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**- FINAL FINDINGS -**

**EDP dialogue visit to Austria**

**10-11 September 2007**

**Eurostat EDP dialogue visit to Austria**  
**10-11 September 2007**  
**Final findings**

**Executive Summary**

The Eurostat delegation, headed by Mr. Nørlund Director of National and European Accounts, met with the Austrian authorities (Finance Ministry, Federal Statistical Office (STAT), the Österreichische Nationalbank (OeNB), as well as the Ministry for Traffic, Infrastructure and Telecommunication Affairs and Österreichische Bundesbahnen (ÖBB) on 10 and 11 September 2007 to discuss statistical issues. DG ECFIN and ECB representatives were also present as observers.

Eurostat considered that the discussions during the mission were very useful and welcomed the work which the Austrian authorities had undertaken prior to the mission in providing requested information and documents.

Eurostat enquired about the institutional arrangements and the division of responsibilities in the framework of the compilation and reporting of data under the ESA95, EDP and other government statistics.

Several important issues were discussed during the mission. The main issues were related to the construction of EDP working balances for state, local government and social security funds subsectors, the recording of government transactions related to the reorganizing of the Austrian railways in 2004, and the classification of public hospitals and transactions with their government owners.

The working balances for state, local government and social security funds subsectors are residually constructed bottom up instead of utilizing available information from public accounts, and are therefore inconsistent with the EDP notification tables philosophy. As a result, Austria was invited to report these EDP tables (2B-C-D) empty until working balances based on actual data could be provided.

During the reorganization of the Austrian railways, the creation of the ÖBB group, two large government transactions were carried out; a capital injection of €1.4 Bn recorded as addition to equity, and a debt cancellation of €6.3 Bn recorded as an other change in volume. STAT was invited to reflect on these recordings again by providing as soon as possible a national account analysis on this issue.

The financing system of hospitals, the so-called "LFK point system", was also discussed, and in particular if this type of financing functions similar to a market mechanism as both public and private hospitals are subject to this system. It was questioned whether the situation could be described as a real market situation, based on the fact that there is only a few private hospitals, and that most of the public hospitals are making losses, which in the end are covered by their government owners. Therefore, STAT was invited to reflect on this issue again and to provide as soon as possible an analysis of the classification of public hospitals and of the transactions with their government owners.

## **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 Austria on 10-11 September 2007. The delegation of Eurostat was headed by Mr. Nørlund, Director of National and European Accounts. DG ECFIN and ECB representatives were also present as observers. The Austrian authorities were represented by the Federal Statistical Office (STAT), the Finance Ministry (MoF) and the Österreichische Nationalbank (OeNB), as well as by the Ministry for Traffic, Infrastructure and Telecommunication Affairs and Österreichische Bundesbahnen (ÖBB). The list of participants is attached in Annex 1.

The previous regular EDP dialogue visit to Austria took place on 13-14 September 2004. The aim of the 2007 EDP dialogue visit was to clarify issues relating to the EDP tables raised in the context of previous notifications, in particular the recording of taxes, as well as to discuss the sectorisation in national accounts of some units and to examine the application of the Eurostat methodological decisions.

As an introduction, Eurostat explained the new procedural arrangements, in accordance with article 8 of Regulation 3605/93 as amended, indicating that the *Main conclusions and action points* would be sent within days to the Austrian statistical authorities, who may provide comments. Within coming weeks, the *Provisional findings* would be sent to the Austrian authorities in a draft form for their review. After adjustments, a final version of the *Main 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 for the reporting of data under the ESA95, EDP and other government finance statistics**

##### *Introduction*

STAT has a leading role in EDP and GFS compilation. A special law/regulation from 2002 gives STAT the right to directly collect data from all general government units. STAT compiles the actual deficit and debt, while the MOF compiles planned data (current year).

Eurostat enquired further about the institutional arrangements and division of responsibilities in the framework of the compilation and reporting of data under the ESA95, EDP and other government statistics. In particular, Eurostat asked about the current areas of work of a special inter-institutional working group for general government statistics.

##### *Discussion and methodological analysis*

The Austrian authorities explained that the OeNB has responsibilities for compiling the financial accounts for general government (in particular ESA table 6/7 as well as 27). To this effect, source data on transactions and on stocks in financial assets and liabilities are passed

on by STAT to OeNB. The same source data on liabilities are used by STAT for the calculation of government debt.

A 5-year framework contract between OeNB and STAT organizes the various exchanges of data between these institutions in many areas. It is currently considered to elaborate an annex covering the precise obligations with respect to the compilation of the financial accounts for general government.

Two informal working groups or working teams in the area of GFS meet regularly.

- A first working group composed by STAT and OeNB staff assists with the implementation of the framework contract and meets regularly. A steering committee at a more senior level meets when necessary.
- A second working team composed by the same institutions and the MoF meets when necessary, in the context of the preparation of EDP notification.

In both instances, it is universally recognized and agreed that STAT has the final responsibility on the methodological treatments applicable to GFS and EDP compilation.

An intensification of cooperation between STAT and OeNB is being undertaken for the purpose of improving data quality.

### *Findings and conclusions*

Eurostat took note of the institutional arrangement in Austria, with a leading role played by STAT and noticeable responsibilities attributed to OeNB for the compilation of the financial accounts of general government. Eurostat also took note of the existence of a framework contract and of mechanisms in place to ensure an effective cooperation between institutions.

## **1.2. Data sources, EDP inventory**

### *Introduction*

Information on data sources and methods used for general government deficit and debt compilation, as described in the EDP Inventory, was discussed.

### *Discussion and methodological analysis*

STAT collects data from individual units, by way of very detailed electronic files, for the main units of each sub sector (that comprise budget execution and some balance sheet information), and by way of the reporting of profit and loss and balance sheets for extra budgetary units. A marked heterogeneity of these latter reports forces a cumbersome manual exploitation at STAT, which delays the actual use of the reported data to October n+1 or even April n+2 notifications.

The timeliness of the source data is as follows:

- *Central government.* Federal budget/main unit: Preliminary data made available at end January/beginning February. Extra budgetary units (more than 1000): Final data available by April n+2.

- *State government.* June/July n+1 final accounts of the 9 state governments. Extra budgetary units: Final data available at April n+2.
- *Local government.* June/July n+1 final accounts of the municipalities. Extra budgetary units: Final data available at April n+2.
- *Social security funds.* Accounts for main units are nearly closed and available at end February/beginning of March n+1.

For the April notification, STAT uses quarterly reporting by the main units of state government and by a sample of local government (required for ESA table 25), which comprises the same classification and detail as the annual reporting, to elaborate the first account of year n.

STAT conducts the coding and runs the bridge tables used to convert the source data. Some vertical checks on the revenue and expenditure data are done at STAT, but no systematic horizontal checks on the consistency of transactions and balance sheet information is carried out. Whereas the budget reporting is precisely codified in legal acts, the balance sheet reporting reflects *ad hoc* information more particularly requested by STAT. OeNB reports a poor consistency of the balance sheet data. Some ongoing work has been jointly done to raise the awareness of data reporters on these issues.

Whereas the various budget classifications of main units are similar, but not identical between subsectors, the reporting of extra budgetary units is not standardized and is heterogeneous. The size of the latter is not negligible, comprising 10% of government expenditure/revenue.

### *Findings and conclusions*

Eurostat took note of the satisfactory level of source data in terms of coverage, structure and timeliness, but encouraged to improve horizontal checks (integrated stock-flow system).

Eurostat noted some anomalies in the EDP inventory and invited STAT to conduct amendments as soon as possible, as publication was imminent.

## **2. Follow-up of the visit of 13-14 September 2004**

### *Introduction*

The last EDP dialogue mission took place on 13 and 14 September 2004, and some issues were discussed in this mission. One of these issues was the so-called Bank Burgenland case.

### *Discussion and methodological analysis*

On the Bank Burgenland case, a note from STAT was provided during the meeting. To assist the privatization of the bank (2006) for €100 mio, the State of Burgenland agreed to cancel a debt of €242 mio as well as to assume the service of an old loan from Bank Austria-Creditanstalt subject to annual payments for reimbursing the annuities (€32 mio each year over 2006-2012).

In the April 2007 notification, the debt cancellation was recorded in two parts: a transaction in equity equivalent to the privatisation proceeds (€100 mio, neutral on the deficit B.9) in

application of ESA 5.16, and a capital transfer for the difference. The annual payments relating to Bank Austria-Creditanstalt are considered as capital transfers when they are paid.

Eurostat agreed with the views of STAT that the intention of the ESA 5.16 exemption foreseen for on-going privatization was to avoid adverse statistical incentives when designing privatization packages, and that, symmetrically, the reclassification of debt assumptions / cancellations as financial transactions should not exceed the privatization proceeds.

Eurostat wondered whether the commitment of the State for the annual repayments had any contingencies and whether recognizing a government liability for the full amounts should not be considered instead.

#### *Findings and conclusions*

Eurostat took note of the STAT treatment of debt cancellation in case of privatization, and the capping of the financial transaction recording to the amount of the privatization proceeds.

STAT to verify if the latter transaction could be subject to further consideration: whether or not government is irrevocably committed to pay with certainty, with recording a capital transfer for the full amount in 2006.

### **3. Actual data – EDP reporting**

#### **3.1 Revisions**

##### *Introduction*

STAT had provided a table by sub-sector showing different vintages of the discrepancies between financial and non-financial accounts, and reasons behind revisions.

##### *Discussion and methodological analysis*

Eurostat noted the current STAT policy to avoid concealing discrepancies and instead to show them explicitly.

##### *Findings and conclusions*

Eurostat found this table very useful and valuable as it increased transparency.

#### **3.2 Examination of the EDP tables: April 2007 notification**

As usual Eurostat inquired on the EDP tables.

##### *3.2.1 EDP Table 1*

##### *Introduction and discussion and methodological analysis*

It was noted that in the last notification, STAT provided some information explaining some revisions to the deficit. However, for the debt in 2005 an unexplained revision in debt was

observed.

### *Findings and conclusions*

STAT will provide the information on the revision in debt.

#### *3.2.2 EDP Table 2A-D*

##### *Introduction*

Eurostat inquired on table 2A-D, and in particular on the way the working balances in tables 2B-D are constructed.

##### *Discussion and methodological analysis*

Some of the entries in table 2A were discussed, which were satisfactorily answered by the Austrian delegates. The adjustment item "interest accrued to other government units" relates to consolidation of interest flows between extra-budgetary bodies and the State Treasury.

Eurostat discussed the way in which the EDP tables 2B-C-D are compiled in Austria. Eurostat noted that these tables are artificially compiled bottom-up rather than top-down, using essentially data also reported in EDP table 3, with the effect that the working balances become a residual. Eurostat recalled that this approach was inconsistent with the philosophy of reconciling the notified EDP deficits with published working balances extracted from the public accounts. Working balances are often audited and/or representing policy balances on which policy makers may communicate.

Eurostat noted that the actual current content of the working balance was also not consistent with the title mentioned in the EDP tables of Austria: it was neither "Debt redemption minus Borrowing" nor "(Minus) Changes in Liabilities and Net Worth". STAT recognized these points.

Upon inspection of examples of state and local government "closing accounts", it seemed possible to get figures for plausible working balances for use in EDP tables 2, although this might need some time, owing to the need to collect manually this information or to ensure its incorporation in the data routinely reported to STAT.

##### *Findings and conclusions*

Eurostat encouraged rapid action to report EDP Table 2B-C-D in line with requirements, and suggested starting with EDP table 2B and 2D. An agreement on the working balances in table 2B-D was reached, to move in the direction proposed by Eurostat. STAT was invited to report empty tables in the mean time, pending improvements.

**Eurostat expected Austria to construct EDP table 2B-D for the sub sectors starting from actual working balances. It should be the ambition to do this for state government and social security funds already from the October 2007 notification onwards. The EDP inventory would be modified accordingly.**

### 3.2.3 EDP Table 3A-E

#### *Introduction*

The EDP table 3A-E results from a joint exercise between the OeNB and STAT. In the meeting, the Austrian delegates gave supplementary information on the compilation on these tables.

#### *Discussion and methodological analysis*

The information pertaining to transactions are compiled by the OeNB using the following sources:

- Money and banking statistics for F.2
- Security by security database for F.33 (both assets and liabilities)
- The budget reporting for F.4 (both assets and liabilities)
- Accrual adjustments for F.7 (restricted to: time adjustments for taxes, counterpart of EU-flows and trade credits for Euro fighters)
- The federal finance agency for flows of derivatives

The financial accounts for government thus compiled are then used consistently in the EDP returns as well as in the ESA tables 6 and 27. This also leads to determine the "Difference between capital and financial accounts (B.9-B.9f)" as reported in EDP table 3.

Eurostat noted that a practice exists where the financial accounts for general government are not revised for n-2 and earlier years in March or September, but are revised instead in December and June.

The OeNB informed Eurostat on renewed efforts to exploit more systematically the financial information reported by government units, but noted meeting difficulties.

The other adjustments in EDP table 3 are compiled by the federal finance agency. Given that the transactions in Maastricht debt are compiled independently by the OeNB, and the debt is compiled by STAT, a difference arises, in between these sources of information that determines the "Other statistical discrepancies" (+/-), which can be large.

#### *Findings and conclusions*

Eurostat took note of the compilation practices for the financial accounts of general government and encouraged using direct source information (integrated data reported by government units). The practice regarding timetables for revisions was found acceptable, and Eurostat suggested deleting/amending the current explanations in this respect in the EDP tables, as they might mislead readers. Eurostat suggested renewed effort in reconciling flows in Maastricht debt and change in debt.

On the missing split of loans and equity, OeNB said that they do not compile this information, but that hopefully an improvement is expected next year based on the exploitation of integrated data reported by government units.

Eurostat hoped that progress would be made on this issue based on a more complete use of government source data.



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

### 4.1 Delimitation of general government sector: classification of institutional units according to ESA95- application of 50% rule in national accounts

#### 4.1.1 Hospitals

##### *Introduction*

The hospitals in Austria are organised in different organisational forms and comprise:

- Public hospitals (as legal independent or as dependent entities)
- Non profit institutions often originating from churches
- Private, profit seeking, hospitals

The government owned hospitals are outside government, and one of the main arguments for this classification is that public and private hospitals are subject to the same financing system, "LKF point system", that claims to function as a market mechanism.

##### *Discussion and methodological analysis*

According to the Austrian delegates, there are about 280 hospitals in Austria, out of which only few are private, the latter tending to occupy a narrow and specific segment of the market.

The sectorization of hospitals had been subject of exchanges of correspondence for a while, and, it had been temporarily agreed to follow the STAT position to classify the public hospitals outside government, pending a more detailed analysis of the situation, as well as further reflection notably with respect to the practices in place in other Member States.

Since the 1997 reform (from a system based on a price per day, to a system of financing according to actual health care volumes – the so-called "LKF point system"), all hospitals are classified into the non financial corporation sector (S.11), on the rationale that the LKF *de facto* established a market mechanism with competing private and public operators. In some länder, public hospitals have the legal status of public corporations, whilst in others (Niederösterreich and Wien, about 20 hospitals), they are not incorporated but are considered as quasi-corporations by the statistical authorities.

The Austrian statistical authorities explained that the agencies financing hospitals operate on a länder basis, and are classified within the State government. In addition, it was clarified that the value of the point is based on the average observed costs across Austria, while state governments have the flexibility to modulate, hospital by hospital, that basic reference price, by a non-negligible margin of +/-20%. In this context, it was questioned to what extent a real competition existed across hospitals, how this would in practice be reflected and what would happen in case of costs overruns. Austrian authorities could not recall of any case of hospital closure.

A note was presented in the meeting showing aggregated data for all hospitals. Hospital services purchased by State governments are considered as sales. From the note, sales appear to cover between 50-60% of the costs. It was noted that the reported costs excluded consumption of fixed capital, and that the 50% threshold might be at risk after inclusion of this cost element. Amortization of capital commonly reaches 8-10% of costs, but the

appropriate measurement of consumption of fixed capital implies using market prices of assets rather than historical costs.

It was noted that, in EU Member States with comparable public financing systems of hospitals, some classify public hospitals inside government, while others classify them in the non financial corporation sector – based on the argument that this system can be considered as creating market prices.

The Austrian authorities noted that direct borrowing on the market by hospitals was limited (total debt put at 100 million euro) and that most transfers of funds in the legal form of loans or capital injections are already classified as non-financial transactions (on the ground of low expectation of repayment). Thus it was reflected that it was likely that the net lending / net borrowing of hospitals was close to zero on aggregate.

It should be however noted that in the case of some hospitals, which are public quasi-corporations with no operating losses, investment grants are recorded as addition to equity (for a total of 170 mio) benefiting from the existing MGDD footnote.

A question on the sectorization of hospitals in Austria remains based on two elements characterising the situation:

- the small number of private hospitals
- the importance of state funding and subsidising (as most of the hospitals make losses)

#### *Findings and conclusions*

**Based on the discussion, Eurostat invited STAT to reflect on this issue again and to provide as soon as possible an analysis of the classification of the public hospitals and the transactions with their government owners.**

#### *4.1.2 Railway (ÖBB Holding AG)*

##### *Introduction*

In 2004, a major reorganisation of the railways was undertaken with the creation of new subsidiaries of a restructured ÖBB group, with an intention to set a more efficient management of railways. As part of this restructuring, two operations were carried out:

- a capital injection of €1.4 billion, recorded as addition to equity;
- a debt cancellation of €6.3 billion, recorded as an other changes in volume, on the explicit argument that the debt of the railways was already accounted for in general government via the mechanism of *Rechststrägerfinanzierung*.

##### *Discussion and methodological analysis*

With respect to the capital injection, correspondence from 2004 and later indicated that the appropriate classification would depend on the capacity of ÖBB to turn a profit, in line with the business plan submitted in 2005. The ÖBB staff (CFO) indicated in the meeting that actual results showed significantly better profitability than planned. However, it was noted that, while ÖBB shows an overall profit (relatively small), this is after taking into account of €1.6 billion government transfers a year (on €5.3 billion total revenue of ÖBB), including €1

billion to *Infrastructure Betrieb* (which sales/cost ratio would seem close to 50%). In addition, no dividend had been paid out to the government owner since 2005, and the Return on Equity is recognized to be noticeably below market returns.

Although ÖBB is formally in profit, it was discussed if it was in the spirit of the 2003 Decision to treat the capital injection as addition to equity, given the dependence of the net results on substantial government transfers (or subsidies).

With respect to the second operation, the recording was discussed based on similar experience in other countries: particularly with respect to the ISPA case (Italy – see the Eurostat decision of 2005). The *Rechststrägerfinanzierung* mechanism led to a situation where the debts of former ÖBB were *de facto* levied by government, with the proceeds passed to former ÖBB and accounted as a loan asset of government in national accounts. STAT did not provide an analysis in support of the current recording.

#### *Findings and conclusions*

**Eurostat invited STAT to reflect on the recording of the capital injection and debt cancellation again by providing as soon as possible a national account analysis on this issue.**

#### *4.1.3 Roads (ASFINAG)*

##### *Introduction*

Eurostat enquired on the state of play in relation to the motorway agency ASFINAG (public corporation).

##### *Discussion and methodological analysis*

Current revenue of the public corporation ASFINAG is based on tolls paid by lorries (€800 mio), vignettes paid by cars (€300 mio) as well as additional tolls (€100 mio) on specific roads, tunnels, etc. ASFINAG regularly exhibits current profits that lead to equity capital increases every year (reinvested earnings). No dividends are paid to government. ASFINAG expenditures are roughly split between maintenance costs and investments in new projects. STAT considers that ASFINAG is clearly market.

A PPP was launched in February 2007, where ASFINAG will be the grantor, thus not involving government.

##### *Findings and conclusions*

Eurostat took note of the explanations provided.

#### *4.1.4 BIG – Bundesimmobiliengesellschaft (Real estate corporation)*

##### *Introduction*

Eurostat enquired on the state of play in relation to BIG.

### *Discussion and methodological analysis*

This public corporation has been functioning for 7 years. The Eurostat decision of 2002 defined the methodological framework for recording transactions (transfers of real estate) between government and BIG. According to BIG staff, BIG is genuinely competing on the market, with "clients" moving in and out of its premises unimpeded, and now appears to be profitable. There are no government transfers of buildings in 2006. 90% of its clients are government units that lease buildings. No dividends are paid to government.

### *Findings and conclusions*

Eurostat took note of the explanations provided.

## **4.2 Review of Eurostat decisions and other important methodological issues**

### *4.2.1 Debt assumptions, debt cancellations and debt write-offs*

For the debt cancellation of ÖBB; see under 4.1.2.

- **Housing loans (sales of loans)**

### *Introduction*

This issue was related to state governments' loans to households for housing (at low interest rates). This was one of the issues pending after the EDP mission in 2004.

### *Discussion and methodological analysis*

A first issue relates to the treatment of write-offs of loans in default. STAT indicated that there had been minor write-offs of this kind, and these were now accounted as capital transfers (€10 million).

More importantly, the states sold significant parts of their portfolio of such loans in 2001 and 2002, at 50% of their nominal value, for a total discount of 4 billion euro. It was unclear if other operations were carried out later.

No capital transfer (debt cancellation) was recorded in Austrian national accounts. It was noted that these transactions comprise a grant element that should impact the net lending / net borrowing of state governments. It was reasoned that the expenditure representing the grant element can in concept be captured (1) at inception, (2) gradually over time, (3) at time of resale or (4) never. The current recording had been a mix of (2) and (4), which seemed anomalous.

It was recalled that Eurostat provided an advice on an ex ante request by Belgium, related to social housing schemes with zero interest loans, where it recommended to partition the transactions, following ESA 5.136 and to recognize a grant element at inception.

The agreement reached at the FAWP (January 2007) in relation to foreign claims restructuring was recalled, where a disposal on the market at a large discount would be construed to encompass a debt cancellation by other means and would entail a capital transfer expenditure

by the creditor at time of sale. Discounts (or premium) otherwise relating to normal fluctuations in market rate can continue entering the revaluation accounts.

### *Findings and conclusions*

Given the above, it was thought that a more reasonable option would be to record a capital transfer at time of sale (although an alternative view of revising the national accounts with partitioning the transaction at inception would be acceptable).

**Eurostat invited STAT to reflect on the recording of the sale of housing loans again and to provide as soon as possible an analysis on this issue. STAT agreed to provide Eurostat with the information whether some sales were conducted in 2003-2006.**

- **Foreign debt cancellations**

#### *Introduction*

It was explained that foreign debt cancellation in Austria takes place mainly in relation to claims related to export credits, through the Paris Club negotiations. In the meeting further details were given on this issue.

#### *Discussion and methodological analysis*

The Austrian delegates informed Eurostat that the stock of outstanding guarantees related to export credits at the end of 2006 was €32.1 billion. The Austrian delegates explained that the Austrian export guarantee scheme is administrated by the Österreichische Kontrollbank (ÖKB). In a document provided by the MoF for the meeting, it was explained that in case of default, a federal guarantee is called by an exporter, followed by a payment from the federal government to the exporter on the amount guaranteed. When a guarantee is called, a claim is booked in national accounts as a loan; a capital transfer is booked when the claim is eventually written off in the context of the Paris Club negotiations.

Information on foreign debt cancellation through the Paris Club (in favour of Heavily Indebted Poor Countries, HIPC) was presented by the Austrian delegates in the meeting. This is usually a rescheduling of debt involving a reduction of interest.

The stock of Austrian claims within the Paris Club amounted to € 2.6 billion at the end of 2006, against € 4.9 billion at the end of 2005. Information on these debt operations, in the Paris Club context, has previously not been made completely available to STAT, and therefore not reported to Eurostat (incomplete Table IV of the Questionnaire related to EDP tables).

Eurostat noted that there existed some ambiguities as to whether export insurance guarantees should be reported in table IV (on debt cancellations) of the questionnaire related to EDP tables, or in table III (on guarantees). Eurostat felt that these operations should not be reported twice, and would more naturally belong to table IV. This issue would need to be clarified. More important, export insurance would not necessarily be treated in national accounts in the same way in which guarantees are, and the STAT treatment seemed appropriate. This issue will be discussed in the context of a Eurostat task force on guarantees.

### *Findings and conclusions*

Eurostat took note of the situation relating to foreign debt cancellation and encouraged the MoF to provide STAT with information for Austria to improve the reporting in the questionnaire (table IV) related to the EDP notification.

#### *4.2.2 State guarantees*

- **The high level of state guarantees**

##### *Introduction*

Austria has traditionally had a very high level of government guarantees, notably at the state level, and in the mission Eurostat enquired on details on this issue.

The reported guarantees included the export insurance, which should be reported elsewhere (see above).

##### *Discussion and methodological analysis*

State government guarantees are mainly related to a Vienna capital guarantee of Bank Austria AG deposit liabilities. Upon privatisation of this bank, the existing guarantee on existing deposits accounts was maintained, but it is likely to be reduced in the very long run with the gradual disappearance of the beneficiaries. In the mean time, these guarantees are theoretical and are never called. The system of state guarantees is to be phased out, in line with the agreement with the EC of 2 April 2003.

Eurostat recalled that, in principle, a call of a guarantee should be recorded through a capital transfer in the government accounts. In the context of export insurance, the Austrian accounts counterbalance the exercising of the guarantee (assumption of a liability) with the recording of a claim vis-à-vis the defaulting debtor.

The MoF indicated that two public entities classified outside government had an activity of provision of guarantees. However, any loss in a given year by these entities gives rise to a budget transfer.

### *Findings and conclusions*

Eurostat took note of the situation where the government portfolio of guarantees in Austria either relates to export insurance, or are specific guarantees that do not lead to calls.

#### *4.2.3 Capital injections in public corporations (increases in equity reshuffling), superdividends and privatizations*

##### *Introduction*

Eurostat asked in relation to table V(a) of the questionnaire related to the EDP tables to provide information in line 8 (equity injections) and in line 12a on superdividends, which seem available in the main in table V(b).

### *Discussion and methodological analysis*

Regarding the application of the superdividends test, STAT indicated looking at large increases in dividends and enquiring anomalous patterns. The Austrian representatives informed that they were enquiring on two cases (in the states Vorarlberg and Klagenfurt).

### *Findings and conclusions*

Eurostat took note of the Austrian explanations, and encouraged making efforts to provide all available information in the EDP questionnaire table V.

- **Hospitals**

Hospitals were discussed under 4.1.1 (see above).

- **Railways**

Railways were discussed under 4.1.2 (see above).

- **Roads**

Roads were discussed under 4.1.3 (see above).

### *4.2.4 EU flows*

#### *Introduction*

On this issue, Eurostat asked about the institutional arrangements around EU grants.

#### *Discussion and methodological analysis*

The Austrian delegate from the MoF explained that the incoming flows of EU grants are collected by the MoF (95% of flows are channelled through the federal budget) and forwarded to the respective ministries that pay out to the beneficiaries. Whilst time adjustments are being made for agricultural subsidies, Eurostat noticed that no such adjustments seem to be made for EU grants in relation to structural funds.

Although the amounts pertaining to structural funds are globally not very big in Austria, Eurostat noted that the Austrian accounts were on a cash basis, which does not comply with the Eurostat decision.

#### *Findings and conclusions*

Eurostat noted that it is likely that there are time effects also for structural funds and that adjustments would be necessary.

#### 4.2.5 *Market Regulatory Agencies*

##### *Introduction*

On this issue, Eurostat asked about the institutional arrangements around EU grants.

##### *Discussion and methodological analysis*

The regulatory agency in Austria is a unit inside central government (AMA). Agricultural subsidies, which are in the federal budget working balance, are eliminated from the B.9 calculation by STAT. To the question of where are the inventories of agricultural products recorded in national accounts, it was answered that these were most likely in the non-financial corporation sector.

##### *Findings and conclusions*

Eurostat asked STAT and OeNB to verify the balance sheet of AMA (which shows a tiny net lending / net borrowing) and report to Eurostat.

#### 4.2.6 *Military equipment*

##### • **Deliveries of Eurofighters**

##### *Introduction*

Austria is purchasing new military jet fighters, and the deliveries of 18 planes will take place in 2007 (4), 2008 (12) and 2009 (2). Austria provided Eurostat with detailed information on this purchase.

##### *Discussion and methodological analysis*

In the meeting, STAT provided a note showing the detailed flows. The acquisition of the planes is recorded on a delivery basis, in application of the Eurostat decision.

This contract provides for pre-financing arrangements carried out by banks with an irrevocable commitment of the Austrian Government to repay them. On this basis, such pre-financing flows were included in the Maastricht debt.

Other military equipment expenditures are on a cash basis. Eurostat noted that the purchase of Eurofighters is not included in the table VI of the questionnaire related to EDP tables. STAT noted that delivery was taking place in 2007 and later, but promised to look into this question of whether information on financial flows should be brought into the questionnaire.

Finally, the Austrian Authorities noted that a lease of military equipment had been treated as operating lease, because it was a short-term arrangement contracted with the Swiss government, and seemed much more like military cooperation.



### *Findings and conclusions*

Eurostat took note that the Austrian accounts are on a cash basis for military equipment, retreated for a large contract of fighters that is on a delivery basis, which was by and large in compliance with the Eurostat decision.

#### *4.2.7 Public Private Partnerships – PPP*

##### *Introduction*

Eurostat asked about the existence of PPPs in Austria, and if any system to monitor and collect information on such arrangements was in place.

##### *Discussion and methodological analysis*

The Austrian delegates explained that they do not have a system in place to systematically monitor and collect information on PPPs. In Austria, there is no official policy from the federal government to develop public private partnerships.

##### *Findings and conclusions*

Eurostat noted that the situation in Austria is similar to some other countries on this issue, with a lack of systematic collection of information on PPPs. For the federal government, the situation is likely to be more transparent as PPPs are often of significant sizes (i.e. major infrastructure projects), whilst at the level of local government the individual PPPs are likely small but in aggregate possibly significant.

#### *4.2.8 Securitizations, sale and leaseback*

##### *Introduction*

Eurostat asked about if there were any cases of securitizations, sales and leasebacks.

##### *Discussion and methodological analysis*

The Austrian delegates informed that there are no cases of securitization known for the time being.

STAT noted that there have been active sales and leasebacks at state government level, but that these were generally without effect, as the partner entities were classified inside general government (extra-budgetary accounts). However, these operations would be a cause for a revision to the 2006 balance in the October 2007 notification, as these operations internal to one sub-sector are difficult to correctly capture in the first notification.

##### *Findings and conclusions*

Eurostat took note that no securitization operation and no sale and leaseback operations external to general government had been conducted over the reporting period 2003-2006.

### **4.3 Implementation of the accrual principle**

#### *Introduction*

Eurostat enquired on the implementation of the accrual principle.

#### *Discussion and methodological analysis*

On the recording of social contributions, STAT clarified that an anomaly had shown that social contributions were on a cash basis in the EDP inventory, while social contributions are compiled on an accrual basis using an assessment method.

Eurostat noted that information on amounts accrued during the year is directly available in the social insurance books. STAT also used the provisions recorded by accountants to estimate the capital transfer for the amounts unlikely to be collected. Eurostat noted that these provisions pertain to both the new social contributions of the period and to the change in provisions of the stock of claims accumulated to date. This was found sound with respect to the amount of taxes recorded as government revenue over the long run, although prone to some volatility in the short run.

Amounts of receivables are reflected in EDP table 3E, but not in the table I of the questionnaire related to EDP tables.

Taxes are cash based, but for some important taxes a time adjustment is applied. This is the case for value added tax (D.211), for duty based on fuel consumption (D.214A) and for wage taxes (D.51A): the time adjustment is respectively 2 months, 2 months and 1 month.

Concerning the wage tax for workers, employees and civil servants, a settlement for year  $n$  is provided in January  $n+1$  and recorded in year  $n$ . Another settlement (related to other effects, such as family and assets situations), similar to the one applied for self employed or corporate tax, may be done later in  $n+1$  and is recorded in national accounts in year  $n+1$ .

#### *Findings and conclusions*

Eurostat took note of the sound method used for social contributions measurement. Eurostat asked STAT to report amounts in table I of the questionnaire related to EDP tables (F.79 and AF.79 related to D.611).

### **4.4 Derivatives**

#### *Introduction*

This issue was not extensively discussed. It was explained that a detailed database of the federal financing agency is available to the OeNB for data from 2006 onwards.

#### *Discussion and methodological analysis*

The OeNB indicated that the net incurrence in financial derivatives in EDP table 3 was in fact net amounts (transactions in assets minus liabilities). Eurostat noted that the net flow for swaps was rather high (€2.5 billion over four years). The OeNB could not provide an

explanation and it was agreed to clarify this issue in subsequent bilateral contact. The OeNB could not provide the gross swap exposure of the Austrian government.

In this context, Eurostat asked for a confirmation that swaps cancellation had not been conducted and that options as well as off-market swaps were not used.

### *Findings and conclusions*

The Statistical authorities will explain the origin of these noticeable flows observable in EDP tables and provide data on the gross exposure in derivatives by instrument and by year.

## **5. Other issues**

### **5.1 Tables 2, 6, 7, 9, 11, 25, 27 and 28 of the ESA95 Transmission Programme**

In the broad, the Austrian reporting for the ESA95 Transmission programme is satisfactory. However, Eurostat noted that for tables 2, 9 and 11 there is a consolidation issue on the sub-sectors of general government. STAT confirmed the problem of consolidating subsectors.

**STAT aimed at solving the problems related to the lack of consolidated figures for sub-sectors of general government in the next revision of national accounts in March 2008. STAT also informed that it is a priority to enable reporting of COFOG 2<sup>nd</sup> level.**

### **5.2 Other issues**

- BAWAG – Bank für Arbeit und Wirtschaft (Relations between government and the bank). Given BAWAG difficulties in 2006, the government provided a guarantee for BAWAG in 2006 (€900 mio) against a fee (€1.7 million). In the mean time, BAWAG's situation improved, and the guarantee expired in 2007.

**Eurostat took note that there was no impact in 2006 on the government pertaining to BAWAG (except for the fee).**

## **Annex 1**

### **List of participants of the EDP dialogue visit to Austria of 10-11 September 2007:**

#### **Statistics Austria**

- Reinhold Schwarzl
- Walter Stübler
- Karl Schwarz
- Alexander Ninaus

#### **Oesterreichische Nationalbank**

- Gerald Wimmer
- Eva Hauth
- Doris Prammer

#### **Ministry of Finance**

- Eduard Fleischmann
- Alfred Katterl
- Gerald Hammer
- Friedrich Resel
- Ilse Hohenegger
- Heinz Koch
- Friederike Schwarzenborfer
- Alexander Tomasch

#### **Ministry for Traffic, Infrastructure and Telecommunication Affairs**

- Herbert Kasser

#### **Österreichische Bundesbahnen**

- Erich Söllinger

#### **DG ECFIN**

- Joao Nogueira Martins

#### **ECB**

- Emmanuel Larue

#### **EUROSTAT**

- Laurs Nørlund
- Philippe de Rougemont
- Jean-Pierre Dupuis
- Kurt Wass