



EU Twinning Project

IS12/ENP-APFI/08

Support to the Israeli Central Bureau of Statistics in the development of National Accounts, Education Statistics, Survey Methodology, ICBS Website and Coordination of Israel National Statistical System

Component A **National Accounts**

Activity A.2 **Study Visit on general government accounts and financial accounts**

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List of Abbreviations

BC	Beneficiary Country (Israel)
BoI	Bank of Israel
CBS	Central Bureau of Statistics (Israel)
DS	Statistics Denmark
MS	Member State

1 Summary

The study visit to Denmark aimed to share the experience of Statistics Denmark in compilation of General Government accounts and financial accounts with the emphasis on issues such as organization of work, data collection, data processing, cooperation with government ministries and Central Bank.

Statistics Denmark presented the Danish compilation system for annual and quarterly GFS accounts with detailed explanations on financial and non-financial accounts along with an overview of municipality and state accounts which presented with emphasis on structure of municipalities, data collection, data processing and accounting systems. Also the central government accounts were presented separately.

Detailed explanations regarding consolidation issues were provided as well as the possible solutions for the existing statistical discrepancies in GFS accounts.

Statistics Denmark arranged meeting with Statistics and Economics Departments of the Central Bank of Denmark (Nationalbanken). The focus was on financial accounts, data sources, information gaps and the use of the sectorial financial accounts in the central bank.

2 Background

Government Accounts

The ICBS is responsible for Government Finance Statistics (GFS). There are complete GFS data for the central government and the National Insurance Institute. Cooperation between the ICBS and the Ministry of Finance has improved in recent years, but further streamlining of data exchange is possible. The Ministry of Finance is using a new Enterprise Resource Planning system, which has enabled the improvement of the quality and international comparability of government accounts. However, some problems and gaps exist, including coding of expenditures in the budget and being partly cash-based instead of accrual-based recording of revenue and expense.

At present, full non-financial accounts are prepared for the General government, while the financial accounts cover only central government.

The accounts need to cover also local government. ICBS needs to decide how to collect and integrate information for these additional sectors in order to produce General Government Accounts.

ICBS has come a long way in implementing international recommendations and definitions for Government Finance Statistics, but the practical application of these recommendations and definitions give raise to some questions, which need to be discussed during the Twinning project.

Financial Accounts

The financial accounts are prepared for the different sectors of the economy. Part of them is based on estimates and indexes because of limited availability of relevant data. Most of the financial accounts of the financial sector (except for other financial intermediaries and financial auxiliaries), are fully based on data.

However, the financial accounts of the households sector, the non-financial corporations, and the sub-sectors of the “other financial intermediaries and financial auxiliaries”, are based on partial data only.

The goal to be achieved by Twinning is to help define which alternative data sources can be used and to adopt new methods to produce better estimates for these parts of the financial accounts.

2.1 Mandatory results of component A

- (a) Definition of the structure of improved government finance accounts cross-classified by sub-sectors and COFOG functions
- (b) Presentation of EU experience on inter-institutional arrangements between National Statistics Offices and Ministries of Finances with regard to cooperation and data exchange
- (c) Preparation of detailed work plan for the development of financial accounts by SNA

2.2 Terms of Reference - purpose and expected output of A2 activity

Purpose

Presentation of the Danish experience with General Government Accounts and Financial Accounts. Follow-up on work done on the methodology, in particular a draft version of the CBS paper on the supplementary data sources regarding the financial accounts that was laid out during the A.4 mission.

Expected output

Report from ICBS participants on knowledge gained and how this can be used as inspiration for methods used in Israel. Input from MS Experts to the draft CBS paper on supplementary data sources.

Specific subjects to be elaborated

- (a) Financial and non-financial quarterly accounts for local government
- (b) Financial and non-financial accounts for General Government
- (c) GFS compilation system
- (d) Accrual basis of recording
- (e) Adjustments for statistical discrepancies
- (f) Consolidation issues
- (g) The overview of paper from A4 mission for financial accounts
- (h) Organization of work on financial accounts – cooperation with National bank

3 Activity Results

The following organizational and methodological issues have been learned during the study visit:

3.1 General Government accounts:

- (a) Statistics Denmark presented an overview of municipality and state accounts with emphasis on structure of municipalities, data collection, data processing and accounting systems. These are the preliminary quarterly accounts for the local government, but they are successfully used in GFS and SNA statistics after several adjustments. The data are delivered electronically from each municipality and region. The outside assistance

regarding the data validation is provided from two ministries (Finance and Interior) and from two nationwide organizations (of municipalities and regions).

- (b) The compilation process for the final GFS accounts for local government accounts and the integration of the preliminary accounts for local governments in DIOR (Detailed Integrated Government Accounts).
- (c) Danish GFS compilation system. The focus was on structure of sources and entries, the classification process, consolidation issues and time adjustments. The budget data which are provided through the electronic transfer from Ministry of Finance/Agency for the Modernization of Public Administration are on accrual basis or on commitment basis which is used as a proxy for the accrual. The accounting principles of these data are similar to IPSAS. The tax revenue data are not on accrual basis; therefore time adjustments are made using the data from the Tax authorities. The data on extra-budgetary units (universities and secondary schools) are based on "business like" accounts on paper and electronic transfer from Ministry of Education. The Social Security data are based on "business like" accounts on paper. The GFS and SNA tables are compiled after the classification of 75,000 entries of the central government data by type of transaction, COFOG classification, sector and industry classification and integration of these data in DIOR (Detailed Integrated Government Accounts). During the classification process which is mostly an automated matching process the sector delimitation corrections are made for entries which are outside of the definition of general government sector (such as public quasi-corporations). The GFS compilation system is developed in Oracle and is programmed using SAS.
- (d) Danish compilation system for quarterly financial accounts for General Government. There are statistical discrepancies between net lending /borrowing from non-financial accounts and net lending/borrowing from financial accounts. These discrepancies are balanced by adjustments of accounts payable/receivable.
- (e) Consolidation issues. Consolidation matrixes are used in order to compare the transfers from two sources. The data from the most reliable sub-sector are used and the differences are balanced by adjustments of other items such as purchases and other transfers.
- (f) Danish system of tax recording. The data on tax revenue from the tax authority are accrual data.
- (g) Danish sector classification process was presented.
- (h) The overview of the Excessive Deficit Procedure (EDP) legislation and process.
- (i) ICBS presented an overview of General Government accounts of Israel. The presentation included detailed explanations on data sources, sector coverage, coverage of GFS and SNA accounts, compilation process, examples of major outputs of the division and its development plans.

3.2 Financial accounts:

- 3.2.1. The quarterly financial accounts were presented during the meeting with the Statistics and Economic department of Danish National bank. The presentation included detailed explanations on data sources, information gaps and the use of the sectorial financial accounts in the central bank.
 - a) Danish National bank publishes quarterly financial accounts, while the Danish Central Bureau of Statistics publishes them on an annual basis. Danish National bank produces the quarterly financial accounts in the several frameworks: IIP, direct investments, BOP, MFI, IF, IR, SEC, international reserves and balance sheet.
 - b) The Statistics Department maintains a DWH which includes a full matrix of sectorial financial accounts on detailed counter-part level: 9 sectors (by

international definitions); all financial instruments; balances, transactions, and revaluations.

c) Data sources:

- The data on banking system are collected at the central bank through reports from banks and financial institutions. These institutions receive the Danish business register from their Central Bureau of Statistics in order to ease the reporting and improve its uniformity.
- The data on detailed loan-by-loan information are provided from the mortgage banks.
- The data on securities by counterpart sector (balances and flows) are received from a private company which collects detailed data on securities.
- The financial accounts for the financial intermediaries are compiled by the central bank using the information from the published annual reports of the intermediaries.
- The data on government financial accounts are provided by MoF.
- Activities vis-à-vis abroad are provided from balance of payments and IIP.

d) Danish National bank, at times, receives the same data from the several sources. During the processing of the data, the system chooses the data which will be entered into the integrative DWH according to a predefined system of priorities.

e) The Economics Department and the Systemic Risk Council make the use of financial accounts data in the following aspects:

- Credit risk of various sectors
- Monitoring the activity of financial intermediaries and nonbank entities
- Input to the Bank's macroeconomic model
- Measuring the financial position of each sector vis-à-vis other sectors—not yet in use, but in stages of implementation.

3.2.2 The overview of the paper which defines the requests of the CBS from the Bank of Israel, in order to cooperatively improve national financial accounts of Israel.

4 Conclusions and Recommendations

- (a) As the quarterly data for local government are very important for the completion of General Government accounts, it is recommended to present again the presentation on compilation of preliminary quarterly local government accounts in the forum of expected A1 activity. Israeli local authorities report their preliminary quarterly reports to the Ministry of Interior. During the last year ICBS had made several efforts to encourage the Ministry of Interior to report the quarterly data on local authorities to ICBS. Ministry of Interior will be invited to take part of the workshop which relates to data supply in the framework of the coming A1 activity. The quarterly reports drawbacks and possible ways for establishing of data channels will be discussed. It is recommended to use the preliminary data for quarterly accounts in case when there are no final data.
- (b) Danish budget data on expenditures are mostly recorded on accrual basis. In some transactions it is acceptable to use the commitment basis as a proxy for the accrual basis of recording. ICBS will check the possibility with the MoF to use the budget data on commitment basis as a proxy to the accrual basis.
- (c) There are statistical discrepancies between net lending /borrowing from non-financial accounts and net lending/borrowing from financial accounts. In Denmark these discrepancies are balanced by adjustments of accounts payable/receivable. ICBS is interested to learn more about the possible solutions for the existing statistical discrepancies in its quarterly GFS accounts. This issue has been taken in account in the coming A1 activity.

- (d) Regarding the consolidation process, it was recommended to build the consolidation matrixes in order to compare the transfers from two sources. The data from the most reliable sub-sector are used and the differences are balanced by adjustments of other items such as purchases and other transfers.
- (e) Regarding the requests of the CBS from BOI, it was recommended to:
- Classify the requested data by priority.
 - Add explanations on use of these data.
 - Provide detailed description of other financial intermediaries (explanations and definitions, data source and methods of computation) and proposal for a joint survey on the subject.

5 Other Comments

- (j) The study visit was organized on the highest level with very comprehensive and efficient program. The presentations were very detailed and clear. A lot of methodological issues have been discussed. The consultations which were provided were very professional. All our questions were explained and provided with examples.
- (k) Last but not least, we would like to note the warm friendly atmosphere of the visit, which made the study visit not only educational, but also pleasurable.

6 Annexes

Annex A2.1 Programme

August 20

10:00 Welcome and introduction to Statistics Denmark

10:30 The Government Finances and the National Accounts divisions

12:00 – 13:00 Lunch

13:00 An overview of municipality and state accounts

15:00 Status on the Twinning project

- The CBS overview document on data needs
- Discussion - the next steps

August 21

9:30 Presentation of the compilation systems for GFS

- Non-financial accounts
- Financial accounts
- Use of IT in the process of table production, reporting tools and information systems

12:00 – 13:00 Lunch

13:30: The interrelation between GFS and ESA tables

- Sector delimitation
- Yearly GFS tables and the relation to ESA/EDP tables
- Quarterly GFS tables and the relation to ESA tables
- Introduction to the EDP-notification: an overview of the EDP legislation and process

15:00 Visit to Danmarks Nationalbank

August 22

09:30 GFS issues concerning consolidation and accrual recording

- Consolidation of transactions between government units
- Recording of interest
- The Danish system of tax recording 11:00 Visualization (LAK)

12:00 Lunch

13:30 Any other business

Conclusions

Debriefing and evaluation of study visit

Annex A2.2 Persons met

Charlotte Juul Hansen, Senior Advisor (Statistics Denmark)
Kirsten Balling, Head of Government Finances (Statistics Denmark)
Gitte Frej Knudsen, Senior Advisor
Kristina Stæhr Vest, Head of Section (Statistics Denmark)
Martin Rasmussen, Chief Advisor (Statistics Denmark)
Martin Ausker, Senior Advisor (Statistics Denmark)
Mathias Dybdahl Bluhme, Head of Division (Statistics Denmark)
Katja Møller Hjelvang, Senior Advisor (Statistics Denmark)
Helene Gjermansen, Head of Section (Statistics Denmark)
Niels Madsen, Head of Section (Statistics Denmark)
Michael F. Nielsen, Senior Advisor (Statistics Denmark)
Martin Oksbjerg (Danish National Bank)
Paul Kramp (Danish National Bank)
Tue Mathiasen (Danish National Bank)

7 Annexes external to the report: Presentations

Annex A2.3: Introducing Statistics Denmark

Annex A2.4: Municipality and regions in Denmark

Annex A2.5 Danish GFS local government accounts

Annex A2.6: Central government accounts

Annex A2.7 Danish GFS compilation system

Annex A2.8: Quarterly financial accounts for General Government (QFAGG)

Annex A2.9: Quarterly public finances (Quarterly non-financial accounts)

Annex A2.10: Danish GFS compilation system

Annex A2.11: Sector classification

Annex A2.12: The Danish system of tax recording

Annex A2.13: Introduction to the EDP notification

Annex A2.14: Presentation of Danish quarterly financial accounts (by Danish National Bank).

Annex A2.15: General Government Accounts in Israel