



EUROPEAN COMMISSION
EUROSTAT

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

Luxembourg, 28 April 2009

– **FINAL FINDINGS** –

EDP dialogue visit to Luxembourg

19 February 2009

Executive summary

The EDP dialogue visit to Luxembourg took place on 19 February 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 (sectorization of units, accrual principles), to assure that provisions from the ESA95 Manual on Government 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 transmission programme tables and the consistency of these data with EDP statistics (as requested by the Regulation (EC) 3605/1993, as amended).

First, Eurostat discussed with the Luxembourg authorities the institutional arrangements and source data used for the compilation of government finance statistics, and found that the arrangements are solid and well established. Eurostat welcomed the formalisation of cooperation between the data providers.

As far as the analysis of the October 2008 EDP notification is concerned, Eurostat examined in detail the tables of the EDP reporting. Eurostat invited STATEC to investigate the possibility of splitting loans between increase and decrease for local government and social security sub-sectors.

The follow-up of Council Regulation 2516/2000 and the recording of other transactions on an accrual basis were discussed. STATEC promised to investigate as soon as possible the recording of interest for local government whether the ESA95 rules can be fully applied. As regards of other accounts payables / receivables (F.7), Eurostat stressed the importance of reporting detailed information. Eurostat appreciates STATEC's commitment to provide full information on stocks and flows of other accounts payables / receivables in the context of the October 2009 EDP notification. Regarding taxes, the Luxembourgish authorities will provide detailed information on transactions and stocks in the EDP related questionnaire.

The implementation of the recent Eurostat's methodological decisions and compliance with the rules given by the ESA95 Manual on Government Deficit and Debt were discussed, as the delimitation of general government sector, the treatment of capital injections, debt assumptions, debt cancellations, state guarantees, military equipment expenditure, PPP projects and EU flows. It was noted that these are in line with the decisions taken by Eurostat. As regard of the EU flows, STATEC promised to provide Eurostat with a note on explaining the corrections implemented for the April 2009 EDP notification and STATEC will fill the table on EU flows in the EDP related questionnaire in the April 2009 EDP notification.

Eurostat took note of the current situation as far as the accounting implications of the financial turmoil is concerned, and invited STATEC to inform Eurostat on new developments and seek the advice of Eurostat on complicated cases, if needed.

The meeting was constructive and Eurostat welcomed the well structured and comprehensive approach to EDP related work. Eurostat also appreciated the additional documentation provided before the meeting by the Luxembourgish authorities.

Final Findings

Introduction

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005, amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in Luxembourg on 19 February 2009.

Eurostat was represented by Mr. Luca Ascoli, head of unit C.3, Mr. Jean-Pierre Dupuis, unit C.3, Ivaná Jablonská, unit C.3 and Ms Ágota Krénusz, unit C.3. The representative of the European Central Bank (ECB) also participated in the meeting as observer.

Representatives of STATEC (Service central de la statistique et des études économiques), the Ministry of Finance, the Inspection générale des finances (IGF), Inspection Générale de la Sécurité Sociale (IGSS), the Ministry of Interior, the Trésorerie, and the Central Bank (Banque Central du Luxembourg – BCL) were present.

Eurostat carried out this EDP dialogue visit 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 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 principles), 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 Luxembourgish EDP tables and national accounts.

In relation to procedural arrangements, Eurostat explained the new procedure, in accordance with article 8 of Regulation 3605/1993 as amended, indicating that the *Main conclusions and action points* would be sent within days to the Luxembourgish statistical authorities, who may provide comments. Within weeks, the *Provisional findings* would be sent to the Luxembourgish statistical authorities in draft form 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 Luxembourgish authorities during the dialogue visit. Eurostat thanked the Luxembourgish authorities for the information, for the documentation provided before the dialogue visit and for the cooperation demonstrated.

1. Statistical capacity issues

1.1. Institutional responsibilities in the framework of the reporting of data under the Excessive Deficit Procedure and government finance statistics compilation

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 Inspection Générale des Finances (IGF) is the EDP reporting authority in the context of the Regulation 3605/93, as amended, and delivered the October 2008 EDP tables to Eurostat. STATEC is in charge of compiling all ESA95 data, including the current year. The Luxembourgish authorities gave account of the establishment of a formal working group involving the main data providers (STATEC, the Ministry of Finance, the Inspection générale des finances (IGF), Inspection Générale de la Sécurité Sociale (IGSS), the Ministry of Interior and the Trésorerie). Eurostat stressed that the BCL could also be associated in the process as in many other Member States, especially for discussing methodological issues which might be the object of CMFB consultation.¹

Eurostat reminded STATEC that it is essential to receive the EDP related questionnaire before the deadline together with the EDP tables for the assessment of the notification. STATEC promised to send the EDP related questionnaire tables on time in the next April 2009 EDP notification.

Findings and conclusions

Eurostat welcomed the formalisation of procedures between STATEC, the IGF, the Ministry of Interior and the IGSS since the last dialogue visit, but invited STATEC to consider possibility of associating the BCL in the process, as in many other Member States, especially for discussing methodological issues which might be the object of CMFB consultation. STATEC will make an effort to send EDP tables and EDP related questionnaire tables on time in the next EDP notifications.

1.2. Data sources, EDP inventory

Introduction

Eurostat enquired about the exhaustiveness, timeliness and consistency of data sources used in compilation of government finance statistics.

Discussion and methodological analysis

The main data sources providers are the Ministry of Finance, IGF, IGSS, the Treasury and the Ministry of Interior.

¹ STATEC explained in its comments to the Main conclusions and action points that the BCL does not contribute to the production of government finance statistics (not even in the compilation of financial accounts), therefore it is not necessary to cooperate on a daily basis. STATEC confirmed however that it will consult the Central Bank in case of methodological questions.

As regards data sources for central government, it was reported that figures for the "State" are taken from the budget (planned) and from general accounts (that is, the budget as executed). The source of these data is the General Inspection of Finance and the Treasury. As regards data sources for local government, the Ministry of Interior is the data provider. The social security funds sub-sector data are provided by the IGSS which has access to the internal accounting systems of social security funds.

To the inquiry of Eurostat, STATEC presented the new Volume of the budget (Volume 3), showing the transition between the public accounts and ESA 95 which was published since the last EDP visit.

Eurostat took note of the Luxembourgish authorities' explanation regarding the revision policy in national accounts and in fiscal accounts. The national accounts data are subject to a benchmark revision every 5 years. Every October the figures of the four previous years are revised. Eurostat noted a pattern of noticeable revisions in the EDP data notified by LU.

The Luxembourgish authorities explained that the revisions can be explained by several reasons. First, the budget expenditure is always overestimated, so the forecast figures are always higher than the outcome. Second, some large revisions may originate from the recording of taxes, (VAT reimbursements, company income taxes). Third, the accounts of the special funds always arrive after the first notification period.

Nevertheless, the Luxembourgish authorities mentioned that they made progress since the last dialogue visit, as an agreement was reached concerning the deadlines and responsibilities between the different data sources. Eurostat acknowledged the progress made.

Eurostat enquired about the revisions made between the October 2007 and April 2008 EDP notifications for the years 2006 and 2007, and between the April 2007 and October 2007 EDP notifications for the year 2006. STATEC will come back with explanations to Eurostat on these issues.

Findings and conclusions

Eurostat took note of these explanations and found that the situation is generally sound, and improvements on the way are encouraging. Eurostat also took note of the establishment of an official calendar for the transmission of data by different data sources to STATEC which should result in an improvement of timeliness and stability of data provided for year n-1 in the context of the April EDP notification of year n. STATEC will investigate the exact reasons for the revisions between the October 2007 and April 2008 EDP notifications for year 2006 and 2007, and between the April 2007 and October 2007 EDP notifications for year 2006 and report to Eurostat on the issue as soon as possible (*Action point 5*).²

2. Excessive Deficit Procedure reporting

Introduction

A few questions concerning the October 2008 EDP notification were discussed.

² STATEC provided an EXCEL file with explanations of revisions on 30 March 2009.

Discussion and methodological analysis

Concerning timeliness, Eurostat indicated that the EDP tables (forecast) and especially the EDP related questionnaire do not arrive before the legal deadline. The STATEC stated that it will try to send the EDP related questionnaire on time in the next EDP notification.

Concerning the coverage (the split of loans between increase and decrease) Eurostat invited STATEC to investigate in cooperation with the IGSS the possibility of producing the split for local government and social security sub-sectors and report to Eurostat on this issue as soon as possible.

Eurostat enquired why there were no adjustments for financial transactions included in the working balance in EDP table 2D. STATEC explained that since the social security institutional units use commercial accounting, there is no need for such adjustment.

Findings and conclusions

Eurostat took note of the explanations and asked STATEC to report on the possibility of splitting loans between increase and decrease for local government and social security sub-sectors as soon as possible (*Action point 2*).³

3. Main methodological issues

3.1. Delimitation of general government sector

Introduction

Eurostat enquired about the arrangements concerning delimitation issues.

Discussion

The classification of the transportation units was discussed. Concerning Luxairport, STATEC explained that the management and the infrastructure are separate institutional units, and while the management company is classified in the non-financial corporation sector, the construction was financed by the Fonds de loi de garantie, therefore it is on government's balance sheet. Similarly, the railway company (CFL) owned and controlled by government forms two institutional units: the infrastructure is classified inside government while the passenger and freight transport company is a market unit. The bus company TAVL is owned by the city of Luxembourg and is classified in local government. The bus company TICE is operated by a local syndicate and it complies with the 50% rule: therefore it is classified outside government.

Eurostat also enquired about the classification of hospitals. STATEC explained that both public and private hospitals are classified outside general government. All the hospitals are reimbursed based on the same public financing system. The employees of the hospitals (either private or public) are not government officials.

Findings and conclusions

Eurostat took note of these explanations.

³ The Luxembourgish authorities reported the split of loans in EDP tables 3 in the April 2009 EDP notification.

3.2. Implementation of accrual principle

3.2.1. Reporting of other payables/receivables

Introduction

Luxembourg does not report other accounts receivable/payable in EDP Tables 3 and because this is unique in Europe, this has been discussed already during several occasions with the Luxembourgish authorities.

Discussion

The STATEC representatives explained that they are working on the compilation of complete other accounts receivable/payable, and most probably they will be able to provide the full financial accounts and the missing figures in the EDP tables by the October 2009 EDP notification. Eurostat welcomed this and stressed its importance. STATEC also explained that its principal problem is that it has to estimate F.7 from the statistical discrepancies, because no reliable information on stocks is available. Also the consolidation inside the social security subsector might pose a problem.

Findings and conclusions

Eurostat, while understanding STATEC's position, emphasized the importance of reporting detailed information on other accounts payables / receivables (F.7). STATEC will provide for the April 2009 EDP notification information on F.7 in table 4.1 and 4.2. in the "Annex to the request for clarification" (**Action point 3**).⁴ Eurostat appreciates STATEC's commitment to provide full information on stocks and flows of other accounts payables / receivables in the context of the October 2009 EDP notification (**Action point 4**).

3.2.2. Taxes and social contributions (EC Regulation 2516/2000)

Introduction

Eurostat enquired about the recording of taxes and social contributions, especially because the current recording caused considerable revisions in previous EDP notifications.

Discussion

The STATEC representatives explained that they comply with regulation 2516/2000 as regards the recording of taxes. The recording of the company tax was changed in 2001, therefore revisions are only allowed now until 4 years after the reference period. The current recording of the value added tax might also cause revisions because the figures for year n-1 in the April EDP notification of year n are estimations. The Luxembourgish authorities explained that the "*caisse transactionalisée*" method that they use complies with Regulation 2516/2000, as this is a time adjusted recording concept. Eurostat underlined that this recording method implies constant revisions but the Luxembourgish authorities emphasized that there are in fact only minor revisions concerning the VAT.

⁴ These tables were filled in partially in the April 2009 EDP notification.

Eurostat noted that the the LU authorities did not provide table I of the *questionnaire related to the notification tables*, that reports transactions and stocks of tax receivables, and asked the LU authorities to send this table in the next EDP notification, as the relevant data seems to be available.

Findings and conclusions

STATEC will provide in the next April 2009 EDP notification table I on taxes and social contributions of the EDP related questionnaire (**Action Point 6**).⁵

3.2.3. Calculation of accrued interest

Introduction

Prior to the mission, the Luxembourgish authorities sent to Eurostat a detailed document about the recording of interest. Eurostat thanked for this detailed description, and discussed the document with the Luxembourgish authorities.

Discussion

Eurostat enquired about the recording of interest for local government, as it seemed from the note that the accrual accounting is not followed. The Luxembourgish authorities explained that local authorities have only bank loans and only the city of Luxembourg had issued long term bonds, which were fully reimbursed in 2004, therefore the accrual recording has not been considered a priority. Eurostat asked STATEC to examine this problem in cooperation with the Ministry of Interior and report to Eurostat.

Findings and conclusions

STATEC will contact the Ministry of Interior to see the possibility of applying ESA95 as far as the recording of interest of local government is concerned.

STATEC will provide Eurostat as soon as possible with a note on the recording of interest for local government underlining whether the ESA95 rules can be fully applied (contrary to the present recording) and if not, whether such corrections are deemed to be important or not in national accounts. (**Action point 1**).

⁵ STATEC provided Table I of the EDP related questionnaire in the April 2009 EDP notification.

3.3. Recording of specific government transactions

3.3.1. Capital injections in public corporations, super-dividends and privatizations

Introduction

Eurostat enquired about the capital injections of general government. The Luxembourgish authorities sent a document on capital injections for the period of 2004-2007 in advance to Eurostat.

Discussion

Eurostat enquired about the capital injection of the government into SNCI (Société national de crédit et d'investissement). STATEC explained that the SNCI is specialised in providing loans to corporations and that it is a market unit. The capital injection in 2007 treated as equity injection was to raise capital. This has been already included in the budget in 2006 but it was done only in 2007; therefore an adjustment is made in EDP table 2A as well. Eurostat asked for the accounts of SNCI for 2005-2008.

Findings and conclusions

Eurostat appreciated the document sent and the explanations provided by the Luxembourgish authorities and asked STATEC to provide Eurostat with the accounts for the SNCI for the years 2005-2008 in the context of the capital injection of government in SNCI in 2007 (*Action point 7*).⁶

3.3.2. Public Private Partnerships

Introduction

Eurostat enquired about the arrangements concerning Public Private Partnerships. The Luxembourgish authorities sent to Eurostat a document describing the arrangements and including a list of the current projects prior to the visit.

Discussion

Eurostat read and discussed the institutional arrangements concerning PPPs. It was confirmed by the Luxembourgish authorities that PPPs are financed by the Fonds de loi de garantie. STATEC also explained that since the Eurostat decision on PPPs, after a thorough investigation, all projects financed by this fund are on government's balance sheet.

Findings and conclusions

Eurostat found the arrangements concerning PPPs sound and acknowledged that the Luxembourgish authorities follow the Eurostat decision.

⁶ STATEC sent Eurostat the Annual statements of SNCI on 06 March 2009.

3.3.3. EU flows

Introduction

The neutralization of EU flows was discussed.

Discussion

The Luxembourgish authorities have explained that they undertook a thorough examination of data recently and the adjustments will be modified for the next EDP notification.

Concerning the agricultural flows it was explained that neither the revenue nor the expenditures enter the budget, therefore no adjustment is made. As regards the structural funds, STATEC explained that the final recipients are mostly private companies, and so these flows do not go through the government accounts. This has to be further examined. The Luxembourgish authorities will send a note explaining the different flows and their impact on the net borrowing/net lending.

The Luxembourgish authorities confirmed that they will fill in the EDP related questionnaire on EU flows in the April 2009 EDP notification.

Findings and conclusions

STATEC will provide Eurostat with a note on EU flows explaining the corrections implemented for the April 2009 EDP notification and will fill the table on EU flows in the EDP related questionnaire in the April 2009 EDP notification (*Action point 8*).⁷

3.3.4. State Guarantees, debt assumptions, debt cancellations, and debt-write-offs – Financial crisis

Introduction

Eurostat enquired on state guarantees, debt assumptions, cancellations and write-offs. Eurostat also asked about the recording of government interventions in the financial turmoil.

Discussion

The Luxembourgish authorities explained that the guarantee agency (AGDL) is classified outside government, because it is financed by the financial institutions.

STATEC also explained the current state of play concerning the government operations in DEXIA and Fortis Luxembourg.

Findings and conclusions

Eurostat took note of the current situation as far as the accounting implications of the financial turmoil are concerned, and invited STATEC to inform Eurostat on new developments and seek the advice of Eurostat on complex cases, if needed.

⁷ Statec provided Table II of the EDP related questionnaire on EU flows in the April 2009 EDP notification.

3.3.6. Other

Introduction

STATEC and Eurostat shortly discussed the issue of carbon trading rights and the issue of military expenditures.

Discussion

As regards the military expenditures, the Luxembourgish authorities informed Eurostat that there are no changes, compared to the previous EDP visit and that the Eurostat decision is applied.

As regards the carbon trading rights, STATEC explained that a Kyoto Fund has been established to purchase carbon trading rights on the market, and this Fund is classified inside government. The first intervention of the fund is planned for 2009.

Findings and conclusions

Eurostat took note of these explanations.

Annex: List of participants

	Name	Institution	
1.	Luca Ascoli	Eurostat, Head of Unit C.3 – Public Finance	
2.	Jena-Pierre Dupuis	Eurostat, Unit C.3 – Public Finance	-
3.	Ivana Jablonská	Eurostat, Unit C.3 – Public Finance	
4.	Ágota Krénusz	Eurostat, Unit C.3 – Public Finance	
5.	Christophe Duclos	ECB	
6.	Serge Allegrezza	STATEC - Director	
7.	Marc Origer	STATEC	
8.	David Soppelsa	STATEC	
9.	John Haas	STATEC	
10.	Amela Hubic	Banque Centrale de Luxembourg (BCL)	
11.	Michel Linden	Inspection Générale des Finances (IGF)	
12.	Vanolst Marc	Ministère de l'Intérieur	
13.	Tom Dominique	Inspection Générale de la Sécurité Sociale (IGSS)	
14.	Paul Hildgen	Trésorerie de l'État	
15.	Georges Heinrich	Ministère des Finances	