

Armaments purchases in the national accounts

National accounts data are recorded on the basis of the set of internationally-agreed concepts, definitions, classifications and accounting rules contained in the 1993 *System of National Accounts* (SNA). This framework provides for national accounts statistics being recorded on an accrual and not a cash basis. Accrual accounting implies that transactions are recorded at the time that economic value is created, transferred or exchanged. The 1993 SNA also advises that expenditure by the military on weapons of destruction and the equipment needed to deliver them should be classified as final consumption expenditure by general government and not as fixed capital formation. The construction of buildings for use by military personnel and the construction of roads, airfields and docks for use by the military should, however, form part of fixed capital formation.

Part of government's expenditure on collective goods and services includes defence expenditure in ensuring safety for all in the country. A strategic armaments procurement programme, which forms part of the Special Defence Account of the Department of Defence, was approved by Cabinet in September 1999. This arms procurement programme provides for four corvettes, four maritime helicopters, three submarines, thirty utility helicopters, twenty-four trainer aircraft and twenty-eight fighter aircraft to be delivered from abroad.

In financing these military goods, pre-payments may be made for some of the goods to be delivered at a later point in time, or financing may be arranged allowing the government to pay for an item some time after acquiring it. However, because of the accrual accounting basis of compiling national accounts information, these pre-payments and loan repayments are not taken into account in compiling general government final consumption expenditure. Only when these goods are delivered and ownership is transferred to the South African government, the total amount for the goods delivered is recorded as general government final consumption expenditure.

As military vessels, aircraft and submarines are expensive, the level of and growth in general government final consumption expenditure are often visibly affected in the specific quarter when ownership of such an item is taken by the government.

The accompanying graph shows both the level of and annualised growth in real general government final consumption expenditure on a quarterly basis. The first of the four corvettes that form part of the arms procurement programme was delivered to the South African Defence Force in the fourth quarter of 2003, which resulted in a higher level of real general government final consumption expenditure and a distinctly higher growth rate in such expenditure. The following two corvettes were received during the first and second quarters of 2004. No corvette changed ownership in the third quarter, but the fourth corvette was received during the final quarter of 2004.

Real final consumption expenditure by general government



by M E Swanepoel