

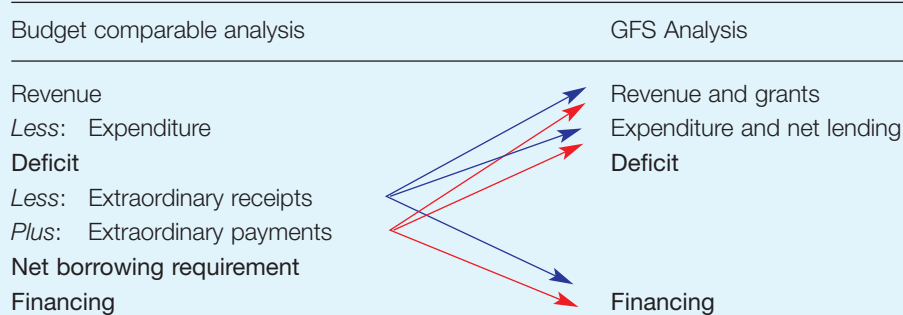
Treatment of extraordinary revenue and expenditure in the analysis of government finances

The *Statement of national government revenue, expenditure and borrowing* records some flow of funds as extraordinary transactions. Extraordinary items are exceptional in the sense that they are usually of a large value, occur irregularly and are not part of the general operations of government.

The analysis of government finances in the *Statement of national government revenue, expenditure and borrowing*, the *Budget Review* and in Tables S-55 and S-56 of the *Quarterly Bulletin* excludes these extraordinary transactions from revenue and expenditure. It is therefore also excluded from the calculation of the budget deficit of national government. This calculated deficit is then increased with extraordinary payments and decreased with extraordinary receipts to derive the net borrowing requirement of government. The presentation of national government finances in this way facilitates the comparison of actual outcomes with the budgeted estimates and allows for the analysis of long-term trends in government operations without the distortions created by the inclusion of extraordinary items.

The analysis of the finances of the general government (as presented in Tables S-71 to S-77 of the *Quarterly Bulletin*) adheres to the guidelines provided in *A Manual on Government Finance Statistics*, 1986 (GFS) of the International Monetary Fund. This analysis facilitates international comparability of the *overall financial position* of government. All transactions of government are classified according to the underlying economic nature of the transactions, and recorded accordingly. The GFS framework does not allow any transaction to be recorded as extraordinary. As indicated in the accompanying schematic presentation, the economic nature of each extraordinary transaction is determined and the transactions are re-routed to be included in either revenue and grants, or expenditure and net lending, or in financing activities.

Re-routing between budget comparable analysis and GFS analysis



The classification of extraordinary items according to their economic nature in the GFS framework usually leads to differences in the deficit as calculated in the budget comparable analysis and the GFS analysis. In 2002/03, for example, the budget comparable deficit amounted to R13,0 billion and the GFS deficit to R11,7 billion. Although the total value of extraordinary receipts and payments during the fiscal year came to R17,0 billion, the effect on the GFS deficit was only a net decrease of R1,3 billion due to offsetting transactions.

The re-routing principle may be illustrated by considering the treatment of two recent transactions resulting from the restructuring of state assets. The proceeds from the initial public offering of Telkom shares and the proceeds from the disposal of Transnet's shares in M-Cell were both recorded as extraordinary revenue in fiscal 2002/03. The disposal of some of government's shares in Telkom reduced government's equity holding (direct ownership) in this public corporation and as such it was recorded as negative net lending in the GFS framework. However, Transnet's disposal of its M-Cell shares did not change the ownership relationship between government and the public corporation, Transnet. Transnet merely cashed in on an investment (its equity holding in M-Cell) which provided Transnet with increased cash reserves from which a larger than usual dividend to its owner (national government) was declared. The GFS framework therefore records this transaction as *revenue*, more specifically, non-tax revenue.

When a user of statistics considers the deficit of national government, care should be taken in the choice of deficit measure used. If the user wants to consider the overall financial position of government or when making international comparisons, the all-inclusive GFS deficit should take preference. When comparing government's performance with the Budget, the budget comparable deficit, excluding extraordinary items, should take preference.