

## **Definitions of Government in IMF-Supported Programs**

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# TECHNICAL NOTES AND MANUALS

## Definitions of Government in IMF-Supported Programs

Claudia H. Dziobek, Alberto F. Jiménez de Lucio, and James Chan

### This note addresses the following main issues:

- Statistical definitions of government (*Government Finance Statistics Manual 2001*)
- Institutional structure of government and public sector
- What is a precise definition of government and why it is relevant
- Potential pitfalls of lacking a precise definition of government
- Definitions of government in IMF-supported programs
- Applications for fiscal rules and other fiscal policy design

## I. Introduction<sup>1</sup>

The data referred to in the context of fiscal policy in general, or IMF-supported programs in particular, can reflect different meanings of the term government. What definition of government underlies such indicators as public debt, measures of revenue or expense, and government deficit? For example, do we mean by government just the executive, legislative, and judiciary branches of the national government? Or, are we referring to all entities covered by the general budget of the national government? How about state and local governments? And what about other entities owned by the government, such as nonfinancial corporations (e.g., a utility company) or financial corporations (e.g., a development bank)? In the context of an IMF-supported program, which includes quantitative fiscal targets, the underlying definitions of government should be clearly spelled out. In this paper, we examine whether this has been the case in the recent past, and how best to address this issue in the future.

Technical definitions of government for purposes of compiling economic statistics typically refer to the definitions in statistical manuals and guides, although some judgment is required

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<sup>1</sup> This note has benefited from review and comments of: Rob Dippelsman, Mohammed El Qorchi, Robert Heath, Fouad Manal, Alfredo Leone, Tamara Razin, Y. Shinagawa, Shamsuddin Tareq, Holger van Eden, Tim Irwin, Abdul Khan, Alejandro Santos, Francisco Vazquez and participants of the Brown Bag seminar series of the IMF's Statistics Department.

in applying these definitions to specific country circumstances. In this respect, the statistical manuals for macroeconomic statistics, such as the *System of National Accounts 2008 (2008 SNA)* or the equivalent *European System of Accounts 2010, (ESA 2010)*, and the *Government Finance Statistics Manual 2001 (GFSM 2001)*, include definitions of government and guidance on their applications. While these manuals are written for professional statisticians and data compilers, they can also be helpful for policy purposes, including the design of IMF-supported programs, as proposed in this note. The definitions provided in the manuals follow a so-called institutional approach, referring to the institutions they cover. They range from a narrow definition, such as the budgetary central government, which encompasses only the entities fully covered by the general budget of the national government, to a broad definition, such as the public sector, which is comprised of all entities owned or controlled by a government.

This paper analyzes the definitions of government used in recent IMF-supported programs, and illustrates some problems that can potentially arise when a precise definition is missing. There is a need for a precise definition of the term “government” to compile statistics for government or monitor program targets, because the entities from which information must be collected and presented need to be identified and specified. The same principle applies when governments set fiscal policy targets or establish formal fiscal rules, such as a balanced budget or targeted levels of government debt to GDP ratios. Such a precise definition is also needed to ensure consistency in the coverage of government across macroeconomic datasets.

IMF-supported programs contain a definition of government underlying the targets set in the program, but often not a *precise* one. The lack of a precise definition of government in programs could potentially lead to situations where doubt arises as to whether a given target was met, and makes even-handed treatment of members under IMF-supported programs more difficult. The experience shows that precise definitions of government referring to international methodological standards provide a strong basis for addressing such questions when they arise. The inclusion of a precise definition of government, and a note on how this definition relates to the definitions of government in statistical manuals, would address these problems to a large extent.

The subject is of broader relevance in fiscal policy, and the study presented in this paper may serve as a basis for further research on definitions of government; for example, in the context of setting or monitoring fiscal rules. This is the case for the European Debt and Deficit Procedure that includes precise and standard definitions of government, which are regularly reviewed and publicly available. Institutional changes, or reclassifications, are the subject of special investigations to assure fairness and even-handedness in monitoring the fiscal rules.

## **II. IMF-Supported Programs Analyzed in this Paper**

The IMF provides financial support to member countries through several arrangements. As part of the support, the IMF and member countries agree on a Memorandum of Economic

and Financial Policies (MEFP), which includes a set of targets (performance criteria or indicative targets). The targets are usually specified in a Technical Memorandum of Understanding (TMU), which details the concepts associated with the targets. Since the IMF's financial support goes to member countries, and national economic policies are designed and implemented by governments, these concepts naturally include a definition of government in the documents, although it may not necessarily be precise.

For the purpose of this study, 47 countries with active access to Fund Arrangements, as of November 2011, were examined. Fund Arrangements are facilities and instruments developed by the IMF to address specific needs of its diverse membership, for example: Stand-by Arrangement, Extended Fund Facility, Precautionary and Liquidity Line, Extended Credit Facility, Exogenous Shock Facility, Stand-by Credit Facility, and Rapid-Credit Facility (Flexible Credit Lines were not included in this study).

This paper reviews the definitions of government in these IMF programs with respect to their precision. Why is this important? In practice, the monitoring of IMF-supported program targets relies significantly on how the targets are defined in the TMU. A precise definition of government will describe and list the entities (and their associated flows and stocks) to be included or excluded to calculate a given target. For example, if the definition of government is the *budgetary central government*, only flows and stocks associated with the entities covered by this definition will be included to calculate targets, such as fiscal deficit, net credit to the government, or external indebtedness. On the other hand, if there is no precise definition of government, the institutional coverage of any given target could potentially change from one period to the other.

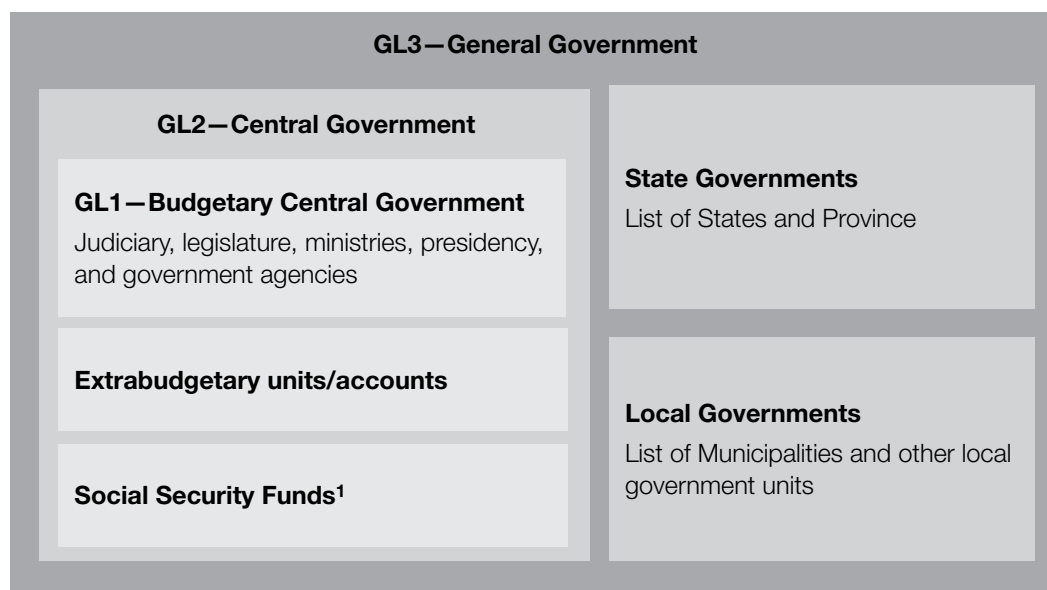
Moreover, the treatment for program purposes of flows and stocks of public entities outside the scope of the definition of government should be specified. This point is particularly relevant because the statistical treatment of a transaction according to internationally accepted statistical guidelines may sometimes differ from the desired treatment for program purposes. For example, if government in the program was defined as the budgetary central government, a transfer from an extrabudgetary unit could be correctly classified as revenue (a grant) by the budgetary central government from a statistical standpoint, whereas the program may wish to exclude such transfers when calculating a balance (deficit or surplus).

### **III. What is a Precise Statistical Definition of Government?**

#### **A. Statistical Definitions of Government**

Statistical manuals include standard definitions of government that can be applied to all countries. A first step in setting up a definition is an analysis of government entities, broadly

Figure 1. General Government Sector (GL3) and Subsectors



<sup>1</sup> In some countries, social security funds are not part of the central government in terms of legal arrangements. However, for comparability in the *Government Finance Statistics Yearbook*, they are included outside GL1 and inside GL2.

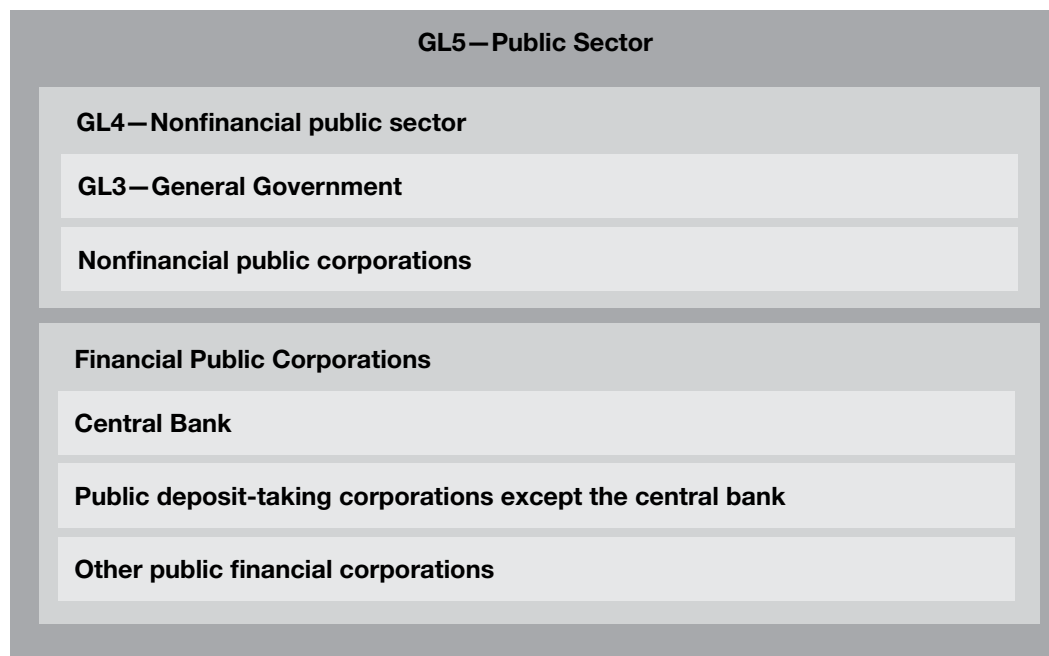
Source: *Government Finance Statistics Manual 2001 (GFSM 2001)*. For country-specific information see the *Government Finance Statistics Yearbook (GFSY)*.

mirroring their economic and policy functions, which leads to their methodological classification as an institutional unit of government or not. The *GFSM 2001* divides the general government (public) sector into five major levels for statistical purposes. As illustrated in Figures 1 and 2, government level 1 (*GL1*) refers to the narrowest definition of government, focused on the general budget; while *GL3*, the general government is a broader definition, which encompasses *GL1*, plus other entities including state and local governments. *GL5* is the broadest definition of government, referring to the entire public sector.

In applying these definitions to any given government, the manuals offer guidance and a “decision tree” that is particularly useful in deciding how to classify a given institution. Chapter 2 of the *GFSM 2001* describes these in detail, emphasizing that the key to classifying a unit is not its legal status, but rather its main business. For example, a public (government-owned) corporation would be classified as a nonfinancial corporation if it meets two criteria: it mainly produces for the market and charges economically significant prices. However, if a public corporation does not meet these criteria, it would be classified as part of general government, and not a nonfinancial corporation. Similar classification criteria apply to financial corporations.

The classification of a given government entity may change over time; for example, if a government rescues an insolvent financial institution, or sets up a defeasance structure to support

Figure 2. Public Sector (*GL5*) and Subsectors



Source: *Government Finance Statistics Manual 2001 (GFSM 2001)*. For country-specific information see the *Government Finance Statistics Yearbook (GFSY)*.

distressed banks. Statistical methodology provides guidance on when such institutions should be considered part of government. Such changes are particularly likely during times of major reforms or during economic crisis, and a technical and precise definition of government would facilitate capturing such developments and tracking changes over time. For instance, a program may define government as of a given date and update the definition (and perhaps the associated fiscal targets) as appropriate. For example, *GL3* may become broader as the government absorbs insolvent enterprises (whether state or privately owned).

The general government sector (*GL3*) is particularly relevant for fiscal policy and economic analysis, including in the context of the IMF's programs.<sup>2</sup> *GL3* is used as the definition of government for compiling a country's national accounts and particularly data on economic growth (GDP), where public nonfinancial and financial enterprises are excluded because they are considered as part of the corporate sectors.

However, *GL3* is not the only definition and it may be advisable to set targets for several levels of government, especially if timeliness of data is a concern, as is often the case. For example, a program may set monthly revenue or deficit targets for *GL1*, supplemented by

<sup>2</sup> The IMF Executive Board decision to adopt the *GFSM 2001* for staff papers, starting in May 2011, calls for an explicit definition of government, although it stops short of mandating a specific level of government to accommodate differences in data availability.

quarterly targets for **GL3**. A program may also choose to add targets for the nonfinancial public sector (**GL4**) or even the public sector (**GL5**) when the activities of state enterprises (nonfinancial and financial) should be monitored. It may be helpful to set such differentiated targets, as it would allow continuity with changing conditions.

There are a variety of legitimate reasons why the definition of government used in IMF-supported programs may differ from one another and from the statistical definitions. These reasons include: data for certain subsectors may not be available, or data may not be of sufficient frequency or timeliness for certain subsectors to monitor policy outcomes. However, for consistency with official statistics, a reference to standard definitions (for example, those used to compile national accounts and monetary statistics) is advisable. For example, a program may focus on monthly data of **GL1** and refer to the need to reconcile these data with quarterly or annual fiscal data published for **GL3**.

## **B. Data Sources for Country-Specific Definitions of Government**

The IMF's *Government Finance Statistics Yearbook (GFSY)* contains lists of government units included in the various levels of government for about 130 countries.<sup>3</sup> This information is part of the so-called institutional tables which also include other metadata.

National statistical agencies in charge of compiling the national accounts can generally provide the definition of **GL3** (see Figure 1). For the European Union, Eurostat publishes such information in its Sources and Methods documents.<sup>4</sup> The central bank or national agency responsible for preparing monetary statistics will also be using a definition of government (hopefully the same) in its compilation of data on credit to the government. The constituent list of entities is equally important for the monetary component of IMF-supported programs. Discrepancies between the fiscal and monetary data are often the result of inconsistent coverage of government entities between the fiscal and monetary accounts. In practice, however, these definitions are not always the same, and differences could be highlighted in the IMF-supported program, even if they will not be addressed in the short term.

Since 2010, the IMF's *World Economic Outlook (WEO)* database adopted **GL3** as the standard definition of government for its fiscal data. These data are provided to the WEO database by the area department country teams and they may not be identical with the *GFSY* data, although metadata should explain any differences. The WEO database recognizes that for some countries **GL3** fiscal data are not available, or are disseminated with long lags, rendering the data less relevant for program monitoring and forward looking analysis and projections. To fill data gaps, while maintaining a relatively high level of comparability, other less encompassing

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<sup>3</sup> Information on the Institutional Structure of Government in a more user-friendly format can be found in IMF Working Paper WP/11/127. A database of government entities is currently in preparation exploring data of the *Government Finance Statistics Yearbook (GFSY)*.

<sup>4</sup>[http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/excessive\\_deficit/edp\\_inventories](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/edp_inventories)



standard definitions of government (*GL2* and *GL1*) provide second and third best options to be specified in the metadata.

#### **IV. Potential Pitfalls of Monitoring Policy without a Precise Definition of Government**

The pitfalls of not having a precise definition of government in an IMF-supported program can potentially be significant. Program targets could be met (or missed) simply as a result of transactions with entities not explicitly included in the definition of government. For instance, if the program was set up based on data covering the budgetary central government (*GL1*), a given fiscal deficit target could be met by recording a transfer from an extrabudgetary unit as revenue to the budgetary central government. Alternatively, expenses could be reallocated to the extrabudgetary unit and would not be included in the calculation of the deficit. Similarly, a net credit to the government target could be met by lending funds to an extrabudgetary unit.

Transactions and reciprocal stockholdings among entities covered by a given definition of government are canceled out through consolidation, while those with entities outside the definition are not consolidated. In the absence of clear definitions of government, the distinction between transactions that should be consolidated (canceled out), and those considered truly outside government, are blurred. This can, and does, present ambiguities in program negotiations that could easily be avoided by clarifying at the outset of the program how exactly government is defined for program purposes, and how transactions with entities outside the definition are to be treated.

Similarly, when the definitions in TMUs are not consistent with the standard definitions in methodological manuals (e.g., *2008 SNA*, *GFSM 2001*), there may be some confusion when verifying the data. For example, a number of program documents use the term central government, but the data actually cover only the country's budgetary central government. The *GFSM 2001* definition of central government includes extrabudgetary units and social security funds (see Figure 1), while budgetary central government does not include these subsectors. Another example is the term nonfinancial public sector, often used to refer to a somewhat ad hoc and partial selection of units that compose this sector. In some programs, state and/or local governments are specifically excluded, while in others they are not mentioned at all.

Table 1 below is a simplified example of the ambiguity that can arise when there is no explicit definition of government in an IMF-supported program. Suppose the program defines government as budgetary central government (*GL1*), and the program target is a surplus (net lending) of 250. This target could be met by a transfer from an extrabudgetary government unit to *GL1*. It is shown as added revenue of 250 and a surplus of 250 in Table 1, while the

Table 1. The Effect of a ‘Transfer to the Budget’ on the Surplus/Deficit Depends on the Definition of Government<sup>1</sup>

	Definition of Government: GL1	Extrabudgetary Unit Transfers to GL1	Consolidation Column	Definition of Government: GL2
Revenue	250		-250	0
Expense		250	-250	0
<b>Surplus (+) Deficit (-)<sup>2</sup></b>	<b>250</b>	<b>-250</b>		<b>0</b>
Program target met?	Yes			No

<sup>1</sup> GL1 = Budgetary Central Government; GL2 = Central Government. See Figure 1 above.

<sup>2</sup> *GFSM 2001* or *2008 SNA* refer to this term as Net lending/Borrowing.

Table 2. Effect of Financing a Public Works Program on the Surplus/Deficit Depends on the Definition of Government<sup>1</sup>

	Definition of Government: GL1	Extrabudgetary Unit	Consolidation Column	Definition of Government: GL2
Revenue	0			
Expense	0			
Net acquisition of Nonfinancial assets		400	0	400
<b>Surplus (+) Deficit (-)<sup>2</sup></b>	<b>0</b>	<b>-400</b>		<b>-400</b>
Program target met?	Yes			No
Net incurrence of liabilities		400	0	400

<sup>1</sup> GL1 = Budgetary Central Government; GL2 = Central Government. See Figure 1 above.

<sup>2</sup> *GFSM 2001* or *2008 SNA* refer to this term as Net lending/Borrowing.

extrabudgetary unit records an expense and deficit of the same amount. This would be fully in line with the program and with the *GFSM 2001* treatment of such a transaction.

If instead, the program defines government as consolidated central government (*GL2*), according to the definition in the *GFSM 2001*, a transfer from the extrabudgetary unit would still be shown as revenue but it would not affect *GL2*, because consolidation removes all intragovernmental transactions. Alternatively, if *GL1* is selected, perhaps because data are more timely, a clause on how intragovernment transfers are to be treated could be added to focus on the more timely data while avoiding an ambiguity.

Table 2 presents another common example of the ambiguity that can arise when there is no explicit definition of government. Suppose the program defines a target of zero change of the government balance (net lending/borrowing) of the budgetary central government (*GL1*).

An extrabudgetary unit takes out a loan in the amount of 400 and uses the money to build a road, shown in the accounts of the unit as an acquisition of nonfinancial assets. This transac-

tion would allow the government to build the road and meet the program target. This would be fully in line with the program and with the *GFSM 2001* treatment of such a transaction. If such financing should be included in the calculation of the fiscal target, an alternative would be to specify how borrowing by government institutions outside of *GL1* should be treated, or to adopt a broader definition of government. In this example, selecting *GL2* would recognize the loan and lead to a deficit and it would also be fully reflected in the government balance sheet.

## V. Definitions of Government in IMF-Supported Programs

### A. Background

TMUs were examined to determine whether they included a precise definition of government for purposes of monitoring the IMF-supported program. A TMU defines the quantitative performance criteria and benchmarks<sup>5</sup> for a country supported by a Fund Arrangement. This document provides the formally agreed upon definitions, between the country and the IMF, for the various aggregates subject to monitoring under a program, and thereby is the key reference to determine whether a country has met a given target.

To determine whether a precise definition of government was provided, the following criteria were used: Is there a specific reference to how government is defined for program purposes? If yes, is the definition precise in the units covered and the units excluded? Additional supporting evidence of a definition of government is a reference to a statistical definition, for example, in the *GFSM 2001*. Some TMUs include a clause to the effect that countries must inform the IMF when new government agencies are formed or when the definition of government changes for other reasons. Such specifications show an awareness of the importance of a clear definition of government.

Ideally, precise definitions of government should include a list of entities covered. The definition should be complemented by statements describing the treatment for program purposes of government units not covered, and requiring that the creation of new government entities be disclosed to the IMF. Also, a sentence on how the definition selected for program purposes relates to the definitions of government in statistical manuals would be very helpful, particularly to ensure consistency across macroeconomic datasets. Appendix I and the Online Appendix provide a list of the countries included in this study and our assessment with respect to the definition of government. The appendices also note whether references to the *GFSM 2001*, or clauses on consulting the IMF on changes in data coverage, were included.

Bosnia's TMU provides an example of a precise definition that meets the above criteria:

*The general government is defined to include the governments of the State, the Republika Srpska Entity (RS), the Federation of Bosnia and Herzegovina Entity (Federa-*

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<sup>5</sup>Structural benchmarks are typically defined in a Memorandum of Economic and Financial Policies.

tion) and the District Brcko. The Federation government is defined to include the central government, the cantonal governments, the municipal governments, the extrabudgetary funds and the road fund. The RS government is defined to include the central government, the municipal governments, the extrabudgetary funds and the road fund. Extrabudgetary funds include, but are not limited to, the pension funds, health funds, unemployment funds, and children's fund in the two Entities.

Two examples below illustrate descriptions of the government sector that do not meet the criteria for a precise definition.

Example 1: *“The overall balance of the central government covers government activities as specified in the budget.”*

Example 2: *“For the purpose of this memorandum, general government is composed of the Executive, the Legislative, and Judiciary branches of the Government, its Municipalities, and any other public authorities that receive direct budgetary appropriations. It excludes publicly owned enterprises and socially owned enterprises.”*

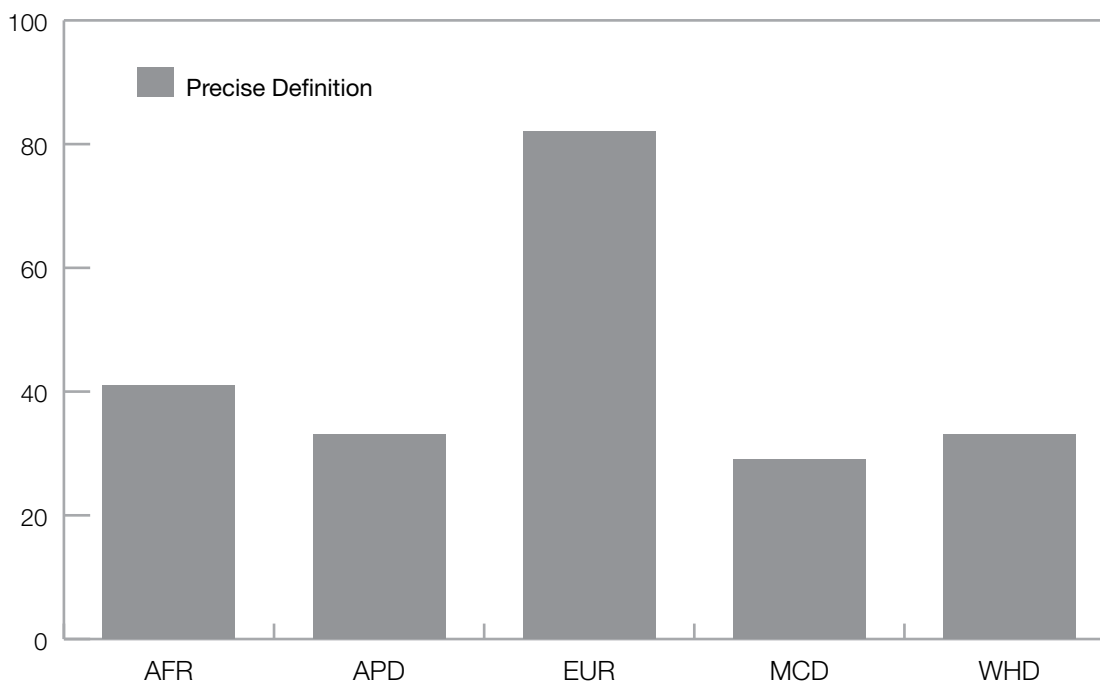
Example 1 represents a case where the definitions of central government and budgetary central government are blurred. Consequently, the IMF and the authorities may have different views as to what entities should be included in the definition of government. The activities and entities included in the budget can change from one year to the next; therefore, the definition in example 1 is not suitable to monitor government's performance, according to criteria such as the overall fiscal balance. Similarly, the second example is ambiguous as it refers to “general government,” but provides an ad hoc definition that differs from the one found in the *GFSM 2001* or other statistical manuals. A definition of government that refers to entities receiving budgetary appropriations fails to capture that these entities can change from one period to another; therefore, the definition in example 2 is also not optimal to monitor government's performance.

## **B. Empirical Results**

This study finds that 47 percent of the TMUs include a precise definition of government. The results are further examined by geographic region, by the IMF's World Economic Outlook (WEO) regional grouping and by income level (Charts 1–3 and Table 3). The relevant IMF Departments referred to are African (AFR), Asia Pacific (APD), European (EUR), Middle East and Central Asia (MCD), and Western Hemisphere (WHD).

About 19 percent of programs included specific clauses requiring borrowing countries to inform the IMF of any changes in the government sector; for instance, when new government entities are set up. These clauses show an awareness of the importance of defining government precisely, and the possibility that the definition may change from one period to another. Of the nine countries that included a clause about changes in the coverage of government, seven were classified as having precise definitions.

**Chart 1. IMF-supported Programs with Precise Definitions of Government by IMF Department**  
(In percentage)



Source: IMF.

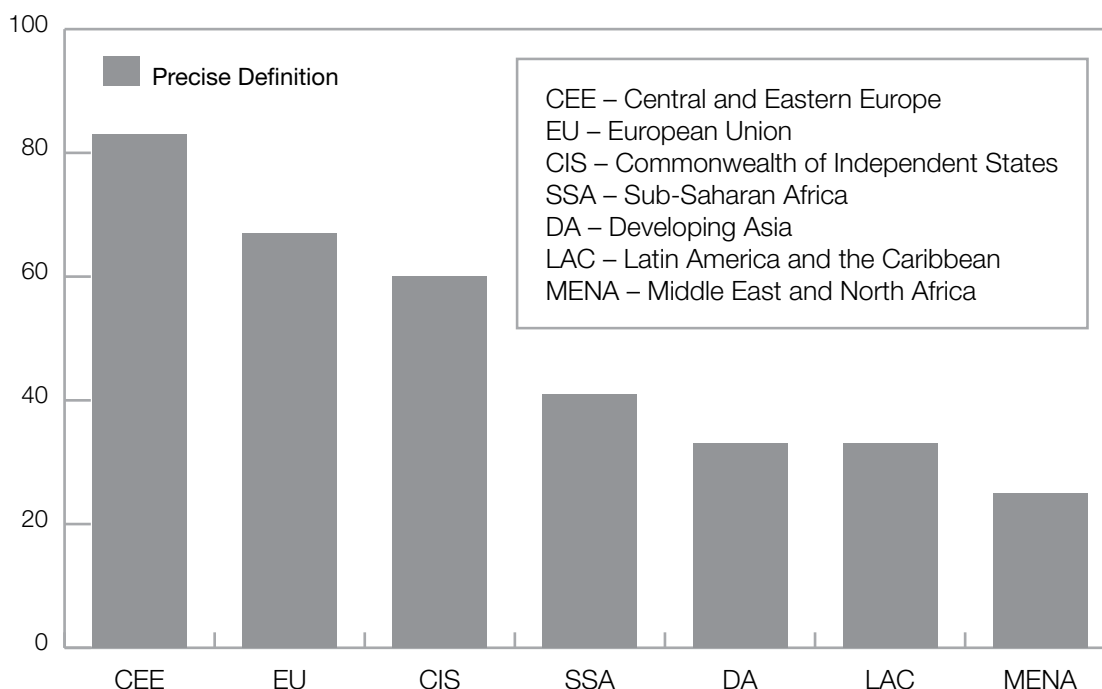
About 17 percent of IMF-supported program documents make explicit reference to the *GFSM 2001* for the detailed accounting rules, while no other specific statistical methodologies are referred to. Many TMUs instead provided relatively detailed descriptions of how various items should be treated with respect to revenue or expenses. For example, one TMU specifies that grants will be included under revenue. A reference to the *GFSM 2001* would appear to provide a convenient shortcut, and eliminate the need to spell out accounting rules that are already well specified in statistical manuals. Five of the eight countries with an explicit reference to the *GFSM 2001* were classified as having precise definitions of government.

When broken down by IMF department (Chart 1), EUR led the pack with 82 percent of programs with precise definitions of government, followed by AFR (41 percent) and, at the lower end, WHD (33 percent), APD (33 percent), and MCD (29 percent). Many of the countries managed by the European Department are part of the European Union, and therefore use precise definitions provided by Eurostat. However, as noted below, only three EU member countries with IMF-supported programs are covered by this analysis. It is also noteworthy that AFR outpaced other area departments without the benefit of such an umbrella statistical organization.

Examining the results by WEO regional grouping (Chart 2) shows that Central and Eastern Europe (83 percent), European Union (67 percent), and Commonwealth of Independent

**Chart 2. IMF-supported Programs with Precise Definitions of Government by WEO Regional Group**

(In percentage)



Source: IMF.

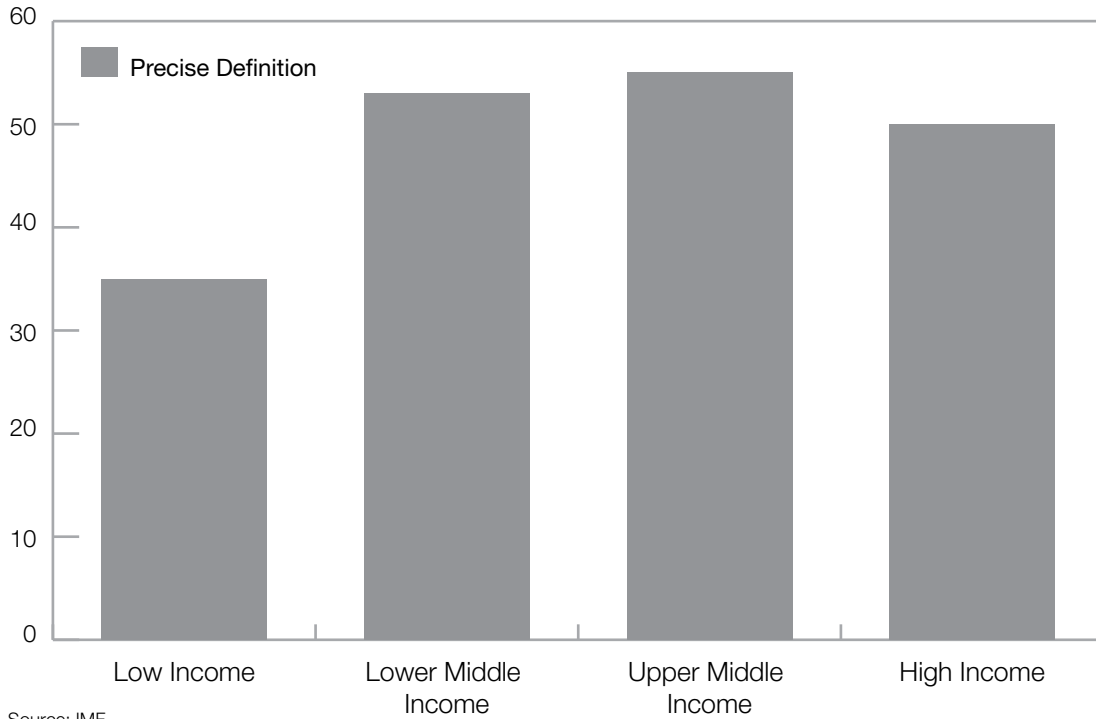
States (60 percent) had the highest percentages of precise definitions. Again, the rates are lower in Sub-Saharan Africa (41 percent), Developing Asia (33 percent), Latin America and the Caribbean (33 percent), and the Middle East and North Africa (25 percent).

The results by income level (Chart 3) show that upper middle income countries had the highest rate of precise definitions of government (55 percent), followed by lower middle income (53 percent), high income (50 percent), and low income (35 percent). The fact that the lower middle income group provided precise definitions of government at the second highest rate dispels the idea that level of income defines a country's ability to provide such information, and suggests that there is room for improvement across all countries regardless of their income level.

Chart 4 below breaks down the results by Special Data Dissemination Standards subscribers (SDDS) and General Data Dissemination System participants (GDDS). The SDDS and GDDS are data dissemination standards aimed at enhancing data transparency and quality for improved surveillance and crisis prevention. The GDDS provides a framework for countries that aim to develop their statistical systems and eventually become SDDS subscribers. The results of the study show current SDDS subscribers providing a precise definition at a 73 percent rate while GDDS participants provided a precise definition at a 35 percent rate.

**Chart 3. IMF-supported Programs with Precise Definitions of Government by WEO Level of Income**

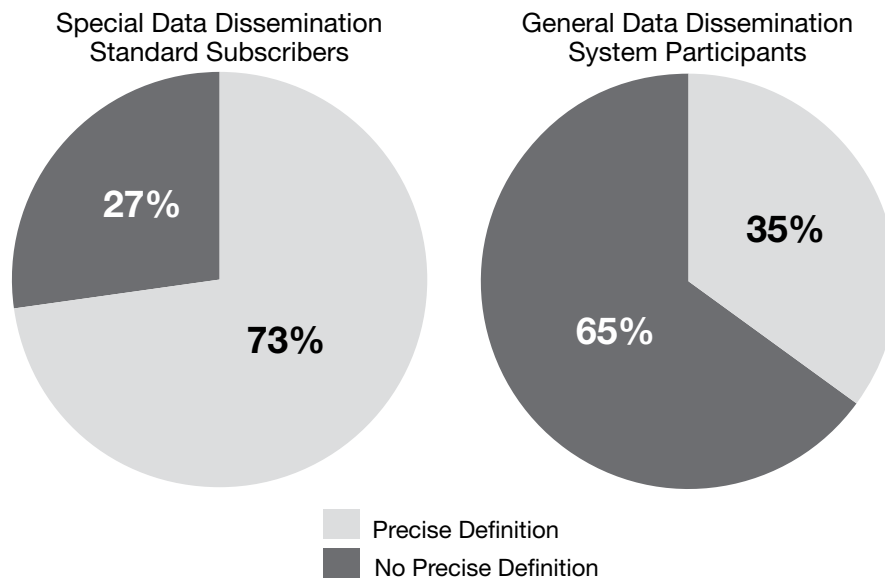
(In percentage)



Source: IMF.

**Chart 4. Data Dissemination**

(In percentage)



Source: IMF.

Table 3. IMF-supported Programs with Precise Definitions of Government

Overall Results	Yes:	No:	Total:	Percentage Yes:
<b>Precise Definition</b>	22	25	47	47%
<b>References to GFSM 2001</b>	8	39	47	17%
<b>Definition includes clause on changes in coverage</b>	9	38	47	19%
Precise Definition Breakdown				
By IMF Department				
<b>African Department</b>	7	10	17	41%
<b>Asia Pacific</b>	1	2	3	33%
<b>European</b>	9	2	11	82%
<b>Middle East/Central Asia</b>	2	5	7	29%
<b>Western Hemisphere</b>	3	6	9	33%
By World Economic Outlook (WEO) Regional Group				
<b>Central and Eastern Europe</b>	5	1	6	83%
<b>European Union</b>	2	1	3	67%
<b>CIS</b>	3	2	5	60%
<b>Sub-Saharan Africa</b>	7	10	17	41%
<b>Developing Asia</b>	1	2	3	33%
<b>Latin America and the Caribbean</b>	3	6	9	33%
<b>Middle East and North Africa</b>	1	3	4	25%
By WEO Levels of Income				
<b>Low income</b>	6	11	17	35%
<b>Lower middle income</b>	8	7	15	53%
<b>Upper middle income</b>	6	5	11	55%
<b>High income</b>	2	2	4	50%
By Data Standards				
<b>Special Data Dissemination Standard (SDDS) Subscribers</b>	8	3	11	73
<b>General Data Dissemination Standard (GDDS) Participants</b>	12	22	34	35

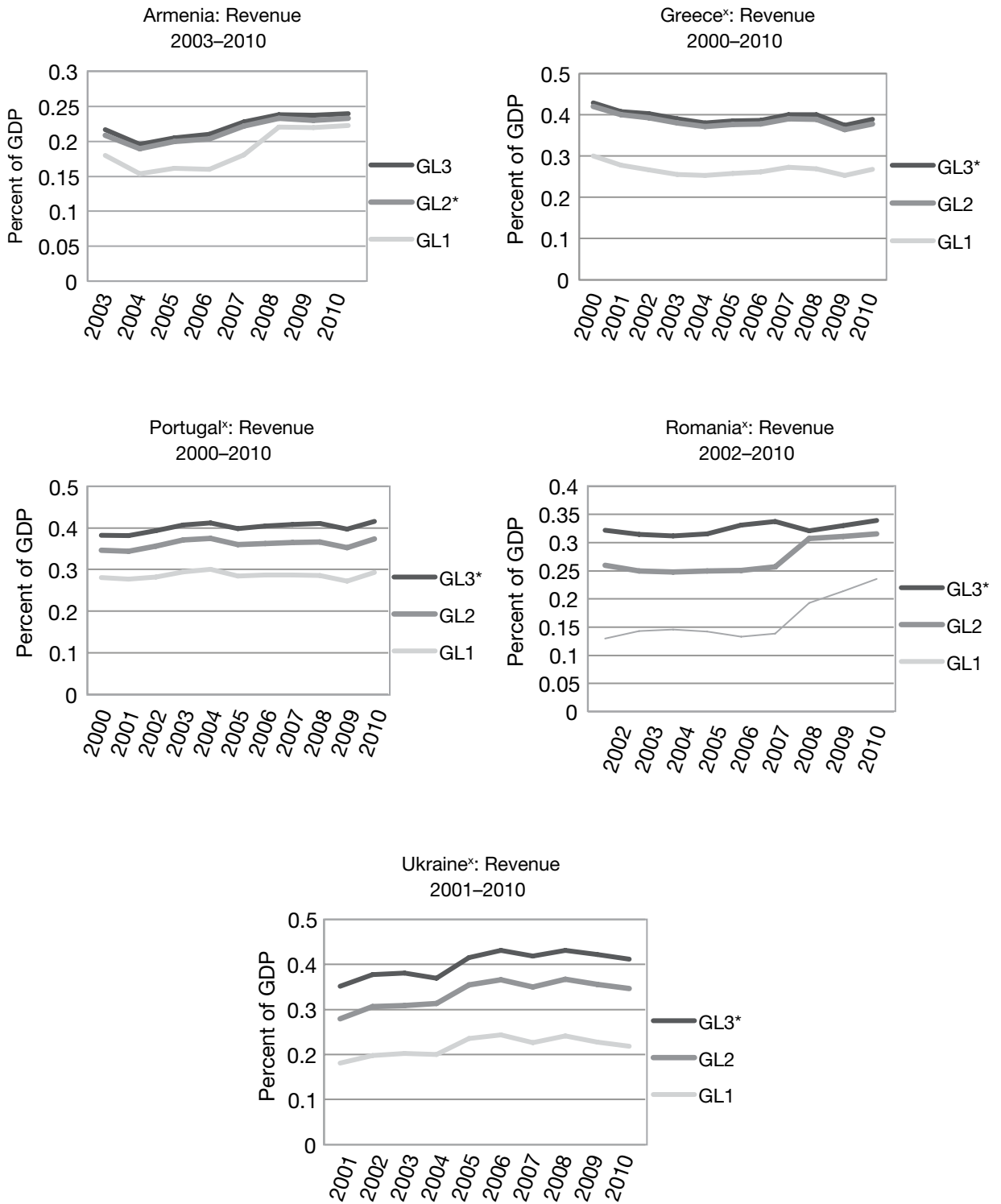
Source: <http://www.imf.org/external/country/index.htm>



### **C. Some Data on Revenue and Expenditure for Various Levels of Government**

In this section we highlight for selected countries the relative magnitudes of their different levels of government. This information can be used to gauge the importance of reconciling or understanding differences between the program targets and other fiscal data published. Charts 4-6 show data for countries with and without precise definitions of government, and trends over time for revenue and expense of *GL1*, *GL2*, and *GL3* (as percent of GDP). The differences of these indicators, from one level of government to another, vary not only from country to country, but also over time. The countries examined with precise definitions of government are Greece, Portugal, Romania and Ukraine; the country without is Armenia. In some cases *GL2* and *GL3* track closely, while in others there is a large gap. In the case of Romania, these two levels have a large gap at one point in time and track closely at another.

Chart 5. Revenue-to-GDP Ratios for Different Levels of Government (Selected Countries)

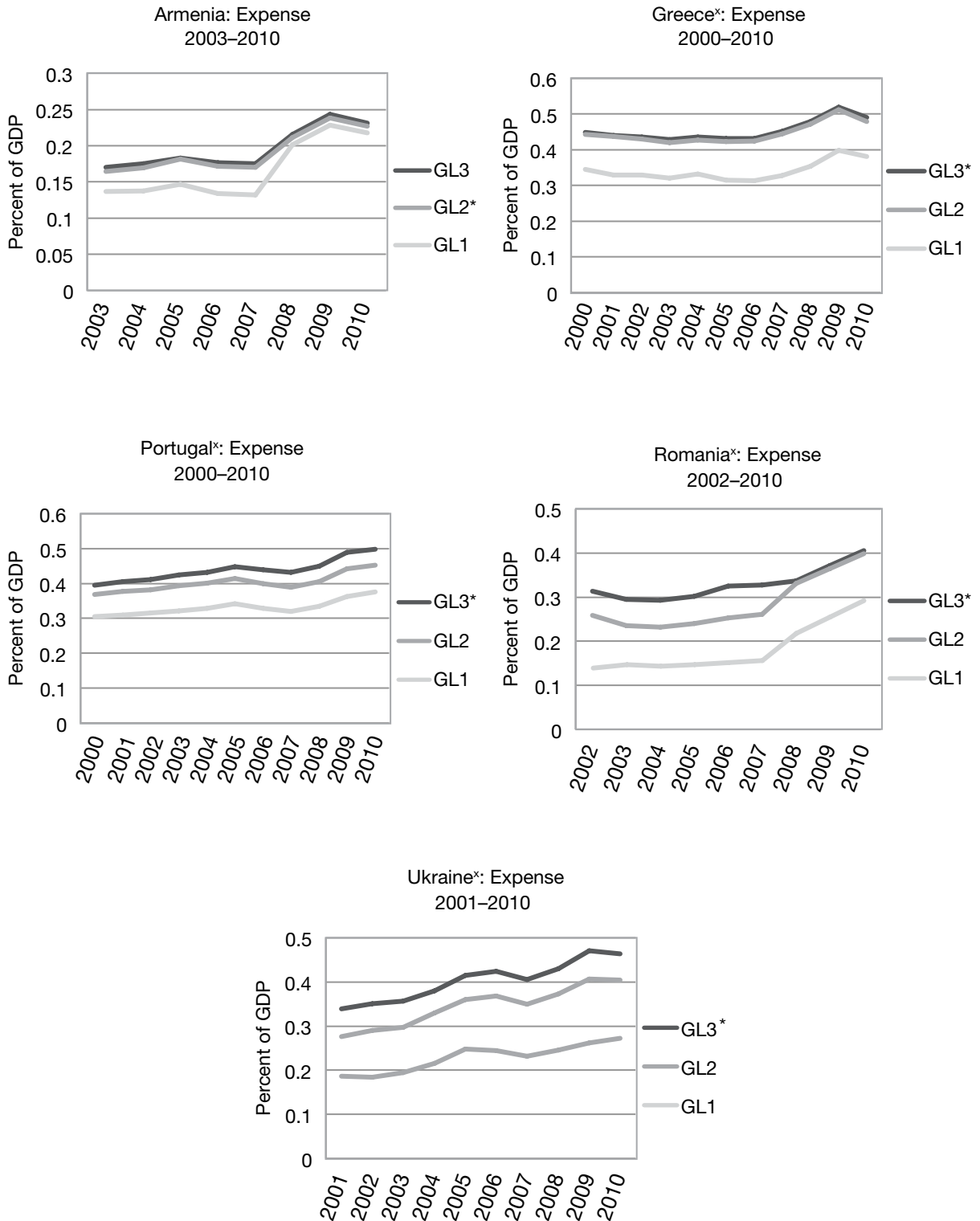


Source: GFS Yearbook database.

\*Level of Government used for the purposes of the program.

\*A precise definition of government was included in the IMF-supported program

Chart 6. Expense-to-GDP Ratios for Different Levels of Government (Selected Countries)



Source: GFS Yearbook database.

\*Level of Government used for the purposes of the program.

\*A precise definition of government was included in the IMF-supported program

## VI. Summary and Conclusions

As illustrated in this note, a precise definition of government should be a key element of TMU's under IMF-supported programs. Furthermore, they are necessary to produce fiscal data that ensure an evenhanded treatment of member countries under these programs. In this note, the authors study recent IMF-supported programs with respect to the use or not of precise definitions of government. The study shows that, overall, 47 percent of IMF-supported programs (active as of November 2011) include precise definitions. Various country group breakdowns of these programs following the World Economic Outlook (WEO) groupings indicate that precise definitions are more widely used in Central and Eastern Europe, and in countries that are members of the European Union. This result may reflect the practices established in Europe under the Excessive Deficit Procedure (EDP), which are based on explicit definitions of government.

Precise definitions of government do not require any specific level of development or degree of statistical sophistication. The study showed that precise definitions of government were used regardless of levels of income across the spectrum of countries. Statistical manuals provide standard definitions of government that can be applied to all countries. However, country-specific details need to be spelled out to reflect the actual institutional structure of a given country's government. Generally, the definition of **GL3** can be obtained from the national statistical agency in charge of compiling the national accounts. Country-specific definitions of government based on statistical definitions can also be found in the IMF's *Government Finance Statistics Yearbook (GFSY)*.

Ideally, a precise definition of government should be broad, preferably the general government (**GL3**), nonfinancial public sector, or public sector. However, there are a variety of legitimate reasons why the definitions of government may be narrower and could differ from the standard international statistical definitions. In these cases, a note on how the selected definition differs from statistical definitions would be helpful to avoid ambiguities. In addition, a clause that specifies how various transactions (and reciprocal stock holdings) with government entities outside the selected definition are to be treated (e.g., eliminated by consolidation) would further strengthen the definition. Finally, a clause requiring governments to highlight any changes in the institutional structure (e.g., creation of a new government unit) should be part of a precise definition of government. A reference to standard international methodological manuals can provide a common reference point and help ensure consistency in the definition of government across macroeconomic datasets.

Appendix 1. List of IMF Program Countries and Government Definitions  
(as of November 2011)

Country Name	Precise Definition	References the GFSM 2001	Clause on consulting the fund on changes to data coverage	Memorandum Items	
				GDDS	SDDS
Angola	N	N	N	Y	N
Antigua and Barbuda	N	N	N	Y	N
Armenia	N	Y	N	N	Y
Benin	N	N	N	Y	N
Bosnia	Y	N	N	N	N
Burkina Faso	Y	N	N	Y	N
Burundi	N	N	N	Y	N
Comoros	Y	N	N	N	N
Congo, Dem. Rep. of	N	N	N	Y	N
Cote d'Ivoire	Y	N	N	Y	N
Djibouti	N	N	N	Y	N
Dominican Republic	N	N	N	Y	N
El Salvador	Y	N	Y	N	Y
Ghana	Y	N	N	Y	N
Greece	Y	N	Y	N	Y
Grenada	N	N	N	Y	N
Guinea-Bissau	Y	N	N	Y	N
Haiti	N	N	N	Y	N
Honduras	Y	N	N	Y	N
Iraq	Y	N	N	Y	N
Ireland	N	N	N	N	Y
Jamaica	Y	Y	N	Y	N
Kenya	N	N	N	Y	N
Kosovo	N	N	Y	Y	N
Kyrgyz Republic	N	N	N	N	Y
Latvia	Y	Y	Y	N	Y
Lesotho	N	N	N	Y	N
Liberia	N	N	N	Y	N
Macedonia	Y	Y	Y	N	Y
Malawi	N	Y	N	Y	N
Maldives	N	N	N	Y	N
Mali	Y	N	N	Y	N
Mauritania	N	Y	N	Y	N
Moldova	Y	N	N	N	Y
Portugal	Y	N	Y	N	Y
Romania	Y	Y	Y	N	Y
Sao Tome	Y	N	N	Y	N
Serbia	Y	Y	N	Y	N
Seychelles	N	N	Y	Y	N
Sierra Leone	N	N	N	Y	N
Solomon Islands	Y	N	Y	Y	N
Sri Lanka	N	N	N	Y	N
St. Kitts and Nevis	N	N	N	Y	N
St. Vincent and The Grenadines	N	N	N	Y	N
Tajikistan	Y	N	N	Y	N
Ukraine	Y	N	N	N	Y
Yemen, Republic of	N	N	N	Y	N
<b>Total:</b>	22	8	9	34	11

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