



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics
Unit D-2: Statistics for Excessive Deficit Procedure I



Luxembourg, 26 April 2012

- Final Findings-

EDP dialogue visit to France

29 November 2010

Executive summary

An EDP dialogue visit to France took place on 29 November 2010 with the aim to assess the existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to clarify issues relating to EDP tables raised in the context of the previous notifications, to assess the classification of some units and to ensure that the provisions from the ESA 1995 Manual on Debt and Deficit (MGDD) and recent Eurostat decisions are implemented, and that specific government transactions are properly recorded in the French EDP tables and national accounts.

Eurostat discussed with the French statistical authorities the division of responsibilities for the compilation of EDP statistics and government accounts and the improvements since the last EDP dialogue visit which took place in June 2008. INSEE is responsible for the data for previous years (national accounts of the general government sector) and the "Direction Générale du Trésor et de la Prévision Economique" (DGTPE) in the Ministry of Finance (MoF) is responsible for the forecast of the current year, including for the government debt.

The status of implementation of the action points agreed during the EDP dialogue visit of June 2008 was also discussed. In this context, Eurostat recommended INSEE to further improve the reporting of the year N-1 data in the EDP tables of April notifications relating to local government. Eurostat took note that for the social security sub-sector, the complete data is not available and encouraged INSEE to estimate the missing information rather than waiting for half-finalised accounts. Information on shares for the local government should be provided by "Direction Générale des Finances Publiques" (DGFIP) to INSEE in order to allow systematic analysis of financial transactions. Eurostat inquired about the compliance with provisions of MGDD relating to EU flows to the region of Corsica, as well as whether the sale of Polish debt to the financial markets has been recorded in national accounts.

Concerning the EDP notification tables, Eurostat focused mainly on the reconciliation of the financial transactions between EDP tables 2 and 3, on the reclassification of some transactions from shares (F.5) to loans (F.4) and others from shares or loans to transactions in other accounts receivable/payable (F.7). The reporting of interest accrued and other accounts receivable and payable were also discussed. The adjustment transactions for local government and social security subsectors in Tables 2C and 2D were discussed as well. Eurostat encouraged INSEE to use estimation in the case of unavailability of sufficiently detailed data for the previous year when reporting EDP tables in April. Eurostat also requested to have more breakdowns for loans (F4), especially in Tables 3D and 3E. INSEE committed to improve the situation.

The issue of recognition of RFF's (Reseau Ferré de France) debt as government debt was discussed again. Eurostat's opinion was that at least part of the debt of RFF should be considered as government debt, based mainly on the economic and financial situation of RFF (negative own funds, yearly capital transfers close to the level of the interest paid on its debt), on harmonisation with the recording in most Member States as well as on the Court of Auditors report. INSEE expects on the contrary that the economic and financial situation of RFF will improve in the near future and sees difficulties in calculating the exact amount of the debt which should be taken over by the government.

For guarantees, Eurostat requested that tables 9 of the Questionnaire related to EDP notification are completed for the April 2011 EDP notification. As far as the recording of military equipment expenditure is concerned, it was agreed that INSEE will provide data on

payables and on stocks for both receivables and payables.

Concerning the sub-sector classification of CADES (Caisse d'amortissement de la dette sociale) and FRR (Fonds de réserve pour les retraites), based on the explanations given by INSEE and on the note provided prior to the EDP dialogue visit, Eurostat agreed that both entities are to be reclassified from the central government sub-sector into the social security sub-sector for the April 2011 EDP notification.

On Public Private Partnerships (PPP), Eurostat asked INSEE to inquire on PPP projects at the level of local governments and requested more information on the risk analysis, including penalties, of some projects and expressed its concern on the instrument "Cessions Dally" introduced for some projects in order to facilitate financing by banks, which might be in contradiction with the provisions of the relevant chapter of the MGDD. Eurostat recommended to the French authorities to analyse the issue of government guarantees granted in the context of the financial crisis.

The main issues discussed for taxes and social contributions related to the recording of penalties and interest on late payments and the availability of information for social contributions for the year n-1. It was agreed that INSEE will investigate the possibility to obtain the information and report in the Questionnaire related to EDP notifications.

Concerning derivatives, specific contracts in the context of toxic assets and non-standard swaps at the level of local government were discussed. INSEE explained their difficulties to obtain such information from a considerable number of local government entities.

On the sales of government real estate and related assets, the discussion focussed on the consequence of possible "clauses d'intéressement", especially concerning "prestige" buildings. Eurostat mentioned that such clauses are in contradiction with the principle of sale in national accounts. Eurostat took note that a foreseen sale of a telecommunication satellite by the Ministry of Defence to private partners and the subsequent renting of the needed frequency is not considered as a true sale by INSEE.

Finally, the impact of the "précompte mobilier" on the French accounts was discussed.

The meeting was appreciated as constructive and Eurostat welcomed the explanations given by the French statistical authorities. Eurostat also appreciated the cooperation demonstrated and the documentation provided by the French authorities prior to the dialogue visit.

It should be mentioned that most of the action points agreed during the EDP dialogue visit have been implemented by the French statistical authorities according to the official deadlines. The French authorities have committed themselves to implement the remaining action points for the April 2012 notification, at the latest.

Introduction

According to Article 11 (1) of Council Regulation (EC) No 479/2009, as amended, as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in France on 29 November 2010.

The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of the Eurostat Unit C3 (Excessive Deficit Procedure I). The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The French authorities were represented by INSEE, "Direction générale des finances publiques" (DGFIP), "Direction générale du trésor et de la politique économique" (DGTPE) and Banque de France (BF).

The previous Eurostat EDP dialogue visit to France took place on 13 June 2008.

The aim of this EDP dialogue visit was to assess the existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to clarify issues relating to EDP tables raised in the context of the previous notifications, to assess the classification of some units and to ensure that the provisions from the ESA 1995 Manual on Debt and Deficit (MGDD) and recent Eurostat decisions are implemented, and that specific government transactions are correctly recorded in the French EDP tables and national accounts.

The visit focused on: 1) a follow-up of the EDP dialogue visit of June 2008, 2) an analysis of the October 2010 EDP notification tables and of the Questionnaire related to the EDP tables, 3) a review of the delimitation of the general government sector and sub-sectors, and 4) a clarification of the recording of specific government transactions, in particular local government toxic assets, sale of government real estate and public private partnership projects.

Eurostat appreciated the explanations provided by the French statistical authorities and considered that the meeting was constructive.

Eurostat thanked the French statistical authorities for the documentation sent before the visit and for the cooperation demonstrated during the visit.

1. Statistical capacity issues

1.1 Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation

- Responsibility to provide planned data (forecast) to Eurostat

Introduction

The planned data (forecast) were sent to Eurostat on 1 October 2010. This is an improvement as compared to past transmissions of EDP tables when the planned data were sent to Eurostat only after some delay.

Discussion and methodological analysis

This issue has been also discussed at the previous EDP dialogue visit (in 2008) and an action point had been agreed (see Action point 1 of the EDP dialogue visit of June 2008).

Eurostat questioned why there has been no improvement since the last EDP dialogue visit for the April and also for the October deficit and debt notifications, with the exception of the one of 1st of October 2010.

The French authorities explained that this is the result of the fact that the share of work in France has been maintained: INSEE is responsible for the national accounts of the general government sector and the (DGTPE) in the Ministry of Finance (MoF) is responsible for the forecast of the current year.

Eurostat inquired how the planning of the work can be improved between participating authorities and between different data providers so that the EDP tables can be sent according to the European legislation (before the 1 April and before the 1 October, including the forecast data).

The French authorities explained that, for the October submission of data, it is more feasible to send the complete set of tables, including the forecast, and at the same time respect the deadlines. It is more difficult for April submissions. This is mostly due to confidentiality; the MoF receives the data compiled by INSEE only shortly before the end of March and it is difficult to prepare the forecast for each line of the EDP tables 1 and 2A before 1 April.

Eurostat recalled that France has been criticised in the EFC report for the late delivery of complete set of EDP tables. Also, it explained once again that its database includes both actual and forecast data to serve the needs of the users and in particular of DG ECFIN. The separate reporting and the delay is an inconvenience and entail a risk of error. All other Member States can in fact produce a combined set of reporting tables even if the forecast and data for previous years are compiled by different authorities, respecting the legal deadlines.

The French statistical authorities agreed to make further efforts to improve the situation and provide one set of complete tables as soon as possible.

Findings and conclusions

Action point 1: In order to avoid two different data submissions, the Ministry of Finance will provide to INSEE the planned (forecast) data requested in EDP tables 1 and 2A as soon as they are available. INSEE will include the planned (forecast) data in the EDP tables, for all subsequent transmissions.¹

2. Follow-up of the previous EDP dialogue visit

Introduction

The previous EDP dialogue visit to France took place on 13 June 2008. In addition to the action point relating to the transmission of the complete set of EDP tables covering both actual figures and forecast data, discussed under item 1.1, further action points had not been implemented and had to be discussed again in the meeting.

Discussion and methodological analysis

Action point 2 – June 2008: Eurostat recommended INSEE to report an estimated working balance and a full reconciliation to B.9 in EDP tables 2C and 2D for the year N-1 in April notifications, as INSEE seems to have the technical capacity to do so. Eurostat noted the specific sensitivity of this issue in France and encouraged INSEE to approach DGFIP to coordinate on the issue of whether and how such estimated working balance would be released, at the time of notification.

Eurostat remarked that it should be possible in the framework of the provisional accounts to estimate the working balances of the local government and social security sub-sectors, given that a detailed database is available.

¹ Action points 1 and 2 implemented in April 2011.

Eurostat inquired why there has been no progress in providing the working balance of the local government and social security funds sub-sectors for the April submission of data, and if any information, which could be considered to be a working balance, would be available.

The French statistical authorities recalled that, for October, the working balance is provided. For the April notifications, the statistical data used to compile non-financial and financial accounts for the two sub-sectors do not contain information on a working balance; therefore tables 2C and 2D are incomplete. The procedure is to compile non-financial and financial accounts for the sub-sectors and then fill in the notification tables.

Eurostat noted that data on accounts receivable and payable are available, since they are reported in tables 3. Therefore it should be feasible to estimate a working balance using a bottom-up approach.

The French statistical authorities informed Eurostat that, for the local government, some progress can be made in the near future, as the data can be obtained in March, even if it is not published. For the social security funds, an improvement is more difficult because the figures from the social security bodies are obtained with long delays.

Findings and conclusions

Action point 2: Eurostat took note that INSEE is not in a position to complete EDP table 2D for year n-1 for April notifications due to late delivery of basic information from social security funds, but will do it for the local government sub-sector in EDP table 2C.

Discussion and methodological analysis

Action point 3 – June 2008: INSEE promised to study the operations between local government and public corporations further, especially concerning share acquisitions and dividends paid, at the level of local government.

Eurostat asked about the results of the investigation made since October 2008, when the French statistical authorities had informed that the transactions between local government and public corporations, namely transactions in shares and dividends, were under examination.

INSEE confirmed that no specific analysis was done, although the needed information is available.

Eurostat asked if a systematic analysis of the financial transactions of local government is done, at least for the acquisition of shares above a certain threshold.

INSEE expressed their openness to do so in the future, based on the information which will be given by DGFIP.

Eurostat noted that, in the notification tables, the data on acquisitions of shares is not reported with the requested detail (increase/reduction), but only net amounts are provided.

The French statistical authorities explained their difficulties to obtain the information on the increase and decrease of shares and that for the financial accounts they use "net" figures. However, as the information on increase and decrease of shares of local government in public corporations can be obtained from DGFIP, progress can also be made in this area.

Findings and conclusions

Action point 3: Concerning the reporting of "net" figures on shares (F.5) of local government, INSEE will cooperate with DGFIP and will report in April 2011 separate amounts of increase

and reduction of shares².

Action point 4: DGFIP will systematically provide to INSEE the local government operations on acquisitions of shares above 50 millions euro to be analysed by INSEE².

Discussion and methodological analysis

Action point 4 – June 2008: In the case of unavailability of sufficiently detailed data for the previous year when reporting EDP tables in April, Eurostat encouraged INSEE to estimate the receivables and payables for the social security funds subsector.

Eurostat inquired why the other accounts receivable and other accounts payable for social security funds are not provided in table 2D (they are however reported in table 3E).

The French statistical authorities explained that, for the compilation of the non-financial accounts, the half-finalised data from the social security bodies are used, and these are not available for the April notification. The procedure is that the social security bodies compile their accounts before April of each year, and then they are submitted to the Court of Auditors. INSEE uses the accounts as soon as they are approved by the Court.

Findings and conclusions

Action point 5: Eurostat regrets that the availability of information for social security funds is not improving and encourages the French statistical authorities to make steps forward in order to solve the situation, possibly by making estimations rather than waiting for the half-finalised accounts of the social security bodies³.

Discussion and methodological analysis

Action point 7 – June 2008: Eurostat noted the fact that INSEE exploits integrated source data which explained why no discrepancy arises. Eurostat suggested that this should be better reflected in the EDP inventory. INSEE agreed to make some efforts in codification to eventually obtain a minimum breakdown in payables/receivables.

Eurostat was disappointed that there is no new release of the EDP Inventory, which should include a detail of the receivables and payables by types of expenditure and revenue and asked for progress on this issue.

INSEE explained that, due to the heavy workload during the last year for the regular revision of the national accounts (change of the base year - changement de la base), it was not possible to update the existing EDP Inventory or to participate in the pilot exercise for the new EDP Inventory.

Findings and conclusions

Action point 6: INSEE agreed to make an effort on codification to obtain a minimum breakdown in payables/receivables and to reflect this issue better in the EDP inventory (see Action point 7 of the EDP dialogue visit of June 2008)².

Discussion and methodological analysis

Action point 12 – June 2008: INSEE will check that Eurostat's guidance for recording EU flows are followed for recording special support received from EU to the regions of Alsace and Corsica.

² Action points 3, 4 and 6 are not yet implemented. INSEE committed itself to implement them by April 2012.

³ Action point implemented in April 2011.

During the Eurostat EDP dialogue visit of June 2008, there was uncertainty on whether the EU flows for Alsace and Corsica were recorded in national accounts according to MGDD provisions. An answer concerning Alsace was sent in October 2008, in the context of the request of clarification.

Eurostat inquired about the recording of EU flows for Corsica (the regional government of Corsica manages the EU agricultural funds - FEADER). INSEE still does not have precise information on the financing circuit for Corsica.

Findings and conclusions

Action point 7: Before October 2011, INSEE will check that Eurostat's guidance for EU flows is followed for recording special support received from EU to the region of Corsica (see Action point 12 of EDP dialogue visit of June 2008)⁴.

Discussion and methodological analysis

Action point 16 – June 2008: On the issue of the sale of Polish debt to the financial markets in the early 1990's, INSEE promised to further investigate the issue and to report on how the transactions have been recorded in the EDP tables/national accounts.

Eurostat asked about progress on the investigation of the securitisation agreement relating to a claim held by COFACE (Companie française d'assurance pour le commerce extérieur), which had not been recorded as an asset in national accounts and therefore it was not clear if it had impacted government accounts. In October 2008, the French statistical authorities informed Eurostat that the issue was still under investigation.

During the discussion the French statistical authorities explained that the recording is still not clear.

Findings and conclusions

Action point 8: Before October 2011, INSEE will report to Eurostat on how the sale of Polish debt to the financial markets in the early 90's has been recorded in national accounts and EDP tables (see Action point 16 of EDP dialogue visit of June 2008)⁴.

3. Analysis of EDP tables - the October 2010 EDP reporting

Introduction

The aim was to examine the EDP tables and the Questionnaire relating to EDP tables. Special attention was given to issues that arose from the October 2010 notification.

For EDP table 2A, the discussion focussed on financial transactions included in the working balance, on the accounts receivable and payable and on the reconciliation with EDP table 3B, as well as on the correction for the difference between interest accrued and paid.

For EDP table 2C, the discussion focussed on the data for accounts receivable and payable and on recording of accrued interest.

EDP table 2D was not completely filled in for the year 2009.

In EDP tables 3, there was no split of loans into increase and reduction and the recording of some advances to the hospitals were to be reclassified.

Prior to the EDP dialogue visit, the French statistical authorities provided tables and explanatory notes on the reconciliation of cash flows and the EDP B.9 based balance for the

⁴ Action points 7 and 8 are not yet implemented.

State budget, on the recording of interest flows in EDP tables and on the reconciliation of transactions in F.7 in EDP tables 2A and 3B. They also provided a note on the reconciliation of financial transactions (loans and shares) in EDP tables 2A and 3B, as reported for the period 2006-2009.

Discussion and methodological analysis

Table 2A (central government)

Eurostat recalled that in the context of the October 2010 clarifications (as in the past years) some of the adjustment lines were not properly filled. Eurostat also explained that there should be a direct link between the EDP notification tables and the Questionnaire related to the EDP tables.

1) financial transactions included in the working balance: loans, equity, other financial transactions and reconciliation with table 3B

At the request of Eurostat, INSEE provided, prior to the EDP dialogue visit, a table on the reconciliation of cash flows (F.2) with the EDP B.9 for the State and a note describing the recording of financial transactions in table 2A (loans - F.4 and shares and other equity - F.5) and the link with the corresponding adjustments in table 3B.

Eurostat asked about the loans for an amount of 600 mill euro relating to SPPE (Société de prise de participation de l'Etat) for the year 2008, shown in the table and in the note provided prior to the EDP dialogue visit.

INSEE explained that the amount of the reimbursement of an advance to SPPE was recorded as transactions in shares in EDP table 2A instead of transactions in loans, as recorded in table 3B. Therefore, the accounting of this transaction was inconsistent between the two tables. Eurostat agreed with the correction for the April 2011 EDP notification.

Eurostat agreed that the financial operations of 2008 and 2009 relating to ODAC (organismes divers d'administration centrale) are correctly recorded in table 3B. They should not appear in table 2A.

INSEE explained the recording of a transfer of shares from ERAP (Entreprise de recherches et d'activités pétrolières - classified as ODAC) to the State, as well as dividends in the form of securities (2.363 bn euro in 2009), which in table 2A are recorded as non-financial transactions, while in table 3B they appear as transactions in shares and other equity. The State reimbursed the debt of ERAP in exchange for shares of France Telecom.

Eurostat stressed that the transaction should be recorded in a consistent way in both EDP tables 2 and 3 and asked INSEE to correct the recording.

Eurostat took note of the explanations provided by the French statistical authorities about the recording of the amount of 1160 mill euro for 2009 of assets transferred to the FSI (Fonds stratégique d'investissement - classified as ODAC) at its creation. During the October 2010 assessment of the deficit and debt, Eurostat had discussed this recording with the French statistical authorities. This operation has been recorded under "other adjustments" in table 2A.

Findings and conclusions

Action point 9: INSEE will provide Eurostat with a note on the operations between SPPE and the State budget for 2008 and 2009. The note will include the link between the information in

table on reconciliation of cash flows provided before the mission and EDP tables 2A and 3B⁵.

Action point 10: Eurostat took note that, for the April 2011 EDP notification, the "remboursement de l'avance SPPE" of 600 mill. euro will be reclassified in loans (F.4), instead of shares and other equity (F.5), in EDP table 2A⁵.

Action point 11: Eurostat took note that INSEE will correct the recording of transfers of shares from ERAP (classified in ODAC) to the State from transaction in F.5 into transactions in F.7, in EDP table 2A, with no impact on EDP B.9⁵.

2) other accounts receivable/payable and reconciliation with table 3B

INSEE provided Eurostat, prior to the mission, with a note and a table on the reconciliation of other accounts receivable/payable (F.7) in EDP tables 2A and 3B.

Eurostat mentioned the difficulties to reconcile the transactions in other accounts receivable/payable between tables 2A and 3B. Some of the differences can be the result of the time coverage ("période complémentaire") or unit coverage (State and ODAC). However, others can not be so easily explained and need further analysis.

While recognising that a change in the recording will have no impact on the deficit, Eurostat enquired on the nature of some transactions under "financial transactions included in the working balance", and wondered if those transactions should not be reclassified to other accounts receivable/payable (F.7), for example in the case of correction for military expenditure.

INSEE agreed that the correction for military expenditure (time lag between the cash payment and deliveries), which has been recorded under « financial transactions included in the working balance », has the nature of a receivable rather than "other financial transaction". Eurostat asked INSEE to correct the reporting in table 2A.

Eurostat explained that the amounts reported in table 7 "Military equipment" of the Questionnaire related to EDP notification, should be in line with the correction for military equipment in table 2A and asked INSEE to improve the reporting. Eurostat also mentioned that the amounts payable and the stocks of receivables and payables are missing in table 7.

Findings and conclusions

Action point 13: Eurostat took note that the correction for military equipment will be recorded in EDP table 2A, in April 2011, in the lines "other accounts receivable" and "other accounts payable" rather than "other financial transactions". Table 7 of the Questionnaire relating to the EDP notification will be improved by the reporting of the amounts payable as well as the stocks for both receivable and payable⁵.

3) correction for interest accrued

At the request of Eurostat, INSEE sent a note and a table on the recording of interest for the year 2009, prior to the mission.

Eurostat asked the French statistical authorities to explain the inconsistency between the figures reported in tables 2A and 3B for year 2009.

INSEE explained that the inconsistency was due to the fact that "primes et décotes" were recorded as F.7 and not in the financial instruments. Eurostat agreed with a correction in the forthcoming EDP notification.

⁵ Action points 9, 10, 11 and 13 were implemented in April 2011.

Eurostat also requested the detail of interest by instruments: loans, securities, etc. as well as on interest reported in other adjustment lines, other than “difference between interest accrued and paid”, in EDP table 2A.

Findings and conclusions

Action point 15: INSEE will send to Eurostat, before March 2011, the tables on interest by instruments provided prior to the mission, corrected and completed by instruments⁶.

Table 2C (local government)

Eurostat took note that the working balance of the local government is on an accrual basis, however it stated that, possibly, some accrual corrections are necessary due to the ODAL (Organismes divers d'administration locale) and "budgets annexes, communes, regions et départements".

Eurostat asked for an explanation on why there is no correction for the difference between interest paid and accrued and other accounts receivable/payable for local government. INSEE stressed that, in principle, there is no need to make the correction because the working balance is on an accrual basis.

Eurostat asked for a confirmation that financial transactions are never included in the working balance of the local government.

INSEE was not in a position to confirm this and promised to investigate the issue.

Findings and conclusions

Action point 16: INSEE will improve the reporting in table 2C for other accounts receivable/payable and will check that the working balance of Table 2C does not include financial transactions⁷.

Table 2D (social security funds)

Eurostat wondered why data on the adjustments lines for 2009 are still not available and insisted that INSEE should estimate other accounts receivable and payable.

INSEE explained that for the October EDP notification an estimation can be done, but for April it would not be feasible.

Eurostat inquired if the interest for social security is calculated on an accrual basis. INSEE was not sure and promised to investigate.

Findings and conclusions

Action point 17: INSEE will check and inform Eurostat if interest in table 2D is calculated on an accrual basis and will provide, from now onwards, accounts receivable/payable for year n-1 in EDP tables of October year n⁶.

EDP Table 3 (A, B, D and E)

Introduction

In addition to the issues relating to the link between some adjustments, mainly financial transactions and interest, already discussed, other aspects related to tables 3 were analysed: detail of loans (increase/reduction) in table 3B, and short term loans in table 3E.

⁶ Action points 15 and 17 are not yet implemented.

⁷ Action point implemented in April 2011.

Discussion and methodological analysis

Table 3B

Eurostat enquired on the work to collect data on increase and reduction of loans.

INSEE confirmed that the required information exists at DGFIP and that some progress can be done by compiling, at first, the data for the State for the forthcoming EDP notification.

Eurostat required INSEE to produce a complete table 3 only for the State (EDP table 3B1) as a first step. In the future, an improvement would be expected also for the other sub-sector tables on the transition from the deficit/surplus to the change in debt.

Table 3E

Eurostat asked for explanations about the increase of short-term loans due to "avances sur investissements par les hôpitaux". This had also been discussed in October 2010.

INSEE explained that these were amounts paid in advance (5% of the amount of the contracts) by hospitals for some investment projects, which were considered as short term loans. For the April 2011 EDP notification they will be reclassified as F.7.

Findings and conclusions

Action point 12: Before March 2011 INSEE will provide Eurostat with EDP tables 3B1 and 3B2, using data reported in October 2010⁸.

Action point 14: Eurostat took note that, for the April 2011 EDP notification, "primes et décotes à l'émission" for 2009 will be revised in EDP table 3B⁸.

Action point 18: INSEE will do the necessary to split the figures on loans into increase and decrease, starting with the EDP notification of April 2011 for EDP table 3B and of April 2012 for table 3D; the same split should be also provided for EDP table 3E in the future⁸.

Action point 19: For the April 2011 EDP notification, INSEE will reclassify "avances sur investissements par les hopitaux" from loans (F.4) to other accounts (F.7), in EDP table 3E⁸.

Other issues relating to local government sub-sector

Discussion and methodological analysis

Eurostat enquired to which extent INSEE makes the market/non-market test for public corporations for local government. Eurostat also asked about capital injections to public corporations undertaken by the local authorities.

INSEE explained that there are many public corporations at the local government level and that the 50% test is normally done at the level of activity (on the basis of NACE data) rather than for individual entities. When a new entity is created, it is classified as market or non-market, according to the classification of the existing units in the same activity.

Eurostat requested information about the dividends received by local government and wanted to know if INSEE regularly applies the superdividend test.

INSEE explained that an analysis of the dividend and superdividend test is very difficult at the level of local government due to the considerable number of units.

Findings and conclusions

⁸ Action points 12, 14, 18 and 19 were implemented in April 2011.

*Action point 20: INSEE will provide Eurostat, as soon as possible, with a note on sub-sector delimitation of local government (including explanation on market/non-market distinction and super-dividend test for local government entities)*⁹.

4. Methodological issues and recording of specific government transactions

4.1 Debt assumptions, debt cancellations, debt write-offs and foreign claims

- Recognition of part of the debt of RFF as public debt

Introduction

The issue of recognition of part of the debt of RFF (Réseau Ferré de France) as public debt had already been discussed in the previous EDP dialogue visit and it has been a subject for discussion and exchanges of documentation between Eurostat and INSEE since then. The discussions were based on the report of the French Court of Auditors ("Cour des Comptes") for 2008, about the reform of the railways in France. In that report, it was stated that, because RFF seems not being able to reimburse all of the railways infrastructure debt for the "dette non-amortisable", the government should necessarily take over this part of the debt.

Eurostat stressed that INSEE should analyse the economic/financial situation of RFF to decide on whether it should be reclassified in the government sector, as a non-market corporation, or whether to include at least part of its debt into the government debt.

Discussion and methodological analysis

Eurostat explained that, to the extent that government was making large annual transfers¹⁰ to RFF, which are almost equal to the interest paid by RFF on its debt, this should be regarded as if, de facto, government is servicing the debt of RFF.

INSEE recalled the fact that the report was an opinion of the Court, with no amount established with full certainty. They wondered, in case some amounts could be reclassified, how to estimate the exact amounts to be reclassified. INSEE also recalled that the capital injections into RFF are recorded as capital transfers in national accounts, thus impacting the government EDP B.9.

Eurostat recalled that in similar cases, in other EU Member States (for example the case of ISPA- Infrastrutture S.p.A in Italy), the whole debt had been reclassified as government debt.

Eurostat analysed RFF's financial report for year 2009 and the "rapport sur le remboursement progressif de la dette de RFF" of 23/09/2009. Eurostat informed INSEE about the hearing of the CEO of RFF, by the French Senate in September 2010, when it was recognised that RFF is not in a position to reimburse its debt before 2020 ("une partie de cette dette sera perpetuelle").

Eurostat also mentioned that the losses accumulated by RFF since 1998, as well as the negative own funds (fonds propres négatifs) in the profit and balance sheet of the year 2009, should be taken into consideration. Eurostat advised INSEE to envisage at least a reclassification of part of the debt of RFF as government debt, based on the evolution of the economic/financial situation of RFF in the recent years and on the report of the Court of Auditors.

⁹ Action point not yet implemented.

¹⁰ The contribution is called "contribution au désendettement" (debt reduction grant) and is attributed to the debt servicing.

INSEE argued that the economic and financial situation of RFF had improved in 2009 and that RFF had 40 bn euro "d'immobilisation (37%) and 25 bn euro of "dette financière". Also INSEE stressed that the amounts which might be reclassified as government debt can not be determined in an unquestionable way.

Eurostat suggested to INSEE to estimate the amount related to the “subvention d’investissement” and “immobilisations”, which can be assimilated, at least partially, to debt to be assumed by the government.

INSEE recognised that the issue of infrastructure companies deserves more reflection and that it needs more description and guidance about the recording of the transactions.

Eurostat recalled that, in the EU, public railway infrastructure companies are in almost all Member States either classified inside the government sector, or that all or part of their debt is recorded as government debt.

Findings and conclusions

Action point 21: Eurostat express doubts on the capacity of RFF (Reseau Ferré de France) to reimburse its debt, on the basis of the accounts of the enterprise, recent declarations of the PdG of RFF at the French Senate and comparisons between the case of RFF and cases concerning similar entities in other Member States recently reclassified in the general government sector. Eurostat will send a letter to INSEE taking into account a number of factors for possible reclassification of part of the debt of RFF as government debt.

4.2 Government guarantees

Introduction

At the request of Eurostat, INSEE provided a set of tables on debt of companies benefitting from government guarantees. These were analysed in connection with the tables on claims and guarantees of the Questionnaire related to EDP of October 2010.

Discussion and methodological analysis

Eurostat inquired about the coverage of the table on debt of companies benefitting from government guarantees, as it seemed that RFF was not included.

INSEE confirmed and explained that this is normal, as RFF does not benefit from government guarantees. Also in table 9 of the Questionnaire relating to the EDP notification, only data concerning the State are reported.

Eurostat requested that the information in table 9 on guarantees be more detailed, including data by beneficiaries and by nature.

Eurostat enquired if data from the local government would be available. INSEE explained that this kind of information is not available.

Findings and conclusions

Action point 22: For the April 2011 EDP notification, INSEE will complete the tables on guarantees (tables 9.1-9.3) in the Questionnaire relating to EDP notification¹¹.

4.3 Delimitation of general government sub-sectors

- Sub-sector classification of CADES and FRR

¹¹ Action point implemented in April 2011.

Introduction

During the EDP notification of October 2010, INSEE was asked to reconsider the recording of the debt of ASSO (administration de sécurité sociale) assumed by CADES. The operation has been recorded in EDP tables 3B and 3E as a change in sub-sector classification, without impact on the EDP table 3A, due to consolidation: for 2008 and 2009 the impact on the change in sub-sectors' debt was about 0.8% of GDP, however there was no impact on the general government sector.

Discussion and methodological analysis

At the request of Eurostat, INSEE explained the rationale of the initial sub-sector classification of the CADES and the reasons for its reclassification. INSEE stressed that in April 2011, CADES will be reclassified from ODAC to ASSO and argued that the revision of the sub-sector data in October 2010 would be difficult to explain to the data users. In April/May 2011 there will be a revision of all national accounts data ("changement de base") and the recording will be corrected. At the same time, another entity (Fonds de réserve des retraites - FRR) will be reclassified.

Eurostat inquired if the social security bodies will be financed from taxes or from social contributions.

INSEE explained that the financing for FRR has changed, from UMTS, privatisations, etc, to social contributions.

Findings and conclusions

Action point 23: Based on the explanations provided so far by the French statistical authorities, Eurostat agrees with the reclassification of CADES and FRR from the central government sub-sector into the social-security sub-sector for the April 2011 EDP notification.

4.4 Public Private Partnerships (PPP)

Introduction

Since the last Eurostat EDP dialogue visit, the French authorities reported, in the Questionnaire related to EDP, several PPP projects concerning the building of prisons. All of them are recorded on balance sheet of the government sector. However, Eurostat wondered whether the list is exhaustive and also asked about the analysis of the risks undertaken by the French authorities, the treatment of guarantees relating to PPP contracts in the context of the financial crisis and the "Cession Dally".

Discussion and methodological analysis

a) Risk analysis/penalties

At the request of Eurostat, INSEE confirmed that the list provided in table 11 (on PPPs) of the Questionnaire related to the EDP notification was exhaustive, and that it contained all PPPs for prisons which have been delivered.

Eurostat inquired if INSEE has information about the PPP projects at the level of local government. Eurostat recalled that other Member States analyse the projects from the beginning, and record work in progress for PPP projects.

INSEE explained that all data on PPP projects are collected by the Ministry of Finance and that the assets in the PPP projects are recorded only at the moment of delivery.

Eurostat explained that it had been observed, in the case of some contracts related to prisons,

that the level of penalties was low, almost without effect on the profitability of the partner. This would be an indication that the private partner takes a low risk.

Findings and conclusions

Eurostat took note that the French authorities do not record work in progress for the PPP projects.

Eurostat invited INSEE to find out if other PPP contracts contain the low penalties provisions.

b) Investment expenditure/design

Introduction

Eurostat recalled that in a PPP contract, there must be a significant initial capital expenditure, including in the case of refurbishment of an existing public asset. In some long term contracts, in France and in other Member States, it seems that this initial expenditure is rather small, so that the contracts could be rather considered as a contract for service provision and not as a PPP.

Discussion and methodological analysis

Eurostat asked if INSEE was aware of such contracts, for example in the case of street lightning (éclairage public).

INSEE explained that Gross Fixed Capital Formation (GFCF) is recorded only at the moment of delivery.

Findings and conclusions

Eurostat took note of the explanations provided by INSEE.

c) Cessions Dailly

Introduction

Eurostat recalled that this instrument had been introduced in the 90s to simplify the bank financing of commercial claims held by firms, replacing for heavier and traditional procedures. The application has been extended to claims held on government units. PPP contracts often include such clauses for the part of the future payments related to the amortisation of the cost of the construction, taken in charge by the private partner. This normally results in a lower cost of financing, as the banks will hold a claim on government units, when refinancing takes place.

Discussion and methodological analysis

Eurostat expressed its concern about this issue and that it could be in contradiction with the provisions of the new MGDD chapter on guarantees.

INSEE explained that the "Cession Dailly" is covered by the regular payments.

Findings and conclusions

Eurostat took note of the explanations provided by INSEE.

d) Guarantees in the context of the financial crisis

Introduction

Eurostat recalled that, in the context of the financial crisis, the Law 2009-179 of 17 February

2009, allows a public financing of PPPs that may be more than 50% of the final cost.

Eurostat drew the attention to the fact that the provisions of this law should be applied temporarily in case of shortfalls of financing resources; otherwise its application would raise strong reservations concerning the implementation of MGDD provisions.

Discussion and methodological analysis

Eurostat recalled that the rules strictly forbid a guarantee of more than 50% and wondered how INSEE would apply the provisions of the Law 2009-1674 of 30 December 2009 which allows government guarantees for PPP contracts (but not exclusively) that could cover up to 80% of the financing obtained from banks on markets.

e) Planned PPP projects

Eurostat inquired about the existence of contracts in 2010 and in the near future, and if a specific financial body for the relief of the financing of PPPs has been already set up.

INSEE was not aware if a decision has been taken on the setting up of a financing body.

Findings and conclusions

Action point 24: INSEE will obtain, as soon as possible, information on the availability of data on PPPs for the local government sub-sector¹².

4.5 Accrual taxes and social contributions

- New questionnaire on the methods used for recording taxes and social contributions

Introduction

According to the INSEE's reply to the new questionnaire for recording taxes and social contributions, the time adjusted cash method is used by France for VAT (D211), excise duties (D.214), taxes on the income and profits of corporations (D51B), and assessments and declarations are used for taxes on employment (D51A), other taxes, as well as for social contributions (D611). For the assessments and declarations method, a capital transfer is recorded for the amounts unlikely to be collected.

The main issues discussed were the recording of penalties and interest on late payment of taxes, as well as the availability of information for social contributions.

Discussion and methodological analysis

Eurostat enquired about interest in case of payment delays (intérêts de retard) and penalties and on whether they are recorded as D.41 or as D.75. INSEE explained that these are recorded as D.75.

Eurostat enquired about the time lag for taxes, when the method for recording in national accounts is the time adjusted cash method, and invited INSEE to complete the list of national taxes in the questionnaire and resend it to Eurostat.

INSEE explained that this depends on the type of taxes and agreed to provide the information in the questionnaire, before the end of the year.

Eurostat inquired on the recording of social contributions and why that part of the questionnaire is not filled in.

¹² In October 2011 INSEE informed Eurostat that the list of PPPs for the local government was available.

The French statistical authorities explained that the detail is not available for the provisional accounts and suggested to retransmit a revised questionnaire.

In relation to table 5 of the Questionnaire related to the EDP notification tables, Eurostat inquired on the reason why the data for year n-1 on D.611 is not provided and if INSEE can make progress on this issue.

Findings and conclusions

Action point 25: INSEE will complete the new questionnaire on taxes and social contributions and resend it to Eurostat before the end of 2010¹³.

Action point 26: INSEE will investigate the possibility to report the information on receivables for D.611 for the year n-1, in table 5 of the Questionnaire relating to EDP notification¹⁴.

4.6 Derivatives: Swap cancellations, Off-market swaps, Options

- Local government (“toxic assets”)

Introduction

The French statistical authorities answered to one of the previous requests for clarification by Eurostat related to off-market swaps, specifying that the central government (AFT and CADES) did not contract off-market swaps, interest options or swaptions. Swap cancellations have occurred only for CADES.

Discussion and methodological analysis

In the context of the so-called "toxic assets", it has been reported that some local units entered into specific contracts where swaps could be part of the structured loans.

Eurostat inquired if INSEE can obtain information of possible "non-standard" swaps for local government.

INSEE explained the difficulties to obtain complete information from the big number of local authorities at regional, departmental, municipalities and communes level.

Eurostat also asked if INSEE has been informed on contractual revisions or amendments of some "structured products". INSEE told Eurostat that it had no information on those products. Eurostat considers that some progress on the issue should be made.

Findings and conclusions

Eurostat took note of the lack of information on the issue available to French statistical authorities.

4.7 Other:

- a) Sales of government real estate and all related assets

Introduction

Eurostat explained that, from a methodological perspective, it would need more information on the implications of the “clauses d’intéressement” observed in some cases, notably for “prestige” buildings. Eurostat wondered if such clauses (whose extension has been recommended by the Court of Auditors) are not in contradiction with the “true sale” principle

¹³ Action point implemented in December 2010.

¹⁴ Action point not yet implemented. INSEE committed itself to implement it by April 2012.

in national accounts.

Discussion and methodological analysis

Eurostat asked about the current status of the programme of sales of real estate owned by central government units and whether local government has made such sales.

INSEE explained that they are not informed about this issue but that the information on those clauses could be obtained from France Domaine. It will check if the clauses are applied systematically to the sales of assets by the government bodies.

Findings and conclusions

Action point 27: INSEE will investigate and inform Eurostat on the "clause d'intéressement" in the case of "cessions de biens immobiliers de prestige par France-domaine", in view of the relevant future classification and possible reclassifications of the operations already undertaken¹⁵.

b) Sales of military telecommunications satellites

Introduction

From 2008 onwards, in the context of “financements innovants”, the French economic press has several times mentioned the project of the Ministry of Defence to sell a military satellite to a private partner, and then to rent the needed frequency.

Discussions and methodological analysis

Eurostat asked if this project (mentioned again in 2010) was still under consideration and if INSEE has been consulted about the recording of the transaction.

INSEE has indeed been consulted and its opinion was that this can not be considered a true sale.

5. Any other issues – “précompte mobilier”

Discussions and methodological analysis

Eurostat inquired about the decision of the High Court of the Administrative Justice to require the State to reimburse the “précompte mobilier”, (about 900 millions euro) and stressed that it is important to know in which year the accounts will be impacted: 2009, 2010 or 2011.

INSEE mentioned that the rule to be applied says to record the amount in the year when the final Court decision takes places, which in this case should be 2010.

Findings and conclusions

Action point 28: INSEE will investigate the impact of the "précompte mobilier" for 2010 provisions¹⁵.

¹⁵ Action points 27 and 28 not yet implemented.

Annex 1: List of participants

Name	Institution
Luca Ascoli	Eurostat
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