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New decision of Eurostat on deficit and debt

Treatment of non-returned banknotes and coins in the context of the cash changeover to the euro

Eurostat, the Statistical Office of the European Communities in Luxembourg, has taken a decision on the treatment of non-returned banknotes and coins in national accounts in the context of the cash changeover to the Euro.

The decision has been taken in order to ensure comparability of the government deficit and debt data in Member States and assuring conformity with the European System of Accounts (ESA95) and the Manual on government deficit and debt.

The decision is consistent with the opinion of a very large majority of CMFB (Committee on Monetary, Financial and Balance of Payments Statistics) members (see annex).

Background

During the Euro cash changeover, banknotes and coins in circulation denominated in national currency were returned to the respective issuers, which are the national central banks for banknotes and, in most cases, the national governments for coins. However, part of the national currency previously in circulation will never be returned because it has been destroyed or lost, or because holders decide to keep it for collection or other reasons.

Proceeds from the non-return of banknotes in national currency may ultimately accrue to government, either as a separate payment or as part of the regular payment of dividends and/or income taxes by the National Central Banks (NCB).

Moreover, coins are in general a liability of governments and the question arises whether its non-return impacts government deficit/surplus and debt.

The decision

A. Non-returned banknotes

The treatment of gains from non-returned banknotes has no impact on government deficit[1].

This decision stems from the principle that reserve assets and currency are managed by the central bank 'on behalf of the nation' and government keeps implicitly special rights over them. By analogy with assets and liabilities owned by government, holding gains or losses and other changes in the volume of them change government's net worth but not government deficit.

In cases where government holds equity in the NCB, the government's net worth is automatically adjusted in line with such holding gains or losses and other changes in the volume of assets. When subsequent payments are received by government, the payments have to be recorded as financial transactions (a withdrawal of equity), not as a government revenue (whether dividends, taxes on profits[2] or capital transfers).

One of two situations may arise depending on the bookkeeping practices of the National Central Banks. In some National Central Banks the proceeds from non-returned banknotes may be regularly transferred to the profit and loss account and channeled to government indirectly via (accounting) dividends. Other National Central Banks may make one or several direct payments to government on the account of non-returned banknotes, perhaps even before they are definitively written-off in the accounting balance sheet. However, irrespective of the way in which government receives the proceeds in the different countries, the treatment in national accounts should lead to the same impact on government deficit and debt.

In cases where the NCB makes payments to government in anticipation of the writing-off of the banknotes from the central bank's balance sheet, the payments are treated in national accounts as advance payments (AF.7: "other accounts receivable and payable") which are reversed against the withdrawal of equity when the writing-off takes place.

If government does not hold equity in the NCB but is entitled by legislation to receive the proceeds from non-returned banknotes, government deficit should likewise not be affected. In these cases treatment in the national accounts recognises that government keeps special rights in the proceeds arising from non-returned banknotes, reflecting the fact that government receives benefits as normally accorded to legal owners (see Eurostat's decision in the news release 05/98 issued on 27/01/98 on the sale of Monetary gold by Ufficio Italiano dei Cambi to Banca d'Italia).

B. Non-returned coins

The treatment of gains from non-returned coins in government balance sheet has an impact on the government debt but leaves the government deficit unchanged.

Coins in circulation normally appear in the balance sheet of government under the category "currency" and are part of the definition of government debt relevant for the excessive deficit procedure ('Maastricht debt'). Old coins have to be moved to "other accounts payable" once they lost their legal tender status, but can still be exchanged. This means that in the Euro cash changeover the old coins were taken out from the stock of debt outstanding when they were returned or, those non-returned, when they lost the legal tender status, since the category "other accounts payable" is not part of the 'Maastricht' debt. Of course these coins were replaced for a large part by Euro coins so that the stock of government debt relating to coins remained roughly unchanged. Should coins be liabilities of NCBs and not of government, the methodology explained for the case of banknotes would apply.

The writing-off of the non-returned coins in government's balance sheet takes place when they can no more be exchanged by the issuer (after which those that were not destroyed or lost become valuables). This should be recorded in national accounts as a writing-off proper, through "other changes in volume", leaving the net lending/net borrowing unchanged.

1. More in general, large one-off benefits to the Central Bank not realised through the normal activity of monetary authorities should not benefit the net lending/net borrowing of general government.

2. Similarly to dividends, also amounts paid to government as taxes on profits arising from non-returned banknotes (at least when the amounts are big) should be recorded as withdrawal of equity - i.e. not recognised as taxes in national accounts. This is in line with the treatment put forward in the Eurostat Manual on Government Deficit and Debt (see part II.1.2, paragraph 1) regarding taxes on profits made by National Central Banks on revaluation of foreign assets, and by public holding companies relating to privatisation.

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ANNEX

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CMFB Opinion on the treatment of non-returned banknotes and coins in national accounts in the context of the cash changeover

Eurostat consulted the CMFB on Friday 17 May 2002 on the above-mentioned subject. The deadline for returning the questionnaire was Friday 7 June 2002. Both the procedure and the content of the consultation were agreed by the CMFB Executive Body. All fifteen (15) national statistical institutes and fifteen (15) national central banks from the Member States returned the questionnaire. A total of thirty (30) national institutions, from all Member States, thus participated in the consultation. One institution from the EEA responded that it had no comments.

The result of the consultation was as follows:

- Twenty-six (26) national institutions agreed with the treatment proposed without reservations. Four (4) national institutions also agreed, but expressed some reservations. No national institution disagreed. All the comments have been transmitted to Eurostat.

Accordingly, the CMFB agrees with the treatment in the national accounts of non-returned banknotes and coins in the context of the cash changeover as proposed by Eurostat.

In addition to this opinion, the following has been transmitted to Eurostat and will be kept in the records of the secretariat of the CMFB: a document putting together the answers of all the institutions; a summary of the replies; and the original replies of the institutions.