concepts for government accounting has also increased. For instance, the Dutch Parliament is discussing a transformation from a cash bookkeeping system to an accrual system of accounting for (most of) central government. One of the key issues of such a change is the selection of the appropriate accounting standards.

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This paper elaborates on the accounting principles for compiling national accounts for the government sector, with special reference to their practical application in the Netherlands.

The national accounts provide a comprehensive and consistent economic review of a country in a certain period. This national bookkeeping system subdivides the economy into five sectors (non-financial corporations, financial corporations, general government, households and non-profit institutions serving households) and presents for each sector all its economic processes in a series of sector accounts, ending with balance sheets. This includes all their transactions with non-resident units, which are presented in a set of so-called rest-of-the-world accounts.

For European Union Member States, the accounting rules for compiling the national accounts have been laid down in the European System of Accounts, abbreviated as ESA95 (Eurostat, 1996). This legally binding conceptual framework is a further elaboration of, but still fully consistent with, the worldwide guidelines laid down in the 1993 System of National Accounts, or SNA93 (United Nations *et al.*, 1993). In practice, the accounting principles of ESA95 are used intensively for (European) economic policy purposes. For example, two government finance indicators, namely government deficit and debt as a percentage of GDP, play an important role in assessing the readiness of a candidate country to become a Member State of the European Economic and Monetary Union (EMU). The definitions of these indicators follow the ESA95 rules.[1] The European Growth and Stability Pact also requires current Member States to compile government accounts according to ESA95 and to report detailed general government deficit and debt statistics to the European Commission twice a year. On the basis of these data, it is decided whether a situation of excessive deficit exists or is likely to come into existence in the Member State concerned. This may then be followed up by preventive or corrective measures.

In 1998 an action plan on EMU statistical requirements was agreed to enhance the co-ordination of European economic policy-making. It included a requirement to compile quarterly public finance statistics. Eventually this should lead to the regular compilation of a full set of simplified quarterly accounts, including the financial accounts and balance sheets, for the sub-sectors of government, in accordance with the ESA95 rules. The regular provision of non-financial accounts is already mandatory according to EU law.

Section 2 of this paper focuses on some conceptual aspects of the international guidelines for compiling national accounts for the government sector. Section 3 discusses the use of these guidelines for compiling government sector accounts in the Netherlands. Finally, Section 4 pays attention to the usefulness of the national accounts guidelines to government accounting and budgeting at the micro level.

[1]Except that the debt is valued at nominal prices instead of market prices and a few other, smaller differences (e.g. on the treatment of interest swaps).

2. Conceptual Issues in SNA93/ESA95, Related to the Government Sector

This section discusses four types of SNA93/ESA95 accounting rules and their application to the government sector: the sector delineation, the quadruple entry booking system, the valuation principles and the time of recording.

2.1. *Delineation of the Government Sector*

In the national accounts, separately identifiable economic entities are considered as statistical units. These units are then classified into so-called institutional sectors in accordance with their main function. One of those sectors is the general government, which is subdivided into central, state and local government and social security funds.

The general government sector incorporates two types of entities:

(1) *Government bodies like ministries and municipalities*, excluding any (substantial) market activities of these bodies that can be separately described. Those units are singled out as so-called quasi-corporations and classified to a corporations' sector.

(2) *Non-profit institutions* which are independent legal entities with non-market production and which are controlled and mainly financed by government bodies as described in the previous paragraph. In practice, different interpretations can be given to what is meant by "non-market production" and "controlled by government," respectively. For reason of clarity, these definitions are elaborated in more detail in the ESA95 and a supplementary manual (Eurostat, 1996, 2003). This fine-tuning of definitions also enhances the (international) comparability of the data.

2.2. *Main Accounting Rules in SNA93/ESA95*

The national accounts are a fully coherent and complete system of economic accounts. A main characteristic of this accounting system is the quadruple entry of transactions between economic actors in the sector accounts. For example, an interest payment from a government unit to a household (with respect to an outstanding bond) is recorded both on the current account and on the financial account, of both the government sector and the household sector, for the same amount. As a result, in the system two important consistency rules hold:[2]

(1) *Budget-identity*. For every sector, the total of transactions recorded as resources or as changes in liabilities equals the total of transactions recorded as uses or as changes in assets.

(2) *Transaction-identity*. For the whole economy (including the accounts for the rest of the world), the total of the resources (or changes in liabilities or net worth) of a transaction category equals the total of the uses (or

[2]In addition, a third important consistency rule refers to the stock/flow consistency, that is, the changes in the balance sheets are fully described by transactions and other changes in the flow accounts.

changes in assets) of this transaction category. For example, total interest payments equal total interest receipts.

In addition to these identities, in SNA93/ESA95 specific accounting rules have been defined for the valuation of flows and stocks in the system and for the time of recording of the transactions.

2.3. *Valuation in the System: Market Prices*

The general valuation rule for flows is the valuation at market prices, i.e. the price that is agreed upon by the economic actors who are involved in the transaction. If no (comparable) market prices are available, SNA93/ESA95 recommends to value output as the total costs of production. Concerning market production, this valuation at costs should include a mark-up to take account of an operating surplus.

In the case of production of non-market services, including most of government services, the value of output should be calculated as the total production costs defined as the sum of: compensation of employees, intermediate consumption, consumption of fixed capital and some taxes on production. Implicitly, therefore, the costs to finance the fixed assets, the intermediate inputs, etc. are not considered as production costs. This is a debatable convention. For example, *ceteris paribus* government output will be lower if the government owns its offices than if it rents them; in the latter case, financing costs are included in the rental price (cf. Keuning, 1999 for a further discussion on this issue).

Stocks of non-financial assets presented on the balance sheet should be registered at capital replacement value (current value). Traded financial assets and liabilities should in principle be valued at current market prices as well, whereas loans are recorded at their book value unless they are traded on a market.

In general, a close alignment of the valuation rules in the emerging International Accounting Standards (IAS) for business accounting and SNA93/ESA95 is very desirable.

2.4. *Time of Recording in the System: Accrual Basis*

A basic principle of any accounting system is that transactions have to be recorded at a standardized point in time. From an economic point of view, transactions can be recorded at any one of the following three moments in time:

(1) The moment at which economic value is created, transformed, transferred or extinguished (accrual basis).
(2) The date on which the payment or delivery becomes due.
(3) The date on which the transaction is actually paid (cash basis).

In SNA93/ESA95, accrual accounting is applied. Only a recording on an accrual basis guarantees a full (internal) consistency of the system, that is, consistency between the flows of goods and services and the concomitant financial flows, consistency between money transactions and other transactions (e.g. barter, production for own consumption), and consistency between flows and stocks.

3. The Government Sector in the National Accounts of The Netherlands

3.1. *Data Sources for the Compilation of General Government Sector Accounts*

The ministries and the central government budget funds (e.g. the infrastructure fund and the municipal budget fund) in the Netherlands use a cash-based system. All other reporting (public and private) units use (modified) accrual-based accounting systems. For instance, the social security institutions are mostly organized as private non-profit institutions, which use (modified) accrual-based accounting systems.

With respect to the (cash-based) information from central government for a certain year, several types of data become available over time. It starts, in September of the year $t-1$, with the publication of an overall budget for incomes and expenditures in year t, including separate explanatory notes per ministry. Then, in spring and in autumn of the year t two progress reports are released. The final realization of the cash flows is published in May of the following year ($t+1$). In addition to these publications, Statistics Netherlands receives the electronic bookkeeping data from the Ministry of Finance on a monthly basis. This database contains incomes and expenditures by item of each ministry, according to the (aggregate) classification in the budget. This information is used for the compilation of quarterly and preliminary annual government sector accounts according to ESA95. More detailed annual data on the cash flows become available only at a later stage and are then used for the compilation of the definitive annual government sector accounts.

All other government reporting units use accrual-based accounting rules. The main (groups of) government entities for which source data on an accrual basis are available are the local government authorities (like municipalities, provinces and polder boards) and the social security funds.

The financial information of municipalities and provinces is based on legally binding accounting rules. The main characteristics of the present rules are the definitions and classifications of functions and economic categories and the use of business accounting principles. To a certain extent, the definitions and classifications of economic categories in these rules are similar to the definitions of (aggregations of) economic transactions in SNA93/ESA95. However, for budgetary and political reasons, the present bookkeeping and financial reports of municipalities and provinces focus on the purpose of the expenditures, that is, (in SNA93/ESA95 terms) on the functional classifications. Understandably, less attention is paid to the economic categories. For example, the city council is more interested in total expenditure on (the function) education than in the total costs for (the economic transaction) compensation of employees. This is reinforced by a general tendency in the Netherlands to redirect policy-makers' attention from a focus on costs to a focus on outputs. For instance, Dutch government bodies are supposed to answer the following (three "w") questions, both *ex ante*, when applying for a budget, and *ex post*, when giving account:

- *W*hat do you want to achieve/have you achieved (goals)?
- *W*hat are you planning to do/have you done to achieve these goals (activities)?
- *W*hat will that cost/did that cost (budget)?

Related to this (shift in) focus, local governments often do not adequately apply the bookkeeping rules for the registration of economic categories. Recently, however, the external demand for more specific economic information in the government accounts increased again. Provinces (as supervisor of municipalities), the Ministry of the Interior, the Ministry of Finance (as the responsible body for the European Excessive Deficit Procedure (EDP) which requires information according to ESA95) and Statistics Netherlands (as compiler of the national accounts) all have their own need for more information of that kind. This mostly concerns more (detailed) data classified by economic category (according to ESA95).

As a consequence, the Ministry of the Interior has started a process to revise the legally binding accounting rules for the municipalities and provinces. Among the main changes is a revision of the classification of economic categories, so that it is more in line with the ESA95. Statistics Netherlands was asked to co-operate in this revision, in order to achieve an accurate interpretation of the ESA95 rules. Other important issues related to the revised accounting principles are:

(1) Will the application of the economic categories in the bookkeeping system be subject to a legally binding external audit (outcome: only in case of substantial changes in the bookkeeping system)?
(2) Will a declaration of approval (on the quality of the data) from the city council be needed for every data delivery to Statistics Netherlands?

The official introduction of the revised accounting system, which will improve the quality of the Dutch local government sector accounts, is planned in 2004. With respect to its proper application, concerning the interpretation of the ESA95 guidelines, Statistics Netherlands may play a similar role as in the Excessive Deficit Procedure. For the EDP, Statistics Netherlands advises the Ministry of Finance on the national accounts' classification of new or substantially modified policy measures (e.g. government expenditures related to the foundation of public-private partnerships). Statistics Netherlands provides this advice without prejudice to its independence in classifying the transactions when eventually compiling the government accounts for the Netherlands. A similar role was granted to Statistics Netherlands with respect to the sector classification of specific organizations. In a recent publication, the Ministry of Finance presented a reference list of public and private non-profit organizations with a "public task." In preparation of this publication, Statistics Netherlands was asked to determine the relevant sector, according to ESA95, of each individual organization.

During the past decade, in the Netherlands and elsewhere, it has been attempted to let the government focus on its core business and, related to this, to "privatize" (parts of) government entities. This process has transformed parts of government into either legally independent, private institutions (e.g. private non-profit institutions, private corporations) or into separate, but still public units. In the latter case, the change entails that these units have some more autonomy of decision and have to compile and publish a separate set of accounts, in order to allow for a better evaluation of their costs (and benefits) over time. Sometimes, these new entities are also allowed to access the capital markets on their own.

Lüder (2000) mentions ". . . corporatization of government entities leads to an erosion of the general government sector in macro-accounting since these entities leave the reporting entity." In practice, however, Dutch policy-makers were often surprised that their decision to "privatize" a unit did not result in it being reclassified outside the general government sector in the national accounts. In the second type of "privatization" mentioned above, both the control (e.g. who appoints the top manager, who is legally entitled to act "if things go fundamentally wrong") and the default risk and the financing structure of the units involved, and therefore their sector classification, do not really change. The same holds true for government units with market production. These "quasi-corporations" were already part of another sector in the national accounts before they were "privatized," so again the "privatization" did not affect the government deficit and debt. Finally, it goes without saying that if the government gives up control over a public corporation by disposing of its equity, this does not affect the general government sector. This corporation was already classified in a corporations' sector and is only reclassified from a public corporations' subsector to a private corporations' subsector.

Yet another variant concerns outsourcing of non-essential auxiliary activities, such as catering, security or premises maintenance (Petersen, 2002). Leaving potential efficiency gains aside, such outsourcing does affect the "size" of the government, but not total government expenditures.[3]

This being said, it is obvious that a change of accounting principles for privatized units, and an increase in the number of reporting entities, does indeed complicate the compilation of government sector accounts.

3.2. *Transformation of Government Accounts to National Accounts*

This section focuses on the transformation of both cash-based and accrual government data to national accounts statistics.

3.2.1. Transformation of Cash-based Source Data to National Accounts

In the Dutch practice, three steps are relevant when transforming cash-based government data into accrual-based national accounts.

Step 1: Identify the proper asset and transaction category

Typically, the cost and receipt types in the bookkeeping of the individual ministries are not the same as in the SNA/ESA transaction categories, but still provide sufficient information for a meaningful transformation into those categories. For instance, the item "personnel costs" is closely related to the SNA/ESA transaction category "compensation of employees," while in most cases "levies" can be transformed into the SNA/ESA transaction category "taxes." However, because of the move in 2002 from a cost-oriented budget-system to a more output-oriented accounting system for general government, the quality of the extra information needed for the national accounts tends to decrease. In co-operation with the Ministry of Finance, Statistics Netherlands now analyses the available (quarterly and annual) data from the individual ministries. Anyhow, a proper specification of actual payments and receipts by type is essential for the subsequent classification of economic transactions according to SNA93/ESA95.

[3]Refer also to Mink (2003) for several considerations on the measurement of the size of the government sector and its international comparability.

Step 2: Consolidate some internal flows

Internal income transfers (contributions from one ministry to another ministry) are consolidated. If the payments and receipts concern the delivery of goods/services, only the flows within the same economic activity (according to SNA/ESA classifications) are consolidated. The consolidation does not affect the government deficit, because payments and receipts are decreased by the same amount.

Step 3: Transform cash-based data into accrual-based data

In order to meet the requirements of SNA93/ESA95, the cash-data have to be converted to accruals-data. In the Netherlands, the main "cash-accrual" adjustments concern taxes, interest payments, payments in advance, rents on subsoil assets, consumption of fixed capital and current transfers within general government.

- *Taxes.* According to SNA93/ESA95, taxes should be recorded when the activities that generate the tax liability occur, or (in the case of some income taxes) in the period in which the tax liability is assessed. So, time adjustments have to be made for most cash-based tax receipts. For example, producers in the Netherlands are obliged to pay value added taxes (VAT) to the government within one month after the sale of their goods and services including the invoiced VAT. For example, VAT on Christmas presents has to be paid to the tax authorities before the end of January next year. Therefore, the sum of the government's VAT cash receipts in February t up to January $t + 1$ approximates the accrual-based VAT receipts of year t. The advantage of this approach, in terms of the economic meaning of the resulting government deficit estimate, is that government tax receipts are not inflated by tax assessments that are never paid. As tax income has a large quantitative impact on the government deficit, a transparent and comparable recording of taxes is important. Therefore, a specific EU Council Regulation has been issued clarifying the ESA95 rules concerning both the time of recording of taxes and social contributions and the amounts to be recorded. This regulation clarifies that net lending/net borrowing of the government shall not include taxes (and social contributions) that are unlikely to be collected. The above-described time-adjusted cash registration of taxes is one of the two acceptable methods according to this regulation.
- *Interest payments on central government debt*. The calculation of central government interest payments on an accrual basis, specified by debt instrument, is done by the special debt agency of the Ministry of Finance.
- *Payments in advance*. In some specific cases, like the purchase of military equipment, a correct timing of the booking of the (sizeable) expenditures involved is crucial to the international comparability of the resulting government deficit estimates.[4] Typically, additional information is available on delivery schemes and payment schemes. An example serves to illustrate the case:

[4]For the sake of completeness, it may be noted that if the military equipment is ordered abroad, any compensating orders for domestic producers should not be recorded as a reduction of the related government expenditures.

– A military plane is bought with a value of 100.
– The delivery takes place in *t*.
– The payments are 40 in $t - 1$ (in advance) and 60 in *t*.

Because the actual delivery of the plane is in *t*, the registration of the purchase (intermediate consumption) is in *t*, with a value of 100. Consequently, the advance payment in $t - 1$ (40) has to be recorded as a financial transaction ("other accounts receivable/payable") and not as intermediate consumption. In a cash-based system, 40 is recorded in $t - 1$ and 60 in *t*. In the accrual-based SNA/ESA system, the classification of this government expenditure is as follows:

In $t - 1$:	Other accounts receivable/payable	40
	Financial assets	–40
In *t*:	Intermediate consumption	100
	Other accounts receivable/payable	–40
	Financial assets	–60

- *Rents on sub-soil assets*. The rents on sub-soil assets concern the royalties paid to the government for the exploration of natural gas and oil on Dutch territory. The Ministry of Economic Affairs yearly recalculates these rents on an accrual basis. This calculation is based on additional information from the contracts concerned.
- *Transfers within general government*. National accounts estimates of the transfers from central government to other government entities are often based on the accrual-based books kept by those other entities.
- *Consumption of fixed capital*. Estimates on depreciation are lacking in a cash-based accounting system. So, Statistics Netherlands separately calculates the consumption of fixed government assets, using the so-called perpetual inventory method (PIM).

Despite the cash-based accounting system of the ministries, the Ministry of Finance also compiles a complete annual balance sheet for central government on an accrual basis and in accordance with the SNA93/ESA95 definitions. As in the system of national accounts both flows and stocks are recorded on an accrual basis, this balance sheet provides a useful consistency check on the derived accrual-based statistics.

3.2.2. Transformation of Accrual-based Source Data to National Accounts

A large share of the roughly 500 municipalities and 12 provinces send an electronic database with detailed (accruals) information to Statistics Netherlands every quarter. In addition, the (official) annual accounts of these government units are available. These published accounts provide an overall aggregate overview of the financial flows and stocks. Generally, the annual accounts are used to calculate the main transactions and balance sheet items of the annual national accounts, while the electronic data are used for filling in the details. In fact, the detailed financial information in the electronic databases is regularly incomplete and internally inconsistent. Moreover, the financial bookkeeping of local governments is often very large and rather complex. Yet, for the compilation of quarterly sector accounts up to now only the electronic data are available.

The transformation of the source data from municipalities and provinces into national accounts data is done in three steps:

Step 1: Identifying "quasi-corporations"

The accounting rules for municipalities and provinces are not strictly defined and only a consolidated review of the entity has to be presented. Generally, however, the flows and stocks of organizational units with substantial "market activities" (e.g. municipal public transport or utilities companies) are separately recognizable. In most cases, these units with market activities meet the conditions for "quasi-corporations" according to the SNA93/ESA95 definitions and are thus singled out. The complete deconsolidation of the "quasi-corporations" (i.e. determining all relevant flows) is a quite complicated and labor intensive activity, though, because of the complex bookkeeping of local governments.

Step 2: Identifying the proper asset and transaction category

The aggregate classification of economic categories in the accounting rules for local government is more or less similar to the ESA95 classification. However, the delimitation of the categories is not extensively specified and, in practice, not strictly applied. An example is the economic category "transfers," which according to ESA95 must be subdivided into subsidies, social benefits (in cash and in kind), other current transfers and capital transfers, based on additional information when available and on rules of thumb otherwise.

Step 3: Deconsolidate some internal flows

Local government entities are involved in many types of "non-market" economic activities: public administration, education, health services, cultural activities (museum, library), social services, etc. The supply and use tables of the national accounts should incorporate deliveries of goods and services between different economic activities (according to the so-called NACE classification that is applied in ESA95) of a single institutional unit such as a municipality. However, the municipal financial reports often just present the consolidated results. Therefore, only substantial economic activities are separately identified in the Dutch supply and use tables.

4. Usefulness of SNA93/ESA95 for Government Accounting Standards

The SNA93/ESA95 concepts and classifications have been devised for statistical purposes. They are harmonized worldwide and are consistent with other international standards for economic statistics such as the 5th Balance of Payments Manual, the Government Finance Statistics Manual 2001 (both IMF) and the Revenue Statistics (OECD). The accounting rules and classifications are internally consistent and well defined. These features make the accounts drawn up in accordance with the SNA93/ESA95 guidelines quite suitable for national and international economic policy making. As elaborated above, they actually play an important "administrative" role in Europe, in the context of the Excessive Deficit Procedure (EDP) and the Growth and Stability Pact.[5]

[5]In this context, the frequently updated ESA95 Manual on Government Deficit and Debt (Eurostat, 2003) plays a crucial role in clarifying and specifying the treatment of all kinds of boundary issues and in keeping pace with the financial and accounting innovations in the Member States.

The accounting principles of SNA93/ESA95 may also be suitable for government accounting for national budgeting and control purposes. A classification of the economic transactions according to SNA93/ESA95 may also provide an adequate insight into the performance of an individual government entity. The quite precise definitions and classification of the transactions (e.g. current versus capital transactions, financial versus non-financial transactions), in accordance with their economic meaning, should be useful for supervisory bodies like Parliament, the Ministry of the Interior and provinces. Additional arguments in favor of the application of the SNA93/ESA95 guidelines to government (micro-)accounting are:

- *Increasing (inter)national comparability*. If the SNA93/ESA95 rules are applied at the government unit level, the comparability of these accounts, both nationally and internationally, increases considerably. This, in turn, facilitates benchmarking and other performance monitoring, both by the local management and by controlling bodies.
- *Increasing inter-temporal comparability*. As changing administrative arrangements *per se*, that is, without a change in the underlying economic conditions, do not alter the recording of the concomitant transactions according to the SNA93/ESA95 rules, the inter-temporal comparability (and control) is guaranteed to a much larger extent. Again, this feature of the accounts facilitates the monitoring of performance over time, and its comparison with a peer group of similar units.
- *Covering innovative accounting*. Strict and well-defined classifications and delimitations of flows and stocks and rapid, yet transparent procedures for updating the accounting standards ensure that innovative transactions and innovative accounting are adequately captured, that is, in accordance with their economic meaning. Whereas the SNA93/ESA95 already provide more concrete guidance than most other government accounting standards, the ESA95 guidelines are further elaborated in an extra manual (cf. footnote 5). The national statistical institutes of the Member States, and ultimately Eurostat, the European statistical agency, strictly apply this manual when compiling government revenue and expenditure statistics. However, each time new types of transactions occur or when the recording of a significant transaction is unclear or disputed (e.g. between Eurostat and a Member State), the manual is updated, following a procedure in which Eurostat takes a decision on the basis of the advice of the Committee on Monetary, Financial and Balance of payments statistics (CMFB).[6] The advice of the CMFB is given following an extensive and fully transparent consultation procedure, in accordance with the "Code of best practice on the compilation and reporting of data in the context of the excessive deficit procedure" that was endorsed by the EU Council of Ministers of Economy and Finance on 18 February 2003.[7] The Eurostat decision is normally published in the same press release as the CMFB advice on the same subject. For example, in recent years, the CMFB gave advice, and Eurostat decided, on the proper

[6]The CMFB comprises of a senior statistician of Eurostat and the European Central Bank (ECB), and of each national statistical office and each national central bank of the European Economic Area Member States (the countries of the European Union plus Iceland, Norway and Switzerland).

[7]Refer to http://www.cmfb.org/main-topics/excessive.htm.

recording of e.g. royalties from UMTS licenses, various securitization operations, exceptional payments by the central bank to the government following gold sales, arrears in the collection of taxes and social contributions, and capital injections. Further decisions are expected on e.g. the recording of public-private partnerships and on the classification of pension funds.

- *Increasing the credibility of public accounts*. Since the SNA93/ESA95 accounting rules are a worldwide standard, supplemented, at least in Europe, by elaborate procedures for their updating and implementation, they cannot be altered at a politically opportune moment. Moreover, the amendment procedure is done "at arm's length" from the governments that are affected by it. In turn, these features increase the credibility of public accounts.
- *Fulfilling the growing need for (macro-economic) information from public accounts*. The SNA93/ESA95 rules apply to the whole economy, and government accounts drawn up according to these standards are thus directly comparable with the accounts for the rest of the economy. In turn, that considerably facilitates the budgeting process, which can then make use of macroeconomic forecasts that are produced according to the same set of definitions and classifications. Conversely, macroeconomic analyses, e.g. for monetary policy purposes, benefit from the availability of government accounts and budgets that are drawn up according to the same accounting standards as the macroeconomic statistics. In relation to this, the compilation of a full set of simplified quarterly accounts (including the financial balance sheets) for the sub-sectors of government in accordance with the ESA95 rules will become mandatory for each EU Member State.

For these reasons, the Dutch government has proposed implementing the ESA95 accounting principles when changing from a cash-based accounting system to an accrual system. Indeed, the characteristics mentioned above make the ESA-system fit for satisfying the increasing (external) information requirements of the accounts for (individual) government units. Lüder (2000) observes ". . . that in spite of the high degree of national accounting standardization in Europe, the relevance, reliability, and transnational comparability of the ratios (government deficit and debt) that are meant to assess government financial condition are questionable. An improvement of this situation requires a shift of governmental accounting basis towards accrual as well as a transnational standardization of procedures and practices."

Recently, a discussion has started whether the ESA95 principles are (fully) suitable to the accounting rules for an individual government entity. Evidently, the focus of the ESA95 accounting standard lies with a macro-economic description, not only of the government sector, but also of all economic sectors (and their relations with the rest of the world). Such standards may not always be most suitable for accounting at the "micro-level". However, unnecessary deviations between micro- and macro-accounting should be avoided, as was already emphasized by Richard Ruggles some time ago. For that reason, the recent OECD initiative to establish a task force on the harmonization of public accounts is very welcome.[8]

[8]This task force involves the OECD, the IMF, Eurostat, the European Central Bank, the Public Sector Committee of the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB), together with individual countries. The OECD provides the secretariat.

This task force serves to identify (a) existing differences between the various standards, in particular between the SNA "family" and the IPSAS (International Public Sector Accounting Standards) "family" developed by government accountants, (b) areas where harmonization between these standards is desirable and to take action to implement the necessary amendments, and (c) areas where such harmonization is not desirable, in view of differing purposes, and to assess the implications of such remaining differences. In this work, an extensive list of issues will be considered, including: the precise clarifications available in the SNA "family" and in Eurostat's Debt and Deficit Manual, the potential need for provisions in one or both types of accounting systems, the treatment of unfunded pension schemes, the classification of various equity-related transactions, the classification of uncollectable tax and tax credits, the timing of recording of taxes, the classification of decisions with retroactive effects, the method for consolidation, deconsolidation and equity accounting, the recognition and de-recognition of financial and non-financial assets, the treatment of stock options, and the separate reporting of value and volume changes.

The above developments demonstrate that recently the interaction between (international bodies of) government accountants and national accountants increased considerably, which will surely benefit both professions. They will be able to learn from each other's expertise and a resulting optimal (worldwide) alignment of both national accounting and government accounting standards is most welcome. This should provide government accountants with more precisely delineated accounting standards and at the same time reduce the cumbersome conversion procedures described above, when converting government accounts into national accounts for the government sector. Finally, this interaction may set an example for a similar exchange of views between (international bodies of) business accountants and national accountants.

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