



EUROPEAN COMMISSION
EUROSTAT

Directorate C: National and European Accounts
Unit C-3: Public finance



Luxembourg, 10 September 2009

– FINAL FINDINGS –

EDP dialogue visit to Germany

7 May 2009

Executive summary

The EDP dialogue visit to Germany took place on 7 May 2009 with the aim to assess existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to review the progress achieved in implementing ESA 95 methodology (sectorisation of units, accrual principles), to assure that provisions from the ESA95 Manual on Debt and Deficit and recent Eurostat decisions are duly implemented and that specific government transactions are properly recorded in the EDP tables, and, finally, to examine the compliance with the ESA95 transmissions programme and the consistency of these data with EDP statistics (as requested by the Regulation (EC) 479/2009).

First, the German authorities expressed their strong opinion that Eurostat should quickly publish a decision on the recording implications of the financial turmoil, and enquired why such a decision has not yet been published. The German authorities underlined the importance of the application of common rules to all Member States and would welcome a Eurostat decision as early as possible, however at the latest by the end of June 2009. Eurostat also noted the current German government operations in the context of the financial turmoil.

Afterwards, Eurostat discussed with the German authorities the institutional arrangements and source data used for the compilation of government finance statistics. Eurostat took note of these and encouraged ongoing cooperation between the statistical authorities. Concerning the financial accounts, Eurostat thanked the German authorities for their ongoing efforts in improving, and encouraged the further improvement of data sources.

As far as the analysis of the April 2009 EDP notification is concerned, the German authorities explained their intention to split the "Other adjustments" line systematically for Central Government from 2010 and they undertook to investigate the possibility of completing EDP tables with ESA based figures for year n-1 in the next EDP notification and report back to Eurostat. They also agreed to investigate the amounts reported under "Changes in sector classification" in EDP table 3D for 2007 and 2008 if this was due to many individual reclassifications of units or to a systematic reclassification of certain types of units, and to report to Eurostat by the next EDP notification.

Concerning the recording of quasi-corporations at local level, the German authorities explained that if a quasi-corporation makes a loss, the amount transferred to cover this loss must be posted as subsidy / transfer in government bookkeeping and is clearly identified in the cash-based public finance statistics. Therefore the losses of quasi-corporations are reflected in increased government expenditure. Eurostat took note of this explanation.

Concerning the EU flows adjustment, the German authorities undertook to make the necessary corrections for the October 2009 EDP notification based on Commission data provided to them by Eurostat.

Concerning the recording of Public Private Partnerships, Eurostat found this to be suitably prudent and encouraged an ongoing analysis of new models of PPPs as they are developed. Eurostat furthermore took note of the recording of guarantees, debt assumptions, debt cancellations, debt write-offs and encouraged the German authorities to provide more information in the EDP related questionnaire if possible.

Final findings

Introduction

In accordance with article 11 of Council Regulation (EC) No 479/2009 of 25 May 2009, on the application of the Protocol on the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in Germany on 7 May 2009.

Eurostat was represented by Mr. Luca Ascoli, head of unit C.3, Mr. John Verrinder, unit C.3 and Ms Ágota Krénusz, unit C.3. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers.

Representatives of Destatis (Statistisches Bundesamt - Federal Statistical Office), the Federal Ministry of Finance and the Central Bank (Bundesbank) were present.

Eurostat carried out this EDP dialogue visit with the aim to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to clarify the issues relating to EDP tables raised in the context of previous notifications, to review the progress achieved in implementing ESA 1995 methodology (sectorisation of units, accrual principle), to assure that the provisions from the ESA 1995 Manual on Government Debt and Deficit and recent Eurostat decisions are duly implemented, and that specific government transactions are properly recorded in the German EDP tables and national accounts.

Eurostat explained the procedural arrangements, in accordance with article 11 of Regulation 479/2009, indicating that the *Main conclusions and action points* would be sent within days to the German statistical authorities, who may provide comments. Within weeks, the *Provisional findings* would be sent to the German statistical authorities for their review. After adjustments, *Final Findings* will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

The meeting was constructive and Eurostat appreciated the explanations provided by the German authorities. Eurostat thanked the German authorities for the documentation provided before the dialogue visit.

1. Review of institutional issues

1.1. Institutional responsibilities for the reporting of data under the ESA95, EDP and other government statistics

Introduction

Eurostat enquired about the institutional arrangements and division of the responsibilities in the framework of the reporting of data under the EDP and government finance statistics.

Discussion and methodological analysis

The German authorities confirmed that ESA tables are reported by the National Statistical Institute (Destatis) (non-financial data) and the Central Bank (CB) (financial data). It was also explained that EDP table 1 (deficit figures) and tables 2 are compiled by Destatis, EDP table 1 (debt figures) and tables 3 by the Central Bank, while MoF provide forecasts and EDP table 4 is a joint exercise between Destatis/CB/MoF.

Eurostat also enquired about the cooperation of statistical authorities. The German authorities explained that their cooperation is not established formally, however the statistical authorities work together actively and maintain regular contacts, in order to ensure consistency between the financial and non-financial accounts.

Findings and conclusions

Eurostat took note of these arrangements and encouraged ongoing cooperation between the statistical authorities.

1.2. Source data characteristics and revision policy

1.2.1. EDP inventory, latest developments in data sources for state and local governments

Introduction

Eurostat enquired about the update of the EDP inventory, and the latest developments on data sources for state and local governments.

Discussion and methodological analysis

Eurostat enquired about the update of the EDP inventory, as the latest version dates back to 2007. The German authorities explained that there have been no changes in the sources and methods for the compilation of EDP data since then, therefore there is no need for an update of the current inventory. The German authorities also explained that they will update the EDP inventory when a new format is developed by Eurostat.

Concerning the data sources for state and local governments, Eurostat explained that it understood the current legal constraints on Destatis, but wanted to know if there were any further developments concerning this issue.

The German authorities confirmed that there is no legal possibility for the federal level authorities to have access to data on individual transactions at state or local level, but the quality and reliability of data supplied by the state level statistical offices is thought to be high. Furthermore, there is contact with the statisticians of the state level statistical offices, with representatives of the state governments, as well as direct informal contact with representatives of local government which assures identifying the reasons behind unusual movements in data.

Findings and conclusions

The German authorities undertook to update the EDP inventory (*Action point 1*) when a new structure of the EDP inventory is developed for all countries. Eurostat took note of the current situation concerning data sources for state and local government.

1.2.2. Financial accounts

Introduction

Eurostat thanked the German authorities for their ongoing efforts in improving financial accounts for general government, and enquired about recent progress.

Discussion and methodological analysis

The German authorities explained that they have compiled quarterly stock data for all government sub-sectors following the QFAGG regulation. The German authorities explained their ongoing efforts to achieve further improvements in data sources, especially for other accounts payable, following the planned amendments in the collection of (annual) data on government liabilities from 2010 onwards. The German authorities also explained the adjustments currently undertaken to compile data on government other accounts receivable/payable in financial accounts.

Findings and conclusions

Eurostat took note of these explanations and encouraged the further improvement of data sources.

2. Actual data – EDP reporting

2.1. Examination of the EDP tables: April 2009 notification

Introduction

Concerning the EDP tables, several issues were discussed.

Discussion and methodological analysis

The sale of carbon trading rights in 2008 had been recorded in the cash-based public finance statistics as a sale of equity. In the national accounts for 2008 such revenues have been Other taxes on production, and have been included in the EDP Table 2A row "Other adjustments". The German authorities explained that the treatment in national accounts is in principle in line with what they believe to be the majority view of national accountants, and that this recording will be retained unchanged, unless that the OECD/Eurostat international Task Force on emission permits would recommend another recording treatment. In the cash-based public finance statistics the recording of emission permits will be changed as of the year 2009.

Concerning the "Other adjustments" lines in EDP Tables 2, Eurostat welcomed the additional splits entered for some major items, and the explanation provided during the EDP clarification process of the main elements for Central Government. The German authorities explained that the remaining other adjustment lines are very difficult to split, because while the Working Balance and the B.9 (Net borrowing/Net lending) are known (the latter through a detailed and cross-classified database), the transition from the Working Balance to the B.9 is estimated only for EDP Tables 2. They added that they would continue to report large adjustments separately, either in the EDP tables or in the clarification process. Eurostat took note that the adjustment in 2008 included a major element relating to a court judgement on repayment of commuters' taxes and this would be revised in the next EDP notification, as new information (replacing the first estimate by details on the repayments made by the tax authorities) was available. The German authorities explained their intention to split the "Other adjustments" line systematically for Central Government from 2010 (*Action point 3*).

Concerning EDP tables 2B and 2C (state and local government), Eurostat emphasized the need for the reporting of data (Working Balance and transition items) relating to year n-1 in the April notification of year n. The German authorities explained that the working balances for these tables are on a modified cash basis (including the effects of some transactions in the following year), and therefore these are not available early in the year n for the year n-1. Eurostat proposed to complete some gaps in the table with ESA-based figures wherever possible. The German authorities will investigate the possibility of undertaking this in the next EDP notification and report back to Eurostat (*Action point 4*).

Relating to the statistical discrepancy in EDP table 3E, the German authorities undertook to make further investigations.¹ As regards the amounts reported under "Changes in sector classification" in EDP table 3D for 2007 and 2008 (0.02% of GDP), the German authorities agreed to investigate if this was due to many individual reclassifications of units or to a

¹ According to the German authorities, as the amount is limited to about 0.1% of GDP and the sign of residual alters, the issue should not be considered as a priority.

systematic reclassification of certain types of units, and to report to Eurostat by the next EDP notification (*Action point 5*).

Findings and conclusions

The German authorities explained their intention to split the "Other adjustments" line systematically for Central Government from 2010 (*Action point 3*). The German authorities will investigate the possibility of completing EDP tables with ESA based figures for year n-1 in the next EDP notification and report back to Eurostat (*Action point 4*). The German authorities agreed to investigate the amounts reported under "Changes in sector classification" in EDP table 3D for 2007 and 2008 if this was due to many individual reclassifications of units or to a systematic reclassification of certain types of units, and to report to Eurostat by the next EDP notification (*Action point 5*).

3. Actual data – methodological issues and recording of specific government transactions

3.1. Implementation of accrual principle

3.1.1. Calculation of accrual adjustments for taxes and social contributions

Introduction

Eurostat enquired about the accrual adjustments for taxes and social contributions.

Discussion and methodological analysis

Eurostat and the German authorities confirmed that the existing recording of taxes and social contributions was in line with European rules, and took note of the impact of the repayment of commuter taxes on the reported tax series.

Findings and conclusions

Eurostat took note of the explanations.

3.2. Delimitation of general government sector: classification of institutional units according to ESA95 – application of the market/non-market test

Introduction

Eurostat enquired about the process of delimitation of general government in Germany.

Discussion and methodological analysis

The German authorities explained that they have different data sources (Press releases, Central Bank, Public Finance Statistics) for information on newly created public bodies. When a new body is detected, Destatis examines the legal documents of establishment to determine if it is an institutional unit, and the accounts (revenues, expenditure) to take a decision on its market/non-market nature.

The cash-based public finance statistics provides the starting point for the delimitation. The list of units used for this type of statistics is checked continuously. Destatis applies a prudent approach, where units – in the case of doubts – are first allocated to general government and then reclassified if necessary.

Public hospitals are classified outside government, as they are considered to be market producers. Payments to public hospitals are based on the same system as to private hospitals.

Public universities are classified inside government, as they are not considered to be market producers.

Findings and conclusions

Eurostat took note of these explanations.

3.2.1. Quasi corporations

Introduction

Eurostat enquired about the recording of transactions of quasi-corporations in the German government accounts.

Discussion and methodological analysis

As regards the recording of quasi-corporations at local level, the German authorities explained that if a quasi-corporation makes a loss, the amount transferred to cover this loss must be posted as subsidy / transfer in government bookkeeping and is clearly identified in the cash-based public finance statistics. Therefore the losses of quasi-corporations are reflected in increased government expenditure.

Findings and conclusions

Eurostat took note of these explanations.

3.3. Financial turmoil events in Germany and statistical implications

Introduction

The German authorities emphasized the importance of Eurostat taking a quick decision on the accounting consequences of the financial turmoil. Eurostat explained the current situation.

Discussion and methodological analysis

The German authorities expressed their strong opinion that Eurostat should quickly publish a decision on the recording implications of the financial turmoil, and enquired why the decision has not yet been published. The German authorities underlined the importance of the application of common rules to all Member States and would welcome a Eurostat decision as early as possible, however at the latest by the end of June 2009.

Eurostat took note of this opinion and explained that due to the emergence of new, increasingly innovative forms of financial rescue operations, more time is needed for a

consistent decision. Eurostat underlined that the existing official procedures foresee the possibility for national authorities to ask for Eurostat's view under the so-called "ex-ante" and "ex-post" procedures. In this context, the German authorities reminded Eurostat of the request for clarification of the classification of two special purpose entities created in 2008 and explained their difficulties to obtain accurate data on an ongoing basis for these entities.

The German authorities described the government activities undertaken in recent years and in 2009 to support financial markets and individual financial institutions. The German authorities asked Eurostat's opinion on a possible reclassification of the transactions of KfW with relation to IKB in 2007. The transaction was recorded in the government accounts due to a Eurostat advice dated 12 September 2008. Given the CMFB view that written or other irrefutable evidence would be needed to re-route transactions, Eurostat agreed that there would be a strong case for changing the recording of this transaction. Eurostat confirmed to send a letter on this issue to the German authorities shortly after the Eurostat decision on the accounting consequences of the financial turmoil has been published.

With regard to operations in 2009, the German authorities explained the planned establishment of a new government body on state government level and also transactions in shares of Hypo Real Estate. Eurostat took note of the explanations and gave some preliminary reactions on the treatment proposed by the German authorities. The German authorities explained that a new initiative on bad banks was under development and further details would be available in the coming weeks.

Findings and conclusions

Eurostat noted the current German government operations in the context of the financial turmoil and took note of the request by the German authorities for a quick Eurostat decision on the statistical recording of government transactions in the financial turmoil.

3.4. Review of Eurostat decisions and other important methodological issues

3.4.1. EU flows

Introduction

Eurostat recalled that Germany is one of the few Member States not fully applying the decision on the treatment of EU grants, and despite the limited access of German statistical authorities to data sources, at least a macro-level adjustment should be undertaken.

Discussion and methodological analysis

The German authorities explained that due to the lack of source data, particularly at state and local government level, they are not able to fully comply with the Eurostat decision on the EU grants. Furthermore they were pointing out that the amounts in question are of minor importance in relation to the GDP, all the more so as since the Eurostat decision is fully applied in connection with the agricultural subsidies (the agency managing these subsidies is classified outside the general government). Moreover neither the time of expenditure, nor the final beneficiary is known.

Eurostat emphasized that the large majority of Member States apply the decision even if only on a macro-level cash-correction basis, therefore the German authorities could make progress along similar lines. Eurostat proposed that the German authorities make the necessary corrections for the EU grants based on data made available by Eurostat from the relevant Commission services (DG REGIO).

Findings and conclusions

The German authorities undertook to make the necessary corrections for the next October 2009 EDP notification once the Commission data are provided to them by Eurostat and cross-checked against national data (*Action point 6*). The German authorities will also provide the necessary adjustment amounts for EU grants in the EDP related questionnaire table II as soon as the adjustments for the EU grants are implemented (*Action point 7*).

3.4.2. Guarantees

Introduction

A few questions concerning the recording of guarantees were discussed.

Discussion and methodological analysis

The German authorities explained to Eurostat that they are not able to distinguish the nature of the recipient (whether public or non-public) of government guarantees, especially at state and local government levels. The classification used in the public finance statistics allows only to identify guarantees by different groups of corporations like banks, credit institutions or industrial corporations. A breakdown according to ownership of these corporations (private or public) is not possible. Therefore the German authorities cannot provide more information in the EDP related questionnaire table III.

Findings and conclusions

The German authorities noted that they will correct table IIIa for amounts under write-offs (lines 19-21), which are related to cash payments (and so are to be moved to lines 13-15), and also the recording of guarantee fees, in the next EDP notification (**Action point 8**).

3.4.3. Debt assumptions, debt cancellations and debt write-offs

Introduction

Eurostat enquired about the debt assumptions and debt cancellation, especially regarding the completeness of the EDP related questionnaire table IV.

Discussion and methodological analysis

The German authorities agreed to complete more fully the EDP related questionnaire table IV relating to debt assumptions and debt cancellations, notably for transactions relating to foreign debt. The German authorities will seek information on the existence of debt cancellations relating to specific national loan programmes such as export-credits and student loans, and will include any relevant information obtained in the questionnaire tables for the next EDP notification.

Findings and conclusions

The German authorities will include more information as mentioned above in the EDP related questionnaire table IV for the next EDP notification (**Action point 9**).

3.4.4. Super-dividends and interim dividends

This issue was not discussed in detail.

3.4.5. Military equipment expenditures

Introduction

A few questions concerning the recording of military equipment were discussed.

Discussion and methodological analysis

The German authorities confirmed that prepayments are rare in the case of large military equipment deliveries. They mentioned that they might receive further information on this for the next notification.

Eurostat reminded the German authorities that if they have qualitative information on military equipment transactions, the qualitative part of the EDP related questionnaire table VI should be completed.

Findings and conclusions

The German authorities will provide the qualitative part of the EDP related questionnaire table VI on military expenditure for the next EDP notification (**Action point 10**).

3.4.6. Private-Public Partnerships (PPP) and concessions

Introduction

Eurostat enquired about the assessment of PPPs.

Discussion and methodological analysis

The German authorities confirmed that they continue to record all assets of Public Private Partnership projects on the government's balance sheet, as explained during the last EDP dialogue visit in 2007. It was explained that this recording of PPPs is also applied for the compilation of government debt at all government levels. For the local government level improvements in the use of underlying information are still planned.

Findings and conclusions

Eurostat found this recording to be suitably prudent and encouraged an ongoing analysis of new models of PPPs as they are developed.

3.4.7. Swaps

Introduction

Eurostat enquired about the data sources on swaps for local and state governments.

Discussion and methodological analysis

The German authorities explained that they have already started to investigate this issue. They confirmed that most probably for state governments there will be data available, however this is not likely to be the case for local governments.

Findings and conclusions

The German authorities will make investigations concerning swaps on the state government level and will report back on this issue to Eurostat as soon as further information is available (*Action point 11*).

4. Other issues

4.1. Tables 2, 6, 7, 9, 11, 25, 27 and 28 of the ESA95 Transmission Programme

Introduction

The ESA transmission tables were discussed shortly.

Discussion and methodological analysis

Eurostat enquired about the state of play of ESA table 25, as these data are not currently publishable until the first half and then the last quarter of the year is available. The German authorities confirmed that this is due to their concerns over data quality.

Findings and conclusions

Eurostat took note of the German authorities' continuing view that quarterly data on general government should not be published until the first half and then the last quarter of the year is calculated, for reasons of data quality.

4.2. Other – Cross border leasing

Introduction

The representative of the European Central Bank enquired about the Cross border leasing issues. There had been press reports that a number of local governments had engaged in such transactions, relating to major buildings and structures.

Discussion and methodological analysis

The German authorities explained that the press reports referred to had exaggerated the scale of this activity by government. They were aware that a guarantee had been offered by KfW for some transactions. However, a call on these guarantees seems to be highly improbable within the next decades. On balance, cross border leases do not seem to have caused notable losses so far.

Findings and conclusions

Eurostat took note of these explanations.

List of participants

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German Statistical Authorities

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