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-FINAL FINDINGS-

EDP dialogue visit to France

13 June 2008

Executive summary

An EDP dialogue visit to France took place on 13 June 2008 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 Debt and Deficit (MGDD) and recent Eurostat decisions are duly implemented, and that specific government transactions are properly recorded in the French EDP tables and national accounts.

Particular attention was given to the division of responsibilities for the compilation of EDP statistics and to discuss the quality of data sources because this had not taken place during recent missions. Responsibility has been divided in France so that INSEE is responsible for the national accounts of the general government sector (data for previous years) and the "Direction Générale du Trésor et de la Prévision Economique" (DGTPE) in the Ministry of Finance is responsible for the forecast of the current year. There are frequent bilateral meetings between the main data providing institutions. The DGFIP (Direction Générale des Finances publiques du ministère des Finances) collects all primary data for government units, in an exhaustive way, and transmits data to INSEE. INSEE makes some final statistical corrections and then validates the accounts. Almost final data are available in March of the following year, especially for central government and recently for local government sub-sectors.

Concerning EDP tables, Eurostat focused mainly on why for the most recent year there were so few details for local government and social security subsectors in Tables 2C and 2D. 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) and for shares (F5) in Tables 3D and 3E especially. INSEE committed to improve the situation.

The sectorisation of public radio and TV was discussed briefly. In France public radio and TV are classified as public corporations, outside of the general government sector. Eurostat pointed out that the draft guidance note of Eurostat states that licence fees should be recorded as taxes and some Member States have revised their treatment of license fees, but the discussion on this matter will continue at FAWG level. Public hospitals in France are classified inside general government, because INSEE considers that in spite of a recent reform, the service provided by public hospitals is still non-market, mainly financed with public money, provide a universal service, and the pricing system has no influence on demand. INSEE promised to update the questionnaire on methods for recording taxes and social contributions to also cover social contributions.

As far as compliance with the rules established by the MGDD are concerned, e.g. treatment of government guarantees, debt assumptions, debt cancellations, debt write-offs, dividends, military expenditures and EU flows, Eurostat took note of the explanations provided. For guarantees, Eurostat requested that data be provided separately for "Public corporations" and for "Others". As far as the recording of military equipment expenditures is concerned, it was agreed that INSEE will provide a note to Eurostat to explain how they have applied the transitional period. This is because France is one of the few countries who have opted to

benefit from the transitional period for implementing the relevant Eurostat rule (Eurostat decision on recording of military expenditure of 9.3.2006) in order to progressively apply the recording of transactions at the time of delivery. INSEE promised to provide a paper about recent views of the French "Cour des Comptes" on the partial recognition of the debt of the French railway infrastructure corporation (RFF). INSEE also promised to further investigate the sale of Polish debt to the financial markets in 1990's.

On the decommissioning of nuclear facilities (Marcoule) Eurostat informed INSEE that it will continue to reflect on the case. A recent guidance note of Eurostat concerning the recording of derivatives was discussed and INSEE promised to produce a note on the issue of the recording of lump sum payments related to swaps. Concerning Public Private Partnerships, INSEE had provided a note explaining the treatment envisaged for PPPs for the building of prisons. At first inspection, Eurostat expressed some disagreement for the proposed treatment of PPPs included at the note, but it was agreed that INSEE will provide a contract of an existing PPP project in France and discussions on the possible treatment on the accounts will be continued when a contract has been analysed. It was noted that government securitisation and sale and lease-back operations do not exist in France.

Finally, consistency between EDP tables and ESA Table 25 during the April EDP notification was reviewed and Eurostat took note that INSEE is currently not in a position to publish EDP tables coherently with quarterly accounts at the time of the April EDP notifications.

The meeting was constructive and Eurostat welcomed the transparent, well structured and comprehensive approach undertaken by the French authorities to EDP related work. Eurostat also appreciated the documentation provided by the French authorities prior to the dialogue visit.

Introduction

In accordance with article 8d of Council Regulation (EC) No 3605/93, as last amended by Council Regulation (EC) No 2103 of 12 December 2005 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 13 June 2008.

The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of the Eurostat Public Finance Unit (C3). 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 mission to France took place on 5 April 2006.

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 Debt and Deficit (MGDD) and recent Eurostat decisions are duly implemented, and that specific government transactions are properly recorded in the French EDP tables and national accounts.

The visit focused on 1) analysing the April 2008 EDP notification, 2) reviewing the delimitation of general government, and 3) clarifying the recording of specific government transactions, in particular public private partnership projects.

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 French statistical authorities, who may provide comments. Within weeks, the *Provisional findings* would be sent to the French 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.

1. Statistical capacity issues

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

Introduction

During the last April EDP notification, Eurostat did not receive planned data (forecast) for the following year from the French authorities. These data were sent to DG ECFIN, which forwarded them to Eurostat. All the other reporting countries can produce a combined set of reporting tables even if the forecast and data for previous years are compiled by different authorities. Eurostat inquired how co-operation is organised between participating authorities

and between different data providers, because this had not been discussed during the recent previous missions.

Discussion and methodological analysis

Eurostat questioned why France is the only EU Member State sending two separate EDP notifications, in April and also in October (one with statistics sent by INSEE, another including forecasts for the current year sent by the Ministry of Finance). The French authorities replied that this is the result of the share of work in France:

1. INSEE is responsible for the national accounts of the general government sector.
2. The "Direction Générale du Trésor et de la Prévision Economique" (DGTPE) in the Ministry of Finance is responsible for the forecast of the current year.

In this context, a separate sending of data was once considered as progress, ensuring that statistics were notified on time and under the sole responsibility of INSEE, while the forecast figures undergo a longer process of checking in the Ministry of Finance.

Eurostat recalled that its database includes both actual and forecast data, to serve the needs of DG ECFIN as well as to write the report to the Economic and Financial Committee. The separate reporting was an inconvenience and entailed a risk of error.

INSEE explained that co-operation among participating authorities is organised by having frequent meetings between the main institutions involved in data collection and aggregation: INSEE, DGFIP (Direction Générale des Finances publiques du ministère des Finances, ex-DGCP), Banque de France (mainly for debt), and DGTPE for the provisional account (year N-1). There is only one common meeting per year of the four institutions involved, usually in March (unless there is an exceptional event). A convention has been signed between INSEE and the main provider of data, DGCP (now confirmed with DGFIP). A similar arrangement exists with the DGTPE. A long-standing agreement exists with the Banque de France covering a wider field (e.g. for the financial accounts of all institutional sectors).

It was recalled that INSEE has the leadership for methodology. When there are doubts, INSEE consults Eurostat.

Findings and conclusions

- (1) *INSEE and DGTPE will liaise with the appropriate authority in order to satisfy Eurostat's suggestion to receive one complete set of EDP tables covering both actual figures and forecast data*

1.2. Data sources, EDP inventory

Introduction

Data sources had not been discussed in detail during previous missions, so the main data sources for each sub-sector were discussed briefly.

Discussion and methodological analysis

Quality of data, access to sources

It was recalled that, in general, the DGCP (comptabilité publique, now DGFIP) collects all the primary data for the government units, in an exhaustive way. There is a unit in this directorate of the Ministry of Finance, bureau CE-1C "Comptes nationaux des administrations publiques" - where the head is always an INSEE statistician - which carries out the work of placing all data in the national accounts framework, under INSEE's methodological leadership. Therefore, from INSEE's point of view, this unit can be seen as an "external unit of production", more or less similar to a statistical service unit (as there are in all ministries).

As far as the usual procedure for final and half-finalised accounts (years N-3 and N-2) is concerned, the aggregated data for the State (budget, special Treasury accounts and annexed budgets), the 800 ODAC¹ (extra budgetary units of Central government), the local government (by "communes, départements, régions") and the social security schemes are transmitted to INSEE, under its methodological control (various notes and advice are provided). INSEE makes some final statistical corrections (for financial leases, interest, taxes, treatment of discrepancies etc.) and then validates the accounts.

The basic accounting documents available are the budget accounts (detailed through the usual "balance générale des comptes") and cash flow statements, and, since 2006 (LOLF – loi organique relative aux lois de finances- new budget and accounting law of the State), a profit and losses account ("compte de résultat") and balance sheets. An extensive amount of source data on an accrual basis is now available for all sub-sectors of the general government. The delay in reporting is longer for social security (final accounts in the autumn of the following year) and for local government, even though significant improvements were implemented for the latter during the last three years: monthly results are now available two months later, on an almost exhaustive and final basis.

For provisional accounts (N-1), almost final accounts are available in March of the following year for the State, for most ODACs and for 170 000 local government accounting units (including 36 000 municipalities, main budgets and annex budgets), in time for the April notification.

Availability of working balances by sub-sectors

INSEE pointed out that the working balance (1st line in EDP tables 2) is a public accounts balance, known and audited as such. It considers that in principle only the DGFIP is the responsible authority for releasing this. These figures might not be available for other sub-sectors than central government (except for the State: "solde d'exécution des lois de Finances") for the provisional accounts (year N-1).

Eurostat remarked that for the provisional accounts, it should be possible to estimate figures, including working balances of these sub-sectors, given that the whole detailed database was available on time on a quasi final basis. It seemed that an estimate of an aggregated working balance could be thus extracted from this detailed database.

¹ ODAC = Organismes Divers d'Administration Centrale

Eurostat noted that, in this context, there are two different methods for calculating the B.9 (net lending/borrowing). One consists of using EDP Table 2 (a top-down approach), starting with working balances and adding adjustment lines, for classification, time of recording and coverage, to reach a proper B.9 of the sub-sector. Another consists of compiling government expenditure and revenue in ESA Table 2, and thus determining the deficit; and as a second step to reconcile the B.9 with the working balance.

INSEE stated that it is de facto implementing both. B.9 is equal to expenditure minus revenue, but a full reconciliation of the working balance to the B.9 is also effectively undertaken. When discrepancies are observed due to different calculation methods, national accountants, with the help of public accountants, look for any mistakes and generally find them. Thus, eventually, no residual is observed.

Findings and conclusions

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

2. Follow-up of previous EDP missions

There were no issues to follow-up from previous missions.

3. Analysis of EDP tables - follow-up of the April 2008 EDP reporting

Introduction

The aim was an examination of EDP tables and special attention was given to issues that arose in the context of the April 2008 notification.

In the EDP tables 2C and 2D no financial transaction was reported and cells were marked with the symbol M (not applicable) for all years. It is not clear why no financial transaction is reported.

For the local government in Table 2C, France does not provide any other information than the net borrowing/lending for year 2007. The situation is only slightly better for social security accounts in Table 2D, as for 2007 in addition to the net lending/ net borrowing, the working balance and an adjustment for subsector delimitation is provided.

During the April EDP 2008 notification, in the request for clarification, Eurostat asked INSEE why in Tables 3A, 3D and 3E there was no split for shares and other equity and additionally in Table 3B there was no split for loans. The same issue had been raised already during the 2007 April and October EDP notifications. In the April 2008 EDP notification France was asked to provide the split for other receivable/payable in the table 3A, but it was replied that those details could not be provided. Eurostat enquired why there was no split and if these items included some kind of hidden discrepancy.

Table 2 (A, C and D)

Discussion and methodological analysis

Table 2A (central government)

Eurostat agreed with INSEE that the criticisms addressed by the French Court of Auditors to the presentation of the realized budget were without effect on the deficit notified by France to the Commission in accordance with national accounts rules (ESA 1995). This is because the Court of Auditors criticized the presentations of the realized State Budget (also reported to Eurostat as the starting line of EDP table 2A), implying that the improved State budget balance resulted from one-off operations or accounting events. However, these are without effect on the national accounts balance. Three points were subject of remarks by the court of auditors.

1. EDF (Electricité de France) equity sale; in national accounts, the sale of EDF shares for 3.74 million € in 2007 is not counted as government revenue (despite being a budget receipt through a special treasury account – CST "*Compte Speciaux du Tresor*") and thus did not improve the deficit notified for 2007. This event is neutralized in EDP table 2A.
2. "2006 improvement"; as a result of the change in accounting system (adoption of the new budget law: LOLF) the budget reporting of civil servant pensions (which is paid in the following month) was moved to come closer to an accrual reporting. To respect some budget rules, the 2006 budget deficit had to artificially include 13 months of civil servant pensions. In national accounts, the 13th month in question was not included as a 2006 expenditure, being eliminated.
3. Off budget operations of 5.7 billion €; these relate mostly (5.1 billion €) to an arrangement whereby some budget transfers to social security were settled by way of debt cancellations instead of being paid in cash, which are not booked as budget outlays. These were however reflected in national accounts as capital transfers. Being internal to general government, those operations did not effect the general government deficit. An exchange of debt was realised in 2007 between central government (S.1311) and social security (S.1314): Caisse de la dette publique (CDP, ODAC inside central government) to the Régime général, and Agence centrale des organismes de sécurité sociale (ACOSS) to the State.

Some references to ODAC (organismes divers d'administration centrale, S.13112) were also made:

1. Charbonnages de France (coal mining industry): when it became financed mainly through government transfers, the unit was reclassified, in 2001, as an ODAC inside the central government, increasing the government debt by an other change in volume. The unit disappeared on 1st January 2008.
2. EPFR (Crédit Lyonnais defeasance unit) received a capital injection from the State in 2004

Table 2C (local government)

INSEE indicated that the working balance (1st line of these tables) for local government is the "capacité d'autofinancement", close to the ESA concept of saving (B.8). Therefore, it does not include investment and capital transactions.

In addition, INSEE noted that most capital injections at that level of government are recorded as expenditure (subsidies or capital transfers), and not as transactions in equity. However, it was noted by Eurostat that the notification includes some flows in equity and that the financial accounts indicate a stock position of 6 billion euro in equity at the end of 2007. Every year dividends are paid to the local government (700 million € in 2006).

Eurostat underlined the importance of identifying public corporations at the level of local government, to check if there are acquisitions of shares in these, and to implement the "capital injections test". For instance, a test for large changes in equity positions in the balance sheet of each unit might be envisaged. INSEE and bureau C6 of the Ministry of Finance agreed to check this, but indicated that abnormal movements observed at the aggregated level are often investigated. In addition, it was emphasised that the French local government was much less involved in this type of transaction than some other Member States, notably those with a federal system of government. However, it was acknowledged that local government now has a fair degree of autonomy and does not depend on central government for deciding what to sell and acquire. This is also one reason for organising an annual "Conférence des finances publiques".

Table 2D (social security)

INSEE explained that the balancing item of the Régime général de la Sécurité sociale, which is well known and audited (approximately 80% of the "regimes d'assurance sociale" – S.13141), is used as the working balance for this sub-sector.

Eurostat noted that there were no reported amounts of receivables and payables for the year 2007. INSEE answered that the information was not sufficiently detailed in March N+1. INSEE was encouraged to make an estimation.

Findings and conclusions

- (3) *INSEE promised to study the operations between local government and public corporations further, especially concerning shares acquisitions and dividends paid at the level of local government.*
- (4) *In the case of unavailability of sufficiently detailed data for the previous year when reporting EDP tables in April, Eurostat encouraged INSEE to make an estimation for receivables and payables for the social security subsector.*

Table 3 (A, B, D and E)

Discussion and methodological analysis

Eurostat raised a question on why there is no split in the block "net acquisition on financial assets" for loans (F.4) and for equity (F.5), except for equity in table 3B.

The French authorities explained that INSEE will modify the information collection process in the near future to obtain a sufficient breakdown. Progress is expected on identifying new loans (F.4) incurred by the local government (the main government level concerned by loans). Progress for central government could also be achieved.

Concerning shares (F.5), Eurostat distinguishes public corporations equity management (for which acquisition must be distinguished from sales) from portfolio management (money market mutual funds, etc.). INSEE committed to improve the situation.

Eurostat noted that for tables 3A and 3B interest accrued and paid is not separated from issuances below/above nominal value despite the fact that the information exists. It was also mentioned by Eurostat that the split for other accounts receivable/payable (F.7), notably for taxes and social contributions, in the EDP tables and in the EDP related questionnaire, is not sufficient. In this context, INSEE stated that the information treatment process should be improved, with a more refined codification.

Concerning the statistical discrepancy, it was emphasised by INSEE that it has access to complete, integrated and detailed source data and that the data sources used for the financial and non-financial accounts are the same, therefore there are no reasons for any discrepancy. Eurostat remarked that the EDP inventory did not reveal that INSEE had access to so called "integrated source data", and exploited these for GFS compilation. To the extent that information is not exploited in all the details, INSEE does not have all appropriate breakdowns in receivables / payables.

INSEE stated that in case of diverging information on intra-government transfers, the information of the State is considered to prevail for the accounts of ODAC, with a change in the deficit, on the presumption that the difference relates to a time of recording issue. On the contrary, while the State information also prevails over the information of local government, the difference is reported in other categories of revenue (or expenditure), leaving the deficit of local government unchanged.

Findings and conclusions

- (5) *INSEE promised to provide in the near future the split for Loans (increases(+)/reductions(-)) for Local government in EDP Table 3D. INSEE stated that progress could also be achieved for Central government.*
- (6) *INSEE promised to provide the distinction between "interest accrued and paid" and "issuance below/above nominal value" in Tables 3A and 3B for the next notification in October 2008.*
- (7) *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.*
- (8) *Eurostat took note of the rules with respect to the reconciliation of intra-government transfers and found them sound overall.*

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government

Public radio and television

Introduction

According to Eurostat's understanding, public radio and television are classified outside general government in France.

Discussion and methodological analysis

Eurostat inquired why the public radio and TV is classified as a public corporation (outside government). INSEE informed Eurostat that in France this public service is 50% financed by the licence fees paid by users ("redevance de l'audiovisuel"), and 50% financed by advertising. Eurostat representatives emphasised that, according to the revised treatment of licence fees by some EU Member States and to the recent draft guidance note prepared by Eurostat, this kind of licence fee should be recorded as a tax.

Eurostat pointed out the fact that the fee must be paid irrespective of whether viewers watched public television or not and suggested that it could not be argued that the licence payer was making a deliberate act of purchase and felt that a sale could not be recorded in those circumstances. INSEE representatives agreed that the subject requires further analysis, but insisted that this subject should not be considered only from a general government perspective but within the general framework of national accounts. They also replied that they do not necessarily share Eurostat's opinion, notably wondering if the new reading of Eurostat was compatible with ESA95 as generally understood. Eurostat felt that its interpretation was not against the letter of ESA and was following its spirit. Eurostat also replied that the issue will be presented at the FAWG level and added that in case a Member State objected to Eurostat's view, consulting the CMFB was still possible.

Findings and conclusions

Eurostat took note of the information provided.

Public hospitals

Introduction

According to the understanding of Eurostat, public hospitals are classified inside general government in France and Eurostat wanted to confirm the matter and to inquire the reasons behind this classification decision.

Discussion and methodological analysis

With respect to the financing of hospitals (if there is a system of points like in several EU member States), INSEE explained that the public financing system was recently reformed, from a global annual grant provided by the social security (CNAM) to a tariff basis which is applied on a scale of treatments ("tarification à l'activité", using a "grille tarifaire"). A mixed system was applied during a transition period (2003-2008). The new "grille tarifaire" applies

to both public hospitals (including private hospitals – of religious origin - traditionally involved in the public health service) and fully private ones ("cliniques").

Even though the financing system has common features for public hospitals and for private clinics, it is considered by INSEE that these units do not, in practice, operate on the same market, because the public units provide a universal service, and the pricing system has no influence on demand. Private clinics tend to specialise on more profitable treatments.

Therefore, INSEE considers that the service provided by public hospitals is still a non-market service, mainly financed by public money, having little influence on supply and demand. In accordance with the ESA and the MGDD, public hospitals remain classified inside the general government sector (in the social security sub-sector, S.1314). By contrast, private clinics are classified as non-financial corporations (S.11).

Findings and conclusions

- (9) *INSEE confirmed that public hospitals in France are appropriately classified inside general government sector (in the social security subsector).*

4.2. Implementation of accrual principle

4.2.1 Accrual taxes and social contributions

Questionnaire on the methods used for recording taxes and social contributions

Introduction

According to the French reply to the questionnaire for recording taxes and social contributions, cash receipts are used in France for D29 (other taxes on production), D59 (other current taxes) and D91 (capital taxes). For D21 (VAT) and inland duty on petroleum products (ITPP) cash receipts are time-adjusted. For income tax on households (D51), assessments are used and for income tax on corporations (D51 as well) assessments are used only for the part of the tax which corresponds to reimbursement of tax resulting from fiscal audits carried out by the fiscal administration. For other taxes collected by the central government, cash receipts are used.

The source data for taxes collected are:

- For taxes collected by the State: data come from the State's Fiscal general directorate.
- For other central government units: the amounts of taxes are directly provided by the units' accounts.
- Social security funds accounts are used for social contributions and for the few taxes they receive.

Discussion and methodological analysis

The main issue discussed was the recording of taxes, and in particular taxes assessed by a roll (for instance personal income tax, local taxes and corporate tax).

In these cases, INSEE records as government tax revenue the assessed amounts, and the observed difference with cashed amounts is treated as a capital transfer (D.995 – negative revenue) in favour of defaulting taxpayers. INSEE recalled that the due amounts are recorded net of rebates ("dégrèvements"), considering the covering rates ("taux de recouvrement").

Eurostat observed that the final impact on government net borrowing / net lending is de facto the cashed amounts, without any time adjustment.

On some occasions, where administrative factors have an influence on the actual cash collection, INSEE may conduct ad hoc adjustments in a bid to stay closer to an accrual principle. Eurostat noted that these explanations were slightly different than suggested in the EDP inventory (where an impression of systematic adjustment is given).

Findings and conclusions

- (10) *INSEE will update its reply to the questionnaire for taxes and social contributions to also cover social contributions. Currently it only covers taxes.*

4.3 Recording of specific government transactions

a) Guarantees

Introduction

During the April 2008 EDP notification Eurostat asked that the distinction for "Public corporations" and "Other" in Table IIIa (Guarantees) of the questionnaire be provided with the EDP notification. The French authorities replied that they are unable to produce that split.

The issue of guarantees was already discussed during the 2006 EDP mission when the French statistical authorities agreed to provide a disaggregated list of guarantees called, company by company, if possible.

Discussion and methodological analysis

Eurostat asked why, in the questionnaire related to the EDP notification, the information on the stock of guarantees provided by government is not split between public corporations and other corporations.

The INSEE representatives recalled that they did not compile specific data for public corporations. They explained that the classification of public corporations is undertaken by category of units: typically, the EPA (établissements publics à caractère administratif) are globally classified inside the government sector, while the EPIC (établissements publics à caractère industriel et commercial) are classified in the non-financial corporations sector. Only dubious and borderline cases are subject to a more refined analysis. There are no cases of market entities classified as quasi-corporations in the French national accounts.

It was noticed by Eurostat that the number of new guarantees granted increased significantly in 2006. The French authorities specified that the guarantees taken over by government related to the liquidation of a fund that had been set up for supporting purchase of real estate property ("prêts à taux zero") and had a large portfolio of guarantees. It was clarified that when guarantees were called, a debt assumption was recorded by government (capital transfers).

Findings and conclusions

- (11) *INSEE promised to investigate the possibilities of reporting separately data for "Public corporations" and "Others", for Guarantees, in the EDP related questionnaire (Table IIIa).*

b) EU flows

Introduction

During the 2006 EDP mission the issue of EU flows was discussed. Eurostat enquired then to what extent French statistical authorities were applying the Eurostat decision of 15 February 2005 on the treatment of transfers from the EU budget to Member States.

According to information provided during the 2006 meeting, there were indeed difficulties in identifying all payables/receivables on behalf of the EU due to non-availability of source data from the Ministry of Finance. Exact information available on a large part of transactions showed that the time lag, whilst substantial at the start of the programme, was much reduced in the middle of the programme. Thus, the French practice was at that time to make adjustments at the beginning and at the end of the programmes only, which explained the nil transactions in payables/receivables reported for 2003-2005.

The French statistical authorities indicated that from 2006 onwards both receivables and payables relating to EU flows will be better identified, due to the accounting reform pursued in the French public administration, and this information will be integrated in the reporting of public finance data. Eurostat took note of these explanations and expressed the hope for a better quality data in the near future.

The situation since the 2006 EDP mission had apparently improved, because during the April 2008 notification France reported for all years 2004-2007 Net transactions and Net assets of S13 with the EU, but was not able to provide any split for "other accounts receivable/payable" with the EU.

Discussion and methodological analysis

To a question about the small amounts of EU flows quoted in the EDP related questionnaire, the INSEE representatives explained that there were two different types of EU flows in France:

1. flows related to agriculture: nothing is recorded in the State accounts. There is a unique payments agency (classified within general government as an ODAC) and such flows do not transit via government accounts.
2. flows linked to structural funds: one part was recorded in the State accounts (well identified and neutralised) and another part was recorded through the CNASEA (Centre national pour l'aménagement des structures des exploitations agricoles), another ODAC (structural funds linked to agriculture).

Eurostat recalled that during the 2006 EDP mission, INSEE had indicated that relevant amounts were identified or estimated, and that adjustments for structural funds were made at

the beginning and at the end of the period. INSEE indicated that it was in fact adhering more precisely to the Eurostat rules.

Recently, since the implementation of the new budget law in 2006, the situation has changed. All EU flows are outside the budget execution ("débudgétisés"). It was underlined that Eurostat rules were now better applied.

There was uncertainty if the recording was applicable to some EU flows managed by some regions (Alsace, Corsica).

Findings and conclusions

- (12) *INSEE will check that Eurostat's guidance for recording EU flows are followed for recording special support received from the EU to the regions of Alsace and Corsica.*

c) Military equipment expenditures

Introduction

During the 2006 EDP mission the French statistical authorities indicated that there had been a very short time span between the publication of the Eurostat decision on recording of military expenditure on 9 March 2006 and the EDP notification deadline of 31 March. Some information on the value of payments made in 2005 and 2006 related to the expenditure for selected heavy military equipment to be delivered in 2005-2007 was nevertheless obtained by the French statistical authorities from the Ministry of Defence in March. The French statistical authorities considered that this information allows a correct application of the decision of Eurostat, to the extent that it was correctly interpreted by the French statistical authorities.

Discussion and methodological analysis

It was recalled that France, like Greece, opted to benefit from the transitional period for implementing Eurostat rule in order to apply progressively the recording of transactions at the time of delivery. It was noted that in the EDP related questionnaire there is a flow of receivables of 2 billion € per year and a stock of receivables of 6 billion € in 2007. Eurostat wondered what part of this flow of receivables pertained to the transitional period and what part corresponded to genuine net receivables.

Findings and conclusions

- (13) *INSEE will provide a note to Eurostat about the way in which they have applied the "transitional period" for recording Military expenditure in the EDP related questionnaire, table VI. INSEE also promised in the future to split other receivables and payables in order to identify the impact of the transitional period, instead of the current reporting of one unique flow for F7.*

d) Debt assumptions, debt cancellations, debt write-offs and foreign claims

Recognition of debt - the consequences of the recent report of the Cour des Comptes (RFF)

Introduction

In the recent press release of the French "Cour des Comptes" relating to the railway reform done in France, it was stated that the central government should take over part of the debt of the railway infrastructure corporation RFF (Réseau Ferré de France).

Discussion and methodological analysis

Eurostat asked about the consequences of the recent report of the French "Cour des Comptes", recommending that the central government should take over part of the debt of the railway infrastructure to allow the public corporation (RFF-Réseau Ferré de France) to manage a sustainable debt burden as a normal corporation. Eurostat noted that to the extent that government was making large annual transfers to RFF, this might constitute de facto repeated calls on the guarantee.

The INSEE representatives underlined that the report was only an opinion of the "Cour" and that the issue was very complicated. They wondered whether some amounts should indeed be reclassified and, if so, how to estimate the exact amounts to be reclassified, that is to distinguish between "inherited debt" and other RFF debt. It was recalled that every time there was a capital injection into RFF, this was recorded as a capital transfer in national accounts. In addition, INSEE pointed out that RFF debt was not guaranteed by the State, although Eurostat noted that RFF's status as EPIC (établissements publics à caractère industriel et commercial) had been presumed by some to carry an implicit guarantee on the debt.

Eurostat recalled that in similar cases in other EU Member States (for example the case of ISPA- Infrastrutture S.p.A), the debt had been reclassified as government debt. Eurostat recalled its opinion on repeated calls. Indeed, INSEE remarked that there has been a new Eurostat opinion in relation to guarantees (with respect to repeated calls, with ISPA or with guarantees granted to entities in financial distress), notably, and that this may lead to a re-examination of the RFF case by INSEE. INSEE recalled that in 2007, it took note of this new opinion and changed the accounting treatment of the SAAD (Service annexe d'amortissement de la dette - SNCF debt allocated in the special debt account) according to the advice of Eurostat.

Findings and conclusions

- (14) *INSEE will write an issue paper concerning the recent views of "Cour des Comptes" on the recognition of part of the debt of RFF.*

COFACE

Introduction

COFACE (Compagnie Française d'Assurance pour le Commerce Extérieur) acts on behalf of government when providing long-term export guarantees for French companies. COFACE provides insurance protection to exporters on their foreign trade risks and international

investments. The company underwrites risks for its own account where a given risk is coverable in the private insurance markets, or by acting on account of the French State to implement State-backed guarantees aimed at supporting French foreign trade. Amounts related to these guarantees are not registered in the accounts of COFACE. The COFACE is just paid for these operations by the government.

In the national accounts, COFACE is classified in the sector financial corporations, and its activities on behalf of government are just booked as government expenditure or revenue.

Discussion and methodological analysis

A note from INSEE was received by Eurostat in March 2008, explaining the recording of a payment made by COFACE (Compagnie Française d'Assurance pour le Commerce Extérieur - the export insurance company) to government, for an exceptional amount in 2007. Eurostat asked for more explanations the COFACE activity carried out on behalf of government and why these activities were classified outside of general government sector.

Three elements were recalled by the INSEE representatives:

1. COFACE is no longer owned by the government;
2. As a financial corporation, COFACE carries out an insurance activity. The part of this activity which is carried on with the State guarantee is of the same nature;
3. The reclassification of the whole COFACE in the sector of the insurance corporations in 1998 was made with the agreement of Eurostat (before 1998, the part of its activity made on behalf of the government was recorded in national accounts as a notional ODAC).

INSEE follows an insurance model in national accounts: in case of call, the government payment is recorded as a government expenditure (as well as a COFACE revenue and expenditure), and not as an acquisition of government claims. In case of recoveries, these are accounted as COFACE revenue and, when passed over to government, as COFACE expenditure and government revenue.

In this context, the transfer made to government in 2007, due to profitable activity on guaranteed transactions, was far beyond usual transfers, reflecting recoveries of 2007 and before. For the year 2007, the part of the distribution to government that was in excess of the operational profit of that year was recorded by INSEE as a financial transaction (as explained in the March 2008 note), by analogy with the rule on superdividends.

Eurostat fully supported the position of INSEE, but asked why INSEE had not wished to report the operations conducted on account of government in the books of government – which would allow symmetry of recording. INSEE indicated that this would entail having insurance technical reserves recorded in government accounts. Eurostat noted that there existed some heterogeneity of treatment on how to organise and record export insurances in the EU Member States, and that there is no straight-forward rule on how to record these transactions.

Findings and conclusions

- (15) *Eurostat agreed on the way INSEE has recorded the revenues from COFACE to general government in 2007, and also agreed on the classification of COFACE as an insurance company (in the sector of financial corporations and not in the general government).*

Paris Club – Polish debt arrangement

Introduction

In 29 January 1998 it was announced that "Coface (Compagnie Française d'Assurance pour le Commerce Extérieur) acting for the account of the French State intends to enter into a transaction leading to the sale of Participation Backed Securities backed by cashflow subparticipations under a bilateral agreement signed between the Republic of France and the Republic of Poland on 30 October 1991. The securities will be sold in Euro French Francs and Euro Dollars. Using an innovative structure, a portion of the cashflows subparticipated by Coface are transferred to a French FCC securitization vehicle and sold to two special purpose vehicles. These special purpose vehicles will in turn issue the Notes to investors. Coface, with the full backing of the French state, guarantees to make payment provided there is no default associated with the public external indebtedness of Poland".

Discussion and methodological analysis

In 1998, France apparently sold a claim of France (loan) on Poland. In fact, it seems that the transaction consisted in the securitisation of a loan, apparently by way of a partial subparticipation. It was recalled by Eurostat that these transactions might not be treated as a sale. However, given that this was a securitization agreement relating to a claim held by COFACE instead of government (sold to a SPV) and to a claim that was not recorded as an asset in national accounts, it was unclear whether the transaction impacted government accounts.

Findings and conclusions

- (16) *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 report on how the transactions have been recorded in EDP tables/national account.*

Debt cancellations

Introduction

In the Table IV of the Questionnaire related to the notification tables of April 2008, France only reported data relating to Paris Club and third countries debt. There is no data for Total debt (asset of government) and there is no information on debt cancellations granted to public corporations.

Discussion and methodological analysis

Eurostat recalled that in table IV, lines 7, 17, 26 of the questionnaire related to EDP tables, no information was provided by France on the issue of debt cancellations.

Findings and conclusions

- (17) *INSEE promised to provide details alongside the October 2008 EDP notification on the Stock of claims at 31-December and for debt cancellations on Paris Club and third countries, namely on the rows 7, 17 and 26 in the Table IV of the questionnaire related to EDP tables.*

e) Capital injections in public corporations, dividends, privatization

Dividends in the form of shares

Introduction

In the EDP inventory of France it is written (on page 19): "Dividendes en actions - Les dividendes reçus par l'Etat sous forme d'actions ne sont pas enregistrés dans les recettes budgétaires. Ils sont traités en comptabilité nationale en dividendes dans le compte non financier de l'Etat avec comme contrepartie une augmentation de l'actif de l'Etat dans le compte financier. C'est le même traitement qui est adopté dans le CGAF."

Discussion and methodological analysis

As regards a case of dividends paid in the form of shares mentioned in the EDP inventory, only one case was known (a payment made by "France Télécom" a few years ago). Eurostat underlined that the usual superdividend test should be made, and that the dividend recorded in national accounts (D.42) should not be higher than the operational profit.

Findings and conclusions

- (18) *INSEE will clarify if the case when dividends were paid in the form of shares (France Telecom) was a one-off or a more regular event and how it was recorded in national accounts and EDP tables.*

f) Public Private Partnerships and concessions

Introduction

France has not reported any PPPs in the EDP related questionnaire. In the request for the clarifications in April 2008, the French authorities were asked to confirm that there weren't any PPP projects in 2004-2007 and the following answer was received: "Pour ce qui concerne les PPP, certains projets sont engagés, mais aucun ne vient à échéance sur les années 2004-2007."

Discussion and methodological analysis

It was explained by the INSEE representatives that according to the law of 2004, an entity was set up in the Ministry of Finance. This entity gives a notice of opportunity for each public-private partnership project. 25 projects have been signed at the end of 2007 and the most important case refers to the building of prisons.

A note provided by INSEE to Eurostat explained the treatment envisaged for PPPs for the building of prisons. PPPs are judged either "consolidant" (on balance sheet of general government) or "déconsolidant" (investment recorded off balance sheet of general government).

Eurostat expressed some disagreement at first inspection with the appreciation included in the INSEE note, and considered that most of the risks seemed assumed by the government:

1. A large part of the payments due to the private partner is guaranteed or irrevocable, whatever the performance: no availability of prisons would not entail zero availability fees.
2. Penalties for delays have a ceiling (not more than 2%).
3. Guarantees involve the State in negotiating with the banker.

Eurostat asked in this respect to receive a copy of a PPP contract. The INSEE representatives asked for a clarification of the guidance with respect to availability fees and guarantees.

Findings and conclusions

- (19) *INSEE promised to provide Eurostat with a contract of an existing PPP project in France for further examination, as soon as possible*

g) Decommissioning of nuclear facilities: Marcoule

Introduction

The decommissioning of the nuclear site Marcoule, agreed in December 2004 and financed by Commissariat à l'énergie atomique (CEA), involves the participation of two public companies Electricité de France (EDF) and Compagnie générale des matières nucléaires (Cogema). These two companies should contribute to the decommissioning of Marcoule site in their capacity of previous customer (EDF) and operator (Cogema). The total contribution of both companies accounted for 1.6 bn €.

The CEA is classified within the general government sector, whereas EDF and Cogema are classified in the sector of non-financial corporations. The statistical treatment proposed by INSEE treated the contributions of EDF and Cogema into the CEA as a capital transfer with a counterpart partly in currency and deposits, and partly in other accounts payables. Due to the fact that CEA is an entity classified within the general government sector, this treatment reduces deficit of general government.

During the 2006 EDP visit Eurostat enquired on the follow up of the Eurostat advice of 14 March 2005 that the lump sum received by CEA should not improve the deficit in 2004 and instead be treated as pre-payments for the purchase of services. Eurostat also asked whether similar operations were planned for following years. The French statistical authorities responded that they have not followed this interpretation and have booked the revenue of government of ca. 1.6 bn € (0.1 % of GDP).

Findings and conclusions at 2006

Eurostat concluded that it would reflect further on the case, but at that stage no wider consultation (e.g. a dedicated task force and the CMFB consultation) was necessary. This might be nevertheless needed if other Member States would embark on similar operations or if the same case would arise in France in future years.

Discussion and methodological analysis

The issue had been left open for reflection in the context of the last EDP dialogue visit in 2006. This involves the recording of a lump sum payment received by a government unit against the assumption of decommissioning costs and the discharge of any other obligation by the operator. Eurostat expressed doubts on the INSEE position, which recorded this lump sum as government revenue (capital transfer). No new cases of decommissioning of nuclear facilities have emerged in the meanwhile.

Findings and conclusions

- (20) *Eurostat will continue to reflect on the case of decommissioning of nuclear facilities and on the appropriate recording of this transaction.*

h) Derivatives: Swap cancellations, Off-market swaps, Options

Introduction

Eurostat inquired how derivatives are recorded in France and especially if the recent guidance note of Eurostat on derivatives (from 7 March 2008) was applied.

Discussion and methodological analysis

It was recalled that there were no cases of off-market swaps or swaptions involving government in France. INSEE confirmed that it has not changed its recording of lump sum payments related to swap cancellations, and is therefore not in line with Eurostat recent guidance note on derivatives.

Findings and conclusions

- (21) *INSEE will provide a note to Eurostat on the recording of lump sum payments related to swaps.*

i) Other: Sale and leaseback operations, Securitisation, UMTS, Carbon trading rights, notably

Introduction

Eurostat wanted to clarify how other government specific transactions have been recorded in the French EDP tables and if those transactions exist in France.

Discussion and methodological analysis

A note from INSEE was made available to the FAWG just before its meeting in June 2008, on the issue of carbon trading rights. The note recommends recording a financial instrument in Securities other than shares (F.3). Eurostat remarked the specific characteristics of these carbon allowances, that are created by government powers and that are extensively traded on the market. Discussion on this matter will be continued in the context of FAWG.

INSEE confirmed that no new securitisation operation was carried out in 2007 and that there has been no sale and lease-back operation involving government.

Findings and conclusions

Eurostat took note on the information provided.

5. Other issues

Consistency between EDP Tables and ESA Table 25 in April

Introduction

During the April 2008 EDP notification Eurostat observed that EDP data and ESA table 25 are not consistent and that this had also been the case also during for April notifications in previous years.

Discussion and methodological analysis

There are at the moment consistency problems between the notified EDP (1 April) and ESA (15 May) tables / annual versus quarterly accounts.

It was recalled by Eurostat that the comparison between the four quarters of the year 2006 and the annual B.9 for the same year showed, in April 2007, a discrepancy of 8 billions €. A difference was also observed in April 2008, but more modest. It was underlined that there was a need for improving the coherence between quarterly accounts and annual accounts for the general government sector, related to the issue of timeliness, when drawing up the April EDP notification.

The INSEE representatives replied that quarterly accounts are made available 90 days after the end of the quarter, but that no consistency is possible before the 15 of May. To align quarterly accounts in this way would also have consequences for GDP. INSEE was keen to avoid releasing many different GDPs within a few months.

Eurostat suggested that quarterly tables and annual tables could be aligned except for the production account, and therefore value added, which would not be modified, and any difference would be allocated to other current expenditure/revenue. Table 25 (STPFS, quarterly government finance statistics) could be delivered sooner. INSEE representatives said that they would reflect on such a possibility.

Findings and conclusions

- (22) *Eurostat took note that INSEE is not in a position to publish EDP tables coherently with quarterly accounts at the time of April EDP notifications.*

Annex 1: List of participants

Name	Institution
Luca Ascoli	Eurostat
Philippe de Rougemont	Eurostat
Jean-Pierre Dupuis	Eurostat
Mira Lehmuskoski	Eurostat
Jocelyn Guitton	DG ECFIN
Christophe Duclos	ECB
Fabrice Lengart	INSEE
Jacques Magniez	INSEE
Guillaume Houriez	INSEE
Luc Brière	INSEE
Benoît Bourges	INSEE
Sandrine Duchêne	Ministry of Finance (DGFIP)
Patrick Augeraud	Ministry of Finance (DGFIP)
Denis Marionnet	Banque de France