

14<sup>th</sup> December 2020

## **Benchmark revision of Government Finance Statistics 1998-2019**

*Summary* In addition to the release of statistics for the third quarter of 2020, Statistics Iceland has carried out a comprehensive review of the time series of government financial statistics, in line with Eurostat's recommendations. This benchmark revision is a part of a coordinated major European revision carried out at least once every five years to incorporate new data sources and major changes in methodology to insure maximum degree of consistency. Harmonised benchmark revisions are an important part of a reform aiming to build a more comprehensive system of national accounts and public finance.

Benchmark revisions enable Statistics Iceland to include new and improved data sources and methods for the compilation of government finance statistics with the aim of maintaining and strengthening the quality of its output. This benchmark revision covers the period from 1998 to 2019.

In parallel to the publication of benchmark revision of national accounts on 30<sup>th</sup> November, Statistics Iceland published an explanatory report discussing the methodological basis of sector classifications within national accounts, aimed at resolving issues regarding state-owned entities and the demarcation of the general government sector.



## Main emphasis and revision points

*Revision of sector classification  
and deflation methods*

Special emphasis was placed on the sector classification in accordance with the European System of Accounts (ESA 2010) in the benchmark revision due to a technical visit from Eurostat in 2018 where it was pointed out that some of these public entities' sector classification needed further analysis. Statistics Iceland has performed a comprehensive review of state-owned entities that have traditionally been classified outside the general government sector.

Here, the impact of the revision of sector classification will be examined in the context of the government sector fiscal balance and financial assets and liabilities. As possible, to ensure comparability over time, the whole time series has been revised, back to 1998.

Additionally to the revision of the sector classification, a revision of price indices used in the deflation process for government consumption expenditure has been carried out and will be further discussed here.

## The scope of the general government sector

*An explanatory report on sector  
classification available on Statistics  
Iceland's website*

To date, sector classification of public entities in national accounts has followed the classification as it has been structured historically in government accounting in Iceland, into Group A, B and C, with few exceptions. Group A consists of activities and programmes funded mostly by tax revenue, statutory services or grants, Group B consisting of public non-financial and financial corporations under central or local government control and operated under Treasury guarantee and Group C consists of partnership or limited companies majority-owned by the central or local government. Group A of the Treasury, Group A the municipalities and social security funds have traditionally corresponded to the general government (S.13 general government sector) in the national accounts and Group B and C correspond to companies under public control which can either be classified as financial or non-financial corporations.

In an explanatory report published on 30<sup>th</sup> November, and available on Statistics Iceland's website, the methodological basis for the sector classification in national accounts is discussed as well as the issues concerning the classification of state-owned companies and institutions. As a part of the revision a total of more than twenty state-owned entities previously classified outside the general government have been reclassified and are now considered as a part of the general government in national accounts.

The scope of the entities reclassified does somewhat vary. Out of the entities reclassified into the general government sector, the largest in scope are the Housing Financing Fund together with the institutions and funds that took over its role in a merger in 2020 and the Icelandic Student Loan Fund. The reclassification of these entities was done following a formal advice from Eurostat. These entities have substantial impact on the fiscal balance and the financial assets and liabilities of the general government while the majority of other entities reclassified have insignificant effects on the general government's fiscal balance or financial assets and liabilities.

Most of the reclassified entities belong to the central government, but where an entity is under joint ownership by both the central and local government, it is included in the sector that owns a majority. One reclassified entity is majority-owned by the

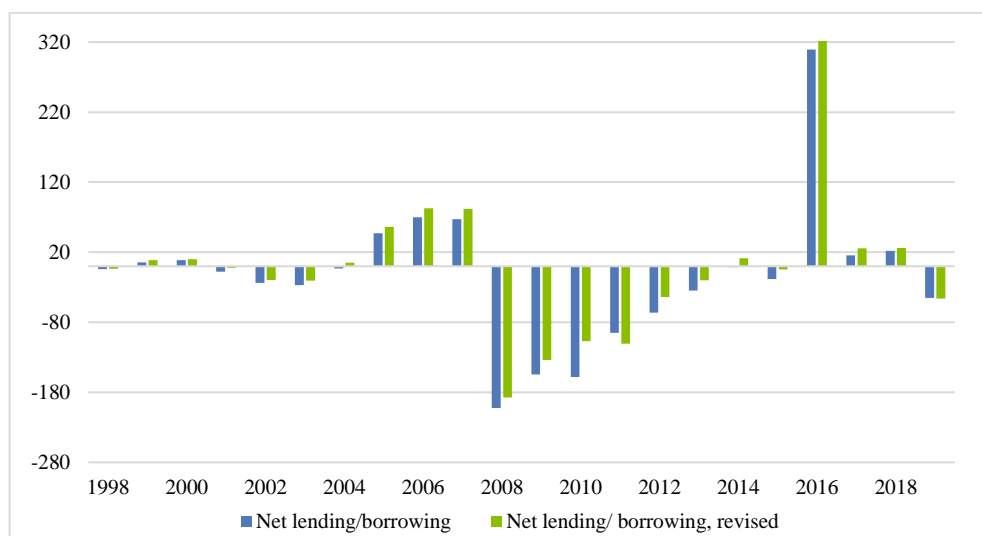
local governments, Strætó bs. No changes were made to social security funds in the revision.

### Impact on general government fiscal balance

*Positive impact on general government fiscal balance*

The revisions increases both general government (central government, local government and social security funds) total revenue and expenditure, but the impact on total revenue is greater leading to a positive impact on net lending/borrowing for the whole time series, except for 2011 when Harpa Concert Hall and Conference Centre is reclassified.

**Figure 1. Revision impact on GG fiscal balance, billion ISK at current prices**



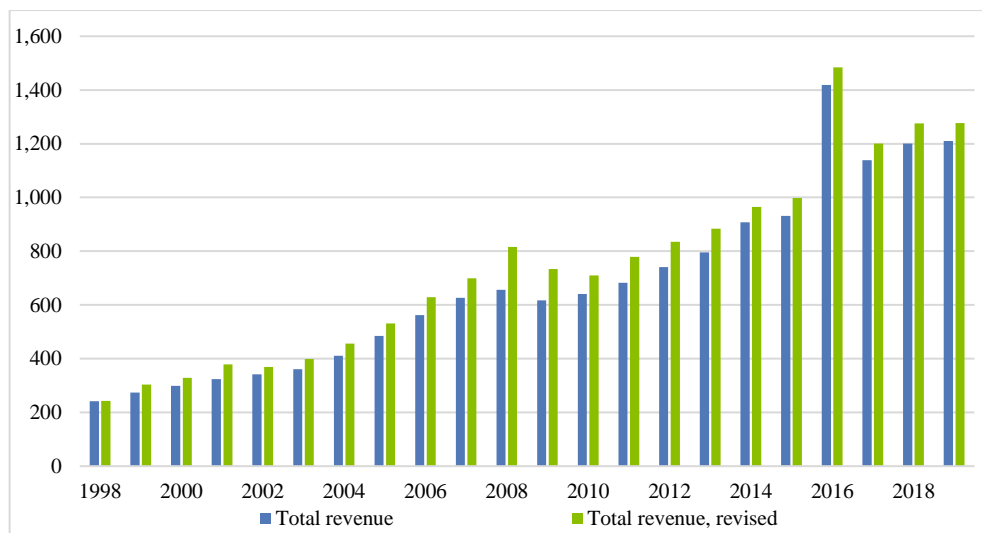
### Impact on general government total revenue

*Figures revised back to 1998*

The revenues and expenditure of the entities reclassified have been included in the aggregates of general government revenue and expenditure which is reflected in increased public spending, among other things. Effort was made to take into account and eliminate internal transactions, i.e. contributions between the general government and the entities in question, as well as transactions between related parties. This is important for the purpose of preventing an overestimation of government revenue and expenditure but does not have direct effect on its fiscal balance.

Figures are revised back to 1998, but the time of sector classification of public entities varies, as it depends on when the entities in question were established or underwent changes that led to their reclassification.

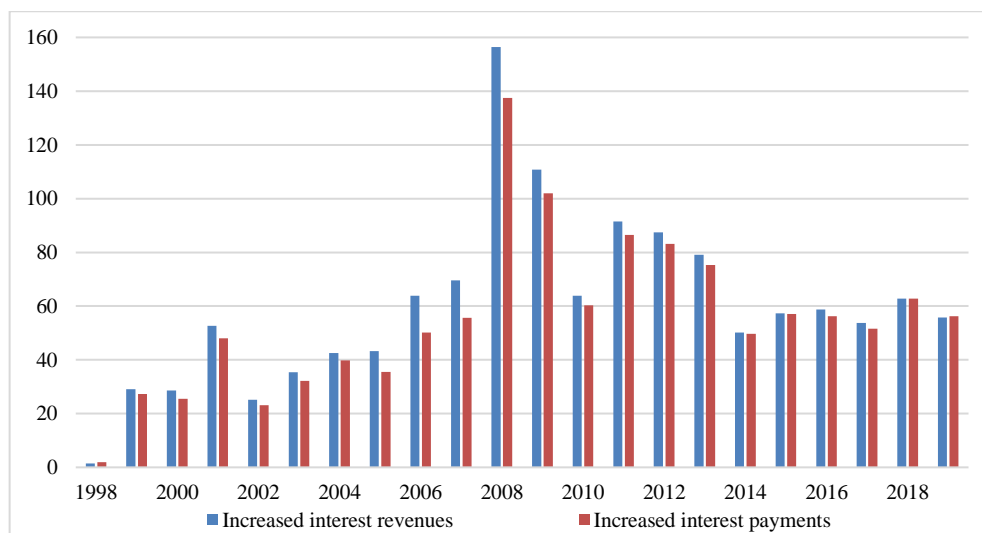
**Figure 2. Revision impact on GG total revenue, billion ISK at current prices**



*Significant increase in interest revenue and interest payments*

The operations of most of the entities reclassified is generally small in scope. The reclassification of the Housing Financing Fund and the Student Loan Fund have the largest impact on general government revenue and expenditure, especially due to increases in interest revenue and interest payments. Those components increase rapidly in 1999 when the Housing Financing Fund started its operation.

**Figure 3. Revision impact on GG interest revenue and payments, billion ISK at current prices**



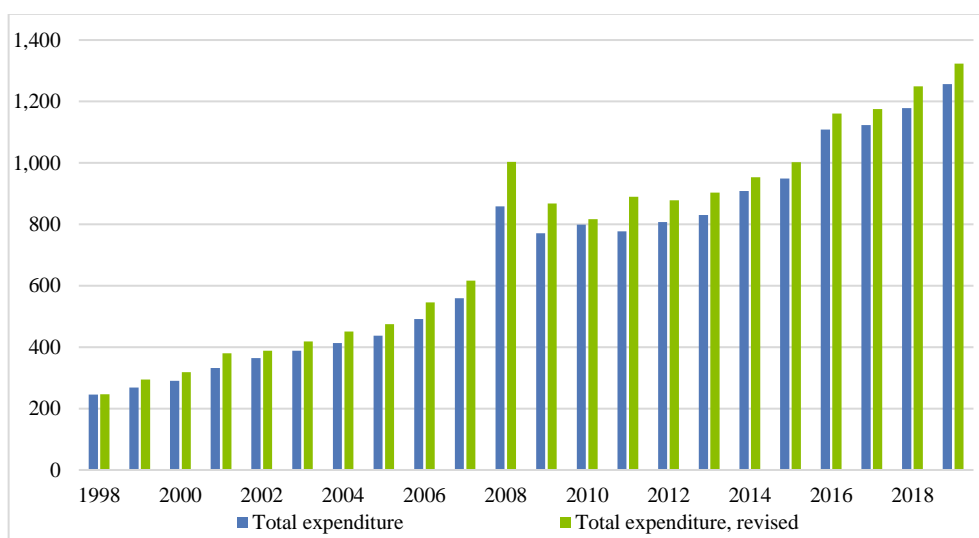
### Impact on general government total expenditure

As has been stated, the general government interest payments is the expenditure component most heavily impacted by the revision.

Then there are transfers from the general government sector to the public entities, that have now been reclassified. Prior to the revision these transfers were expenditure in the general government sector but have been eliminated due to the reclassification while the entities' revenues and expenditure are now included. The consolidation of these transfers, leads to a reduction in government expenditure. Which to some extent offsets the increase in expenditure due to reclassification. This measure has a particularly large impact on general government expenditure in 2010, as a 33 billion ISK in owner's contribution from the central government to the Housing Financing Fund has been consolidated.

Investment is included in total government expenditure. In 2011, the impact from the reclassification of Harpa Concert Hall and Conference Centre to the central government can be seen in increased fixed investment of the general government. The same applies to the transfer of ownership of Sturlugata 8, the premises of DeCode Genetics, which the University of Iceland purchased in 2013.

**Figure 4. Revision impact on GG total expenditure, billion ISK at current prices**

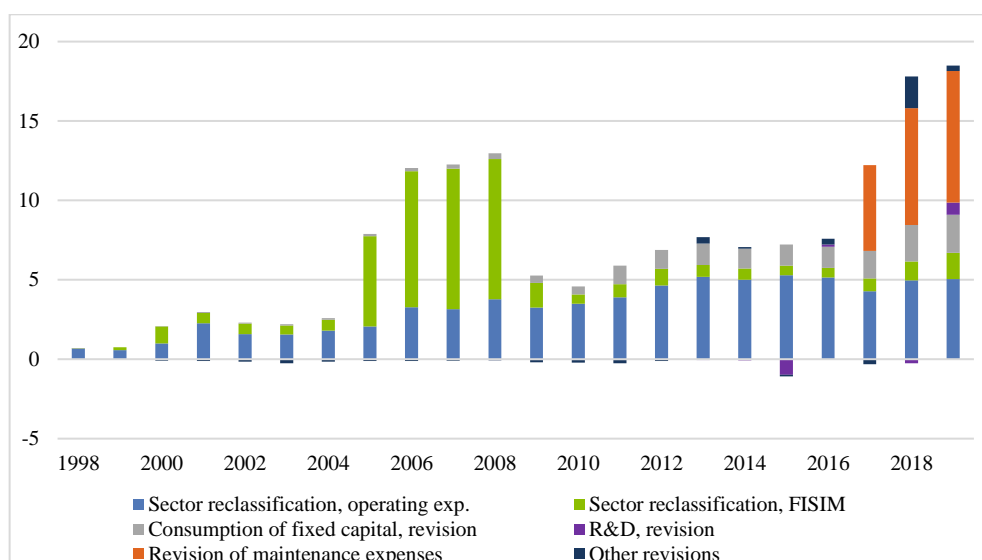


*Components can have different impacts on general government fiscal balance and government consumption expenditure*

### Impact on government final consumption expenditure

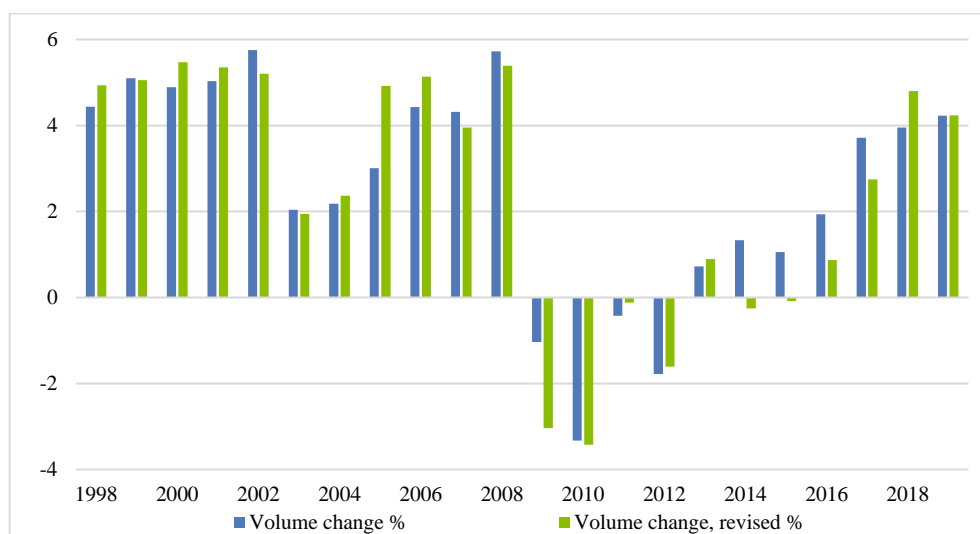
The reclassification of public entities affects the government consumption expenditure both directly through operating expenses and also through financial intermediation services indirectly measured (FISIM). According to the national account methodology, FISIM is considered as consumption expenditure. The impacts of FISIM does not affect government fiscal balance, as FISIM reduces interest payments while increasing consumption expenditure. The impact of FISIM comes from an increase in public deposits resulting from the reclassification of the Housing Financing Fund. The impact is largest in the period of 2005-2008 as the Fund's deposits were 93 billion ISK on average during those years.

**Figure 5. Revision impact on GFCE, billion ISK at current prices**



Other changes made in the benchmark revision, which impact the government consumption expenditure but not the government fiscal balance, are changes made due to maintenance expenses and revision of R&D. Following both revisions, public investment has been revised. Changes made to depreciation affect operating balance but not the general governments fiscal balance.

Changes have also been made to price indices used in the deflation process for government consumption expenditure of goods and services, revised back to 2013. With the changes, Statistics Iceland seeks to strengthen the foundation of the deflation method with improved methodology and more detailed data collected from public bodies. The price indices are now based on more detailed information than have previously been available on the composition of the expenditures of the central government, the social security funds and the local governments.

**Figure 6. Revision impacts on GFCE volume changes**

The revision overall has a significant impact on the volume changes of government consumption expenditure in 2005 and 2009, mainly due to an increase in FISIM. The revision of the deflation process leads to a decrease in volume in government consumption expenditure in 2014 and 2017.

### Impact on general government net financial assets

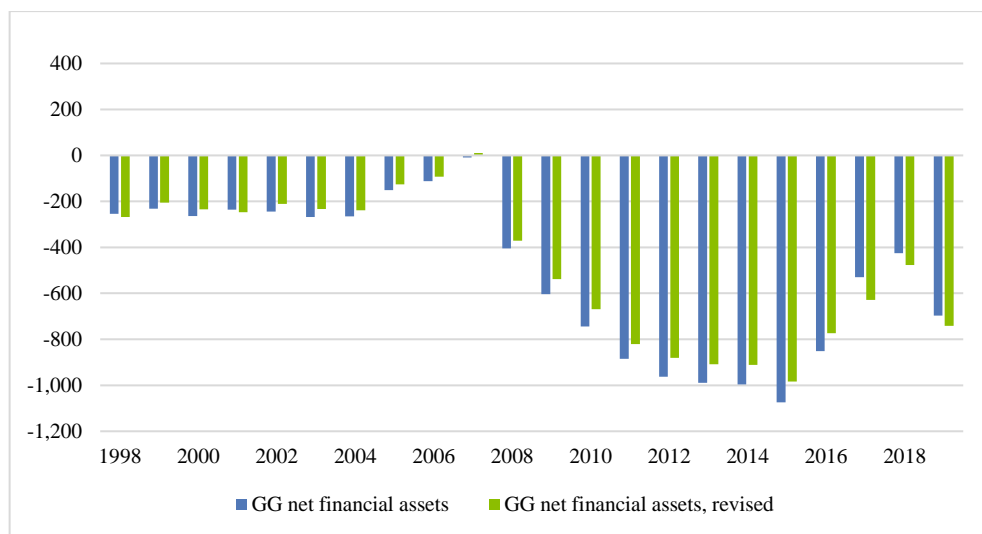
The financial assets and liabilities of the entities reclassified have been included in the aggregates of general government financial assets and liabilities. Similarly for total revenue and expenditure, effort was made to take into account and eliminate internal claims, loans and debts, between the general government and the entities in question, as well as between related parties. This is important for the purpose of preventing an overestimation of government financial assets and liabilities but does not have direct effect on its net financial assets. The government shares in the entities that have now been reclassified are no longer included in government's financial assets.

Out of the 24 reclassified entities, 23 belong to the central government and one to local governments. As with the revision's impact on total revenue and expenditure, the reclassification of the Housing Financing Fund and the Student Loan Fund have the largest impact on general government financial assets and liabilities.

*Positive revision impact on net financial assets for the period 1999-2016*

The revision had greater impact on financial assets than liabilities for the largest part of the time series, leading to a positive impact on the general governments net financial assets. In the last 3 years, the revisions positive effect on liabilities was greater than on assets leading to increased negative net financial assets.

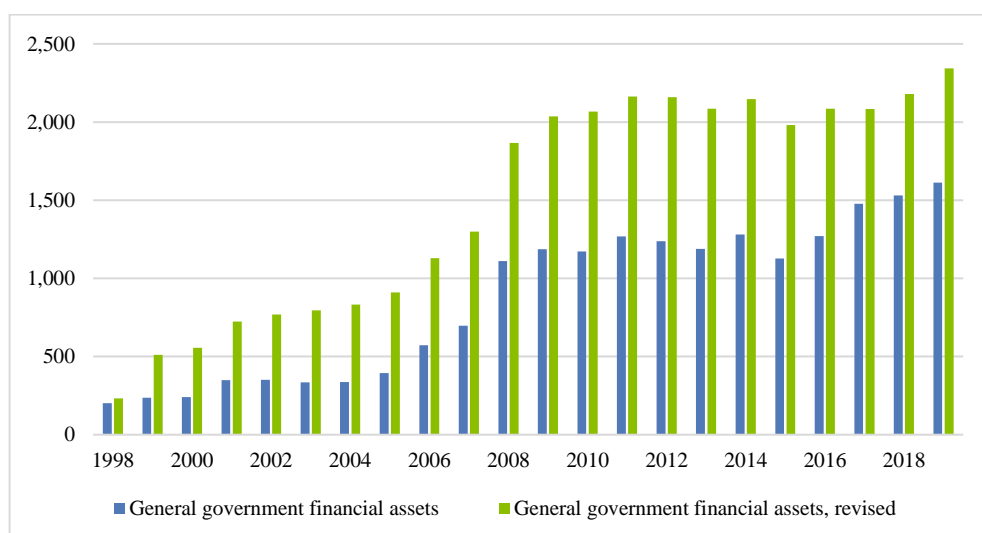
**Figure 7. Revision impact on GG net financial assets, billion ISK at current prices**



### Impact on general government financial assets and liabilities

The impact of the changes in sector classification is best reflected in statistics on general government financial assets and liabilities. Here, as before, the main impact comes from the reclassification of the Housing Financing Fund that leads government financial assets to more than double for the period 1999-2005. In the most recent years 2017-2019, the revision led on average to an increase in financial assets amounting to around 40 percent.

**Figure 8. Revision impact on GG financial assets, billion ISK at current prices**



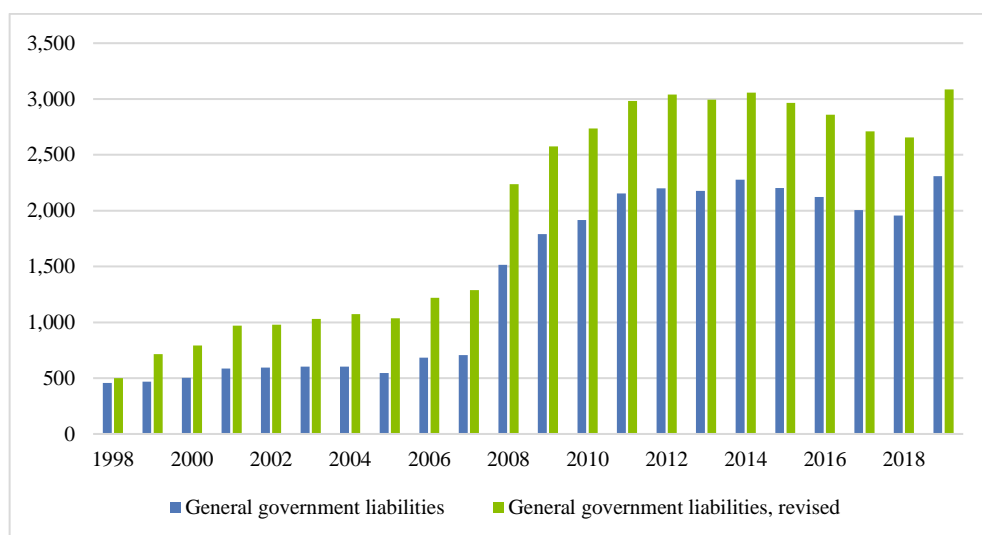
*The increase in government liabilities is proportionally higher than the increase in government expenditure*

General government liabilities also increase significantly due to the revision of the sector classification. As seen on figure 8, there is a large proportional increase in revised liabilities in 1999 when the Housing Financing Fund's liabilities are first classified among general government liabilities.



The increase in general government liabilities in 2019 can largely be attributed to the revaluation of IL-fund's debt (now reclassified as a part of the general government) that is now a part of the central government liabilities. The revaluation is based on government accounting results, but according to fair value assessment carried out for the first time in 2019 the fund's equity was negative by 178 billion ISK. Information on the fair value of the fund's assets and liabilities prior to 2019 is not available.

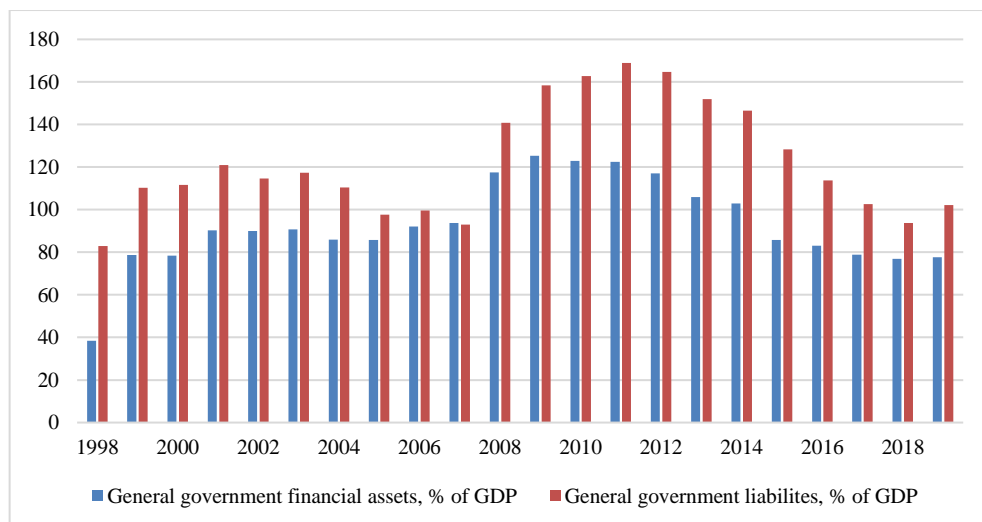
**Figure 9. Revision impact on GG liabilities, billion ISK at current prices**



From 2017 to 2019, government liabilities increased by an average of 727 billion ISK at current prices due to the reclassification of entities, or by an average of 35% from previously published results. These changes can be attributed to the reclassification of the Housing Financing Fund and the institutions that took over the Fund's role in 2019.

Revised general government liabilities in 2019 are equivalent to same years GDP, while general government financial assets amount to almost 80% of GDP in 2019. For the whole revised time series, general government liabilities were highest in 2011 amounting to 169% of GDP.

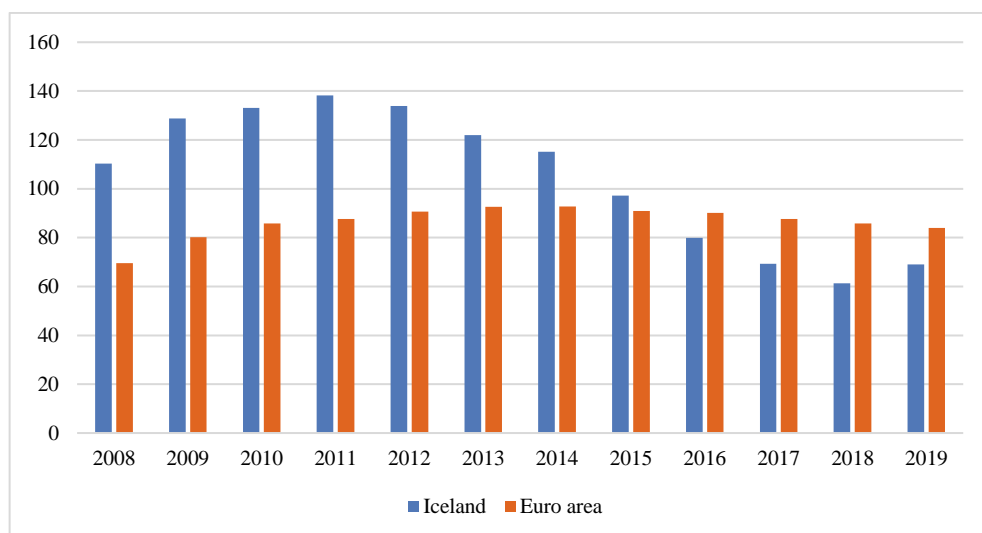
**Figure 10. Revised GG financial assets and liabilities, % of GDP**



## International comparison

When looking at general government liabilities in an international comparison, it is traditionally done by using total general government debt less insurance technical reserves and other accounts payable, referred to as Maastricht debt.

**Figure 11. Maastricht government debt, % of GDP**



*Source: Eurostat*

General government liabilities as a percentage of GDP, has been declining since 2012. Government's policy of repaying public debt, together with the declining scope of the Housing Financing Fund's operation play a significant role here. Since 2016, Maastricht government debt as a percentage of GDP has been lower than in the Euro area.

## Further information

In this issue, the main emphasis has been general government finance statistics, in text and tables. Tables with a more detailed breakdown as well as corresponding information for the central government, local government and social security funds are available on Statistics Iceland's website, under public finances:

<https://statice.is/statistics/economy/public-finance/>

**Table 1. Revised fiscal balance of the general government, billion ISK at current prices**

<b>Year</b>	<b>General government net lending/borrowing, revised figures</b>	<b>General government net lending/borrowing, revision impact</b>	<b>Central government net lending/borrowing, revision impact</b>	<b>Local government net lending/borrowing, revision impact</b>
1998	-3.4	0.5	0.5	0.0
1999	8.6	3.3	3.3	0.0
2000	10.3	1.6	1.6	0.0
2001	-2.3	5.5	5.9	-0.4
2002	-19.4	4.2	4.3	-0.1
2003	-20.4	6.8	6.7	0.0
2004	5.0	8.1	5.9	2.3
2005	56.1	9.0	6.6	2.4
2006	82.5	12.4	9.5	2.9
2007	81.9	14.8	10.6	4.2
2008	-187.2	15.2	9.3	5.8
2009	-134.1	20.1	14.2	5.9
2010	-106.8	51.4	45.9	5.5
2011	-110.7	-15.7	-20.3	4.6
2012	-44.0	22.5	18.3	4.2
2013	-19.9	14.9	11.6	3.3
2014	11.4	12.9	8.9	4.0
2015	-4.5	13.7	10.0	3.7
2016	322.9	13.4	8.4	5.0
2017	25.6	10.2	13.1	-2.9
2018	26.2	4.1	10.5	-6.5
2019	-46.3	-1.0	5.4	-6.3

**Table 2. Revision impact on general government total revenue, billion ISK at current prices**

<b>Year</b>	<b>General government total revenues, revised figures</b>	<b>General government total revenues, revision impact</b>	<b>General government interest revenues, revision impact</b>	<b>General government other revenues, revision impact</b>
1998	243.2	2.1	1.5	0.6
1999	303.5	29.7	29.1	0.7
2000	328.3	29.7	28.6	1.1
2001	378.2	54.0	52.7	1.3
2002	368.8	27.6	25.2	2.4
2003	398.6	37.9	35.4	2.5
2004	455.8	45.5	42.6	2.9
2005	530.8	46.3	43.2	3.1
2006	628.6	66.5	63.8	2.7
2007	698.8	72.3	69.6	2.8
2008	815.6	159.8	156.4	3.4
2009	733.3	116.2	110.8	5.4
2010	710.0	68.9	63.8	5.1
2011	778.8	96.5	91.5	5.0
2012	834.5	93.7	87.5	6.2
2013	883.3	87.5	79.1	8.4
2014	964.6	57.6	50.2	7.4
2015	997.7	66.7	57.3	9.4
2016	1,484.0	65.7	58.7	7.0
2017	1,200.7	62.4	53.7	8.6
2018	1,275.3	75.3	62.8	12.5
2019	1,276.4	65.7	55.8	9.9

**Table 3. Revision impact on general government total expenditure, billion ISK at current prices**

<b>Year</b>	<b>General government total expenditure, revised figures</b>	<b>General government total expenditure, revision impact</b>	<b>General government interest payments, revision figures</b>	<b>General government investment, revision impact</b>	<b>General government other expenditure, revision impact</b>
1998	246.6	1.6	1.9	0.0	-0.3
1999	294.9	26.5	27.3	0.0	-0.9
2000	318.1	28.1	25.6	0.0	2.5
2001	380.4	48.5	48.1	0.4	0.0
2002	388.3	23.4	23.1	0.2	0.2
2003	419.0	31.1	32.1	0.1	-1.2
2004	450.8	37.3	39.8	0.2	-2.7
2005	474.7	37.3	35.5	0.6	1.2
2006	546.1	54.1	50.2	0.4	3.5
2007	616.9	57.5	55.6	1.1	0.9
2008	1,002.8	144.6	137.5	0.6	6.6
2009	867.4	96.1	102.0	0.0	-5.9
2010	816.8	17.5	60.3	0.2	-43.0
2011	889.6	112.2	86.5	27.1	-1.3
2012	878.5	71.2	83.2	0.2	-12.2
2013	903.2	72.6	75.3	6.8	-9.6
2014	953.2	44.7	49.7	0.8	-5.9
2015	1,002.2	53.1	57.1	1.6	-5.6
2016	1,161.0	52.3	56.2	0.1	-4.0
2017	1,175.1	52.1	51.5	-6.3	6.8
2018	1,249.2	71.2	62.8	-4.8	13.2
2019	1,322.7	66.7	56.2	-0.5	11.0

**Table 4. Government final consumption expenditure; billion ISK at current prices, changes in volume (percentage) and revision impact on volume changes (percentage)**

<b>Year</b>	<b>GFCE, revised figures</b>	<b>GFCE, revision impact</b>	<b>Volume change, revised figures</b>	<b>Volume change, revision impact</b>
1998	128.3	0.7	4.9	0.5
1999	143.5	0.7	5.1	0.0
2000	161.2	2.0	5.5	0.6
2001	184.1	2.9	5.4	0.3
2002	209.4	2.2	5.2	-0.6
2003	221.4	1.9	1.9	-0.1
2004	235.8	2.4	2.4	0.2
2005	259.6	7.8	4.9	1.9
2006	297.9	11.9	5.1	0.7
2007	330.2	12.2	4.0	-0.4
2008	385.7	12.9	5.4	-0.3
2009	411.5	5.1	-3.0	-2.0
2010	417.2	4.3	-3.4	-0.1
2011	439.1	5.6	-0.1	0.3
2012	456.8	6.7	-1.6	0.2
2013	479.7	7.6	0.9	0.2
2014	503.3	7.0	-0.3	-1.6
2015	541.4	6.1	-0.1	-1.1
2016	578.0	7.4	0.9	-1.1
2017	626.0	11.9	2.7	-1.0
2018	687.2	17.6	4.8	0.8
2019	745.1	18.5	4.2	0.0

**Table 5. Revision impact on general government net financial assets; billion ISK at current prices**

<b>Year</b>	<b>General government net financial assets, revised figures</b>	<b>General government net financial assets, revision impact</b>
1998	-267.9	-14.0
1999	-205.1	27.3
2000	-235.0	29.4
2001	-246.5	-10.0
2002	-210.7	33.9
2003	-233.4	34.7
2004	-238.8	26.1
2005	-126.0	24.5
2006	-91.9	19.5
2007	10.8	20.2
2008	-371.1	33.8
2009	-538.0	65.7
2010	-669.1	75.4
2011	-820.3	64.1
2012	-880.4	82.8
2013	-908.0	81.6
2014	-911.0	85.6
2015	-983.9	90.5
2016	-773.8	78.0
2017	-628.0	-98.6
2018	-476.4	-50.5
2019	-741.1	-44.4

**Table 6. Revision impact on general government financial assets; billion ISK at current prices**

<b>Year</b>	<b>General government financial assets, revised figures</b>	<b>General government financial assets, revision impact</b>	<b>General government financial assets, revision impact, %</b>
1998	232.2	30.3	15.0
1999	511.0	274.8	116.3
2000	556.6	316.8	132.0
2001	724.0	374.0	106.9
2002	769.1	417.9	119.0
2003	795.7	460.4	137.3
2004	833.3	495.9	147.0
2005	909.9	515.7	130.8
2006	1,128.3	556.5	97.3
2007	1,299.9	602.1	86.3
2008	1,867.4	756.8	68.1
2009	2,037.3	849.8	71.6
2010	2,067.3	894.3	76.2
2011	2,162.3	892.8	70.3
2012	2,159.8	922.6	74.6
2013	2,085.8	898.1	75.6
2014	2,146.1	865.5	67.6
2015	1,981.3	853.3	75.7
2016	2,085.0	815.4	64.2
2017	2,083.1	606.6	41.1
2018	2,180.2	649.0	42.4
2019	2,343.7	731.2	45.3



**Table 7. Revision impact on general government liabilities; billion ISK at current prices**

<b>Year</b>	<b>General government liabilities, revised figures</b>	<b>General government liabilities, revision impact</b>	<b>General government liabilities, revision impact, %</b>
1998	500.0	44.3	9.7
1999	716.1	247.5	52.8
2000	791.7	287.3	57.0
2001	970.5	384.1	65.5
2002	979.9	384.0	64.4
2003	1,029.1	425.7	70.6
2004	1,072.0	469.8	78.0
2005	1,035.8	491.2	90.2
2006	1,220.1	537.0	78.6
2007	1,289.1	581.9	82.3
2008	2,238.5	723.0	47.7
2009	2,575.3	784.1	43.8
2010	2,736.4	818.8	42.7
2011	2,982.6	828.8	38.5
2012	3,040.1	839.7	38.2
2013	2,993.8	816.5	37.5
2014	3,057.1	779.9	34.2
2015	2,965.2	762.8	34.6
2016	2,858.8	737.4	34.8
2017	2,711.1	705.2	35.2
2018	2,656.6	699.4	35.7
2019	3,084.8	775.6	33.6

**Table 8. Revision impact on general government financial assets and liabilities; % of GDP**

Year	General government net financial assets, revised figures	General government financial assets, revised figures	General government liabilities, revised figures	General government Maastricht debt, revised figures
1998	-44.4	38.5	82.9	50.4
1999	-31.6	78.7	110.2	76.7
2000	-33.1	78.4	111.6	75.9
2001	-30.7	90.2	121.0	83.4
2002	-24.7	90.0	114.7	82.2
2003	-26.6	90.8	117.4	85.1
2004	-24.6	85.9	110.5	80.9
2005	-11.9	85.7	97.6	70.5
2006	-7.5	92.0	99.5	72.0
2007	0.8	93.7	92.9	68.4
2008	-23.3	117.5	140.8	110.4
2009	-33.1	125.3	158.3	128.8
2010	-39.8	123.0	162.8	133.2
2011	-46.5	122.5	169.0	138.2
2012	-47.7	117.0	164.8	133.9
2013	-46.1	105.9	152.0	122.0
2014	-43.7	102.9	146.5	115.2
2015	-42.6	85.7	128.3	97.2
2016	-30.8	83.0	113.8	79.9
2017	-23.8	78.8	102.6	69.3
2018	-16.8	76.9	93.7	61.2
2019	-24.5	77.6	102.2	69.0

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