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**COMMISSION STAFF WORKING DOCUMENT**

**Reporting on the quality of fiscal data reported by Member States in 2019**

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## 1. BACKGROUND

Article 8(3) of Council Regulation (EC) No 479/2009 on the application of the protocol on the excessive deficit procedure (EDP)<sup>1</sup> requires the Commission (Eurostat) to report regularly to the European Parliament and the Council on the quality of the actual<sup>2</sup> fiscal data reported by Member States. This annual report provides an overall assessment of the timeliness, reliability, completeness and consistency of the data and their compliance with accounting rules. The Commission adopted the previous report (on 2018 data) on 27 March 2019.<sup>3</sup>

Eurostat regularly assesses the quality of the actual EDP data reported by Member States and of the underlying general government sector accounts in accordance with Regulation (EU) No 549/2013<sup>4</sup> (ESA 2010). Its assessment concentrates on the factors that explain the general government surplus/deficit (as a percentage of GDP) and changes in the ratio of general government debt to GDP. Member States send that information to Eurostat twice a year in the ‘EDP notification tables’, the ‘Questionnaire relating to the EDP notification tables’, the ‘Supplementary table on government interventions to support financial institutions’ and via bilateral clarifications. Eurostat also maintains contact with Member States through regular EDP dialogue visits.

This report is based on the main findings and results of the EDP data reported by Member States in 2019. It focuses on the latest reports, submitted in October 2019, comparing them where appropriate with the data sent in April 2019 and in 2018.

## 2. MAIN FINDINGS ON THE 2019 REPORTING OF GOVERNMENT DEFICIT AND DEBT LEVELS

### 2.1. Timeliness, reliability and completeness

#### 2.1.1. *Timeliness*

Member States are required to report their actual and planned EDP data to Eurostat twice a year, before 1 April and before 1 October<sup>5</sup>. In 2019, EDP reporting covered the 2015-2019 period. The figures for 2019 are those planned by the national authorities, while the 2015-2018 figures are actual data<sup>6</sup>. In accordance with Article 8(1) of Regulation (EC) No 479/2009, Eurostat assesses the actual data, but not the planned data.

All Member States met the reporting deadlines for both notifications.

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<sup>1</sup> Council Regulation (EC) No 479/2009 on the application of the Protocol on the excessive deficit procedure (EDP) annexed to the Treaty establishing the European Community (OJ L 145, 10.6.2009, p. 1).

<sup>2</sup> Data for the last four years according to Article 3(2) of Regulation (EC) No 479/2009.

<sup>3</sup> COM(2018) 155 final.

<sup>4</sup> Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (ESA 2010) (OJ L 174, 26.6.2013, p. 1).

<sup>5</sup> Article 3(1) and (3) of Regulation (EC) No 479/2009.

<sup>6</sup> Actual data might be estimated, provisional, half-finalised or final figures.

### 2.1.2. *Reliability*

Revisions made between the April 2019 and the October 2019 EDP notifications were due mainly to updates of source data (primarily working balances and tax data), and methodological changes, such as reclassifications of units or transactions.

As a result of revisions of 2018 data introduced between the April and October 2019 notifications, ten Member States' government surplus/deficit (as a percentage of GDP) improved and eleven worsened. The largest positive revisions were made by Cyprus (+0.4 pp), Denmark, Latvia, Luxembourg (+0.3 pp each), Czechia and Germany (+0.2 pp each), and the largest negative revisions by the United Kingdom (-0.8 pp), Slovakia (-0.4 pp each) and Bulgaria (-0.2 pp). The largest upward revisions to the 2018 debt, due to reasons other than revision of GDP and mainly following the new Manual on Government Deficit and Debt (MGDD) rules on face valuation of some debt instruments and on income contingent loans, were made by Italy (+3.3 pp), Portugal (+2.1 pp), Croatia, Finland (+0.4 pp each), Hungary and Sweden (+0.3 pp each), while Malta revised the debt downwards (-0.2 pp).

Revisions of GDP had a noticeable impact on the debt ratio for several Member States. In particular, increases in the debt ratio due to revision of GDP were observed for Germany (+0.8 pp), Spain, Latvia (both +0.5 pp), Slovenia and Slovakia (both +0.3 pp), and decreases for 16 Member States, the largest of which were for Belgium (-2.1 pp), Cyprus (-2.0 pp), Portugal (-1.4 pp), Ireland (-1.1 pp), Hungary (-1.1 pp) and the United Kingdom (-0.9 pp).

### 2.1.3. *Completeness of tables and supporting information*

Completion of the reporting tables is a legal obligation and is essential for a proper assessment by Eurostat of the quality of the data. Article 8(2) of Regulation (EC) No 479/2009 requires Member States to transmit to Eurostat the relevant statistical information, *which '(...) in particular (...) means:*

- (a) data from national accounts;*
- (b) inventories;*
- (c) EDP notification tables;*
- (d) additional questionnaires and clarification related to the notifications.'*

There are four main EDP notification tables:

- table 1 covers the reporting of government surplus/deficit (total and by government subsector) and debt levels (total<sup>7</sup> and by category of financial instrument). It also covers GDP at current market prices and government expenditure on gross fixed capital formation and interest;
- tables 2A to 2D provide the data that explain the transition between national definitions of government balance ('working balance' in national accounts methodology) and the surplus/deficit of each government subsector ('net lending/net borrowing' in national accounts methodology)<sup>8</sup>;

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<sup>7</sup> The Protocol on the excessive deficit procedure annexed to the Treaty on the functioning of the EU defines government debt as the consolidated gross debt of the whole general government sector outstanding at the end of the year (at nominal value). According to Regulation (EC) No 479/2009, government debt includes currency and deposits (AF.2), debt securities (AF.3) and loans (AF.4) as defined in ESA 2010.

<sup>8</sup> Article 3(2) of Regulation (EC) No 479/2009.

- tables 3A to 3D provide the data that explain the contributions of the government surplus/deficit and other relevant factors to the variation in the government debt level and the consolidation of debt; and
- table 4 includes mainly data on trade credits and advances<sup>9</sup>.

In 2019, EDP tables 1 and 2 covered 2015-2019<sup>10</sup> and the other tables covered 2015-2018.

All Member States provided Eurostat with all the EDP notification tables<sup>11</sup> in April and October. In the October reporting, they all completed EDP table 1 in full and provided details in EDP table 2 on the link between the working balance and the EDP surplus/deficit for all subsectors. Some (Germany, Austria) did not report all transition items as requested in the template and some (Germany, Italy, the Netherlands, Finland and Sweden) included some residual transition items.

Some Member States did not provide all breakdowns in all EDP tables 3, in particular for local government.

The general government stock of trade credits and advances liabilities should be reported in EDP table 4. Member States use different data sources such as accounting data, surveys and/or estimation models in order to calculate the stocks of trade credits and advances for the general government sector. For most Member States data are provisional for 2018 and 2017. For a few Member States data provided are provisional for all the years considered, due to data source specificity or/and uncertainties regarding the complete coverage of all government subsectors. Some Member States have not fully implemented for the local government subsector the Eurostat Decision from 2012 on trade credits (requiring trade credits object of factoring or restructuring without recourse to be recorded as loans) due to limits in the data sources. However, the amounts involved are considered as negligible. A few Member States revised their stock of trade credits and advances downward, due to the reclassification of the long-term trade credits (with original maturity of more than one year) into loans. This was implemented following the further clarification of ESA 2010 provisions introduced by the 2019 MGDD.

While the completeness of the EDP tables can still be improved, the outstanding issues are expected to have little impact on data quality.

All Member States submitted replies to the ‘Questionnaire related to the EDP notification tables’<sup>12</sup>. Although the coverage and quality of answers continued to improve, progress is still needed, as some Member States did not report all requested details. In particular, this concerns data on central government claims and debt

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<sup>9</sup> See the statements accompanying the Council minutes of 22 November 1993; [https://webgate.ec.europa.eu/fpfis/mwikis/gfs/images/e/e7/Statements\\_9817.en93.pdf](https://webgate.ec.europa.eu/fpfis/mwikis/gfs/images/e/e7/Statements_9817.en93.pdf)

<sup>10</sup> Regulation (EC) No 479/2009 only explicitly requires Member States to provide planned data in EDP tables 1 and 2A.

<sup>11</sup> Member States’ EDP notification tables can be found on Eurostat’s website: <http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables>

<sup>12</sup> The questionnaire comprises 13 sections requesting quantitative and some qualitative information in various areas, e.g. transactions in taxes and social contributions, and with the EU, acquisitions of military equipment, government guarantees, debt cancellations, government capital injections into public corporations, public-private partnerships, rerouting transactions, etc.

cancellations, the breakdown of other accounts receivable/payable, the recording of government guarantees (mainly for local government) and data on capital injections.

#### **2.1.4. *Supplementary table for reporting government intervention to support financial institutions***

Since 2009, Eurostat has collected a set of supplementary data on government interventions to support financial institutions. The data collected in 2019 related to 2007-2018. All but five Member States (Estonia, Malta, Poland, Romania and Slovakia) reported government interventions in that period. In Finland (in 2008) and Czechia (in 2013-2015), the only interventions reported concerned contingent liabilities. In 2018, most Member States reported a neutral or limited deficit-increasing impact of government intervention to support financial institutions, with the exception of Cyprus and Portugal, where this impact was larger. Slovenia, the Netherlands, Lithuania and Belgium reported an improvement in the surplus/deficit. The biggest accumulated impacts on government debt at the end of 2018 were observed in Ireland, Greece and Cyprus.

Together with its EDP news release, Eurostat published a background note<sup>13</sup> on government interventions to support financial institutions with more information on the content of the supplementary table and data findings.

#### **2.1.5. *Questionnaire on intergovernmental lending***

Member States report data on bilateral intergovernmental lending, usually provided under financial assistance programmes. Those data and further information on the European Financial Stability Facility are also included in the EDP news release. In 2015-2018, the data related mainly to lending to Greece, Ireland and Portugal.

Bilateral intergovernmental lending is deducted when calculating the EU-28 and euro area aggregates for Maastricht government debt, since both are shown on a consolidated basis.

## **2.2. Compliance with accounting rules and consistency of statistical data**

### **2.2.1. *Exchange of information and clarifications***

In the three-week' notification period between the spring/autumn reporting deadlines and the publication of the data, Eurostat contacted all national statistical authorities to ask for further information and clarify the application of the accounting rules to specific transactions. This involved several rounds of correspondence.

For the autumn 2019 reporting period, a first round of requests for clarification was sent to all Member States by 7 October and a second by 11 October; a third round was sent to 16 Member States and a fourth round to two Member States. Eurostat asked some Member States to provide revised 'EDP notification tables', revised tables for underlying government accounts (i.e. annual expenditure and revenue accounts, and quarterly financial and non-financial accounts) and revised 'Questionnaire relating to the EDP notification tables'. In most cases, changes to data were corrections of technical errors, internal inconsistencies and adjustments. A few changes related to updates of the source data for actual and planned data.

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<sup>13</sup> <https://ec.europa.eu/eurostat/documents/1015035/10159773/Background-note-on-gov-interventions-Oct-2019.pdf>

### **2.2.2. Dialogue and methodological visits**

Regulation (EC) No 479/2009 provides for Eurostat to make dialogue and methodological visits to Member States. Representatives of DG ECFIN and the European Central Bank regularly take part in such visits as observers.

In the course of *regular* (at least biennial) dialogue visits to Member States, Eurostat reviews reported data, examines methodological issues, discusses statistical processes and sources described in the inventories and assesses compliance with the relevant accounting rules (delimitation of general government, time of recording and classification of government transactions and liabilities).

*Methodological* visits are undertaken only in exceptional cases where significant risks or problems with data quality have been clearly identified.

*Ad hoc* or *technical* visits can also be organised if Eurostat raises a specific important issue with a Member State that can be resolved only by meeting the authorities concerned.

In 2019, Eurostat made the EDP dialogue visits to Portugal, Luxembourg, Hungary, Ireland, Greece, Denmark, Czechia, Cyprus, France, Slovakia, Sweden, Slovenia, Spain, Latvia and Croatia. There were also two technical visits, one to France and one to Bosnia and Herzegovina as a potential candidate country.

The final findings of each dialogue visit, including the action points agreed and the status of the issues raised, are sent to the Economic and Financial Committee and published on Eurostat's website<sup>14</sup>. The dialogue visits and implementation of action points have considerably improved data quality over time.

### **2.2.3. Specific advice by Eurostat**

Member States regularly consult Eurostat to clarify national accounting issues in relation to past or future operations. Eurostat provides advice in accordance with the published guidelines<sup>15</sup>. Since July 2016, in the interests of transparency, Eurostat has published all its letters of advice<sup>16</sup> without first seeking the consent of the Member State in question, as was the practice previously. In 2019, it published four letters of advice.

### **2.2.4. Recent methodological issues**

Eurostat monitors the application of the ESA 2010 rules and its methodological decisions by analysing the data reported by Member States in the EDP tables and the 'Questionnaire relating to the EDP notification tables', and through discussion with national statistical authorities during EDP dialogue visits.

It provides additional methodological guidance and clarifications on the accounting rules for EDP and Government Finance Statistics, complementing the general rules

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<sup>14</sup> <http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/eurostat-edp-visits-to-member-states>

<sup>15</sup> <http://ec.europa.eu/eurostat/web/government-finance-statistics/methodology/guidance-on-accounting-rules>

<sup>16</sup> <http://ec.europa.eu/eurostat/web/government-finance-statistics/methodology/advice-to-member-states>

of ESA 2010 rules in accordance with ‘Procedure for the development and implementation of methodology underpinning EDP data’<sup>17</sup>.

In 2019, Eurostat issued two GFS interpretations<sup>15</sup>: ‘Deductions from compulsory employers’ actual social contributions’ and ‘Borderline between trade credits and advances and other accounts payable relating to social transfers in kind – purchased market production’.

On 2 August 2019, Eurostat published a new edition of the Manual on Government Deficit and Debt<sup>18</sup>, which incorporates a number of revised and new chapters, and is a result of multiple discussions and written consultations within the EDP Statistics Working Group (EDPS WG). Eurostat also conducted a written consultation of the Committee for Monetary, Financial and Balance of Payments Statistics. Finally, the opinions of the members of the Directors of the Macroeconomic Statistics (DMES) were collected on each of revised chapters. On 25 September 2019, Eurostat also published a new edition of the Manual on the Classification of the Functions of Government (COFOG)<sup>19</sup>.

Issues insufficiently covered in existing manuals and guidance were further analysed and discussed in technical working groups and task forces.

Apart from the two regular meetings of the EDPS WG, Eurostat organised four task force meetings (two on government finance statistics, one on development banks and one on government expenditure by COFOG).

Progress has been made to complete the procedures regarding methodological guidance. Eurostat made several proposals on how to enhance the cooperation on EDPS issues that will lead to more transparency and predictability in introducing methodological changes. This proposal included: formalisation of Mandate and Rules of procedure for the EDPS WG, complementing the ‘Procedures for the development and implementation of methodology underpinning EDP data’<sup>17</sup> and introducing an online platform for exchanging views within the EDPS WG aiming for a more structured communication.

### **2.2.5. Consistency with the underlying government accounts**

The 1 April and 1 October notification deadlines under Regulation (EC) No 479/2009 were introduced to ensure consistency with the underlying annual and quarterly government sector accounts, as reported to Eurostat in various ESA transmission tables. In particular, total government expenditure and revenue should be consistent with the reported EDP surplus/deficit figure.

EDP data were generally consistent with the reported ESA 2010 government accounts with the exception of Denmark (October 2019), for which differences with EDP in the latest transmitted ESA 2010 data were not resolved.

There also remain some concerns as regards both transactions and stocks for annual and quarterly financial accounts of general government (ESA table 27). Further

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<sup>17</sup> <https://ec.europa.eu/eurostat/documents/1015035/2041329/Procedures-Dev-and-Implt-Methodology-EDP-data.pdf>

<sup>18</sup> <https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-19-007>

<sup>19</sup> <https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-19-010>



efforts by some Member States to improve the consistency of EDP tables 3 with ESA table 27 were noted.

For Greece, there are inconsistencies concerning net financial transactions for a number of years, since financial accounts reported by the Bank of Greece are not aligned with EDP data reported by ELSTAT. The Bank of Greece has not followed Eurostat guidance on ESA 2010 accounting in relation to a number of issues. In October 2015, Eurostat decided not to publish ESA table 27 for Greece until the issues have been resolved. However, following the progress in alignment of the data and strong commitment by the Bank of Greece to eliminate all remaining differences, in July 2019 Eurostat had resumed publication of the quarterly financial accounts of general government of Greece (with an explanatory footnote).

For France and Spain, there are also some inconsistencies between EDP tables 3 (3A, 3B, 3D and 3E) and ESA table 27. Regarding France, in October 2019 the differences were significantly reduced in comparison to previous reporting.

For Germany and Portugal (2015-2018), the reporting of statistical discrepancy in the October 2019 notification tables diverges from convention for ESA table 27 and this leads to substantial discrepancies for all years.

The surplus/deficit, gross fixed capital formation and interest expenditure data reported by Member States were fully consistent with annual and quarterly data on government expenditure and revenue (ESA tables 2 and 25), except for Denmark in October 2019 (ESA tables 2 and 25 were not aligned for interest expenditure related to repurchase of debt securities). The data on annual debt and quarterly government debt (ESA table 28) also matched perfectly for all Member States in April and October 2019.

## **2.3. Publication**

### **2.3.1. Publication of headline figures and detailed reporting tables**

Under Article 14(1) of Regulation (EC) No 479/2009, *'[t]he Commission (Eurostat) shall provide the actual government deficit and debt data for the application of the Protocol on the excessive deficit procedure, within three weeks after the reporting deadlines [...]. That provision of data shall be effected through publication'*.

Eurostat published the government deficit and debt data on its website on 23 April<sup>20</sup> and 21 October<sup>21</sup>, together with all final reporting tables<sup>22</sup> notified by Member States and also notes on:

- the stock-flow adjustment;
- government interventions to support financial institutions;
- the stock of liabilities of trade credits and advances; and
- revisions of government surplus/deficit and debt.

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<sup>20</sup> <https://ec.europa.eu/eurostat/documents/2995521/9731224/2-23042019-AP-EN/>

<sup>21</sup> <https://ec.europa.eu/eurostat/documents/2995521/10064349/2-21102019-AP-EN.pdf/>

<sup>22</sup> <http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables>

It also published news releases on quarterly government debt and quarterly seasonally adjusted general government deficit, at approximately  $t+115$ <sup>23</sup> days, as well as on COFOG expenditure, tax revenues and structure of government debt.

Regulation (EC) No 479/2009 requires Member States to make public their actual data on deficit and debt. All Member States publish deficit and debt figures at national level. Most Member States have informed Eurostat that they publish all their EDP tables. Five Member States (Bulgaria, Italy, Luxembourg, Poland and Slovakia) published only some of the EDP tables. France published deficit and debt data at national level in a format different from the EDP tables.

### **2.3.2. Reservations on the quality of data**

#### *April 2019*

Eurostat expressed a reservation on the quality of the data reported by Hungary in relation to the sector classification of the Hungarian Association for the Stockpiling of Hydrocarbons (MSZKSZ). Eurostat considers that this entity should be classified inside general government. This would lead to an increase in government debt in 2015 by 0.3% of GDP, in 2016 and in 2017 by 0.4% of GDP and in 2018 by an estimated 0.3% of GDP. The deficit figures would remain virtually unchanged. Eurostat maintained the reservation on the quality of the data reported by Hungary in relation to the sector classification of the foundations created by the Hungarian National Bank. Eurostat considers that these foundations, including their subsidiaries, should be classified inside general government. This would lead to an estimated increase in government deficit in 2015 by 25.3 bn HUF (0.1% of GDP), in 2016 by 54 bn HUF (0.2% of GDP) and in 2017 by 33.7 bn HUF (0.1% of GDP). The debt figures would remain unchanged.

Eurostat expressed a reservation on the quality of the data reported by Slovakia in relation to the recording of certain expenditures incurred by government, which could increase the deficit by 0.3% of GDP in 2018. Eurostat will investigate the issue in cooperation with the Slovak statistical authorities.

#### *October 2019*

Eurostat withdrew the reservation on the quality of the data reported by Hungary in relation to the sector classification of the Hungarian Association for the Stockpiling of Hydrocarbons and of the foundations created by the Hungarian National Bank. The foundations and all their subsidiaries as well as the association, were reclassified into general government. Due mainly to the combined effect of these reclassifications the debt has increased by 0.4 pp of GDP in 2017 and by 0.3 pp in 2015, 2016 and 2018, while the deficit has increased by 0.2 pp of GDP in 2017 and by 0.1 pp in 2015 and 2016.

Eurostat withdrew the reservation on the quality of the data reported by Slovakia in relation to the recording of certain expenditures incurred by government, following the revision implemented by the Slovak statistical authorities that led to an increase in the deficit by 0.2% of GDP in 2018.

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<sup>23</sup> 't' refers to the end of the period to which reporting relates.

### **2.3.3. *Amendments to the reported data***

Eurostat has made no amendments to the data reported by Member States in the April or October 2019 EDP notifications.

### **2.3.4. *Publication of metadata (inventories)*<sup>24</sup>**

Regulation (EC) No 479/2009 specifies that the EDP inventories are part of the statistical information Member States must provide. It also requires the inventories to be published nationally.

In 2014, the format of the EDP inventories was improved (making changes to the structure and the level of detail) and an agreement was reached with Member States on the new inventory template for ESA 2010. By the end of 2019, Eurostat had published revised inventories for all but one Member State (the Netherlands has provided a draft EDP inventory in the new format and further progress is expected).

## **3. CONCLUSIONS**

Eurostat acknowledges continued overall improvement in the consistency and completeness of the reported fiscal data. Nevertheless, the quality of fiscal data needs to be improved further. In 2019, Eurostat sought improvements to the quality of the fiscal data through bilateral clarifications when assessing the EDP notifications and by intensifying contacts and consultations with Member States between notifications. The publication of all its letters of advice on methodology improved knowledge-sharing and transparency, as did its comprehensive efforts as regards communication between users and producers of statistics in relation to methodological developments.

Consistency problems between EDP and GFS data persist for some Member States, in particular Denmark and Greece.

In October, Eurostat withdrew its reservations on the quality of data reported in the EDP notifications by Hungary and Slovakia and it expressed no new reservations.

Overall, Eurostat concludes that the quality of the reporting of fiscal data continued to improve in 2019. In general, Member States provided higher data quality and more complete information in EDP notification tables and other relevant statistical returns.

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<sup>24</sup> Inventories of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts.