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**- FINAL FINDINGS -**

**EDP dialogue visit to Sweden**

**7 May 2007**

Final findings  
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**Executive summary**

Eurostat undertook an EDP dialogue visit to Sweden on 7 May 2007 as part of its regular visits to Member States and with the more specific aim to make an examination and follow-up of the EDP reporting tables and the questionnaire related to EDP tables from the April 2007 notification and to discuss issues still outstanding since previous notifications, notably statistical discrepancies, the recording of EU grants and bad debt loans.

Concerning the April 2007 notification, Eurostat took note of the reclassification of the funded pension scheme (PPM), in line with Eurostat's decision of 2004. Eurostat furthermore confirmed that the PPM deposits at the Treasury, should be taken into account when calculating government debt.

Concerning EDP tables 2, Eurostat expressed serious concern about the absence of explicit reporting under "other accounts receivable and "other accounts payable". Eurostat further noted that some items in table 2A relating to "sub-sector delimitation" had been incorrectly labelled, which should be corrected in the October 2007 notification. Eurostat also took note of the explanation relating to the newly introduced adjustment in table 2A, relating to the reclassification of PPM. Finally, Eurostat proposed to the Swedish authorities to review in detail the classification and wording of the adjustment in table 2C for "investment grants" in order to assure correct reporting in the October 2007 notification.

Concerning EDP table 3, Eurostat took note that, due to the nature and quality of the financial accounts data used for compiling the EDP tables, a number of problems have been identified (notably the absence of complete "other accounts receivable" and "other accounts payable"), and instead Eurostat advised using direct information from government units for the purpose of EDP. Eurostat also requested the Swedish authorities to investigate on the identified uncertainties relating to "difference between interest accrued and paid". Concerning the comparatively high figures for "loans" granted by local government in table 3D, Eurostat requested the Swedish authorities to provide a document with full details on the nature of these loans, split by amounts, the classification of the entities receiving these loans, an assessment whether the loans will be repaid or not and a description of the current treatment in national accounts if a loan is not repaid.

Concerning the examination and follow-up of the "questionnaire related to EDP tables", Eurostat emphasised the problems related to the absence of "other accounts receivable" and "other accounts payable" in the financial accounts, implying insufficient reporting of table I (taxes and social contributions), table II (EU grants) and table VI (Military expenditure). Furthermore, concerning taxes and social contributions, Eurostat concluded that Sweden is currently not fully complying with Council Regulation 2516/200 due to nature of the coefficient. Eurostat finally requested full documentation on the recording of EU grants, including a table and explanation on compliance of the rules.

Concerning the historically high Swedish statistical discrepancy, the Swedish authorities reported on the results of the ongoing project aiming at reducing the discrepancy in all sectors

and presented planned future actions. Eurostat stressed the importance of the project and the efforts made to solve these problems, which have been existing since many years, and concluded that results were expected already in the October 2007 notification.

Finally, for the recording of bad debt losses, Eurostat concluded to record these bad debt loans as capital transfers and to implement this changed recording in the context of the overall national accounts revision in autumn 2007.

## **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 Sweden on 7 May 2007.

The delegation of Eurostat was headed by Mr. Nørlund, Director of National and European Accounts. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Swedish Authorities were represented by the Statistics Sweden, the Swedish National Financial Management Authority (ESV), the Ministry of Finance, the National Central Bank and (for the item on guarantees) the National Debt Office.

Eurostat introduced the meeting by referring to the new procedural arrangements as indicated in article 8 of the Regulation 3605/93, as amended, and by stating that *Main conclusions and action points* from the meeting will be sent within days after the mission to the Swedish authorities for comments. Within weeks, *Provisional findings* will be sent to the Swedish authorities in draft form for review. *Final findings*, including possible comments from Sweden, will be sent to the Economic and Financial Committee (EFC) and published on the Eurostat web site.

The agenda covered the examination of EDP tables and follow-up of the EDP reporting tables and the questionnaire related to EDP tables from the April 2007 notification, as well as issues outstanding since previous notifications, notably statistical discrepancies and the recording of EU grants and bad debt loans.

## **1. Examination of EDP tables and follow-up of the April 2007 notification**

### **Table 1**

#### *Introduction*

In the April 2007 notification, Sweden reclassified data in national accounts back to 1995 due to the expiration of the transition period on the implementation of the Eurostat decision on funded pension schemes. Whereas the reclassification impact of the funded pension scheme (PPM) on net lending/net borrowing was consistent with information previously received from the Swedish authorities, the debt impact was noticeably larger than indicated in earlier notifications. In the April 2007 notification, Sweden also significantly revised the figures for

loan liabilities. Finally, Sweden was the only country in the EU not providing consolidated interest in ESA tables, although interest is consolidated when reported in EDP table 1.

### *Discussion*

Eurostat noted that the PPM impact on government debt had been misreported in previous years. The Swedish authorities explained the reasoning behind the reconsideration of the impact on general government debt of the reclassification of the PPM, implying the inclusion in government debt of PPM deposits held at the Treasury. These deposits correspond to money in transit, relating to payments made by social security on behalf of the insured in the context of the PPM. The payments transit via the Treasury and are kept during two years in deposits, until the final pension rights are decided. The deposits had initially been viewed as payables/receivables links, which were to be consolidated in any case when drawing the general government accounts (as long as PPM was inside general government). The exclusion of PPM from general government initiated a closer examination of the nature of these deposits.

Concerning the loan liabilities, the revision related to a reclassification between long-term and short-term loans, but also to the inclusion in both EDP and quarterly debt of some loans that were previously only included in the QFAGG (quarterly financial accounts for general government).

In the context of the April 2007 notification, the Swedish authorities announced that they had taken the decision to apply consolidated interest in national accounts from the first quarter of 2007, going back to 2002. In the meeting it became clear that it was possible to go back to 1995, by using an interest model. Eurostat encouraged the Swedish authorities to aim at consistent time series over 1995-2006, by using models in case of need. Work has already started and should be finished in the context of the overall national accounts revision to be finalised in the autumn of 2007.

### *Conclusions*

Eurostat agreed with the conclusion that the PPM deposits at the Treasury should be taken into account when calculating the general government debt.

The Swedish authorities confirmed that the loan reclassification was a one-off exercise and no further revisions are expected in this context.

Eurostat welcomed the forthcoming introduction of consolidation of interest in national accounts and the efforts to provide long-term time series. Concerning the timing of the improvement, it was agreed that it should be implemented in the context of the overall national accounts revisions and in any case no later than the April 2008 notification.

## **Table 2A**

### *Introduction*

The ESV compiles EDP table 2A as well as the EDP B.9, using the cash based budgetary information available at the National Debt Office.

The newly introduced adjustment for "pension system" was discussed in the bilateral clarifications in the April 2007 notification, but as details on the nature of the payments could not be fully clarified at that time, the issue had been left open.

Further, the discussion focussed on the three adjustments in EDP table 2A relating to accruals: "timing of tax revenues", "timing of primary expenditure" and "differences in timing and definition". None of these amounts were included in the financial accounts (ESA table 6) or in table I of the questionnaire related to EDP.

The size and volatility of the item "difference between interest paid (+) and accrued (EDP D.41) (-)" seemed also difficult to reconcile with the flow of interest expenditure reported in EDP table 1.

### *Discussion*

The ESV explained that the working balance de facto corresponded to the borrowing requirement of the National Debt Office. Government agencies maintain their accounts at the National Debt Office. The activities of some other entities considered inside central government in national accounts, though not government agencies, are added by way of a special correction by the ESV, within "difference in timing and definition". Statistics Sweden determines which entity should be included in general government. Eurostat suggested reporting the adjustment for sector delimitation under "net lending/net borrowing of other central government bodies" instead.

Eurostat noted that the Annual Report ("*Årsredovisning for Staten*") includes not only the budget reporting, but also profit and loss accounts and balance sheets encompassing all government agencies, thus covering nearly all central government. The net lending / net borrowing is compiled by the ESV using the profit and loss accounts. Eurostat noted that whereas the source data situation seemed rather good, a fuller exploitation of these data seemed envisageable, notably for compiling the financial accounts for EDP table 3 as well as for ESA tables 6 and 7 (see below).

It was clarified that the adjustment for "pension system" in EDP table 2A related to the deposits linked to PPM. In the context of the mission, the Swedish authorities had provided a table including the amounts paid by social security to government relating to PPM and the amounts of the final payments from government to PPM. The difference between these amounts, which both transit via the working balances, plus the interest received on the deposits, were included in table 2A under "other adjustments". In addition, there has been two payments in 2006 (one of which would normally have taken place in 2007) due to a speeding up of the administrative process for verifying the calculation of pension rights. These payments impacted the working balance in 2006 and had to be neutralized for the calculation of the correct net lending/net borrowing.

Moreover, apparently due to the absence of complete "other accounts receivable" and "other accounts payable" in the financial accounts (as reported under ESA table 6), the dedicated adjustment items to cover accruals corrections in EDP table 2A have been left empty. The adjustments relating to accruals are instead found under "other adjustments" ("timing of tax revenues", "timing of primary expenditure" and "differences in timing and definition"), and originate from the non-financial accounts. These adjustments relate mainly to taxes and social

contributions and to EU funds. However, the adjustment "difference in timing and definition" also includes the sector classification element related to "other central government bodies".

The Swedish authorities explained that they are aware of the problem relating to "other accounts receivable" and "other accounts payable". The issue was discussed in detail under the agenda item 3 on "statistical discrepancies".

Eurostat noted that the item "difference between interest paid (+) and accrued (EDP D.41)(-)" seemed volatile and of a large size, an issue also apparent in the EDP Table 3B (see below).

### *Conclusions*

In the meeting, the nature of the PPM transactions as well as the extraordinary payment in 2006 were clarified, and the issue was closed.

Eurostat proposed to better label the adjustments for accruals in general and to separate clearly (and to relocate), what relates to accruals from what relates to sector delimitation currently reported within the current adjustment item "difference in timing and definition". In future notifications, the former should ideally be moved under "other accounts receivable" and "other accounts payable", and the latter should be moved to the adjustment line "net lending/net borrowing of other central government bodies".

Eurostat expressed concern about the absence of "other accounts receivable" and "other accounts payable" in the EDP Table 2A as well as in the financial accounts (ESA table 6 as well as EDP table 3), and stressed the importance of fast progress on the issue, as it is also one of the main reasons for the high statistical discrepancies in the Swedish accounts (see below). In the meantime, Eurostat proposed to use the figures as available in the non-financial accounts also in the financial accounts (EDP table 3, and if possible ESA table 6), awaiting progress on the issue, rather than reporting nothing.

## **Table 2C**

### *Introduction*

The discussion on table 2C focussed on the adjustments for "investment grants" and "reclassification investments".

### *Discussion*

Eurostat took note that each of the 290 municipalities and 21 districts report within their statement of accounts: a profit and loss, a balance sheet and an "external income and external expenditure report". Eurostat noted that the net lending/net borrowing was compiled using the latter section instead of using the profit and loss reports.

On Eurostat's request, the Swedish authorities had provided a detailed list of items included under "investments grants" for 2005. When going through the list, it became clear that there were uncertainties about the labelling and nature of several of these items, which could not be clarified during the meeting.

Finally, whereas the accounting treatment of the items included in "reclassification investments" was not questioned, Eurostat enquired on the high amounts involved. The Swedish authorities confirmed that the numbers, mainly relating to software investments, were correct.

### *Conclusions*

Eurostat proposed to the Swedish authorities to review in detail the classification and wording of "investment grants", in order to implement the adjustment correctly in the October 2007 notification.

## **Table 3A-3D**

### *Introduction*

Statistics Sweden compiles the financial accounts as reported in EDP table 3 using the data compiled for the financial accounts as reported in ESA tables 6 and 7, which are based on specific surveys and also largely using counterpart information.

### *Discussion*

Eurostat noted that some items such as loan assets in table 3B were noticeably different from what is reported in EDP table 2A. The latter was based on the accounts of government units as these were deemed to be of a better quality.

Eurostat noted that the items "other financial assets" and "net incurrence of other liabilities" included very few elements, despite the fact that accrual adjustments were explicitly calculated for taxes and social contributions and for EU flows for the purpose of the measurement of the net lending/net borrowing (see below).

Statistics Sweden recognized that more information existed than currently used for compiling EDP tables 3A-E. This information is not currently used due to the fact that these EDP tables were designed to align with the financial accounts as reported under the ESA 1995 Transmission Programme table 6 and 7, and to the fact that changes in these financial accounts was a complex undertaking, owing to the need to properly manage the counterpart information and to identify the residual sectors.

Eurostat stressed that, as a general rule, compilers should use direct general government source data, where it exists, rather than indirect counterpart information. It is expected that this would allow a noticeable improvement in the quality of the data (and a reduction in the discrepancy – see below). In case the financial accounts reported in ESA tables 6 and 7 cannot be adjusted immediately, Eurostat advised to implement the changes in EDP tables now and let these deviate from the annual financial accounts in ESA tables 6 and 7 pending future improvement.

### *Conclusions*

Eurostat advised using, as privileged source data, the direct information from government units when reporting EDP tables, even at a cost of creating deviations from the annual

financial accounts as reported under ESA tables 6 and 7, if these cannot be immediately changed.

## **Table 3B**

### *Introduction*

Concerning table 3B a number of points were raised: Sweden does not split "loans" into "increase" and "decrease" in tables 3; and Sweden has reported quite large figures for "difference between interest paid and accrued", notably in 2004 and 2006, and in addition the figures have been volatile over the years (a similar phenomenon can be observed in EDP table 2A).

### *Discussion*

The Swedish authorities informed that there was no plan to split "loans" in the future, due to unavailability of the data. The problem exists for all sub-sectors. Eurostat noted that such a split existed in EDP table 2A, based on direct source data and wondered why the annual accounts of the ESV were not used in this context.

For the explanation on the "difference between interest accrued and paid", the Swedish authorities had explained in a previous notification that this related to the fact that interest paid includes holding gains and losses on foreign currency as well as on assets, whereas interest accrued does not include holding gains and losses, and as these holding gains and losses can differ a lot between different years, there may be large fluctuations in the figures. The discussion in the meeting revealed uncertainties about the exact nature of this adjustment item, and as the compiler of this item was absent, no conclusions could be drawn. Eurostat questioned whether the ESA95 rules were actually followed.

### *Conclusions*

Eurostat encouraged the Swedish authorities to explore the possibilities of providing the split of "loans" in the future, by using direct source data or by including it as a part of the project on statistical discrepancies.

As the explanations concerning the adjustment made for "difference between interest accrued and paid" could not be clarified in the meeting, Eurostat requested the Swedish National Financial Management Authority to investigate on the issue and report back as soon as possible on the methods used to compile the adjustment items and its nature.

## **Table 3D**

### *Introduction*

The discussion in table 3D concentrated on the increase of "loans" in recent years and the comparably high accumulated figures (corresponding to around 2% of GDP over the last four years).



### *Discussion*

According to the Swedish authorities, the loans relate to "*other enterprises and housing enterprises owned by local government*", predominantly housing. Statistic Sweden indicated that the housing enterprises charge rents close to market prices and that the housing enterprises were considered market producers according to ESA95. The exact nature of these enterprises could however not be explained in the meeting, nor the existence or non-existence of possible cancellations of these loans, and the subsequent accounting consequences. Eurostat noted that if there was an absence of realistic expectations of repayment of such loans, Statistic Sweden should consider recording these as capital transfers at time of granting of the loans.

Eurostat encouraged examining the use of balance sheet information for the compilation of EDP table 3D.

### *Conclusions*

Eurostat expressed a concern on whether the lending activities of local government were appropriately recorded and requested the Swedish authorities to provide Eurostat, as soon as possible, with the following information relating to the loans included in table 2C: a description of the nature of the loans split by amounts, the classification of the entities receiving these loans (enterprises of local government), an assessment whether the loans will be repaid or not and a description of the current treatment in national accounts if a loan is not repaid (debt cancellation).

## **2. Examination and follow-up of the "*questionnaire related to EDP tables*" from the April 2007 notification.**

### Table I other receivables/payables relating to taxes and social contributions of general government

#### *Introduction*

Apparently due to the absence of "other accounts receivable" and "other accounts payable" in the Swedish financial accounts as reported in ESA table 6 and 7, table I only includes some incomplete information. Furthermore there were inconsistencies in the figures between transactions and stocks and only a few years were provided.

Sweden is using an assessment method for the recording of income taxes and a time-adjusted cash method for taxes on production and social contributions. The accrual adjustment is made in the non-financial accounts and included under "other adjustments" in table 2A and in "other accounts receivable" in table 2D. There is no consistency between the accrual adjustments in EDP tables and questionnaire I related to EDP tables.

#### *Discussion*

The Swedish authorities explained briefly the method for recording of the main taxes and social contributions in the Swedish accounts. Sweden is using a mix of time-adjusted cash and assessments and declarations. In the latter case, which relates to income taxes, a coefficient,

based on one year only, is used. The coefficient is constantly modified every year based on the amount of taxes unpaid in the previous year.

There are some "receivables" and "payables" relating to certain government bodies available in the Swedish accounts and these are included in table I. It was concluded that these "receivables" and "payables" do however not relate to taxes and social contributions, but to other types of "receivables" and "payables". Furthermore, these figures are only a minor part of all genuine "receivables" and "payables". In total, Eurostat noted that "receivables" and "payables" related to taxes are currently only included in EDP tables 2A-D and that these figures should be reported in questionnaire I related to EDP tables.

### *Conclusions*

Eurostat concluded that as the "receivables" and "payables" currently included in table I do not relate at all to taxes and social contributions, these should not be reported here. Instead Eurostat suggested to show in table I, the figures related to taxes and social contributions as available from the non-financial accounts, without awaiting progress concerning the financial accounts (ESA tables 6 and 7).

In addition, Eurostat recalled that, even when the rules on the recording of taxes and social contributions as stated in Council Regulation 2516/2000 are not fully respected, the amounts assessed should always correspond to the amounts finally collected in the long run.

Finally, as a follow-up of the mission, Eurostat asked for an updated detailed description concerning the methods used for the recording of all taxes and social contributions.

## **Table II EU grants**

### *Introduction*

Sweden did not fill table II apparently due to the unavailability of "other accounts receivable" and "other accounts payable" in the Swedish financial accounts as reported under ESA tables 6 and 7. In the context of previous notifications it had been tentatively concluded that Sweden does not follow the Eurostat rules on EU grants.

### *Discussion*

Concerning the current recording in the non-financial accounts, an adjustment in table 2A was introduced in the April 2007 notification: "timing of primary expenditure". This item consists of the neutralization of EU flows (mainly grants to farmers) that transit via the working balances. The item "timing of primary expenditure" includes also a smaller part related to nuclear plants (in previous year there had been other adjustments in table 2A, with different labels).

During the meeting, it was found difficult to compare the adjustment for EU transactions in table 2A with the amounts for EU transactions as reported in the public accounts (page 56 of "Public Finance in Sweden 2007" published by Statistics Sweden). The Swedish authorities were not in a position to document the link between those figures in the meeting. Given these

uncertainties, it was not possible to conclude whether the Eurostat rules on EU grants are actually being followed.

### *Conclusions*

Eurostat required that the Statistical Authorities complete as soon as possible table II of the questionnaire related to EDP tables, without awaiting progress concerning financial accounts, as well as prepares a table "grants from the EU" showing separately when payments leave the Treasury and when the payments are received from the EU. These figures should be consistent with EDP table 2A. Eurostat additionally asked the Swedish authorities for a detailed description on the recording in the public accounts of EU grants, including an explanation on how the implementation of the Eurostat rules are ensured. The document should be sent to Eurostat as soon as possible.

The Swedish authorities were additionally asked to report in EDP tables the amounts only relating to the EU in a separate adjustment item for transparency reason, for the October 2007 notification.

## **Table III Government guarantees on borrowing**

### *Introduction*

In the context of the April 2007 notification, Eurostat identified inconsistencies in the figures for fees, guarantees called and repayments as reported in tables IIIa, IIIb and IIIc of the questionnaire related to EDP tables. The issue was therefore left open.

### *Discussion*

Before the meeting, Sweden had sent updated tables on guarantees where the inconsistencies were eliminated. Concerning the figures for write-offs of guarantees, the Swedish authorities confirmed that they did not have this data.

### *Conclusions*

Eurostat concluded that tables IIIa, IIIb and IIIc were consistent, and encouraged the Swedish authorities to make an effort to compile the figures for write-offs of guarantees in the future.

## **Table IV Debt cancellations**

*No specific issues raised.*

*See also item 4 below.*

## **Table Va and Vb capital injection in public corporations, superdividends and privatisations**

### *Introduction*

The discussion related to planned privatisation operations, and the distributed income of corporations.

## *Discussion*

The Swedish government has announced privatisation operations in the coming three years corresponding to around 0.2% of GDP. The Swedish authorities confirmed monitoring the issue closely.

In table Va of the questionnaire related to EDP tables, the distributed income of corporations was discussed and the Swedish authorities confirmed that distributions (notably the larger ones) had been tested for the superdividend rule. The discussion also revealed that the items included in line 28, withdrawal from income of quasi-corporations, actually referred to the Central Bank, which is not a quasi-corporation.

## *Conclusions*

Eurostat asked for continuous close monitoring of future privatisations and proposed to move the amounts included in line 28 to line 27 instead, as they referred to public corporations and not to quasi-corporations.

### **Table VI – Military equipment expenditure**

In the April 2007 notification, the general problem with the absence of "other accounts receivable" and "other accounts payable" in the financial accounts were pointed out. The table was not further discussed in the meeting.

### **Table VII – Public-Private-Partnerships, securitisation operations and sale and lease-back operations**

Sweden confirmed that, according to their knowledge, there were no Public-Private-Partnerships (PPPs), securitisation operations and sale and lease-back operations in Sweden. However, it was also said that there is no systematic reporting and monitoring at local level for the moment.

## **3. Statistical discrepancy**

### *Introduction*

Sweden has suffered from a comparatively very high statistical discrepancy since many years. In 2002, a project on the discrepancy in all sectors, and notably general government, was initiated and a final report was published in 2005. The meeting covered the outcome of the project, a description of the current situation and planned actions.

### *Discussion*

The Swedish authorities presented the results from the project so far, for all sectors involved. Apart from the recent reorganisation at Statistics Sweden (moving financial accounts to the national accounts unit), the identified actions still need to be undertaken.

In the social security sector the discrepancies mainly relate to the data sources used and the recording of derivatives. Concerning data sources, quarterly surveys have been used in the past, but it has been found that instead balance sheets should be used, which would limit the

residual between non-financial and financial accounts. Concerning data on the transactions in shares, external data sources are used instead of data coming from the social security sector. Investigations have shown that, by using the latter, the residual between non-financial and financial accounts would be limited. Finally, derivatives have not been included in the financial accounts as reported in ESA tables 6 and 7, resulting in a residual between non-financial and financial account.

The new identified improvement actions have not been implemented yet, but a new questionnaire for the social security sector is currently being designed.

Concerning the time of recording, there are no figures in the financial accounts (reported under ESA tables 6 and 7) compiled for "other accounts receivable" and "other accounts payable", except for interest. The largest problems have been identified for taxes on holding gains from shares and dwellings. These problems have replications in the government, the household and the corporations sectors. A project to solve these problems has just started and is expected to have finished by October 2007. It is unsure whether the new data will be included already in the October 2007 notification. Eurostat noted that the flow of "receivables" and "payables" existed since they were reported in EDP table 2, and suggested that those flows be used in EDP table 3 (see above).

The issue relating to EU grants were included under agenda item 2.

Concerning local government, there are also noticeable discrepancies even if smaller. Apart from the issues already mentioned concerning timing etc, the use of quarterly surveys instead of balance sheet information has been a problem, resulting in discrepancies. Eurostat noted that balance sheet information was accessible in the statement of accounts of these units and might be used. A project in local government is planned to start after the project on "other accounts receivable and payable".

### *Conclusions*

Eurostat took note of the progress so far and of the actions to be undertaken to structurally decrease discrepancies between the non-financial and the financial accounts in the close future. However, pending the finalisation of the projects, and notably concerning "receivables" and "payables", Eurostat recommended the Swedish authorities to use available information deriving from government units rather than providing no data at all, even if this would entail deviating from the published financial accounts tables consistent with ESA95 tables 6 and 7. This is applicable in both EDP tables and the questionnaire related to notification tables. Eurostat expect results, notably on "receivables" and "payables" by the October 2007 notification.

## **4. The recording of bad debt losses**

### *Introduction*

Concerning the recording of bad debt losses, Eurostat had discovered during the 2004 EDP mission that there were some uncertainties on the treatment of debt cancellations in national accounts in Sweden. Eurostat had concluded that bad debt losses should be recorded as capital transfers with an impact on net lending/net borrowing and not as an "other change in volume" with no such impact. As a follow-up from 2004, Sweden reclassified all debt cancellations

except some bad debt losses at the level of local government. In the context of this mission, Eurostat required information on the recording of bad debt losses in national accounts.

### *Discussion*

The Swedish authorities explained that they make a distinction between different types of debts: student loans, "debt arising from invoices not paid by customers" and local government debt write-offs relating to "customer losses, losses on short-term claims and other risk costs". Whereas debt cancellations relating to student loans have been recorded as capital transfers since the 2004 mission (and are included in table IV of the questionnaire related to EDP tables), the other two types of cancellations or write-offs have so far been recorded as "other changes in volume" with no effect on net borrowing/net lending of central and local government. The Swedish authorities reasoned that as there exists no mutual agreement concerning "debt arising from invoices not paid by customers", these should not be treated as capital transfers. However, concerning local government debts, they were not fully sure which recording was most correct.

Eurostat felt that debt cancellations are undisputable when a formal agreement is signed, but can be presumed in many other instances in the absence of a formal agreement, notably when the creditor is government. The write-off of claims is often a mean for government to convey a benefit, which is presumed when the beneficiary is a household, and which may be assumed in the absence of other information.

Eurostat explained in the meeting that the ESA95 Manual on Government Deficit and Debt (MDD) clarifies the rules concerning debt cancellations and specifies the sole three exceptions (debt cancellations related to quasi-corporations, preceding the privatisation of a public enterprise or preceded by the liquidation of an enterprise) from the general rule that "the counterpart transaction of debt assumption and debt cancellation made by mutual agreement is a capital transfer". The cancellation of the bad debt loans in Sweden does not seem to fall under any of the exceptions. As the Statistical authorities were not able to see which companies were eventually liquidated (if any), Eurostat indicated that a cautious approach in the recording would be appropriate, with booking a capital transfer in the absence of any other information. It was also agreed that the rules should apply to all beneficiaries and not only public corporations.

### *Conclusions*

Eurostat recommended Sweden to record these write-offs of bad debt loans as capital transfers and to include this changed recording in the overall national accounts revision also for backward years. Sweden agreed to adopt this way of recording as soon as possible.

## **5. Follow-up of the Eurostat decisions in recent years**

The Eurostat decisions in recent years related to Pensions, Public-Private Partnerships, Securitisation operations and Capital injections as well as EU grants and Military expenditure were already treated under *item 2 "Questionnaire related to EDP tables"* and the decision on the classification of pension funds was treated under *item 1 "Examination of EDP tables and follow-up of the April 2007 notification"*.

Concerning some methodological issues which have been discussed in the latest FAWG meetings, a question was raised relating to foreign claims. Whereas the Swedish authorities confirmed that traditional debt cancellations were always followed by the recording of a capital transfer, Eurostat asked for full information on the alternative ways of debt cancellations; which units and amounts are involved and the subsequent recording. The information should be sent to Eurostat as soon as possible.