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EUROSTAT

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



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- FINAL FINDINGS -

EDP dialogue visit to Germany

12 April 2007

Executive Summary

Eurostat met with the German authorities (Finance Ministry, Federal Statistical Office, Deutsche Bundesbank) on 12 April 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 German authorities had undertaken prior to the mission in providing the requested information and documents.

The discussions during the mission solved several outstanding technical matters, notably the recording of military expenditure in the national accounts under agenda point 5, the consistency of EDP notifications with ESA table 6 (financial accounts) under agenda point 4, guarantees under agenda point 7 and the recording of the reform of the social security system under agenda point 8.

In several places, Eurostat took note of the explanations of the German authorities and encouraged further follow-up. These were notably for the availability of data in EDP notifications under agenda point 2, the "other adjustments" line in the EDP notification Table 2 under agenda point 3, the availability of data at State and Local government levels under agenda point 9, and the recording of the "Mielicke" case under agenda point 11.

A number of action points were established, including the recording of transactions of quasi-corporations and their classification (under agenda point 3) and the recording of transactions relating to EU flows (under agenda point 6).

1. 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 Germany on 12 April 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 German authorities were represented by the Finance Ministry, Federal Statistical Office and Deutsche Bundesbank.

The German authorities explained that they did not consider the three methodological documents discussed by the Financial Accounts Working Group in January 2007 (payments for roads, restructuring of foreign claims, market regulatory agencies), and subsequently circulated by Eurostat, to be procedurally adopted without presentation to the National Accounts Working Group and a further written procedure. Eurostat noted this position, explaining that Eurostat nevertheless had a right to issue its own methodological views on these matters, pending a formal validation of these documents by interested working groups. These views aim at providing in writing the benchmark rules, relating to newly raised cases, against which Eurostat conducts the evaluation of the notified data.

2. Follow-up of the April 2007 EDP reporting – analysis of EDP tables and questionnaires

Introduction

Eurostat thanked the German authorities for their responses to the EDP request for clarification sent by Eurostat a few days earlier. This had clarified a number of matters for Eurostat.

Availability of the working balance for T-1 in the April notification

Discussion

The German authorities explained that it is not possible for the end-March Notification to establish a working balance for the previous year for State, Local or Social Security sub-sectors due to the lack of full and timely availability of public budgetary figures. The Federal Statistics Office estimates the net lending / net borrowing (B9) of these sub-sectors from the detailed information available to it, with some estimation where primary data sources are incomplete. Generally, the Federal Statistics Office receives a detailed database encompassing source data for the non-financial transactions, but not for all financial transactions. The German authorities nonetheless confirmed that a working balance and reconciliation with B9 in EDP Table 2 will be available for the previous year for all sub-sectors in the end-September EDP notification tables.

For the same reasons, the German authorities explained that the accruals adjustment for interest paid in 2006 is not yet available for State, Local or Social Security sub-sectors because the relevant cash figures are not yet available.

Eurostat noted that, in some cases, the observed statistical discrepancies had grown and that a major statistical discrepancy persists for Central Government in 2004. The German authorities explained that there is ongoing work on this issue, based on improved financial accounts information, however it is likely that major progress will only be possible from 2008 onwards with the availability of further data sources for the financial accounts.

Findings and conclusions

Eurostat encouraged the German authorities to enquire on the ways to comply with the regulatory requirements for the provision of the working balance and the transition to the net lending / net borrowing, for the year T-1, in time for the April notifications. Eurostat strongly encouraged the German authorities to make further efforts to investigate and reduce statistical discrepancies, particularly for the year 2004. The German authorities agreed to check their response to Eurostat's recent questionnaire on statistical discrepancies and to send a revised answer.

Information on the stock of tax and social contribution receivables

Discussion

With regard to table I of the questionnaire related to the notification tables, Eurostat noted that no data on stocks of other accounts receivable were reported by Germany. The German authorities explained that stocks data available from the time adjustments used for reporting taxes on an accruals basis cannot be identified amongst the stocks of accounts receivable used in the financial accounts as reported in ESA tables 6/7, which are derived from various administrative sources. Hence it was difficult to reconcile model-based data with those of the ESA table 6/7 financial accounts and balance sheet. A major exercise was recently conducted to ensure the consistency of the stocks of receivables for social contributions. Eurostat noted that countries using time adjusted cash methods could report without difficulty the stock of tax receivables and should do so, irrespective of whether an apparent inconsistency might arise with the financial balance sheet reported under ESA table 7.

Findings and conclusions

The German authorities undertook to report data for stocks of other accounts receivable in the next notification exercise, on the understanding that these data may not (at least for some time) be fully consistent with total stocks of accounts receivable in the financial balance sheet (ESA table 7).

Debt cancellations

Discussion, findings and conclusions

With regard to table IV of the questionnaire, the German authorities confirmed that Nigeria had satisfied the conditions for debt forgiveness in 2005 and therefore the relevant capital transfer (for EUR 835 million) had been recorded in the national accounts in 2005, with the related interest being recorded separately. The gross value of the Central Government claim against Nigeria, including interest in arrears, was EUR 1.3 billion.

Dividends

Discussion

With regard to Table V of the questionnaire, Eurostat asked for more information on the source of dividends received by the German government, and enquired on how the ESA95 rules were applied (notably for carrying out the superdividend test). The German authorities indicated that information is available on dividends received by Central Government, which allows the statistical authorities to ensure that super-dividends are treated correctly. Only aggregate information is available at below-Central Government level, and in this case the aggregate series for dividends is simply monitored to ensure that any unusual movements are properly investigated. One such case was observed in 2002. Eurostat noted that table Vb listing largest transactions could be filled, notably with the largest dividends such as from Bundesbank, Post or Telecom.

Findings and conclusions

Eurostat encouraged the German authorities to complete tables IV and V of the questionnaire to the best of their ability.

Revisions

Discussion, findings and conclusions

The German authorities indicated to have found no particular weaknesses in the revision pattern of the state and local government deficit figures. The revisions are generally not large and with no particular bias.

The German authorities provided Gross National Income (GNI) figures and agreed to investigate why EDP notification table 4 had not been completed.

3. The "Other adjustments" item in EDP Notification table 2

Introduction

EDP notification table 2 is intended to provide a full reconciliation between the working balances of government sub-sectors and the EDP deficit. Eurostat had noted that the German tables contain a large and growing "other adjustments" line, and was concerned that the contents of this line should be fully explained.

Discussion

Eurostat thanked the German authorities for providing a note on the "Other adjustments" item and a reconciliation for the year 2003. The German authorities indicated that the work of reconciliation just for 2003 had taken 6-7 months of staff time and therefore they did not intend to repeat the exercise on a regular basis.

Eurostat encouraged continuous monitoring of the issue. At a minimum, Eurostat asked the German authorities to indicate in future if there were any large "one-off" items included in the

other adjustments line (i.e. different from the regular items identified in the reconciliation for 2003).

Eurostat noted that a major adjustment (around EUR 3.5 billion) made for the Local Government level relates to payments of investment grants to quasi-corporations. The German authorities explained that these grants are provided by States to Municipalities for the sole purpose of financing capital investment of quasi-corporations and are clearly identified in the relevant budget accounting plan. They might relate to activities such as provision of electricity, water or refuse services. According to the German authorities, they classify these flows as acquisition of equity in the national accounts, following ESA95 paragraph 5.95e). Eurostat asked to what extent these entities were sufficiently autonomous to deserve a quasi-corporation status, and indicated that a reflexion was being conducted by Eurostat in the light of various country cases. The German authorities explained that these entities produce their own accounts and have management boards independent of local mayors with regard to regular business activities.

The German authorities agreed with the Eurostat view that in case the quasi-corporations would be loss making, capital injections would be classified as capital transfers. However, they pointed out that, under German State rules, these entities must generally charge fees which cover all operating costs (including consumption of fixed capital), but no more, and this appears to be enforced. There are no independent checks by the German statistical authorities of the financial outcome of these entities. Eurostat noted that the charging of fees to just cover costs would imply that no profits are made by these entities and therefore no dividends are to be distributed, which would put a question mark as to whether government was behaving like a normal investor, with an expectation of normal market return on investment.¹

Eurostat took note of this explanation and will reflect further on the recognition of quasi-corporation, in the context of cases observed in other EU countries, as well as on the classification of the capital injection itself. The German authorities will confirm if the entities involved can borrow on their own account.²

The German authorities explained that the entry in other adjustments for balance of payments, appearing in the detailed other adjustment to the EDP table 2, relates to the timing of recording of EU structural funds grants.

Findings and conclusions

Eurostat welcomed the work of the German authorities to identify "other adjustments", and encouraged future monitoring of the "other adjustments" line, with identification of large items. Eurostat will reflect further on the identified issues for quasi-corporations.

¹It was later clarified by the German statistical authorities that in some instance a profit is expected. For example, §11 of the "Eigenbetriebsgesetz" of the State of Hesse states that the annual profit normally must cover a market oriented return on investment.

²It was later clarified by the German statistical authorities that public quasi-corporations in Germany can borrow on their own account (see e.g. § 11 of the "Eigenbetriebsgesetz" of the State of Hesse).

4. Consistency of EDP Notification Tables with ESA table 6 (Financial Accounts)

Introduction

Eurostat received from the German authorities a note on the difference between the transmitted financial accounts within ESA table 6 and within EDP notification table 3 for the instrument "other accounts receivable", and observed that there remained a further discrepancy to be explained. The German authorities provided an explanatory note which identified two further reasons for discrepancy relating to the treatment of accrued interest and the valuation of bills issued below nominal value.

Findings and conclusions

Following a brief discussion, Eurostat agreed that there was no need to amend the April 2007 EDP notification tables at this stage.

5. Military expenditure

Introduction

Eurostat had noted that the German authorities had not completed the EDP questionnaire table on military expenditure, and that previous exchanges on this subject had not allowed Eurostat to conclude that the German authorities were complying with the Eurostat Decision on this matter. Eurostat had therefore sent a questionnaire on military procurement to the German authorities and received their response in advance of the visit.

Discussion

The German authorities explained that there had been the need for a contact with the German military procurement agency and it had now been agreed that the German military authorities will inform the statistical authorities of any large equipment deliveries, since for most years, without exceptional deliveries, the accruals adjustments at beginning and end of the year would be expected to largely cancel out. The German authorities agreed to complete in future the qualitative questions in table VI of the questionnaire related to the notification tables. On this basis, Eurostat noted that the German approach to the recording of military expenditure in national accounts respects by-and-large the terms of the Eurostat's Decision.

The German statistical authorities will ensure future contact with the German military authorities in respect of major equipment deliveries and will complete table VI of the questionnaire related to the notification tables in the future.

Eurostat asked for further information about the HERKULES project, a major outsourcing to the private sector of military IT and communication services. The German authorities explained that they do not consider this to be a Public-Private Partnership (PPP) project in the meaning of the relevant Eurostat's Decision, but are currently looking at the treatment of the project in national accounts. The German authorities will inform Eurostat when they have completed their investigation of the treatment of the HERKULES project in the national accounts, and provide an explanatory note.

Findings and conclusions

Eurostat welcomed the explanations of the German authorities on military procurement and considered that the German approach to recording of military expenditure in national accounts respects by-and-large the terms of the relevant Eurostat's Decision. Eurostat underlined the importance of continued cooperation between the German statistical and military authorities on this matter.

6. Recording of transactions relating to EU flows

Introduction

Eurostat had noted that the German authorities had not completed table II (EU flows) of the questionnaire related to the notification tables, and therefore it is not possible to conclude if the German authorities are applying Eurostat's Decision on this issue.

Discussion

Eurostat underlined the important principle of its Decision on EU grants that these grants should have a neutral impact on net lending / net borrowing when intended for third parties.

The German authorities explained that with respect to EU agricultural products and subsidies, the agency managing these agricultural inventories and subsidies (The Federal Office of Agriculture and Food) is classified outside the General Government sector in national accounts. This agency has widespread functions, of which managing EU subsidies is only a relatively minor part. The agency is able to borrow on its own account and can therefore pre-finance agricultural subsidy payments which are subsequently claimed from the EU. This means that there are no accruals adjustments to enter into the General Government sector accounts for agricultural subsidies. Eurostat took note of this explanation.

The German authorities explained their belief that Eurostat's Decision on EU grants does not correctly reflect the administrative arrangements in place for the EU Structural Funds. In their view, the relevant EU Regulation in force meant that any pre-financing for these Funds would have been made available in the years 2000 or 2001 and would have to be used within 18 months. The German authorities explained that the pattern of data available on aggregated non-subsidy cash receipts from the EU seemed not to show a substantial pre-financing effect. Eurostat noted that reimbursements from the EU might be made some months (and even years) after the expenditure had been made and claimed, therefore some timing effects could be expected but it is not known how large they might be. Eurostat did not find that the factual evidence provided (exclusively pertaining to cash information) could conclusively suggest that the time adjustment was with no material effect on the measurement of the German deficit.

The German authorities explained that there is a lack of information available to statisticians on expenditure funded by EU grants, particularly at State and Local level. They wondered if more complete information could be obtained from DG REGIO at the European Commission. Eurostat reminded the German authorities that it is the responsibility of the Member States to report EDP-related data, and that Eurostat's Decision should be followed in future notifications. Eurostat thought that the data had to be available at a centralized level within a German agency.

The German authorities will investigate if relevant information exists on EU grants and expenditure at a centralised German agency for the EU structural funds and will inform Eurostat. Eurostat will investigate the possibility of cross-checking this information with records at DG REGIO.

Findings and conclusions

Eurostat found that there is further work to be undertaken on this issue, before it can be concluded whether or not the German authorities comply with the relevant Eurostat Decision.

7. Guarantees

Introduction

Eurostat had noted that the German authorities did not fully complete table III (guarantees) of the questionnaire related to the notification tables. In the last EDP notification, the German authorities had added specific adjustment lines for guarantees to EDP Table 2. Eurostat believed that it was important to check the recording of guarantees in the German national accounts, particularly in the case of the capital transfers to be recorded.

Discussion

The German authorities confirmed that capital transfers are recorded in national accounts:

- When a guarantee is called for all guarantees issued by Central Government to domestic units.
- When a loan asset arising from a guarantee is written off for all guarantees issued by Central Government benefiting foreign units (in the context of export credit operations).
- When a guarantee is called for all guarantees issued by State or Local Governments.

Eurostat and the German authorities identified a possible internal inconsistency in the data reported in tables IIIb and IIIc of the Questionnaire related to the notification tables, and it was agreed that this would be investigated. In response to a Eurostat question, the German authorities explained that the recent high reimbursements of loan assets arising from guarantees were related to Russian and Polish repayments.

Following receipt of a note from Germany on the guarantee administration system, Eurostat agreed that no cases of partial guarantee call should exist in Germany.

The German authorities agreed to investigate if further rows in the tables III of the questionnaire related to notifications could be completed in future, and also to check the internal consistency of the data reported. Eurostat strongly encouraged this work.

Findings and Conclusions

Eurostat took note of the recording principles in the German national accounts for guarantees, and requested that the German authorities expand their reporting in tables III of the questionnaire related to notification tables.

8. Reform of the social security system

Introduction

Eurostat had become aware of an administrative change during 2006 in the dates for employers to pay over social contributions to the German government. This would be expected to lead to 13 months of cash social contributions received by the German government, and therefore Eurostat wished to check that the accruals principle has been correctly applied in the German national accounts.

Discussion

Eurostat and the German authorities investigated the recording in national accounts of the "13th month" of social contributions in 2006 and concluded that the treatment seemed reasonable and internally consistent. Both the Federal Statistical Office and the Bundesbank had used income-based models for the calculation, and indicated that they would further check the figures for 2007Q1 and 2007Q2 for consistency. The German authorities noted that the additional cash social contributions received reflected less than a full month of social contributions due to the way in which the reform had been implemented.

The German authorities explained their belief that the only future timing adjustment needed for social contributions and benefits would be related to the pre-payments of benefits by the Unemployment Agency. However it was not clear if this effect was a one-off in 2006 or will be repeated in future years. The German authorities will investigate further the timing adjustment for social benefits of the Unemployment Agency, and will inform Eurostat what adjustment (if any) will be needed for future years.

The German authorities further explained that there is an adjustment under "other adjustments" in EDP table 2D (see Agenda point 3) for social benefits, which is an adjustment made each year to reflect the interaction of flows of social contributions and benefits between institutions.

Findings and conclusions

Eurostat found that the approach taken by the German authorities to the recording in national accounts of the administrative change is reasonable, and took note that the issue of the timing adjustment for social benefits of the Unemployment Agency would need to be further investigated.

9. Availability of information on transactions at State and Local Government level in Germany

Introduction

Eurostat expressed a concern that in Germany, as in many countries, the availability of data at the levels of State and Local government is less detailed and timely than for Central Government.

Discussion

The German authorities explained that the available information for State and Local government units had improved in recent years (notably for financial accounts) and that budgetary information is available in the detailed budgetary accounting plan. However, owing to the constitutional situation in Germany, it was not straightforward, or even possible, for the German statistical authorities, to obtain detailed information on individual transactions at State and Local level.

The German authorities further explained that, in this context, they adopted a prudent approach to the classification of transactions at State and Local level. The German authorities noted that since the measurement of the fixed capital formation (civil engineering) of state and local government derived from counterpart information by branch, PPP assets were *de facto* classified as government investments. In addition, in the absence of information on specific PPP of central government (for example, if the contract could not be reviewed), the German statistical authorities would take the view that any related assets would be recorded on the General Government sector balance sheet. The German authorities noted that they monitor Press and Internet sources to discover if any significant transaction has taken place, and also can monitor statistically the budget line related to leasing operations. The Bundesbank representatives explained that the classification of PPP assets is reflected in the Maastricht debt level as far as the public debt statistics are corrected for it.

Eurostat underlined the importance of continuous monitoring of the situation and welcomed the prudent classification approach on PPP assets taken by the German authorities.

The German authorities agreed to cross-check that the debt of PPP operations considered "on balance sheet" is fully included in reported Maastricht debt.

Eurostat mentioned the case of the sale-and-leaseback operation undertaken by the State of Hesse in 2005. The German authorities noted that they had analysed this operation in some detail and had concluded that the operation could be considered as a genuine sale due to the nature of the rental agreement of the State with the private company.

Findings and conclusions

Eurostat took note of the improved data available, encouraged a prudent approach to the classification of transactions at State and Local government level, and asked for a cross-check of the recording of debts relating to PPP operations.

10. Recent Court decisions

Introduction

Eurostat had taken note of the recent "Meilicke case" where the European Court of Justice had recently made a judgment that the German government should repay past taxes levied in the past on dividend payments.

Discussion

The German authorities explained that they are still investigating the possible fiscal impact of

the "Meilicke case".

Eurostat explained that, in its experience, the recording of the statistical impact of court decisions should generally be made in the year in which the court decision is made (following the Decision in the "Irish case"). However it may be that the success of a claim is not guaranteed or the number of potential claimants is not well known, in which case it may be more appropriate to make a statistical recording when the individual claims are recognized (or even settled). Eurostat further indicated that the recording in the non-financial accounts may be a negative taxation revenue or a capital transfer, expressing at this stage a preference for treatment as capital transfers, but agreed to reflect further on this.

The German authorities will investigate the impact of the Meilicke case further and inform Eurostat when they reach a decision on the appropriate recording in the German national accounts.

Findings and conclusions

Eurostat awaits the decision of the German authorities of the appropriate recording in national accounts of flows relating to the Meilicke case.