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EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality  
**Unit D-3: Excessive deficit procedure (EDP) 2**

Luxembourg, 24 September 2014

## **FINAL FINDINGS**

### **EDP dialogue visit to Germany**

**26-27 February 2014**

## Executive summary

Eurostat undertook an EDP dialogue visit in Germany on 26-27 February 2014. The purpose of the EDP dialogue visit was to review the compliance of the German EDP and Government Finance Statistics (GFS) data with the accounting rules of the European System of Accounts 1995 (ESA 95) and with the existing guidance set out in the ESA95 Manual on Government Deficit and Debt (MGDD).

During the meeting, the information provided by the German statistical authorities following the upstream dialogue visits of June and October 2013 was also discussed. Eurostat took note that comments on the draft report on the upstream dialogue visits would be provided by the German statistical authorities in due course, and underlined the importance of a timely follow-up of all actions agreed during the visits.

Concerning institutional arrangements, Eurostat noted that discussions on formalisation of the co-operation between key institutions involved in the process of gathering and compilation of EDP data had been initiated. It was pointed out that specific GFS issues should be given priority where collaboration between institutions covered various statistical fields and practical arrangements should be sought where, owing to legal obstacles, a formal agreement could not be signed.

Eurostat also reviewed with the German statistical authorities the progress achieved and underway with regard to sources in place for compilation of EDP data. Eurostat welcomed recent developments in this context and expressed its full support for any further changes envisaged with a view to enhancing the quality of the sources. In particular, Eurostat underlined that, wherever possible, integrated statistical information should be secured for EDP data compilation.

It was noted that the current revision policy for the compilation of non-financial government data does not assure the timely integration of newly available data sources. It was recalled that overall, based on the past experience, it would not be expected that the update of relevant sources would largely affect the EDP deficit estimation. Notwithstanding, Eurostat found it necessary that the Federal Statistical Office should review its data compilation procedure to safeguard early implementation of the new information from data sources' update. Moreover, Eurostat requested that the Federal Statistical Office analyse possible impacts on EDP data and revisit its revision schedule with regard to the harmonised EU-wide revision policy for national accounts, balance of payments and international investment position statistics (BOP/IIP) data<sup>1</sup>.

In addition, specific issues relating to the EDP reporting were addressed in the discussions, including the availability of working balance data and of data on government liabilities arising from trade credits and advances, and the reporting of statistical discrepancies. Eurostat explained that the templates and guidelines for reporting of data in the supplementary tables for the financial crisis, and the issue of adaptation of the EDP inventory to ESA 2010, were to be included on the agenda of the June 2014 FAWG meeting.

Furthermore, the following methodological questions were discussed during the meeting: the soundness of the procedure used for the delineation of the general government sector in Ger-

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<sup>1</sup> According to Destatis for national accounts the revision policy is fully compliant with the recommendation by the CMFB and the ESA-2010 regulation.

man national accounts and the accrual recording of interest and of taxes and social contributions. As a result, the German statistical authorities should review the length of time series subject to revisions due to sector reclassifications, amend its approach to the recording of interest relating to premiums and discounts, and examine the time of the recording of the VAT refunds.

The treatment of specific transactions between government and financial institutions, and between government and public quasi-corporations, the cash pooling system and discrepancies between cash figures and budgetary reporting of the federal government and possible statistical implications of the recent institutional restructuring of the pension scheme for the employees of the postal successor companies were also reviewed. In this context, Eurostat took note that the impacts on government debt arising from the federal government's cash pooling arrangements and conventions for attribution of transactions between reporting periods necessitated further examination. It was also noted that changes to the institutional arrangements relating to the pension scheme for employees of the postal successor companies had no statistical implications and that government transactions recorded in connection with the functioning of the scheme would be correctly reflected in the April 2014 EDP notification of the deficit and debt data.

The methodological discussion closed with enquiries about impacts of the ESA2010 revisions on the compilation of the EDP data. Eurostat took note of the implementation of the new rules on the sector classification procedure and on standardised guarantees in the German national accounts and that for several related issues methodological discussions were on-going at the European level. Moreover, Eurostat acknowledged the importance of a timely adoption of the Commission regulation updating Council Regulation 479/2009 in the context of the introduction of ESA 2010<sup>2</sup>.

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<sup>2</sup> Commission Regulation (EU) No 220/2014 amending Council Regulation (EC) No 479/2009 as regards references to the European system of national and regional accounts in the European Union was adopted on 7 March 2014 (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2014:069:0101:0101:EN:PDF>).

## **Final findings**

### **Introduction**

In accordance with article 11(1) of Council Regulation (EC) No 479/2009 (as amended by Council Regulation (EC) No 679/2010) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Germany on 26-27 February 2014.

The delegation of Eurostat was headed by Mr John Verrinder, Head of Eurostat Unit D-3 'Excessive Deficit Procedure (EDP) 2'. The European Central Bank (ECB) also participated in the meeting as an observer. The German authorities were represented by the National Statistical Institute (Destatis), the National Central Bank (Bundesbank), and the Federal Ministry of Finance (MoF).

The purpose of the EDP dialogue visit was to review the compliance of the German EDP and Government Finance Statistics (GFS) data with the accounting rules of the European System of Accounts 1995 (ESA 95) and with the existing guidance set out in the ESA95 Manual on Government Deficit and Debt (MGDD). During the meeting, the information provided by the German statistical authorities following the upstream dialogue visits of June and October 2013 and the state of completion of the follow-up actions agreed at the visits were also discussed.

Moreover, Eurostat reviewed with the German statistical authorities the progress achieved and underway with regard to sources in place for compilation of EDP data, and the revision policy for the data. Specific issues relating to the EDP reporting were also addressed, including the availability of working balance data and of data on government liabilities arising from trade credits and advances, and the reporting of statistical discrepancies.

In addition, the following methodological questions were discussed during the meeting: the soundness of the procedure used for the delineation of the general government sector in German national accounts and the accrual recording of interest and of social contributions. Furthermore, the treatment of specific transactions between government and financial institutions, and between government and public quasi-corporations, the cash pooling system of federal government and possible statistical implications of the recent institutional restructuring of the pension scheme for the employees of the postal successor companies were reviewed. The methodological discussion closed with enquiries about impacts of the ESA2010 revisions on the compilation of the EDP data.

With regard to procedural arrangements, Eurostat indicated that, in accordance with article 13 of Council Regulation No 479/2009, within days the Main conclusions and action points would be sent to the German authorities, for their comments. Subsequently, the Provisional findings would be sent to the German authorities in draft form for their review. After amendments, the Final findings would be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat very much appreciated the openness and transparency demonstrated by the German authorities during the meeting and the documentation provided prior to the dialogue visit.

## 1. Review of institutional arrangements, EDP data sources and procedures

### 1.1. Existing institutional arrangements

#### *Introduction*

Responsibilities of entities involved in the process of gathering, processing, compiling and reporting EDP data, their legal mandate, formalisation and practical aspects of their collaboration were presented and discussed in detail during the EDP upstream dialogue visits (UDV). The institutional arrangements and communication between data providers and compilers have also been elaborated in the new version of the EDP inventory for Germany.

Under this agenda point, Eurostat requested an update on relevant developments with regard to institutional responsibilities.

#### *Discussion*

The German statistical authorities confirmed that institutional responsibilities for GFS and EDP data collection, processing and compilation remained unchanged. Some progress was noted with respect to the EDP data reporting to Eurostat and formalisation of the collaboration between key stakeholders, in line with recommendations issued by Eurostat as an outcome of the EDP upstream dialogue visit.

Specifically with regard to formal inter-institutional agreements on EDP data collection and compilation, it was explained that discussions were under way on two memoranda of understanding: 1) between the Federal Statistical Office and the Federal Ministry of Finance and 2) between the Federal Statistical Office and the Bundesbank.

With respect to the former agreement, its legal implications were being investigated, in particular whether under the existing legal provisions, the Federal Ministry of Finance was entitled to enter a special agreement with the Federal Statistical Office and, if so, under what legal form.

The formalisation of co-operation with the Bundesbank was advancing, even though it was intended to sign beforehand a framework agreement, encompassing all statistical fields where the two institutions have co-operated to date. Subsequent to this, the arrangements in connection with the EDP data could be specified in a separate memorandum of understanding.

Eurostat took note of the explanations and encouraged a swift finalisation of the discussions, dealing with EDP data compilation as a matter of priority. It was also confirmed that the co-operation between the Federal Statistical Office and the Statistical Offices of the Länder did not have to be formalised under a memorandum of understanding since all relevant aspects were well covered under legal acts.

Subsequently, the Expert Working Group on the EU Stability Pact Data (*'Expertengruppe EU-Stabilitätspaktdaten'*) was mentioned. It was pointed out that the group discussed relevant operational matters, for example in connection with infrastructure and application of the procedure for classification of units, alongside related statistical issues. Members of the group represented all institutions involved in the EDP data compilation and reporting. Following the EDP upstream dialogue visits, the German statistical authorities had provided Eurostat with the final version of the mandate and rules of procedure of the working group.

It was confirmed that the same expert group covered statistical needs both at national and European level. In this context, Eurostat briefly clarified with the German statistical authorities responsibilities for compilation of statistics relevant to national fiscal rules and relations between the national and European statistical concepts used in this context.

### *Findings and conclusions*

Eurostat noted that discussions on formalisation of the co-operation between key institutions involved in the process of gathering and compilation of EDP data had been initiated.

Notably, in respect of the Memorandum of Understanding discussed between Destatis and the Bundesbank, Eurostat recommended that, considering the role of the latter institution in the compilation of the Maastricht debt data, specific GFS issues should be given priority and the formalisation process should not be delayed until a framework agreement, encompassing all relevant statistical fields, had been instituted.

Eurostat took note of the potential obstacles to a formalisation of the co-operation between Destatis and the Federal Ministry of Finance with regard to EDP data, and suggested that, before this might be put in place, the German statistical authorities should consider whether any practical arrangements could be introduced.

#### 1.2. Availability and use of data sources (review of major developments since the EDP dialogue visit of May 2011 and of upcoming changes)

##### *Introduction*

For the purpose of the compilation of EDP statistics, primarily data from public accounts of government entities gathered in a system of quarterly and annual surveys run by the public finance statistics section of the Federal Statistical Office is used. Reporting entities, periodicity of the surveys and variables reported are defined in the Finance and Personnel Statistics Act (FPStatG).

Government accounting and related statistical reporting issues were covered thoroughly in discussions of the upstream dialogue visits.

##### *Discussion*

During the meeting, Eurostat reviewed in detail with the German statistical authorities the changes observed since the prior EDP dialogue visit and the upcoming changes to data sources, enquiring about their implications for the quality of the EDP data. In the discussions, it was highlighted that, where possible, direct and integrated data sources should be secured.

Firstly, Eurostat took note of recent amendments to the budgetary functional classification and confirmed that the update of the classification had no impact on measurement of headline EDP indicators. Eurostat welcomed the involvement of the Federal Statistical Office in the process of the review of the classification. Eurostat also noted that an increasing number of municipalities in Germany were introducing an accrual accounting system for their public accounts. Eurostat recalled that prospects for the use of this information for statistical purposes were to be explored by the German statistical authorities as a follow-up to the upstream dialogue visits discussions (action point 17 of the UDV report).

Secondly, with regard to data reporting issues, it was confirmed that, following the 2011 benchmark revision of the German national accounts, for the entities re-integrated into the general government sector in terms of gross presentation of their revenue and expenditure, relevant information was secured through regular surveys.

Eurostat enquired about the discretion granted to the German statistical authorities under the Finance and Personnel Statistics Act (FPStatG) in determining variables contained in public finance statistics surveys. In connection with the implementation of Eurostat's decision of July 2012 on trade credits, new reporting categories were included in the annual debt survey, whilst

for other surveys the variables appeared to be defined by law. It was explained that for the annual debt survey more flexibility was assured with regard to included variables than for other GFS data collections.

Moreover, advancements in the data collection and prospects for further developments as a consequence of the amendments to the Finance and Personnel Statistics Act (FPStatG) were briefly mentioned. It was confirmed that coverage of quarterly surveys had been extended. In particular, special purpose entities (*Zweckverbände*) were obliged to report relevant data starting from the reporting year 2014. In addition, data on financial transactions should become available in 2015. It was also understood that data on government guarantees granted to public entities not classified within the general government sector would be gathered under the revised FPStatG. It was recalled that impacts of other relevant amendments of the law, i.e. compulsory reporting of information on participations of public entities, on the parameter of the public and general government sectors in Germany were to be analysed as a follow-up to the upstream dialogue visits discussions.

Finally, Eurostat addressed several issues relating to data sources for specific entities, including social security funds, R&D entities, statutory accident insurance scheme, and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). With regard to the statutory accident insurance scheme, the Federal Statistical Office agreed to examine whether the time lag before the preliminary data for relevant entities becomes available could be shortened. The discussion was closed by enquiries about quality of data from assets accounts of federal and state governments and availability of data on the so-called “5th quarter” (*Auslaufperiode*), i.e. the payments and corrections which occurred within a predefined period after the end of a calendar year, were, however, still recognised in public accounts for the year.

### *Findings and conclusions*

Eurostat welcomed recent developments in respect of data sources used for EDP reporting and expressed its full support for any further changes envisaged with a view to enhancing the quality of these sources. In particular, Eurostat underlined that, wherever possible, integrated statistical information should be secured for EDP data compilation.

The German statistical authorities will review whether the time lag before compulsory accident insurance scheme data for year (n-1) becomes available is necessary and will provide Eurostat with feedback by the end of May 2014 (**Action point 1**)<sup>3</sup>.

## 1.3. Bridge tables

### *Introduction*

A bridge table provides information on correspondence between public accounts items (e.g. budgetary classification) used as a data source for national accounts and ESA95 accounting categories.

The system of bridge tables used in the context of the GFS and EDP data compilation in Germany was reviewed in detail during the EDP upstream dialogue visit. As a follow-up to the discussions, a flowchart summarising the existing arrangements was requested.

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<sup>3</sup> Accomplished.

## *Discussion*

Owing to a variety of classifications used in accounting systems of government units in Germany, and, consequently, in their statistical reporting, a multi-tier system of bridge tables is maintained, ensuring a harmonised statistical treatment of equivalent operations (within and between state governments, and with entities with commercial accounting and social security funds).

Eurostat reviewed with the German statistical authorities the flowchart provided prior to the EDP dialogue visit. It was explained that the bridge tables between various accounting systems' classifications allow a consistent compilation of public finance statistics data. Most of the bridge tables are directly maintained in an internal database (FiPS) which is used for the production of the public finance statistics. In addition, the structure of the bridge tables allows the Federal Statistical Office to merge the data provided by different accounting systems and to produce public finance statistics data in a consistent way across all government levels. Whereas the standardisation of bridge tables is more stringent on the first level of classification it allows a larger degree of flexibility for more detailed breakdowns.

Alongside the EDP Inventory, the German statistical authorities provided Eurostat with two bridge tables used for compilation of government non-financial accounts: 1) for core budgets and 2) for extra-budgetary units with commercial accounting. Referring specifically to the consumption of fixed capital, Eurostat confirmed with the German statistical authorities that for some ESA transactions different data sources were used. Hence, these transactions were not included in bridge tables. Moreover, in this context, Eurostat enquired about relations between tax statistics and public finance statistics and took note of the clarifications provided.

## *Findings and conclusions*

Eurostat welcomed the additional explanations with regard to the system of bridge tables in place for the compilation of the GFS and EDP data.

### 1.4. Revision policy

#### *Introduction*

Pursuant to article 6 of Council Regulation 479/2009, Member States are required to inform Eurostat, as soon as it becomes available, of any major revision in their actual and planned government deficit and debt data already reported. All the major revisions should be also properly documented.

Consequently, revision policies in place in Member States for compilation of the EDP data are reviewed regularly in EDP dialogue visits. Moreover, all revisions to EDP deficit and debt figures are closely monitored by Eurostat in the course of the biannual EDP data assessment. In this context, the impact of the revisions, the length of revised time series and reasons for the revisions are followed up with Member States.

#### *Discussion*

Eurostat noted that the German statistical authorities followed two different revision schedules: 1) for deficit data and related non-financial transactions and 2) for debt data and government financial accounts. Whilst deficit data were revised only for the October EDP reporting and finalised for their eighth EDP notification, debt data were updated for both April and October notifications and finalised at an earlier stage.

In the opinion of the German statistical authorities, the different revision pattern did not impact on the level of statistical discrepancies. It was, however, agreed that the status of debt figures would be properly indicated in the EDP notification tables so that further monitoring would be possible in this respect.

Based on the information received in response to its request for information, Eurostat observed that, following its revision calendar, the German statistical authorities did not undertake the update of the EDP data as soon as the new information had become available, delaying the revisions for six months. This concerns the year 2011. In Eurostat's view, this practice could reduce the quality of the relevant EDP data reported in the April notification should the revisions arising from the new data sources be substantial.

The Federal Statistical Office recalled that its revision practice ensured a consistent approach for the compilation of the whole of non-financial national accounts. In this context, it was explained that the deadline for the availability of the data sources in question was not fixed. It was conditioned on the availability of relevant statistical returns and the work schedule for their processing.

Taking note of the clarifications, Eurostat underlined that should major revisions due to the data sources' early availability arise they should be integrated in the data production cycle in time for the April EDP reporting round. In the opinion of the Federal Statistical Office this recommendation was possible to implement only for cases where the revision would impact exclusively on distributional transactions and not on the GDP calculation. It also recalled that overall, based on the past experience, it would not be expected that the update of relevant sources would largely affect the EDP deficit estimation. Notwithstanding, Eurostat found it necessary that the Federal Statistical Office should review its data compilation procedure to safeguard early implementation of the new information from data sources' update. It was agreed that it would be undertaken based on final results of the public finance statistics survey for 2011.

In this context, attention was drawn to the harmonised policy for revisions of national accounts and BoP data, which was endorsed by the CMFB, which offered two time windows for implementation of revisions in a given year, at end-March and end-September, however without obliging Member States to make use of the time windows. This revision pattern would be in line with the EDP data biannual revision schedule, and the Federal Statistical Office acknowledged that its revision policy for national accounts compilation could be compared with regard to the approach of the CMFB. It was agreed that, following the meeting, the relevant document would be provided to the German statistical authorities.

In view of the upcoming revision in the context of ESA 2010 implementation, Eurostat enquired about a time frame for the finalisation of the data update process and release of the results, and about the communication policy envisaged by the German statistical authorities. It was explained that the regular data release calendar would be followed, with all updates integrated to the data compilation process over the summer 2014, and that major data users had already been alerted with regard to the potential upcoming data revisions due to conceptual changes.

Subsequent to this, the German statistical authorities expressed their concerns about the potential practical implications of a late amendment of relevant legislation governing the provision of the EDP data. In order to ensure the implementation of all relevant changes in time for the autumn data submission, the revised legal basis would have to be available at the latest in May 2014. Eurostat explained that the process of the update of the Council Regulation was well advanced and the adoption of the relevant Commission's Delegated Act was expected shortly after the EDP dialogue visit.

### *Findings and conclusions*

Eurostat suggested that the German statistical authorities should complete information on the status of Maastricht debt in the EDP tables (indicating whether the data are ‘*estimated*’, ‘*half-finalised*’ or ‘*final*’), separately from the equivalent indication of the deficit data status.

The German statistical authorities will review their current revision schedule for EDP data with respect to the March and September revisions windows envisaged in the EU harmonised revision policy for BoP/ IIP and national accounts, endorsed by the CMFB in July 2012 and due for implementation by September 2014, and inform Eurostat of any changes envisaged in this context. The feedback should be provided by the end of June 2014 (**Action point 2**)<sup>4</sup>.

Considering that final data for year (n-3) reported in the EDP tables becomes available close to the March notification deadline, Eurostat encourages Destatis to analyse the potential impacts of its inclusion in the EDP data compilation process for April EDP reporting, and to inform Eurostat of further steps envisaged in this context. Results of the analysis, based on the 2011 data, a description of related timing constraints and a proposal for a procedure to be followed in the future will be provided to Eurostat by the end of June 2014 (**Action point 6**)<sup>5</sup>.

Having explained the procedure for updating Council Regulation 479/2009 in the context of the introduction of ESA 2010, Eurostat acknowledged the importance of a timely adoption of the relevant Commission regulation.

## 1.5. EDP Inventory

### *Introduction*

Council Regulation (EC) No 479/2009, as amended, stipulates that Member States should provide Eurostat with an up-to-date detailed inventory of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts.

A new template for the EDP Inventory was prepared by Eurostat after consultation with Member States. The amendments were endorsed by the CMFB in July 2012, and the Member States were requested to complete the new template for the EDP Inventory by the end of December 2013.

### *Discussion*

Eurostat thanked the German statistical authorities for a timely completion and provision of the EDP Inventory in the new format. It was noted that Germany had included in the new Inventory descriptions relating to pension schemes, missing in the prior version of the metadata. It was also noted that descriptions in several sections of the Inventory were still to be complemented and aligned, and the German statistical authorities agreed to undertake the amendments alongside the update of their Inventory in connection with ESA 2010 implementation.

In this context, Eurostat explained that a review of the EDP inventory’s template with respect to the ESA 2010-related changes, and a proposal of the time frame for its update by the Member States, would be discussed at the June 2014 FAWG meeting

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<sup>4</sup> Accomplished.

<sup>5</sup> The completion of this follow-up action is in progress.

## *Findings and conclusions*

Eurostat appreciated the timely completion of the EDP Inventory in the new template by the German statistical authorities and took note of a pending review of relevant descriptions.

## **2. Follow-up of prior EDP visits**

### 2.1. EDP dialogue visit of May 2011

#### *Introduction*

As a follow-up of the EDP dialogue visit to Germany of May 2011, 11 actions were agreed, covering primarily the issues of the access to relevant data and quality of data sources and specific matters pertinent to data compilation and reporting. Two actions were to be completed by Eurostat.

#### *Discussion*

Eurostat thanked the German statistical authorities for a timely completion of follow-up actions agreed during the EDP dialogue visit in 2011. It was noted that at the end of January 2014, according to Eurostat's common monitoring tool, three actions were considered to be still 'in progress'. The outstanding issues were clarified and closed in the discussion under this agenda point or referred to other agenda points.

Firstly, it was confirmed that no further inter-institutional consultation was envisaged with regard to the reconciliation of BoP data used for the purpose of GFS data compilation with direct data source. In this context, Eurostat requested that the reporting of relevant adjustments in EDP table 3D is aligned with the reporting in EDP table 2B.

Secondly, Eurostat clarified that outstanding revisions of government accounts in respect of capital increases in multilateral development banks would remain without impact on government deficit, since they concerned exclusively a reclassification between different expenditure categories.

Moreover, it was recalled that the issue of the access to all relevant data granted under Article 16 of Council Regulation 479/2009, covered under the action point 1 from the EDP dialogue visit of May 2011 (which was considered to have been 'accomplished'), was re-discussed during the EDP upstream dialogue visits in 2013, and a follow-up action was decided.

#### *Findings and conclusions*

Eurostat took note that all follow-up actions from the EDP dialogue visit were accomplished, or would be followed up in connection with action points of the EDP upstream dialogue visit, or as follow-up actions to the on-going discussions.

For the next EDP notification (April 2014), the adjustments in EDP table 2B (in particular with regard to the use of the accrual BoP data, and other types of adjustments if relevant) will be properly reflected in the EDP table 3C, and in EDP questionnaire table 4 (**Action point 3**)<sup>6</sup>.

### 2.2. EDP upstream dialogue visit of June and October 2013

#### *Introduction*

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<sup>6</sup> Accomplished.

Eurostat undertook the EDP upstream dialogue visit (UDV) to Germany on 18-21 June 2013 and 22-25 October 2013. As a result of this visit, 17 follow-up actions were formulated in the report with main conclusions and action points ('the UDV report'). Since the review of the upstream issues relating to compilation of EDP data in Germany was extended over a period of a few months, follow-up actions were identified at various stages of the process and with various deadlines, part of them with a view to securing background information for the discussions of the EDP standard dialogue visit.

### *Discussion*

Eurostat noted that the final version of the report with main conclusions and recommendations from the EDP upstream dialogue visit was still under review by the German statistical authorities and comments were awaited in due course. Subsequently, several issues relating to the state of completion of specific follow-up actions were discussed.

With regard to the transfer of responsibilities for the EDP data reporting from the Federal Ministry of Finance to the Federal Statistical Office, it was recalled that an official notification form declaring the EDP reporting authority should be submitted so that Eurostat could update relevant records accordingly.

It was confirmed that three follow-up actions, referring to the mandate of the expert group on stability pact data (action point 5 of the UDV report), results of voluntary survey on EU flows (action point 11 of the UDV report) and principles of recording reserves, provisions and write-off and write-downs in the federal accounts (action point 15 of the UDV report), were deemed to have been accomplished. It was understood that the role of the Federal Statistical Office in the §49a HGrG Committee (action point 3 of the UDV report) and a position of the Statistical Offices of the Länder with regard to standard setting for classifications used at the local government level would be further clarified following consultations between relevant institutions.

Eurostat took also note that the procedure for gathering information requested under specific provisions of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States had been launched by the German statistical authorities. Notwithstanding, it would not be possible to meet the deadline set in the report. In this context, Eurostat explained that the Commission's timetable for the assessment of Member States' compliance with the Directive had to be followed and, thus, the deadline could not be amended.

### *Findings and conclusions*

Eurostat took note that comments on the draft report on the upstream dialogue visit in 2013 would be provided by the German statistical authorities in due course, and underlined the importance of a timely follow-up of all actions agreed during the visit.

The German statistical authorities will return a completed EDP reporting authority form to Eurostat by the end of March 2014 (**Action point 4**)<sup>7</sup>.

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<sup>7</sup> Accomplished.

### **3. Review of the 2013 EDP reporting and of related data compilation issues**

#### 3.1. EDP tables

##### 3.1.1. Working balance of EDP tables 2 – composition, related estimations and subsequent revisions

###### *Introduction*

In Germany, the fiscal outcome calculated based on the results of public finance statistics surveys is reported as the working balance in EDP tables 2A-D. Therefore, the availability, accounting basis and status of data in the working balance is determined by the coverage of quarterly and annual public finance statistics surveys, the data's collection, release and revision calendar.

Prior to the EDP dialogue visit, Eurostat requested a breakdown of the working balance data and information on their revision between April and October 2013 notification.

###### *Discussion*

The discussion under this agenda point concentrated on: 1) consequences of the usage of statistical aggregates for the purpose of the working balance reporting and 2) the late availability of the working balance data for state and local governments and for social security funds for the first (April) notification.

Firstly, it was explained that indeed data for some groups of entities, until actual results for the units were reported, were estimated in the public finance statistics, and subsequently needed to be revised.

In this context, it was underlined that revisions to the working balance data observed in the past had predominantly presentational character. Due to on-going changes to the coverage of public finance statistics surveys, reclassifications of the financial outcome of certain extra-budgetary units between the working balance and other relevant reporting categories were observed in EDP tables 2.

Secondly, Eurostat noted that even though the public finance statistics results for the past year were released alongside the April EDP data notification to Eurostat, the working balance figures in the EDP tables were not reported for sub-sectors: state and local governments and social security funds. The relevant entries were coded as 'not available'.

The Federal Statistical Office explained that the figures were not reported since they were not used for the calculation of the EDP deficit/ surplus for the given year. At the time of the EDP data compilation, the relevant data sources were not available and estimations for the fourth quarter of year n-1 had to be undertaken. With view of needs of the data users at the national level, public deficit figures were released in Germany together with sector accounts data, usually in the second half of February. Consistent information was submitted to Eurostat in the context of the April EDP data reporting. Consequently, the results were not updated with the newest data available.

The Federal Statistical Office stated that whilst it was possible to complete the missing entries in EDP tables 2 with the latest public finance statistics results, there was no intention to review and delay the cut-off date for compilation of the government non-financial accounts. The alternative approach for the reporting in EDP tables 2 could lead to some discrepancies owing to differences in data sources' vintage and would potentially increase the level of unexplained adjustments in EDP tables 2.

In this context, Eurostat decided that possible impacts from the integration of working balance data for reporting of data in EDP tables 2 had to be examined by Eurostat and discussed subsequently with the German statistical authorities.

#### *Findings and conclusions*

Following the April 2014 EDP notification, Eurostat will review the first results of public finance statistics for year (n-1), scheduled for release by Destatis at the end of March 2014. Subsequently, by the end of May 2014, Eurostat will initiate a discussion with Destatis on actual impacts and practical implications of possible integration of the results in EDP tables 2B-D, in the first notification of the working balance data for the year (n-1) (**Action point 5**)<sup>8</sup>.

### 3.1.2. Consolidation of non-financial flows (EDP table 2) and of financial flows and stocks (EDP table 3)

#### *Introduction*

As a follow-up to the EDP upstream dialogue visit, Eurostat requested a note on the data sources used for the consolidation of (non-financial and financial) flows and stocks of assets and liabilities (including contingent liabilities) within the general government sector and for each sub-sector.

#### *Discussion and conclusions*

Eurostat took note of the information contained in the note provided and welcomed the fact that, following the amendments to the Finance and Personnel Statistics Act (FPStatG), data on government guarantees granted to public units not classified within the general government sector would be collected in relevant public finance statistics surveys.

### 3.1.3. Unexplained other adjustments in EDP tables 2

#### *Introduction*

In EDP tables 2, the transition between the working balance and the deficit/ surplus should be explained in detail. For Germany, part of the difference between the working balance and the deficit is reported as 'others' under 'other adjustments' section. Since the amounts are non-negligible, the issue of the unexplained residuals was discussed extensively between Eurostat and the German statistical authorities in the past.

#### *Discussion*

Eurostat acknowledged the progress achieved by the German statistical authorities in respect of investigating the composition and level of the line 'others' of the 'other adjustments' section of EDP tables 2. In particular, it was noted that the level of the discrepancies in EDP table 2A (central government) decreased and remained relatively stable in recent notifications. For other government sub-sectors, advancements were observed as well; notwithstanding, in Eurostat's view, work on reconciliation of differences between working balances and deficits/ surpluses of state and local governments and of social security funds had to continue.

The Federal Statistical Office confirmed that the work on unexplained residuals for central government had been finalised; consequently, it was prepared to re-focus its attention on unexplained residuals reported for other government sub-sectors, starting with state government.

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<sup>8</sup> The completion of this follow-up action is in progress.

Eurostat requested that the German statistical authorities should inform it of progress achieved in respect of explaining the discrepancies in EDP table 2B as soon as possible.

#### *Findings and conclusions*

Eurostat welcomes the important work undertaken on reducing residual adjustments in the EDP table 2 for central government. Eurostat asks Destatis to address the issue of unexplained adjustments at the state government level, with the aim to identify and present by October 2015 the major components of the adjustments reported at present within the line ‘*others*’ in the EDP table 2B (**Action point 7**).

### 3.1.4. Statistical discrepancies in EDP tables 3

#### *Introduction*

Within its regular EDP data assessment process, Eurostat monitors the size and sign of statistical discrepancies arising from stock-flow reconciliation between the deficit data and the change in government debt. The German statistical authorities had undertaken considerable efforts to decrease the level of the discrepancies over recent years; further advancements in this regard are, however, constrained by the detail and quality of available data sources.

#### *Discussion*

It was recalled that the German statistical authorities followed a special convention for reporting statistical discrepancies in EDP tables and in financial accounts. Considering a lack of direct integrated data sources covering all government units and their relevant financial transactions, it had been decided to adjust value of transactions in other accounts receivable (F.7) in order to ensure consistency between the net lending/ net borrowing derived from financial accounts (B.9f) and the net lending/ net borrowing in the capital account (B.9). Notwithstanding, for the purpose of reporting in EDP notification tables, the category net acquisitions of ‘*other financial assets (F.1, F.6 and F.7)*’ includes only transactions observable in data sources. Consequently, the arising divergence is reported as ‘*other statistical discrepancies*’ in EDP tables 3.

Eurostat acknowledged the progress achieved by the German statistical authorities in clarifying the reasons behind the discrepancies and decreasing their size. The German statistical authorities pointed to recent amendments to the Finance and Personnel Statistics Act (FPStatG) and related prospects for improvement in the availability of data on financial transactions, which might support further progress in the work on explaining the discrepancies. During the discussion, it was underlined that in order to fully benefit from the new information, it would have to be ensured that the data were reported from integrated public accounts and under the approach securing consistency with information hitherto gathered in other surveys of public finance statistics (on non-financial transactions and financial flows and levels).

Subsequent to this, the German statistical authorities pointed to the reconciliation table between QFAGG and EDP data as a source of information on differences in the composition and valuation of the Maastricht debt relative to ESA conventions.

#### *Findings and conclusions*

Eurostat took note of the explanations provided by the German statistical authorities. It was also noted that further progress with regard to statistical discrepancies could be expected in the context of improved availability of data on financial transactions in the public finance statistics.

### 3.1.5. Trade credits

#### *Introduction*

In October 2013, the German statistical authorities reported for the first time data on government liabilities arising from trade credits and advances in the EDP notification table 4. Considerable efforts had also been devoted to investigation of occurrences of factoring without recourse in respect of trade credits received by government units in Germany and restructured trade credits, in order to implement Eurostat's decision of July 2012 on the statistical recording of some operations related to trade credits incurred by government units.

Prior to the EDP dialogue visit, a note was prepared by the German statistical authorities, presenting a state of play with regard to data sources in place for compilation of government liabilities arising from trade credits, and related quality issues.

#### *Discussion*

Eurostat acknowledged the progress achieved by the German statistical authorities with regard to availability of data on trade credits and compliance with the decision of Eurostat on the treatment of operations relating to trade credits.

Firstly, Eurostat took note that information on trade credits, and on their amounts subject to factoring without recourse and specific restructuring operations, was requested in regular surveys of public finance statistics. It was confirmed that the data was requested from all government units and that the reporting items covered also advances; however, with respect to the latter, the German statistical authorities committed to clarifying in detail the reporting convention.

Eurostat also noted that only part of reporting entities returned the survey in time ahead of the cut-off date for the compilation of figures for the April EDP reporting. Thus, Eurostat supported that estimates would be reported in the first data notification, with their status properly indicated in the EDP notification table 4.

Secondly, the impacts on the quality of data arising from accounting systems in place for government units were discussed. The note on trade credits pointed to considerable differences observed in data on trade credits reported by a Land with accrual accounting system and core budgets with cameralistic accounting. It was not clear whether the differences were due to differences in the accounting systems or they rather reflected different procurement policies. Notwithstanding, for most of core budget units at central and state government levels, with cameralistic, single-entry accounting systems, the information on trade credits could not be provided direct from their public accounts. Consequently, it was not possible for statisticians to properly evaluate zero-responses and non-responses to the survey and there were concerns about quality of estimates derived from data sources.

With a view to enhancing the quality of the data reporting, the German statistical authorities undertook various initiatives in order to explain to the reporting entities the scope and purpose of the requested information. For units with cameralistic accounting system, identification and quantification of 'bookkeeping trade credits', i.e. values of invoices recorded in the accounting system at the end of a period but not yet paid, was envisaged. In order to ensure that bookkeeping trade credits meaningfully approximated the level of actual trade credits as defined under ESA, the invoices would have to be booked in the system exactly at the time when they were received.

In this context, Eurostat enquired about results of the pilot survey on trade credits run by the federal government. It was explained that evaluation of returns to the survey was on-going.

Finally, Eurostat enquired about a possibility to use amounts recorded in the so-called “5<sup>th</sup> quarter” (*Auslaufperiode*) at the state government level as an auxiliary source for the information on trade credits received by the governments. It was confirmed that even though the timing differences between goods delivered and related payments should be captured in the records of “5<sup>th</sup> quarter”, the purpose of the reporting period extension was different and a scope of adjustments introduced in this *‘time window’* larger. Thus, the German statistical authorities did not perceive the records of the *Auslaufperiode* as a reliable source of information on trade credits.

#### *Findings and conclusions*

Eurostat requested that German statistical authorities reported government liabilities arising from trade credits and advances in the EDP table 4 for the year (n-1) in the April EDP notification. Considering that most of returns to the 2013 annual debt survey would not be available in time for the April 2014 notification, Eurostat took note that the data for 2013 would be estimated. In this context, Eurostat would work together with the German statistical authorities to ensure that the status of the data is properly indicated in the EDP tables (**Action point 8**)<sup>9</sup>.

Eurostat welcomed the on-going survey launched by the Federal Ministry of Finance to gather information on liabilities in the form of trade credits at the federal government level, and awaited feedback on its results by the end of April 2014 (**Action point 9**)<sup>10</sup>.

#### 3.1.6. Others

##### *Introduction*

Under this agenda point, three issues were discussed: 1) reconciliation of financial transactions reported in EDP tables 2 and 3, 2) reporting of adjustments to foreign currency debt at the state government level and 3) recording of credit equivalent transactions.

##### **- Reconciliation of financial transactions**

##### *Discussion and conclusions*

Prior to the EDP dialogue visit, the German statistical authorities provided Eurostat with a reconciliation between financial transactions reported in working balance of EDP tables 2 and transactions in financial assets reported in EDP tables 3. The reconciliation table depicted adjustments carried out at a sub-sector level in the context of compilation of government financial accounts.

Eurostat appreciated this supplementary information and underlined that it would support considerably analysis of data in EDP tables 3 during the EDP assessment period. The Bundesbank committed to provision of this table on a regular basis, within a few days of the EDP data notification.

##### **- Debt in foreign currency in EDP table 3C**

##### *Discussion and conclusions*

Eurostat noted that even though state governments reported debt in foreign currency the relevant line of EDP table 3C (*‘appreciation(+)/depreciation(-) of foreign-currency debt’*) comprised solely the adjustments carried out for Sealink Funding. The German statistical authorities explained that, by law, state governments were not allowed to incur currency risk; hence, it

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<sup>9</sup> Accomplished.

<sup>10</sup> The completion of this follow-up action is in progress.

was assumed that all transactions were duly hedged and accordingly valued in statistical reports so that no further adjustments were required in this context.

Eurostat took note of the explanations.

#### - **Credit equivalent transactions**

##### *Discussion and conclusions*

In the EDP Inventory it is mentioned that state governments incur liabilities in connection with purchases of land on which mortgages are secured (*'Hypotheken-, Grund- und Rentenschulden'*), outstanding purchase prices (*'Restlaufgelder'*) and financial leasing. These three types of transaction are considered as credit equivalent transactions (*'kreditähnliche Rechtsgeschäfte'*). Whilst the content and the treatment of financial leasing is defined under ESA, descriptions of two other transactions pointed to possible borderline cases with regard to their ESA classification and resultant impacts on Maastricht debt.

During the meeting, and with their note provided prior to the finalisation of main conclusions and action points from the visit, the German statistical authorities clarified features of the transactions and it was confirmed that the liabilities incurred in this form added to the value of Maastricht debt of Germany.

### 3.2. Questionnaire relating to EDP tables

#### *Introduction*

In the April 2014 EDP reporting, for the reference year 2013, data on accrual adjustments relating to social contributions was included. In the past, the EDP questionnaire table 5 reported zero for this entry for the first notification due to late availability of relevant source data.

#### *Discussion and conclusions*

Eurostat welcomed the advancement in the data provision and encouraged the Federal Statistical Office to continue to report the information on a regular basis

### 3.3. Supplementary tables for the financial crisis

#### *Introduction*

Germany reports the supplementary tables for the financial crisis on a regular basis, alongside the EDP notification tables and the EDP questionnaire. Apart from the data on relevant government interventions, the EDP net lending/ borrowing and relevant assets and debt of public financial defeasance structures classified to the general government are included in the amounts reported.

#### *Discussion*

The discussion under this agenda point focused on clarification of the reporting convention.

The Federal Statistical Office clarified that, in addition to capital transfers expenditure arising in connection with a transfer of impaired assets to financial defeasances structures, the amount of 'others' reported under government expenditure covered regular expenditure of the defeasance structures, notably intermediate consumption.

Subsequently, the German statistical authorities pointed to footnotes included in the reporting as a source of information on adjustments carried out with regard to valuation of assets transferred to defeasance structures. It was explained that government expenditure recognised in this context did not need to be financed by incurrence of new liabilities.

The German statistical authorities confirmed a shift in the structure of government liabilities between 2011 and 2012. It resulted from a decrease in deposits and loans of FMS Wertmanagement and a parallel increase in debt securities of Erste Abwicklungsanstalt (EAA) following the subsequent transfer of assets from West LB.

Eurostat acknowledged that the reporting of other types of assets and liabilities in the tables necessitated clarification.

### *Findings and conclusions*

Eurostat took note of the convention for the reporting of specific items in the supplementary tables for the financial crisis. It was explained that the reporting template for supplementary tables for financial crisis was under review and would be discussed at the following FAWG meeting (June 2014).

## **4. Methodological issues**

### 4.1. Sector delimitation

#### 4.1.1. Practical aspects of sector classification

#### *Introduction*

Under this agenda point, the Federal Statistical Office presented practical aspects of general government sector delimitation.

#### *Discussion*

It was explained that public finance statistics and national accounts shared the same definition of government sector, compliant with the relevant ESA guidance. Classification of a unit to general government determined the scope of its reporting obligations under the Finance and Personnel Statistics Act (FPStatG).

Considering the division of responsibilities within the Verbund and restrictions with regard to access to relevant information, the responsibility for classification of public entities at the local government level had been delegated to the Statistical Offices of the Länder. In order to ensure that the procedure was applied correctly and consistently by all statistical institutes, its detailed description had been included in the Guidelines on the administration of the population of reporting entities ('*BKM Leitfaden*') and consultation of the Federal Statistical Office on complex cases had been recommended.

It was confirmed that the procedure covered two tests: 1) for ancillary government units and 2) for market/non-market entities. The test for ancillary government units concerned the share of revenue from transactions with government relative to a unit's total revenues. The entities with the ratio over 80% were considered as non-market entities serving government, and, consequently, they were classified to the general government sector. Even though the test was not explicitly envisaged in the ESA95 guidance, it might be perceived as a practical approach for identification of ancillary units. The test appeared also to be compatible with ESA 2010 qualitative criteria for general government sector delimitation. Eurostat took note of large units classified to the general government sector based on this test.

Eurostat also confirmed that, for all publicly controlled units which are not considered as ancillary government units, the market/non-market test is carried out.

Eurostat requested information on the length of the time series for which the reclassification is undertaken. It was explained that the related revision concerned only data for one year. In the

opinion of the German statistical authorities, the non-market status of a unit could be confirmed only after the market test had not been satisfied for a third year in a row. In addition, data necessary for the reclassification of a unit for the whole period when the test's ratio was below 50% were not available for the past years.

Eurostat considered the practice not fully compliant with the relevant MGDD guidance and requested that the German statistical authorities should review the approach and find a practical solution for the estimation of relevant impacts on deficit and debt data for prior years.

### *Findings and conclusions*

Eurostat took note of the split of responsibilities for the general government sector delimitation and noted the practical aspects of the relevant procedure.

Eurostat recommended that the German statistical authorities should reclassify identified non-market units to the general government sector from the first year of their non-market status, taking note that the procedure might increase the explainable part of other adjustments in EDP tables 2. The German statistical authorities would provide feedback on the implementation of this approach in the process of EDP data compilation by the end of May 2014 (**Action point 10**)<sup>11</sup>.

#### 4.1.2. Questionnaire on government controlled entities

##### *Introduction*

Questionnaire on government controlled entities facilitates monitoring of the exhaustiveness of the register of public entities in Member States and of the proper application of the sector classification procedure. The data set is confidential and used exclusively internally by Eurostat and not shared with other institutions.

Completion of the questionnaire on government controlled entities in Germany is carried out by two institutions: the Federal Statistical Office (for all entities responding to public finance statistics surveys) and the Bundesbank (for public monetary financial institutions).

The Bundesbank provides the questionnaire on a regular basis. From the Federal Statistical Office, an anonymised version of the questionnaire was received in December 2012, whilst the return for 2013 was not available at the time of the meeting.

##### *Discussion*

The Federal Statistical Office explained that due to resources constraints it was not possible to provide the complete list according to the reporting deadline. Notwithstanding, the work on the data set was initiated and it was expected to be finalised within weeks after the EDP dialogue visit. Eurostat took note of these explanations.

The German statistical authorities committed also to confirm whether the same reporting convention is followed in both questionnaires, in particular with regard to liabilities.

Subsequent to discussions during the EDP upstream dialogue visit, Eurostat sought to confirm whether subsidiaries of public monetary financial institutions (MFIs), non-MFIs themselves, are properly captured in the system for the administration of the population of the reporting entities (BKM). Considering the delay in the provision of the questionnaire on government

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<sup>11</sup> Accomplished.

controlled entities by the Federal Statistical Office, Eurostat requested a list of this type of units prior to the EDP dialogue visit. The list could not be compiled by the Federal Statistical Office owing to problems with identification of relevant entities in its internal database. In order to comply with the request, the Bundesbank prepared a package with information on all relevant subsidiaries.

It was highlighted during the discussion that substantial resources were devoted to this task and provision of the information on a regular basis was not envisaged. Eurostat appreciated the efforts made and expected that the detailed information could be used for the purpose of verifying whether the entities were properly included in the BKM.

### *Findings and conclusions*

Eurostat took note that the work on the questionnaire on government controlled entities was initiated by the Federal Statistical Office and that the dataset was to be provided to Eurostat following the meeting.

#### 4.1.3. Sector classification of specific entities (including schools, public utility corporations, quasi-corporations)

##### *Introduction*

Prior to the EDP dialogue visit, Eurostat requested notes on sector classification of specific entities and updates of relevant questionnaires on hospitals and universities.

##### *Discussion*

#### **- Community Adult Education Centres (*Volkshochschulen*)**

Volkshochschulen in Germany, over 900 entities with 3000 regional outlets, offer a wide spectrum of educational and cultural services. Their legal forms and operation models vary.

In the German national accounts, all Volkshochschulen functioning as extra-budgetary units are deemed to have the autonomy of decision and as institutional units under public control are subject to 50%-test. It was explained that, based on the results, most of the entities are classified to the general government sector and only few Volkshochschulen were recognised as market producers at the end of 2013.

The revenue of Volkshochschulen (estimated at EUR 1 billion for 2012) comprises fees, subsidies and other receipts, in particular payments granted under Social Security Codes, grants from federal government, e.g. for integration of migrants, and EU funds (so called revenue from the third party/source). For the latter funds a unit usually competes with other public and/or private bodies, since they are granted following a tendering process. Therefore, for the purpose of 50% test the revenue is added to sales.

Taking note of the explanations, Eurostat underlined that distinction should be made between 1) a tender process used for the purpose of government procurement where government indeed seeks a service provision at a market price and 2) a competitive grant award procedure where government does not intend to purchase a service but secures the optimal allocation of its subsidies and grants. Only the funding received under the former procedure (indeed a payment for a service) could be considered as sales under ESA.

#### **- Universities**

Eurostat thanked the German authorities for the update of the questionnaire on sector classification of universities provided prior to the EDP dialogue visit. No changes to the status and

functioning of the entities and to their treatment in the German national accounts have been observed.

### **- Quasi-corporations**

There are over 3000 quasi-corporations in Germany. Most of them are tasked with water collection, treatment and supply (900 entities), sewerage (900), non-hazardous waste collection (130), hospital services (90). Since the government entities have a right to outsource some of its administrative activities, about 60 units with a related NACE attribution were included in the list provided.

The German quasi-corporations are not independent in legal terms (they function in the form of *Eigenbetriebe*, *Landesbetriebe* and *Bundesbetriebe*), but they perform market activities.

According to the note provided prior to the meeting, data from accounts of quasi-corporations are gathered in the survey on closed accounts of public units, and some elements of balance sheet data are collected.

It was confirmed with the German statistical authorities that 50%-test was carried out, on a regular basis and at a unit level, for the quasi-corporations.

### **- Municipal Special Purpose Association for Energy Thuringia (*KET-Thüringen*)**

In the note on major government transactions of 2013, the Federal Statistical Office described an entity established by municipalities of the Land Thuringia, *KET-Thüringen*, with a view to acquisition of majority of shares in *Thüringer Energy AG* from *E.ON*.

Based on the information in the note, Eurostat agreed with the conclusion of the German statistical authorities that the entity should be classified to the general government sector as a special purpose public holding acting on behalf of local government, and took note of the resulting impacts on government debt.

Moreover, Eurostat enquired whether this type of arrangement was commonly observed. The German statistical authorities recalled a similar case from the past and explained that the collective vehicles might be used for the purpose of optimisation of tax liabilities incurred as a result of certain operations, such as financial and capital transactions involving transfers of non-financial and financial assets to a large number of entities.

### *Findings and conclusions*

Eurostat took note that all *Volkshochschulen* and quasi-corporations are subject to 50%-test in the German national accounts which decides their sector classification. Eurostat agreed with conclusions of the German statistical authorities on the sector classification envisaged for *KET-Thüringen*.

#### 4.2. Time of recording

##### 4.2.1. Taxes and social contributions

### *Introduction*

Following the extension of the questionnaire on taxes and social contributions and discussions with data providers during the EDP upstream dialogue visit, Eurostat enquired about the recording of tax refunds, time of the recording of pension contributions and the occurrence of payable tax credits in Germany.

### *Discussion*

In their return of the questionnaire on taxes and social contributions of January 2014, the German statistical authorities indicated that sources for major types of taxes and social contributions included cash receipts net of refunds. Consequently, Eurostat requested explanation on materiality of the refunds and whether the assumption that refunds follow the same pattern as cash receipts was justified. It was agreed that, with regard to VAT, this issue necessitated a follow-up.

It was also recalled that one of the action points from the EDP upstream dialogue visit involved a detailed examination of the recording of the pension contributions and related refunds. With regard to the pension contributions, Eurostat requested clarification on the EDP Inventory's mention of 'planned contributions' data, used for the recording of the associated government revenue in national accounts. A relevant description from the German GNI Inventory was provided by the German statistical authorities and it was agreed that this issue would be examined in detail after the meeting.

The issue of the recording of tax credits was discussed on several occasions in the past. Whilst in the OECD's publication '*Revenue Statistics*' considerable amounts of non-wastable (payable) tax credits are reported for Germany, the Federal Statistical Office is of the opinion that payable tax credits do not exist in Germany. In this context, the Federal Statistical Office recalled to Eurostat the outcome of its analysis of the German family services equalisation scheme. Specifically, the Federal Statistical Office confirmed that there was no option for beneficiaries of the scheme to select in advance whether a tax concession or a tax benefit would be received, but tax administration decided the optimal approach in each case. In addition, the benefits paid under the scheme do not have a direct impact on the tax liability but on the taxable base.

### *Findings and conclusions*

Eurostat took note of the explanations provided.

Eurostat requested that Destatis should confirm by the end of March 2014 details of the delay for paying VAT refunds under the relevant administrative rules (**Action point 11**)<sup>12</sup>.

#### 4.2.2. Interest

##### *Introduction*

In German public accounts, for core budgets, solely data on interest paid (cash) is available. Hence, in order to apply the ESA accrual recording rule, the Federal Statistical Office undertakes adjustments to the cash figures, based on a model. Considering that the model is implemented at a macro level, i.e. for a total of interest paid in a given quarter, during prior EDP dialogue visits, Eurostat and the German statistical authorities discussed whether the model produced reliable data on interest payable and receivable. With a view to ascertaining quality of the estimates under the model, Eurostat requested an ad-hoc detailed calculation of accrued interest instrument-by-instrument.

##### *Discussion*

At the end of 2013, the Federal Statistical Office provided Eurostat with a note presenting comparison of data on interest payable by the federal government calculated under the existing

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<sup>12</sup> Accomplished.

model and under the instrument-by-instrument approach. The conclusions of the note and the way-forward were discussed during the meeting.

The calculation of interest payable was undertaken for main categories of financial instruments comprising federal government debt: treasury discount papers (*Unverzinsliche Schatzanweisungen* 'Bubills'), federal treasury notes (*Bundesschatzanweisungen* 'Schätze'), federal notes (*Bundesobligationen* 'Bobl's') and federal bonds (Bundesanleihen 'Bunds').

Following the exercise, the Federal Statistical Office was of the opinion that the existing model ensured acceptable quality of the data on interest payable on debt securities issued at par and with regular coupon payments. However, it was concluded that improvements would be necessary with regard to the recording of interest for debt securities issued at premiums or discounts. Moreover, problems with availability of data on early repurchases and redemption of debt securities as well as on secondary market operations, and with their potential conceptual integration into the model were highlighted in the discussion.

Eurostat took note of the results of the pilot calculation, and the shortcomings of the data and of the approach were discussed. It was considered that the existing approach to calculation of interest for debt securities issued at premiums and discounts needed to be changed and that a better access to detailed information on interest should be secured in the long run, if necessary following a review of institutional arrangements for calculation of interest. It was agreed that a new method for spreading premiums and discounts would be introduced before October 2014 EDP reporting round.

#### *Findings and conclusions*

Eurostat considered that premiums and discounts should be better reflected in the calculation of the accrued interest for the purpose of EDP statistics. Therefore, starting from October 2014, as a short-term solution, a model shall be instituted for spreading premiums and discounts adequately over the period of maturity of the respective instruments issued by the German federal government.

With a view to a structural resolution of the issue by the German statistical authorities, Eurostat will, by the end of May 2014, provide examples of other Member States' practices for the detailed recording of accrued interest, using data on individual debt instruments and/or transactions.

Subsequently, Destatis will initiate discussion with the relevant institutions (holding detailed data on interest) on the implementation of a detailed interest calculation based on instrument-by-instrument data. Eurostat understands that this might result in a transfer of responsibilities for the compilation of the accrued interest for federal government between Destatis and other institution(s), whilst underlining that Destatis should maintain a full overview of the method of calculation. Eurostat would like to receive a progress report by end-2014 (**Action point 12**)<sup>13</sup>.

Notwithstanding, Eurostat acknowledged that the existing interest model might still be needed for calculation of accrued interest of certain extra budgetary entities at federal level and for other government sub-sectors where detailed source data were not available.

#### 4.2.3. Revenue items other than compulsory levies and interest

It was agreed that the issue would be followed up bilaterally after the EDP dialogue visit.

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<sup>13</sup> The completion of this follow-up action is in progress.

#### 4.2.4. Gross capital formation (GCF)

##### *Introduction*

Eurostat enquired about data sources to capture gross capital formation in the German national accounts and relevant impacts on the time of its recording. Related action points from the EDP upstream dialogue visit were also followed up.

##### *Discussion*

It was recalled that government capital expenditure other than on construction was captured in national accounts based on public accounts information gathered in public finance statistics surveys (cash data including the “5th quarter’s” payments where relevant).

For the recording of gross fixed capital formation on an accrual basis, a number of data sources was used, notably results of a dedicated annual survey, VAT statistics and production and foreign trade statistics. The information was gathered for the whole of the general government; its attribution by sub-sector reflected a sub-sector’s share relative to the total cash government spending on investments. It was clarified that the survey on construction used for the national accounts’ compilation covered construction for all public institutions and included information on PPP projects.

Subsequently, the issue of alternative data sources for the recording of the work-in-progress in construction, discussed at the EDP upstream dialogue visit, was followed up. The German statistical authorities summarised their findings on use of accruals data from public accounts or any other project management systems to estimate work in progress in construction in a note provided prior to the meeting. In the Federal Statistical Office’ opinion, the particular system under review could exclusively provide supplementary information, serving as an input for a new model, and could not be used as a direct source. Moreover, several drawbacks were highlighted in connection with the examined approach and it was stated that the new model did not assure a better quality of the EDP data. In addition, the Federal Statistical Office found that the recording of ‘construction-in-progress’ in the accrual accounting system did not ensure the full compliance with the relevant ESA guidance. Eurostat took note of the explanations and considered this follow-up action to have been accomplished.

##### *Findings and conclusions*

Eurostat took note that alternative data sources did not ensure improvements to the quality of the GFC recorded in the German national accounts. Related follow-up action of the UDV was considered to have been accomplished.

#### 4.2.5. Expenditure items other than GCF and interest

It was agreed that the issue would be followed up bilaterally after the EDP dialogue visit.

#### 4.2.6. Financial transactions (advances, purchase and sale of securities)

It was agreed that the issue would be followed up bilaterally after the EDP dialogue visit.

### **5. Specific government transactions**

Eurostat thanked the German statistical authorities for provision of a list of major government operations impacting government deficit and debt which occurred in 2013 and were planned for 2014-2015.

## 5.1. Financial crisis interventions

### *Introduction*

Following the classification of public defeasance structures to the general government in 2010, the German statistical authorities devoted substantial efforts to ensure the adequate quality of relevant data sources and the correctness of the recording of associated transactions.

Eurostat reviews the reporting of relevant operations and clarifies revisions with the German statistical authorities on a regular basis. Prior to the EDP dialogue visit, an update of the 2011 note on financial crisis interventions and their impacts on deficit and debt data was requested.

### *Discussion*

Eurostat took note of the impacts on government deficit and debt arising from the recent transactions described in the documents prepared by the Federal Statistical Office and the Bundesbank. It was also noted that the recording of relevant transactions was carried out based on actual data.

The major outstanding issue for discussion was the sector classification of Portigon AG, a successor of the West LB, following the restructuring process of the Landesbank under the relevant state aid decision of 2011. In the German national accounts, the unit was considered as a monetary financial institution, and, as a result, it was classified outside the general government sector, to the sector of financial corporations (S.12).

Eurostat enquired about whether the entity retained its status as a financial intermediary and whether changes to its statistical classification were envisaged. The German statistical authorities confirmed that Portigon was still in the MFI list, held customer deposits and was profitable.

It was also acknowledged that government was a key purchaser of Portigon's services. In this context, Eurostat found it essential to review the procedure under which Portigon was awarded its contract to service Erste Abwicklungsanstalt. It was explained that this issue could be relevant to Portigon's sector classification under ESA 2010 guidance.

Before finalising the discussion under this agenda point, the redemption of government participation at Commerzbank AG and its treatment in government accounts were briefly mentioned.

### *Findings and conclusions*

By the end of March 2014, the German statistical authorities will provide Eurostat with information on what type of liabilities to customers Portigon recognises in its accounts and details of the procedure under which it was awarded service contracts by its major customers (**Action point 13**)<sup>14</sup>.

## 5.2. Government relations with public corporations (in particular capital injections, distributions and privatisation)

### 5.2.1. Non-financial public corporations

#### *Introduction*

Eurostat thanked the German statistical authorities for the list of capital injections and distributions provided prior to the EDP dialogue visit. It was recalled that the issue of the availability

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<sup>14</sup> The completion of this follow-up action is in progress.

of relevant information at state and local government level was followed up under an action point from the EDP dialogue visit, due by the end of 2014.

#### *Discussion*

Eurostat enquired about the completeness of the list of capital injections provided prior to the meeting. The amounts of capital injections to the Berlin Airport Schönefeld included in the list were very low and Eurostat asked for confirmation whether certain capital injections to the unit could be recorded as government expenditure rather than acquisitions of equity in public accounts.

#### *Findings and conclusions*

Destatis will confirm by the end of March 2014 whether any capital injections to the Berlin Airport Schönefeld occurred other than those listed in the dataset provided prior to the visit, and will explain the treatment of these transactions in the national accounts (**Action point 14**)<sup>15</sup>.

### 5.2.2. Quasi-corporations

#### *Introduction*

Under this agenda point it was discussed whether relations between the general government and quasi-corporations classified outside the general government sector were properly depicted in the German national accounts.

#### *Discussion*

According to the note prepared by the Federal Statistical Office, quasi-corporations are included in public accounts on a net basis. It was confirmed in the discussion that their financial outcome was also part of the working balance. The German statistical authorities explained that, as a result, the government deficit was overestimated. It was confirmed that neither public accounts data nor the data reported directly by quasi-corporations enabled the full reconciliation and representation of the relevant flows in the German national accounts.

#### *Findings and conclusions*

Eurostat took note of the problems with the proper recording of all relevant transactions between government and public quasi-corporations in Germany, owing to the lack of relevant detail in data sources, and of its impact on the measurement of government deficit.

### 5.2.3. Financial public corporations, including Landesbanks, state development banks, public saving banks

#### *Introduction*

Under this agenda point, two major issues were discussed: 1) statistical implications arising from modifications of the terms under which state participations in the equity of Landesbanks were held in view of implementation of the Basel 3 capital adequacy rules, 2) the recording of debt relief transactions granted by two state governments to municipalities via a financial intermediary. Relevant transactions and their envisaged treatment in the German national ac-

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<sup>15</sup> Accomplished.

counts were presented in detail in notes prepared by the German statistical authorities prior to the EDP dialogue visit.

### *Discussion*

Firstly, it was recalled that the issue of modification of terms under which the state governments of Hesse and of Thuringia participated in the equity of Helaba had been analysed as a follow-up action of the EDP upstream dialogue visit, whilst for other Landesbanks an additional enquiry was launched following the October 2013 EDP notification.

It was confirmed that, ahead of the conversion, state governments held their funds in Landesbanks as ‘silent participations’ which could be redeemed under certain conditions. In the German national accounts, the silent participations were recognised as ‘other equity’. Following the conversion, the participations had even stronger features of equity, e.g. they absorbed losses and yielded dividends. The German statistical authorities confirmed that most of the conversions had not required any distributions and re-injections of the cash. No deficit impacts arose from the transactions in the opinion of the Federal Statistical Office.

As a result of the conversion, state governments waived their claims on accumulated but not yet paid interest on silent participations. It was explained that the payment of the interest was contingent on the positive financial outcome of the Landesbanks in question. Therefore, they were not recognised as government revenue in national accounts. Consequently, the cancellation of the related claims remained without impacts on government deficit either.

Secondly, Eurostat raised the issue of the recording of debt relief programmes launched by the state governments of Lower Saxony and Hesse to the benefit of the states’ municipalities. Eurostat took note of the involvement of Landesbanks in the operations. Following the relevant MGDD guidance, the debt relief was to be recorded in the state government accounts as a debt assumption. Consequently, the deficit and debt of this sub-sector would be impacted for 2013. Since, in parallel, deficit and debt would decrease at the local government level (the counterparty benefiting from the operations), the transactions would be consolidated, and, as a result, would remain deficit- and debt-neutral, at the general government level.

### *Findings and conclusions*

Eurostat took note of the envisaged treatment in the German national accounts of conversions of silent participations of state governments in Landesbanks and of the debt relief programme for municipalities of the states of Lower Saxony and Hesse.

## 5.3. Treatment of guarantees and related transactions

### *Introduction*

The progress with regard to availability of data on government guarantees, the recording of related transactions and its compliance with relevant MGDD’s guidance was regularly reviewed in past EDP dialogue visits. Prior to the meeting, Eurostat requested a list of granted guarantees and available information on recent guarantee calls.

### *Discussion*

Eurostat thanked the German statistical authorities for the note and data on guarantees provided. The note indicated, and it was also mentioned in discussions under prior agenda points, that more detailed data on guarantees, enabling their consolidation within the general government, should be available starting from 2017.

Specifically, Eurostat enquired about the treatment of guarantees granted by government through Kreditanstalt für Wiederaufbau ('KfW') and the Landesbanks, which were referred to in the EDP Inventory for Germany. It was agreed that this issue necessitated a follow-up by the German statistical authorities after the meeting. At the time of the discussion, it could only be confirmed that fees were charged in respect of all guarantees.

In this context, the German statistical authorities requested from Eurostat practical guidance on when transactions of state development banks had to be re-routed. Eurostat shared its observations with regard to common features of the transactions in other Member States which were deemed to be conducted on behalf of government, and, consequently, were re-routed through government accounts.

### *Findings and conclusions*

The German statistical authorities will inform Eurostat by the end of March 2014 of the arrangements in place for KfW's housing guarantees (in respect of charging beneficiaries, major legislative or contractual provisions and the government's involvement) (**Action point 15**)<sup>16</sup>.

## 5.4. EU flows

### *Introduction*

The issue of the proper recording of corrections for the EU grants in the German government accounts, in the absence of direct sources to capture the flows, has been discussed between Eurostat and the German statistical authorities on a regular basis. Starting from October 2009, Germany applies a model to adjust government revenue for flows from the EU budget. As inputs, the model uses data provided by Eurostat (cross-checked with data from the existing national sources) and by Bundesbank (Balance of Payment).

Following a review of the model's results with Eurostat, amendments to the compilation process were introduced ahead of April and October 2012 EDP reporting rounds, and corrections under the model were extended to cover grants from the European Social Fund. In parallel, with a view to securing direct data sources to capture the EU flows in government accounts, a pilot survey was launched by the Federal Statistical Office. As one of the follow-up actions of the UDV, Eurostat requested more detailed information on the survey's response rate and the bodies involved in the management and distribution of the funds.

### *Discussion*

The description of the pilot survey and its results contained in the note provided in January 2014 was briefly discussed during the meeting. Eurostat welcomed the advancements with regard to the data sources, took note that the survey was conducted on a voluntary basis and of its respondents.

Subsequently, Eurostat enquired about a time frame for the integration of the survey's results into the EDP data compilation. It was explained that first estimations pointed to insignificant impacts arising from potential substitution of the adjustments under the existing approach with the adjustments based on the survey's returns. Quality of the results and an optimal solution for their integration in the data compilation process was, however, still being examined and the project had a medium-term horizon (to be completed within two or three years). At Eurostat's

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<sup>16</sup> Accomplished.

request, the Federal Statistical Office committed to provision of results of its test compilation at the beginning of 2015.

### *Findings and conclusions*

Eurostat welcomed the advancements with regard to the data sources on the EU flows.

The German statistical authorities will include direct information on government revenue and expenditure relating to the EU flows, gathered through a voluntary survey, in the model used for macro-adjustments to the EDP data. By April 2015, a note on the potential impacts resulting from the switch to direct data should be provided to Eurostat (**Action point 16**).

## 5.5. Financial derivatives

### *Introduction*

The availability of the information on financial derivatives relevant to the EDP data compilation, and related adjustments in EDP tables were discussed in prior EDP dialogue visits. With a view to assessing progress in the access to the relevant data, Eurostat requested a detailed list of transactions in financial derivatives, by instrument and by sub-sector. The request sought also information on the market value of transactions and occurrences of off-market swaps and swap restructuring. The latter was relevant to on-going discussions on the treatment of swap restructuring under EDP.

### *Discussion*

In response to its request, Eurostat received the data on financial derivatives available at the Federal Statistical Office and used in EDP data compilation. The requested detail at the state government level could not be provided in time for the EDP dialogue visit and questions on relevance of the information were raised.

Having explained its motivation behind the request in bilateral exchanges ahead of the EDP dialogue visit, and taking note of the state-of-play with regard to the data availability, Eurostat briefly recalled that since October 2011 the data on transactions in financial derivatives of the German financial defeasance units were included in the EDP reporting. It was also confirmed that no occurrences of off-market swaps were observed and that Germany complied with the guidance on treatment of flows relating to swaps cancellations based on a model. Moreover, it was stated that the alignment under ESA2010 between the ESA concept of the net lending /borrowing and the EDP deficit definition did not raise any practical issues with regard to its implementation in the data compilation process.

### *Findings and conclusions*

Eurostat took note of the explanations and of the data on financial derivatives available to the German statistical authorities.

## 5.6. Leases, licences and concessions (including PPPs, emission trading permits, TV and radio licence fees)

### *Introduction*

Under this agenda point, the discussion focused on the reform of 2013 of the system of financing the German public broadcasters. Very briefly the issues of concessions and of emission permits were also mentioned.

### *Discussion*

## **- TV and radio licence fees**

Prior to the visit, Eurostat requested a note describing the reform of the system of financing the German public broadcasters and its statistical implications. In the note provided, the Federal Statistical Office presented its methodological considerations pertinent to the case, and concluded that no change to the treatment of the payments and units involved was envisaged in the German national accounts.

Eurostat believed that the classification of the payment levied to finance public broadcasters in Germany (*'Rundfunkbeitrag'*), and, consequently, of the broadcasters themselves, should be revisited. Under the new arrangement, all households and business had to contribute to financing of public broadcasters, irrespective of whether they were in fact owners of a TV or radio receiver. Hence, Eurostat found that it would not be correct to continue to record the charges in national accounts as a payment for a service. Given the unrequited and compulsory nature of the payments their classification as taxes seemed to better reflect their economic nature. As a consequence, the payments would not be included in the calculation of sales for the market/nonmarket test when deciding the sector classification of the broadcasters and the classification of the entity collecting the payments could also be affected.

In this context, Eurostat took note of the view of the Federal Statistical Office that government did not control the broadcasters. Therefore, the broadcasters could not be considered as public sector units, and be classified to the general government sector. For this reason, the option of classification of the payments to finance the broadcasters as taxes was discounted by the Federal Statistical Office, given that, under ESA, taxes constituted a type of revenue pertinent to government entities. The Federal Statistical Office recalled that the level of the charges in Germany was fixed not by government but by an external, independent body and that the scheme operated entirely independently of government.

Eurostat stated that given that the types of charges could be imposed only under legislation, government could be deemed to levy taxes earmarked for financing the operation of the broadcasters. Similar arrangements were encountered in other Member States, and in such cases government revenue and related expenditure were imputed by national statistical institutes, following the option of re-routing according to the ESA guidance on rearranged transactions. The approach did not impact on EDP deficit and debt measurement; notwithstanding, in Eurostat's view, it ensured comparability of estimations of tax burden across the EU Member States.

The Federal Statistical Office explained that it was not clear whether the system would be retained in its existing form given the upcoming court cases challenging the obligation to pay the contribution. Moreover, in the opinion of the Federal Statistical Office, the transactions depicted in the national accounts should be recorded as they were perceived by parties to a transaction and should remain as close as possible to actual cash flows. In addition, in the view of the Federal Statistical Office, neither ESA95 nor ESA 2010 request an extensive use of the rearrangement of transactions. ESA 2010 paragraph 1.72 says that in principle transactions are recorded in the same way as they appear to the institutional units involved and only some transactions are rearranged, i.e. ESA is clear regarding the scale of carrying out the rearrangement of transactions. Finally, the Federal Statistical Office stated that the ESA guidance on re-routing was implemented in the German accounts only where some impacts on EDP deficit or debt arose from a given transaction.

## **- Other issues**

It was confirmed that no new concessions had been granted by government with regard to the infrastructure projects.

The reporting convention in the questionnaire on taxes and social contributions for the emission permits was clarified.

#### *Findings and conclusions*

No final conclusions were drawn with regard to the treatment of restructured system of financing the public broadcasters in Germany in the national accounts and Eurostat noted that the issue might necessitate a review at a later stage.

### 5.7. Intergovernmental transactions, Euro area financial stability programme, and their impacts on German deficit and debt data

#### *Introduction*

In the past notifications, considerable impacts of several intergovernmental transactions were noted. Moreover, in 2013, Eurostat discussed with the German statistical authorities the reporting convention of the transactions and liabilities conducted by the EFSF on behalf of Member States.

#### *Discussion*

It was confirmed that all outstanding issues in respect of the reporting in Eurostat's EFSF data set had been clarified.

With regard to intergovernmental loans granted by the German federal government through KfW, it was explained that direct information on transactions was provided by the development bank. Moreover, a necessity of adjusting data on interest arising from the refinancing operations was mentioned.

#### *Findings and conclusions*

Eurostat took note of the clarifications and explanations provided by the German authorities.

### 5.8. Cash pooling system of federal government and impacts of related transactions on Maastricht debt

#### *Introduction*

Following discussions at the EDP upstream dialogue visit and other exchanges in respect of data sources, Eurostat found it necessary to clarify with the German authorities whether the federal government might incur liabilities through accepting quasi-deposits from third parties, and whether statistical reporting correctly captured related flows and levels, and the transactions were properly classified under ESA.

In this context, a description of the cash pooling system used by the federal government, specifying its participants, their sector classification under ESA, amounts involved over the EDP reference period and treatment in national accounts was requested.

#### *Discussion*

Eurostat took note that, according to the information provided in the note, entities classified to other sectors than the general government participated in the liquidity-(cash) pooling system of the federal government. It was also noted that deposited amounts were subject to the market interest rate. This pointed to potential deficit and debt impacts in connection with the consolidation of related flows and, consequently, Eurostat requested that the issue should be scruti-

nised by the German statistical authorities and the correct recording of relevant transactions should be ensured.

Subsequent to this, Eurostat enquired about whether other cash pooling systems existed. It was explained that the German statistical authorities were aware of the ‘cash-concentration system’ for pooling liquidity reserves managed by the German Finance Agency (*Bundesrepublik Deutschland Finanzagentur GmbH*) and relevant transactions were duly consolidated in national accounts. The cash pooling system within the Federal Cash Office (*Bundeskasse*) still necessitated a detailed examination. It was, however, confirmed that the largest transactions relating to cash collaterals in connection with swaps had been recorded in government accounts in line with the relevant ESA guidance.

As regards the time frame for the investigation and possible revisions, it was agreed that, for items clearly identifiable, the correct recording of related assets, liabilities and interest would be ensured ahead of the April 2014 EDP reporting. A detailed analysis should be carried out thereafter, and its outcome would be taken into consideration during the compilation of the EDP data reported to Eurostat before October 2014.

#### *Findings and conclusions*

German statistical authorities will finalise their investigation into the use of the cash pooling arrangement of the federal government by non-government units, and its possible statistical implications, and will summarise their findings in a report sent to Eurostat by September 2014 (**Action point 17**).

### 5.9. Public service pension schemes and the scheme for employees of the postal successor companies

#### *Introduction*

The discussion under this agenda item focused on a restructuring of the scheme for employees of the postal successor companies, which occurred in 2013.

#### *Discussion*

As of 1 January 2013, responsibilities of the Bundes-Pensions-Service für Post und Telekommunikation e.V. (*BPS-PT*) for the administration of the scheme for employees of the postal successor companies were transferred to the Bundesanstalt für Post und Telekommunikation, based on the Act on Reorganisation of the Fund (*‘Gesetz zur Neuordnung der Postbeamtenversorgungskasse’*).

In 2005, Eurostat and the German statistical authorities agreed that the BPS-PT should be classified to the general government sector. From the documents provided prior to the EDP dialogue visit, it appeared that the new institution in charge of the scheme’s administration (the Bundesanstalt für Post und Telekommunikation) was classified to non-financial corporations sector (S.11). In this context, Eurostat confirmed with the German authorities that the institutional changes had not impacted on the economic substance of related transactions and their treatment in national accounts. It was also explained that no changes to data reporting were necessary since the sources for the recording of these operations in the statistics were secured independently of institutional arrangements.

#### *Findings and conclusions*

Eurostat took note that changes to the institutional arrangements relating to the pension scheme for employees of the postal successor companies had no statistical implications and that gov-

ernment transactions recorded in connection with the functioning of the scheme would be correctly reflected in the April 2014 EDP notification of the deficit and debt data.

#### 5.10. Government claims and related transactions (debt cancellation, write-offs and write-downs)

##### *Introduction*

Germany does not report levels of central government claims in the EDP questionnaire table 8.1. During the EDP upstream dialogue visit, it was explained that assets accounts of the federal government (*'Vermögensrechnung'*) are drawn up on a regular basis. As a follow-up to the discussions, Eurostat requested the information on the recording of provisions, write-downs and write-offs in federal accounts.

Under this agenda point, the issue of discrepancies between cash figures and budgetary reporting of federal government was also briefly addressed.

##### *Discussion*

#### **- Data on claims and related other economic flows in the federal assets accounts**

It was explained that the quality of the assets accounts needed further improvements and that changes in assets and liabilities derived from the accounts could at this stage not be reconciled with associated budgetary flows. It was confirmed, however, that the reports were subject to audit.

The note provided as a follow-up to the UDV action point, briefly described principles of valuation of assets in the federal government's accounts (*'Vermögensrechnung'*). It did not, however, include the data on write-offs and write-downs requested by Eurostat, explaining that revaluation impacts might only to some extent be derived through comparison of increases and reductions in the value of assets which cannot be explained by related cash flows.

In this context, it was recalled that treatment of certain transactions in the budget might change over time. As an example the recording of capital increases in multilateral development banks was presented. In Eurostat's understanding, such changes in classification could not be followed in the assets accounts.

#### **- Discrepancies between cash figures and budgetary reporting of federal government**

During the UDV discussions, Eurostat understood that, even though at the federal level the recording in public accounts did not allow for the *'Auslaufperiode'*, common for budgets of state governments, certain transactions of the following year, for at least a month, might still be recorded in the accounts of the preceding year. Thus, as a follow-up to the UDV, Eurostat requested that possible differences between the recording of revenue and expenditure in the federal budget and the cash accounting should be examined. The information prepared in this context by the Federal Ministry of Finance was provided alongside the documentation requested prior to the EDP standard dialogue visit.

The note referred to relevant legal provisions and practical arrangements of cash management and accounting system of the federal government, explaining that the data requested on the value of non-financial transactions (government revenue and expenditure) budgeted and paid in different years could not be provided. It was assumed that the amounts should not vary significantly from year to year. With the note, a table detailing balances of suspense accounts of the federal government at year-end over period 2009-2013 was sent. It was explained in the note

that the amounts were recorded as increases in liquid assets of government and concomitant incurrence of short-term liabilities of the same amount.

It was agreed during the meeting that this issue necessitated a more detailed examination, notably considering its potential impacts on statistical discrepancies. The follow-up was to be organised by a joint task force established by the Federal Ministry of Finance together with the Bundesbank.

#### *Findings and conclusions*

Eurostat took note that the data on claims and related other economic flows in Vermögensrechnung could not be fully reconciled with the reporting in other accounts of the federal government. It was concluded that the completeness and correctness of the reporting in EDP questionnaire table 8.1 might need a follow-up.

Eurostat took note that discrepancies between cash figures and budgetary reporting of the federal government would be further analysed by a dedicated task force of the Federal Ministry of Finance and the Bundesbank, and requested by the end of September 2014 a report summarising progress achieved (**Action point 18**)<sup>17</sup>.

### 5.11. Government obligations arising from environmental and nuclear energy policy developments

#### *Introduction*

Eurostat raised several issues with regard to environmental and nuclear energy policy developments in Germany which necessitated monitoring in respect of their statistical implications.

#### *Discussion and findings*

Eurostat took note that several court disputes and an arbitration procedure were launched by nuclear power plant operators against the German federal government, which needed to be monitored with regard to their statistical implications.

The German statistical authorities were not aware of any government obligations arising from the Federal Soil Protection Act with respect to ‘remediation of environmental legacy’ (*Sanierung ökologischer Altlasten*) which would impact on the reported EDP deficit and debt figures.

### 5.12. Others (e.g. securitisation, sale and lease back operations)

#### *Introduction*

According to the EDP Inventory, no formal procedure was in place to grant statisticians the systematic access to the information on securitisation and sale and lease back operations conducted by local government units.

#### *Discussion and conclusions*

The German statistical authorities were encouraged to reflect on how the existing data sources could be enhanced so that the information on sale and lease back operations carried out by municipalities was secured through a regular reporting.

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<sup>17</sup> Accomplished.

## 6. The changeover to ESA 2010 and resultant revisions to general government data

The changeover to ESA 2010 constitutes a major revision to the conceptual and accounting framework for the compilation of the national accounts and EDP data. Given the importance of the revisions, their potential impacts on EDP data and a need to ensure a homogenous interpretation of amended rules across the Member States, Eurostat launched a Task Force devoted to a systematic review of relevant changes to the existing (ESA95) guidance under ESA 2010, and its specification in the MGDD.

Under this agenda point, Eurostat invited the German statistical authorities to explain the state of preparedness of the German statistical system for the ESA 2010 changeover and the upcoming changes to relevant procedures and processes in place for EDP data compilation. Prior to the meeting, a list of entities which had been identified for reclassification under ESA 2010 was requested by Eurostat.

### 6.1. Sector delimitation (including hospitals, R&D institutions)

#### *Introduction*

Under this agenda point, the discussion focused on the changes introduced to the sector delimitation procedure in the German national accounts to properly reflect amendments arising from ESA 2010 implementation and a need for further adjustments to classification of units in this context.

#### *Discussion*

Firstly, the changes to the **general government sector delimitation** and their envisaged impacts on the data compilation process were reviewed. It was explained that all relevant changes, including the new concept of the market/non-market test allowing for net interest charges, were to be introduced during the summer revision to the German national accounts.

With regard to the new **qualitative criteria**, the German statistical authorities were of the opinion that the supplementary test for ancillary units, which was part of the general government sector classification procedure already under ESA95, ensured compliance with the new approach.

Eurostat recalled that the ESA 2010 criteria for the purchaser of the output of a public producer were far more complex, stipulating a need to examine not only whether government is a sole purchaser of a unit's output (the demand side) but also whether government has other suppliers of a given good or service and whether relevant contracts are awarded under a procedure ensuring competition between potential suppliers (the supply side).

In this context, Eurostat took note that the German statistical authorities faced a problem with practical implementation of the criteria. It was explained that it was particularly difficult to define relevant product and geographic market for the purpose of the analysis. Several examples were cited in the discussion. The German statistical authorities ensured, however, that all large contracts for government procurement were awarded following a tendering process.

A practical approach for the implementation of the **conceptual distinction between head offices and public holdings** was also discussed. The German statistical authorities shared their experience with specific cases identified for reclassification in this context. The conclusions of the Task Force on head offices, public holdings and special purpose entities were recalled and it was explained that the analysis should be carried out on a case-by-case basis.

The German statistical authorities decided to introduce a standard algorithm to support the decision-making process at the Statistical Offices of the Länder. Under the procedure, only a unit with at least 20 employees and covering its personnel costs in full with the sales revenue could be classified as a head office, i.e. to the same sector as its affiliates. In Eurostat's view, this was a very prudent approach, considering that the threshold for the number of employees discussed commonly in this context was considerably lower.

Eurostat enquired also about how the concept of **captive financial institutions** introduced by ESA 2010 was interpreted by the German statistical authorities and whether any reclassifications were intended for this reason. It was explained that certain assets and liabilities of Förderbanken were established in the context of managing dedicated resources of a sponsor. Notwithstanding, it was preferred to continue with the re-routing of relevant transactions and not to reclassify the whole entities. Eurostat pointed to on-going discussions on this issue at the MGDD Task Force.

Likewise, it was explained that special rules for the sector classification of **hospitals** were being elaborated at the MGDD Task Force and that certain Member States decided to classify public hospitals as government units, following the qualitative criteria of ESA 2010 for government sector delimitation. Eurostat took note that the German statistical authorities considered that public hospitals in Germany run their operation under market conditions and that there was no need to change the sector classification of these entities under ESA 2010.

Eurostat took note that in Germany additional aspects of **government control**, apart from the majority of voting rights and control of the management board, were taken into consideration already for the purpose of public sector delimitation under ESA95. In this context, a necessity to better specify the concept of control under contractual agreements was raised. Eurostat recalled that relevant issues were still being discussed by the MGDD Task Force.

### *Findings and conclusions*

Eurostat took note of the explanations provided by the German authorities.

## 6.2. Others

### *Introduction*

The discussion under this agenda point focused on the issue of standardised guarantees.

### *Discussion and conclusions*

With regard to standardised guarantees, it was confirmed that relevant adjustments to data compilation have been carried out; however, no significant impacts on EDP deficit data arose in this context. It was explained that largest impacts could be expected from application of the relevant guidance to student loans. At the time of the discussion, a possible re-routing of the student loans through government sector was under consideration by the German statistical authorities. Following the re-routing, the loans would be regarded as direct claims of government on students. Hence, there would be no need to record provisions under the standardised guarantees approach.

Moreover, it was confirmed that local governments and social security funds did not grant this type of guarantees.

## 7. Other issues

It was agreed that the following issues would be followed up bilaterally after the EDP dialogue visit.

7.1. Implementation of the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

7.2.GFS data

7.3.Others

## **Annex 1. List of participants**

### **Federal Statistical Office**

#### **National accounts**

- Irmtraud Beuerlein
- Albert Braakmann
- Thomas Forster
- Marion Kuschel
- Pascal Schmidt

#### **Public finance statistics**

- Melanie Leidel
- Patrizia Mödinger
- Sigrid Nicodemus
- Oliver Niebur
- Christine Rückner
- Olaf Seese

### **Deutsche Bundesbank**

- Ulrich Burgdorf
- Thomas Bohm

### **Federal Ministry of Finance**

- Robert Plachta

### **European Commission**

#### **Directorate General - Eurostat**

- John Verrinder
- Denis Besnard
- Juraj Hustava
- Monika Wozowczyk

### **European Central Bank**

- Patrick Grussenmeyer

## **Annex 2. Agenda for the meeting (*the version of 22 January 2014*)**

### **EDP Dialogue Visit to Germany**

*Starting on 26 February 2014, 9:00*

#### **1. Review of institutional arrangements, EDP data sources and procedures**

- 1.1. Existing institutional arrangements
- 1.2. Availability and use of data sources (review of major developments since the EDP dialogue visit of May 2011 and of upcoming changes)
- 1.3. Bridge tables
- 1.4. Revision policy
- 1.5. EDP Inventory

#### **2. Follow-up of prior EDP visits**

- 2.1. EDP dialogue visit of May 2011
- 2.2. EDP upstream dialogue visit of June and October 2013

#### **3. Review of the 2013 EDP reporting and of related data compilation issues**

- 3.1. EDP tables
  - 3.1.1. Working balance of EDP tables 2 – composition, related estimations and subsequent revisions
  - 3.1.2. Consolidation of non-financial flows (EDP table 2) and of financial flows and stocks (EDP table 3)
  - 3.1.3. Unexplained other adjustments in EDP tables 2
  - 3.1.4. Statistical discrepancies in EDP tables 3
  - 3.1.5. Trade credits
- 3.2. Questionnaire relating to EDP tables
- 3.3. Supplementary tables for the financial crisis

#### **4. Methodological issues**

- 4.1. Sector delimitation
  - 4.1.1. Practical aspects of sector classification
  - 4.1.2. Questionnaire on government controlled entities
  - 4.1.3. Sector classification of specific entities (including schools, public utility corporations, quasi-corporations)
- 4.2. Time of recording
  - 4.2.1. Taxes and social contributions
  - 4.2.2. Interest
  - 4.2.3. Revenue items other than compulsory levies and interest
  - 4.2.4. Gross capital formation (GCF)
  - 4.2.5. Expenditure items other than GCF and interest
  - 4.2.6. Financial transactions (advances, purchase and sale of securities)

## **5. Specific government transactions**

### 5.1. Financial crisis interventions

5.1.1. Estimation procedure used for EDP purpose in absence of timely data sources (if still relevant) for financial crisis interventions

### 5.2. Government relations with public corporations (in particular capital injections, distributions and privatisation)

5.2.1. Non-financial public corporations

5.2.2. Quasi-corporations

5.2.3. Financial public corporations, including Landesbanks, state development banks, public saving banks

### 5.3. Treatment of guarantees and related transactions

### 5.4. EU flows

### 5.5. Financial derivatives

5.6. Leases, licences and concessions (including PPPs, emission trading permits, TV and radio licence fees)

5.7. Intergovernmental transactions, Euro area financial stability programme, and their impacts on German deficit and debt data

5.8. Cash pooling system of federal government and impacts of related transactions on Maastricht debt

5.9. Public service pension schemes and the scheme for employees of the postal successor companies

5.10. Government claims and related transactions (debt cancellation, write-offs and write-downs)

5.11. Government obligations arising from environmental and nuclear energy policy developments

5.12. Others (e.g. securitisation, sale and lease back operations)

## **6. The changeover to ESA 2010 and resultant revisions to general government data**

6.1. Sector delimitation (including hospitals, R&D institutions)

6.2. Others

## **7. Other issues**

7.1. Implementation of the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

7.2. GFS data

7.3. Others