

# CAPTAC-DR NEWS

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# Regional Harmonization of Government Finance Statistics

By Mario Silva and Kariana Villagra

## Regional harmonization project

Since 2017, CAPTAC-DR started a harmonization program in conjunction with the central banks and treasury/finance ministries of the CAPDR region, and the significant support of relevant regional organisms. This joint effort has been named Regional Harmonization Project of the Government Finance Statistics.

The first steps were to identify the main challenges. These included:

- Incomplete institutional coverage.
- Application of national methodologies that differed considerably from international standards.
- The coverage of debt instruments was based on definitions typically used at a national level.
- Public sector debt and public finance datasets aligned to international standards were not considered for decision making.
- Statistics that were not comparable with other datasets at the regional level due to discrepancies in terms of definitions.

These findings identified a harmonization process that would improve data comparability and transparency. The analysis of these data for decision-making will be based on developing more appropriate policies according to the needs of each country.

### National harmonization of GFS and PSDS

- Diagnosis 2017-2018
- Bilateral Work Plans tailored to the needs of countries

### Regional harmonization of GFS and PSDS

- Support from Regional Councils of Central Bank Governors (CMCA) and Ministers of Finance (COSEFIN)
- Governance structure
- Medium-term work plan (2018-2024)

### Consistency of GFS and PSDS with other macroeconomic statistics

- Coherence between the GFS and PSDS and other macroeconomic statistics, seeking more comprehensive and integrated economic analysis and decision-making

This process started from a main point: the gradual implementation of the Government Finance Statistics Manual 2014 (GFSM)[1] and the Compilers and User's Guide to Public Sector Debt Statistics 2011[2], for all 7 countries of Central America, Panama and the Dominican Republic (CAPDR region).

[1] See the link to check the manual: [https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/GFSM\\_2014\\_SPA.pdf](https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/GFSM_2014_SPA.pdf)

[2] See the link to check the guide: <https://www.elibrary.imf.org/view/books/069/11874-9781484327760-es/11874-9781484327760-es-book.xml>

To date, the main achievements of the Government Finance Statistics Working Group (GTEFP, in Spanish) joint work have validated the importance of creating inter-agency and regional synergies. Data have been published on the CMCA website regarding regional comparability and transparency, while tax and debt data have also been developed gradually, although the COVID-19 pandemic has caused this process to slow down.

The first regional report on public finance statistics stands out as a tool for analysis and decision-making. Although it is for internal use, it is used as a mean to compile descriptive information about Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS), for the central bank authorities and finance ministries of the 7 countries of the CAPDR region.

### **Consistency with other statistical sets: a necessary regional effort**

Since 2018, CAPTAC-DR has promoted a process for GFS compilers and users to understand how they relate to other macroeconomic data sets such as National Accounts, Balance of Payments, and International Investment Position, Monetary and Financial Statistics, and other even more recent frameworks, such as the Environmental and Economic Accounting System (this one has not yet been disseminated/used in the region).

The goal is to understand the main differences and similarities between data, trying to reconcile them in cases where there are discrepancies. This should allow compilers to understand the importance of comprehensively strengthening the economic analysis and policy decision-making.

In CAPDR region, the Ministries of Finance/Treasury (in the case of the GFS) and the Central Banks (for the statistics of the real, external, and monetary sectors) are the main

agencies responsible for compiling, producing and disseminating macroeconomic statistics under existing international standards. In the case of Panama, the main agencies involved in these processes are the Ministry of Economy and Finance (MEF), and Instituto de Estadística y Censo (Institute of Statistics and Census).

All these institutions are fully aware of the need to coordinate their efforts to successfully achieve consistency in data production or have the sources of potential divergences clearly identified and explained.

A clear understanding of the link between the different data groups will help the region countries to provide comparability and consistency in macroeconomic statistics.

To continue giving momentum to this process, from October 25th to 29th 2021, a series of joint meetings were conducted along with the GTEFP, Monetary and Finance Statistics Ad Hoc Group (GAEMF, in Spanish) and the Balance of Payments Ad Hoc Group (GABP, in Spanish).

As a result of these gatherings, a common workplan for all three groups was developed for 2022, seeking progress in understanding the links between the groups' data. This is to compare and give consistency to macroeconomic statistics through a systematic effort.

No comparative analysis of the different analytical frameworks (Handbook of Public Finance-MEFP2014, System of National Accounts-SNA2008, Sixth Edition of the Balance of Payments Manual and International Investment Position Manual (BPM6), and the Manual on Monetary and Financial Statistics (MFSM2000) will be addressed in this article. However, it is essential to establish that all the principles and concepts used in these manuals are consistent among them.

All the manuals mentioned above uniformly apply concepts like the sectorization of the economy, application of the residence

principle, sectorization, and the concepts of financial instruments and accrual basis accounting.

Some essential differences must always be borne in mind, such as consolidation and aggregation rules that are not the same for SNA and the GFSM, for instance. Said difference is based on the purpose that each of these manuals seeks to achieve.

The GFS seek to establish the impact of economic events on public finances and how government activities (i.e., tax, government spending and financing policies) affect the economy. The National Accounts focus on production processes, generating and distributing income, acquiring goods and services, and accumulation processes. The External Sector Statistics (Balance of Payments - BP, International Investment Position - IIP, External Debt, etc.) focus on recording the relationship between resident and non-resident economic activities, such as IIP, which shows the value of the financial assets/liabilities stock positions between residents and non-residents at a reference date.

On the other hand, the MFS focus on assessing monetary aggregates and the impact of monetary policy on the monetary and financial markets.

These differences in the approach or focus require that the recording of government activities in the GFS occasionally differ from recording those activities in the other macroeconomic datasets. However, such differences confirm that the application of conceptual standards is consistent across interrelated macroeconomic statistics, and where differences exist, they must be reconciled or at least clearly identified.

In this process, future goals are challenging. The responsibility of success remains in hands of all the teams' members: technical officers, authorities, regional, and international institutions; as well as partners that confidently believe and boost this regional harmonization process.

## Updating the System of National Accounts 2008: Towards a Harmonized Future

By Jovana Palacios

The conceptual framework of the System of National Accounts (SNA) is the internationally agreed standard set of recommendations on how to compile measures of economic activity according to strict accounting conventions based on economic principles. In turn, it provides a comprehensive accounting framework within which economic data can be compiled and presented in a format designed for financial analysis, decision-making, and economic policymaking. The recommendations are expressed in terms of a set of concepts, definitions, classifications, and accounting rules that comprise the methodological framework for measuring items such as, gross domestic product (GDP), investment, and savings, among others, which are widely used indicators in the economic sphere.

Updating the 2008 System of National Accounts, (2008 SNA) is currently one of the most important projects in the context of national accounts to ensure its relevance in a changing economic environment. Since its inauguration in 2009, CAPTAC-DR has been committed with the region in strengthening technical capacities, and supporting these efforts through training and assistance schemes.

Since the 1993 SNA, the update of the SNA and other statistical manuals was done somewhat independently, with a “reconciliation” occurring towards the end of the process. However, in the current phase of updating the SNA, the key principles are coordination, cooperation, and consistency between different statistical manuals. In this

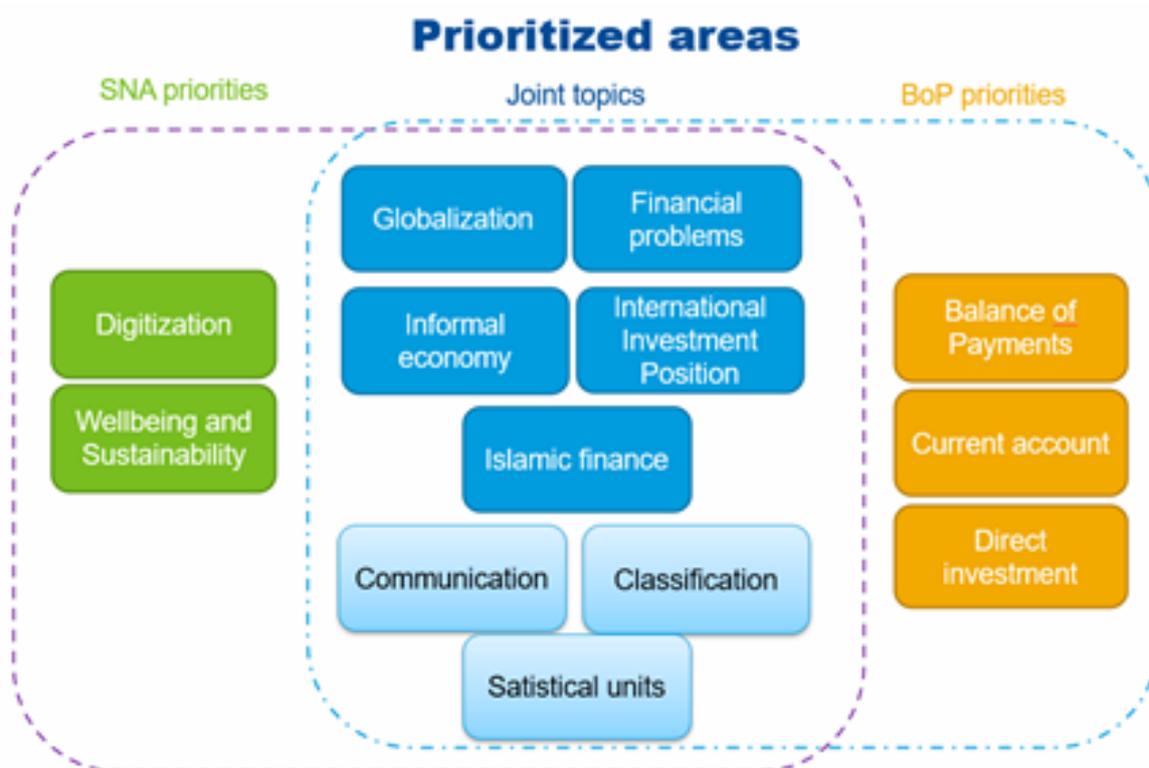
way, the main objective is to avoid discrepancies that have remained evident through practical implementations. In this way, during the elaboration process of the new recommendations, there is a usage of coherent terminology across all manuals, reducing duplication of effort, leading to optimal outcomes given a broader range of consultation. Thus, other expert committees and groups are expected to be involved in the plan for updating the associated manuals of the international statistical classifications system in public finance, monetary and financial statistics, labor, prices, agriculture, business and trade statistics, and environmental economy accounts.

The Intersecretariat Working Group on National Accounts (ISWGNA), comprising the European Commission (Eurostat), the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the United Nations (UN), and the World Bank (WB), was mandated to coordinate and manage the SNA update project. With a comprehensive perspective, this update will consider the need to improve the policy relevance of national and international accounts and appropriate statistics to support the coherent and multidimensional measuring of sustainable development. This would facilitate the addressing of new economic and social outcomes (globalization, digitalization, welfare, and sustainability).

The criteria for selecting the topics for the update of the 2008 SNA include the urgency in which they should be addressed and the

feasibility of making progress at an international level in the short and medium term, thereby identifying aspects that should be addressed in the longer term.

## Priority areas of the SNA 2008 update



Source: Adaptation from the Statistical Division DESA, United Nations

The criteria for selecting the topics for the update of the 2008 SNA include the urgency in which they should be addressed and the feasibility of making progress at an international level in the short and medium term, thereby identifying aspects that should be addressed in the longer term.

The selection of the priority topics was made through a consultation of the SNA's direct users; thus, its work and research strategy are based on guidance notes for each of the prioritized issues, covering both conceptual and practical guidance. The conceptual guidelines address how the issue can be resolved within the current conceptual framework or by modifying it.

On the contrary, a practical guidance rather reflects on the experimentation and testing of the compilation issues. This guidance explains the use of data sources and statistical business processes at the national level in more detail.

### The role of guidance notes

Guidance notes will clearly identify issues affecting the central framework and those to be addressed in supplementary tables or satellite accounts. Implications for other statistical domains will be evaluated to ensure overall consistency and coherence of measurement.

In these notes, both conceptual implications and the feasibility of implementing the proposed conceptual solutions will also be addressed.

## Regional consultations

To ensure that all countries benefit from improved national accounts standards and, particularly, from guidance on the priority areas, regular regional and global consultations will be held, including a global user conference on economic statistics.

The different modes of consultation, whether virtual, face-to-face, or written, will include the users of national accounts (socioeconomic and environmental policymakers and decision-makers from government ministries, central banks, academia, and the private sector) from both developed and developing countries. These will also seek to involve economic statisticians from other domains that can contribute to the discussion.

## Phases of experimentation and testing

Under the work scheme of the update, countries will be invited to indicate their intention to implement and test the feasibility of statistical measures based on the guidance notes. To ensure a thorough and comprehensive assessment of the experimentation and testing phase, the countries to be selected for that phase will comprise a mixture of developing and developed countries from various regions of the world. The regional commissions are expected to facilitate the experimentation and testing in their regions, possibly with the support of banks and regional development agencies, as well as the United Nations resident coordinators.

An expected advantage of this approach is that most countries will quickly adopt the new recommendations when the new version is

approved. In recent years, they have built systems, operations, and communications for source data to integrate the latest concepts, accounting standards, definitions, classifications, and methods into their operations.

## Progress in the main updating spheres<sup>[1]</sup>

The following charts contain an abstract of the progress made up to date in regard of the prioritized topics.

### Globalization

The globalization task team has made significant progress on issues such as:

- The valuation of imports and exports by invoice value (transaction).
- The treatment of multinational business groups, holding companies flows within multinational companies, and economic presence and residence determination.

### Digitization

The digitization group made significant progress on the guidance note on:

- Framework for a satellite account on the digital economy, recording data and valuation of free digital products, crypto assets, and the measurement of the price and volume of goods and services affected by digitization.
- The compilation of supply and utilization tables on the digital economy, the estimation of some high-priority indicators (such as experimental statistics) is currently being tested in some countries.

[1] For more information see: <https://unstats.un.org/unsd/nationalaccount/towards2025.asp>

## Wellbeing and Sustainability

The objective of the third priority area is to define a broader framework of accounts, which can provide a tool to facilitate the monitoring and analysis of wellbeing and sustainability, including trade-offs and reciprocal benefits among several policy objectives, including the 2030 Agenda for Sustainable Development, in subjects such as:

- Accounting for economic ownership and depletion of natural resources, accounting for biological resources and emission permits, and the atmosphere as an asset.

## Communication

- The task team will oversee the development of recommendations and tools to improve how macroeconomic statistics and accounts are communicated and presented to a diverse set of users on topics such as a compilation center, terminology, taxonomy, and alignment (clarity and coherence).

In line with the objectives of CAPTAC-DR, the adoption of the most recent manuals and the updating of the economic structures is promoted through different mechanisms such as technical assistance missions with advisors, workshops, seminars and regional courses. The following table shows the current implementation status of the manuals in the CAPDR region:

**Implementation status in the region**

<b>Country</b>	<b>SNA's adopted version</b>	<b>Base year</b>	<b>Base year update process</b>
El Salvador	SCN2008	2005	N/A
Costa Rica	SCN2008	2017	N/A
Guatemala	SCN2008	2013	N/A
Honduras	SCN2008	2000	2016
Nicaragua	SCN2008	2006	2019
Panama	SCN1993	2007	2018
Dominican Republic	SCN2008	2007	2018

N/A: Not available

Source: Own elaboration through CAPTAC-DR's technical assistance reports

# Summary of Capacity Development Activities

## Tax Administration

- CAPTAC-DR continues to support the strengthening of risk management for the implementation of a compliance improvement plan. It also continues to support the improvement of tax processes, especially the taxpayer registry, tax returns, and tax auditing in Costa Rica, El Salvador, Guatemala, Panama, and the Dominican Republic.
- The region benefited from two webinars on 1) control of tax returns and payment obligations and 2) on tax audit procedures. Both strengthened the officials' capacity based on international best practices, especially for the detection of tax evasion modalities.

## Customs Administration

- During the second quarter, CAPTAC-DR supported Costa Rica to develop a "Plan for the Improvement of Customs Compliance". Guatemala received support to define a strategy for the prevention and fight against customs fraud. One of the most outstanding results is the enactment of a new customs law in the Dominican Republic, which replaces the previous version in force since 1953 and which represented a major obstacle to the country's customs modernization.
- In the regional scope, the Center officially launched a regional study on gender equity in customs administrations.

## Public Financial Management

- Between August and October, the technical assistance provided to Costa Rica focused on improving the transparency of tax reporting and the development of policies to implement International Public Sector Accounting Standards (IPSAS). In the Dominican Republic, the National Treasury received assistance in diagnosing treasury management and the definition of the modern treasury management model, which guides innovation initiatives and developments. Panama received assistance in preparing a draft for the Organic Budget Law (Ley Orgánica del Presupuesto, LOP), which is in process of legislative approval and would be implemented as of the 2023 budget formulation. This effort is a milestone in Panama's public financial management.
- The area held a regional webinar entitled *Transparency, Control, and Governance of Public Financial Management*.

## Central Banking Operations

- The area collaborated in three technical assistance programs with the Monetary and Capital Markets Department. In August, the Banco Central de Reserva de El Salvador (central bank) was assisted in identifying gaps in the current accounting framework and International Financial Reporting Standards. In September, the Banco de Guatemala received support in evaluating its economic forecasting models and the Economic Expectations Survey. In October, they also received support in analyzing their financial position from an international perspective of fair value for a recapitalization plan.
- In August, the liquidity forecasting workshop was held with the support of the Executive Secretariat of the Central America Monetary Council (SECMCA, in Spanish). The International Monetary Fund framework was presented during this workshop, which uses advanced statistical methods. Twenty-five officers from three central banks and the SECMCA participated in this activity.

## Real Sector Statistics

- The area carried out eight technical assistance activities in five of the region's seven countries (Panama, Honduras, Nicaragua, Costa Rica, and El Salvador) throughout the quarter. The main topics addressed in the different missions focused on national accounts, quarterly accounts and seasonal adjustment, sectoral accounts and funds flow, price statistics, and balance sheets.
- At the regional level, a two-week intensive course on national account statistics was held for junior staff of central banks in the CAPDR region to strengthen their knowledge. The course was aimed at officials who recently joined the working groups of each institution. Various workshops and knowledge assessments were held during the training to strengthen the participant's skills, also special sessions to answer questions.

## Government Finance Statistics

- The area assisted Costa Rica, El Salvador, Guatemala, and the Dominican Republic teams on government finance and public sector debt statistics.
- Regarding regional activities, two virtual seminars were held with the participation of central banks and treasury/finance ministries. The first seminar, *Compilation of Non-Financial Public Companies within the Framework of the 2014 GFSM* aimed to discuss and present relevant topics on the methodological treatment of these Public Companies under the context of the 2014 Public Finance Statistics Manual and their importance for registration. The second, the 6th meeting of the Government Finance Work Group (GTEFP), and two joint meetings of the Ad Hoc Groups on Balance of Payments and Monetary Statistics, were held with the support of SECMCA and Secretariat of Ministers of Finance/Treasury of Central America, Panama, and the Dominican Republic (SECOSEFIN, in Spanish).

## Other activities:

### Improvement in CAPDR's Macroeconomic Diagnostic Capacity

- From September 20th to 24th, experts from the IMF's Institute for Capacity Development (ICD) gave a virtual course on Macroeconomic Diagnostics, in which officials from central banks and ministries of finance in the region participated. The course sought to contribute to the capacities of the participants to assess the macroeconomic situation of a country, including the current state of the economy, macroeconomic policies, financial stability, and vulnerabilities in different areas.
- Participants were immersed in the use of tools for macroeconomic analysis, as well as in the study of relevant cases for the region to illustrate the use of these tools in practice. Sessions were held that deepened the analysis of (i) fiscal vulnerabilities, particularly debt sustainability and risk analysis; (ii) imbalances in the current account of the balance of payments; (iii) liquidity and sufficiency of international reserves; and (iv) vulnerabilities and risks in the financial sector.