



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS)
Unit D-2: Excessive deficit procedure (EDP) 1



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- FINAL FINDINGS -

EDP dialogue visit to Denmark

31 January – 1 February 2011

Executive summary

Eurostat undertook an EDP dialogue visit to Denmark on 31 January – 1 February 2011 as part of its regular visits to Member States and with the aim to assess the existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to clarify the issues relating to EDP tables raised in the context of previous notifications, to examine the statistical classification of some units, to assess the statistical treatment of specific government operations and to assure that provisions from the ESA 1995 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the Danish EDP notification tables and in national accounts.

First, Eurostat reviewed the **statistical capacity issues**, e.g. the institutional responsibilities with respect to the reporting of data under government finance statistics and EDP. EDP tables are officially reported to Eurostat by Statistics Denmark. Statistics Denmark (SD) compiles all EDP tables, except the planned (forecast) data that are prepared by the Ministry of Finance (MoF). Officially, both institutions are national authorities responsible for EDP reporting. The Danish Central Bank (NCB) is not involved in the EDP reporting. Eurostat took note of the existing institutional responsibilities and of the good cooperation between Statistics Denmark, the Ministry of Finance and the Danish Central Bank in the field of GFS and EDP. Eurostat discussed with the Danish statistical authorities the characteristics of the **source data**, as well as the accounting basis of the working balance in EDP tables 2, and the adjustments needed to properly compile the figures on an accrual basis. One of Eurostat's main concerns relating to the source data, is the late availability of final data for taxes, leading to significant revisions of the figures. Focus was also put on the issue of consolidation of transactions between central government and local government subsectors.

The **revision policy** for national accounts and the EDP creates some consistency problems and Eurostat wondered if the timetable of revisions in March, June and November/December could not be changed. SD informed Eurostat that for the April 2011 EDP notification revisions should be expected due to the revision of data and methodology for national accounts in November 2010.

As a **follow-up to the EDP dialogue visit of 11-12 September 2008**, Eurostat welcomed the implementation of all but two action points from the previous EDP dialogue visit. Therefore, the recording of flows and stocks relating to accounts receivable and payable and the reclassification of a PPP on government balance-sheet were discussed further.

On the **actual data of the October 2010 EDP reporting**, the discussions concentrated on the adjustments in the EDP tables in relation to the Questionnaire related to EDP tables, as compared to the April 2010 EDP notification.

Given the fact that a new more detailed and reliable data source from the NCB will be used for loans, the revisions of the gross figures on long-term loans will be less significant.

Eurostat invited Statistics Denmark to closely cooperate with the NCB and Økonomistyrelsen and further analyse the accounts receivable/payable for the significant amounts of “balancing adjustments” and “other payments from debtors”.

Concerning the table 5 of the Questionnaire related to EDP notifications, the discussion focussed on the existence of government liabilities on taxes, and it was agreed that Statistics Denmark will investigate if these are really negligible.

For the correct recording of transactions in EDP tables, Eurostat and the Danish statistical authorities agreed that an analysis and comparison between the budgetary reporting and the Money and Banking Statistics was needed. SD will seek for explanations for the differences, if any, by instrument.

Eurostat and the Danish statistical authorities discussed the regular adjustments in EDP table 2A and in table 2 of the Questionnaire related to EDP notification due to “regulations of provisions to urban renewal”. It was clarified that they do not relate to guarantees on urban renewal.

The discussions of the methodological issues focussed mainly on the implementation of the accrual principle, the delimitation of the government sector as well as the recording of specific government transactions.

Eurostat and the Danish statistical authorities reviewed the **implementation of the accrual principle** concerning taxes and social contributions and interest.

Eurostat took note of the explanations given by Statistics Denmark that taxes and duties are recorded for the year they accrue to the tax authorities. The impact of the amounts unlikely to be collected is shown as a capital transfer from the general government to other sectors. However, the weakness of the method comes from the fact that the final settlements for taxes are only known in year t+3. Eurostat encouraged the Danish statistical authorities to improve the calculation for preliminary data, possibly by revising the collection system.

Concerning the calculation of interest on an accrual basis, Eurostat enquired on the methodology for calculation of the accrual interest by instrument and on the difference between accrued interest reported in EDP table 2A and EDP table 3B.

On the **delimitation of general government sector**, Eurostat enquired about the application of the 50% criterion and the possible cases of companies with significant debt benefitting from government guarantees. Eurostat took note of the rules applied by the statistical authorities for sector classification and discussed the classification outside the government of some entities like: Øresundsbro Konsortiet, Storebaelt, DSB, Øresund, Banedanmark and Denmark Radio. The possible reclassification of Denmark Radio, due to recent legal changes concerning the TV licence (multimedia tax), could be envisaged after the analysis done by SD.

Concerning Banedanmark, Eurostat accepted that the reclassification to the government sector will take place in 2014, due to the fact that, according to the Danish statistical authorities, the impact on the deficit and on the debt would be negligible. However, SD will reclassify it at an earlier stage, in case the impact is not negligible.

On the recording of the **EU flows**, Eurostat took note of the explanations provided by Statistics Denmark, that a split between advance payments and reimbursement of expenditure is not possible in the Danish reporting. Nevertheless, the impact of EU flows is correctly neutralised in national accounts.

As far as the recording of **military equipment expenditure** is concerned, it was agreed that SD will investigate with the Ministry of Defence if the data reported in table 7 of the Questionnaire related to EDP notification is complete.

For **guarantees**, Eurostat requested that tables 9.1, 9.2 and 9.3 of the Questionnaire related to the EDP notification are completed for the April 2011 EDP notification, including the recording of debt assumed by government and related transactions, both stocks and flows (repayment of government debt and of interest). Eurostat took note that the local authorities cannot issue guarantees. On the government claims, Eurostat took note that the interest is not easily identifiable and that there were no debt cancellations or debt write offs in recent years.

For the **PPP contracts** on the schools and City Courts, it was agreed that Statistics Denmark will continue investigating the termination clauses and check if zero availability corresponds to zero payment, and will report to Eurostat for the April 2011 EDP notification.

Concerning the **financial derivatives**, due to the fact that in Denmark the central government is largely involved in this kind of operations, the proper recording in EDP tables and in financial accounts was discussed. Eurostat pointed out the inconsistencies observed for the period 2004 to 2009 and invited the Danish statistical authorities to make the necessary corrections. Statistics Denmark explained that the financial derivatives will be corrected on the asset side; however, for the earlier years, the correction will only be done in 2014, when ESA2010 will be implemented.

Finally, the **government intervention in the context of the financial crisis** was discussed, including the sector classification of the Roskilde Bank. Eurostat stressed that, based on the new information relating to its financial results at the end of the year 2009, Roskilde should be considered as a defeasance structure. Statistics Denmark agreed to reanalyse the sector classification and possibly reclassify Roskilde in government accounts as a public defeasance structure or possibly envisage a correction in EDP tables.

The meeting was appreciated as constructive and Eurostat welcomed the explanations given by the Danish statistical authorities. Eurostat also thanked the Danish statistical authorities for the documentation provided prior to the dialogue visit.

It should be mentioned that all the action points agreed during this EDP dialogue visit have been implemented by the Danish statistical authorities according to the agreed deadlines.

FINAL FINDINGS

Introduction

In accordance with Article 11 (1) of Council Regulation (EC) No 479/2009, as amended, as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in Denmark on 31 January - 1 February 2011. The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of Unit C3 (Statistics for the Excessive Deficit procedure I). The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) participated in the meeting as observers. The Danish statistical authorities were represented by Statistics Denmark (SD), the Ministry of Finance (MOF) and the Danish Central Bank (NCB).

The previous Eurostat visit to Denmark took place on 11-12 September 2008.

The aim of this EDP dialogue visit was to assess the existing statistical capacity, to review institutional responsibilities in the field of government finance statistics (GFS) including EDP reporting, to analyse information on data sources provided in the EDP inventory, to clarify issues relating to EDP tables raised in the context of previous notifications, to clarify sector classification of some units and to ensure that provisions from the ESA95 Manual on Government Deficit and Debt and recent Eurostat decisions are implemented and that specific government transactions are appropriately recorded in the Danish EDP notification and national accounts.

Eurostat appreciated the volume and quality of the information provided by the Danish statistical authorities prior to the mission. Eurostat also thanked the Danish authorities for the explanations given and considered that the discussions were transparent and constructive.

1. Review of statistical capacity issues

1.1. Institutional responsibilities for the reporting of data under the ESA95, EDP and other government statistics

Introduction

Prior to the EDP dialogue visit, SD sent a note updating the description of institutional responsibilities in the framework of the reporting of EDP data. There were no changes in the institutional responsibilities since the information received by Eurostat in April 2009. The EDP tables are reported by the National Statistical Institute (Statistics Denmark - SD). All EDP tables relating to actual data (for both the deficit and the debt) are compiled by SD. The Ministry of Finance (MOF) compiles planned data (deficit and debt). Officially, both institutions (SD and MOF) are national authorities responsible for EDP reporting.

Discussions and methodological analysis

Statistics Denmark updated Eurostat with the status of the co-operation between national statistical authorities. SD prepares a full set of GFS data (financial and non-financial) each time the draft budget is prepared by the MoF, and is fully responsible for historical data. MoF gets the EDP data once they are published and is not involved in the compilation of the figures. The financial turmoil tables are compiled by the SD, but MoF is helping SD to provide some of the data. There is continuously close cooperation, throughout the year, between SD and the MoF. Moreover, SD was closely involved when the new accounting structure was designed in 2007, for the central and the local government. SD is a member of the Board of local government accountants.

Eurostat enquired about the cooperation between SD and NCB and on the involvement of the NCB in the compilation of national accounts and EDP.

The Danish statistical authorities explained that the NCB is one of the main suppliers of data for debt instruments. NCB provides also the data for revaluations. However, the NCB is not involved in the EDP reporting.

Eurostat asked about the role of the NCB in terms of producing the list of Monetary and Financial Institutions (MFI list).

SD explained that once a unit has a banking licence, the NCB automatically includes it in the MFI list. This means that the national accounts (NA) principles are not always followed. As an example, branches of foreign banks are on the MFI list while in fact they do not take deposits. Therefore SD excludes them from S.122 when compiling national accounts, and includes them under S.123.

Eurostat stressed that, in the context of the financial crisis, there are a number of units which are classified in S.12 due to their appearance in the MFI list. This creates problems of consistency and comparability also when a national central bank is a compiler of financial accounts, because the legal approach is followed, instead of applying the substance over form approach.

Findings and conclusions

Action point 0: Eurostat took note of the existing institutional responsibilities of Statistics Denmark, the Ministry of Finance and the Danish Central Bank in the field of Government Finance Statistics¹.

Action point 2: Concerning the Monetary and Financial Institutions list of the ECB, Statistics Denmark will prepare a note about entities reclassified from S.122 to S.123 and which are included in the MFIs, specifying the reasons for reclassification. Deadline: April 2011²

¹ SD is responsible for the compilation of historical data (up to the year n-1 in the EDP Tables), while the MOF is responsible for the forecast of the year n.

² Action point implemented according to the deadline

1.2. Source data characteristics and revision policy

1.2.1. Data sources for central government (incl. extra budgetary units), local government and social security funds

Introduction

For this item of the agenda, SD sent to Eurostat a note on the accounting basis for the working balance for central government, local government and social security sub-sectors.

The central government in Denmark consists of the state budget and the extra-budgetary funds. According to the information provided by SD, the cost based system, which is a full accrual system, is in force since 2007. The data source provides detailed information on current and capital revenue and expenditure as well as on financial transactions. The information for other central government bodies (non-integrated institutions) is based on accounting reports which are business like accounts.

For the local government sub-sector, accrual based financial statements (profit and loss account and balance sheets) are used for the compilation of national accounts and EDP. Detailed information is not available for the year n-1, in April of year n, but only in October of year n.

The sub-sector social security funds are of little importance in NA in Denmark.

Concerning the consolidation of flows between the sub-sectors of general government, SD considers the information from central government as the best data for preliminary estimates, while for final data, the information from local government and social security sub-sectors overrules the information from central government.

Discussion and methodological analysis

Eurostat requested the Danish statistical authorities to explain the concept of "mixed basis" for the working balance, used to compile the EDP table 2.

The Danish statistical authorities explained that, for both the central and local government subsectors, the information is on a commitment basis for quarterly data. However, for some entries (i.e. wages and salaries), the time of recording coincides with the actual payment (i.e. cash recording). On an annual basis, the central government, local governments and social security sub-sectors accounts are approximately on an accrual basis.

To comply fully with the accrual principle, some adjustments are made to taxes, interest, commitment values (amounts reserved in the budget) and consumption of fixed capital.

Eurostat requested explanations about the final data on taxes. SD explained that it takes 3 years to obtain final data for taxes, which is linked to the national administrative arrangements on final settlements. The Danish final data on taxes are the asset data from the tax authorities.

Eurostat commented that this reallocation of amounts for taxes inevitably causes substantial revisions of the Danish figures and invited SD to improve the preliminary estimates for taxes, with a view of reducing the revisions of data. SD pointed out that, as a result of sustained work in the recent years, the first improved results are expected already in 2011 and will be reported in the 2012 EDP notifications. No revisions are foreseen for the historical years.

Eurostat enquired if the working balance is the source normally used to compile the B.9 of national accounts. SD explained that the working balance is used as a starting point which is corrected with about 55000 entries from the public accounts, mainly to adjust for sector delimitation (exclusion of market units).

At the request of Eurostat, SD explained the adjustments to the working balance related to “commitment values”. SD explained that the bookkeeping agency provides them with what has been paid in terms of subsidies and investment grants and therefore a correction is needed as an adjustment of the commitment values, which are not commitments from the accounting point of view, but rather planned spending.

Eurostat wondered why the data is only corrected for investment grants and subsidies. SD explained that, typically, the corrections mainly concern the present value of transfers "committed" to units outside general government sector.

Eurostat asked the Danish statistical authorities to explain why for the “consolidation” adjustments, the data for central government are considered more reliable for preliminary data and the other subsectors data to be more reliable for final data.

SD explained that at an early stage, final accounts are available for central government while only preliminary data are available for the other subsectors, therefore central government data is considered more reliable. Subsequently, the accounts of the other subsectors show higher expenditure for central government than they report themselves.

Eurostat wondered how come this was the case and asked if SD had already analysed the situation and if they have reached a conclusion. SD mentioned that they are analysing the reasons and will be able to report to Eurostat soon.

Eurostat explained that in some other countries there are cases when the same transaction was classified differently in counterpart subsectors. Eurostat also wondered why the adjustment for consolidation also appears in EDP table 2C. SD explained that the adjustment in EDP table 2C shows consolidation between the local authorities and the regional authorities and not with the central government and informed Eurostat that they are analysing this issue too.

Findings and conclusions

Action point 1: Before the end of 2011, Statistics Denmark will send to Eurostat a report on the data sources which will permit a better calculation of preliminary data for taxes, with a view of reducing the revision of data between April and October EDP notifications. Deadline: December 2011³

Action point 3: Concerning EDP tables 2A and 2C, Statistics Denmark will provide Eurostat with a note on the consolidation of non-financial transactions between sub-sectors and within sub-sectors of the general government sector by October 2011. Deadline: October 2011³

1.2.2. Revision policy

Introduction

Prior to the EDP dialogue visit, SD sent a note on the revision policy, detailing the revision process for annual non-financial and financial ESA95 data, the data sources used for each sub-sector and the revision process for EDP data relating to both the deficit and the debt.

Discussions and methodological analysis

³ Action point implemented according to the deadline

According to the revision policy described by SD, the national accounts data are revised in March, June, and November/December. Eurostat insisted that this revision policy creates some problems and wondered if it would not be possible to change the current policy.

SD argued that changing the revision policy is extremely difficult because the data for general government is synchronised with the rest of national accounts data, used in the Danish macroeconomic model.

Eurostat complained about the fact that some data is only final in n+4 and reminded that, according to the Regulation 479/2009, as amended, new EDP tables should be provided to Eurostat whenever national accounts data, including data of the general government sector, are revised for significant amounts.

SD explained that improvement is expected when the new data sources will be used. They also confirmed that the current administrative procedures allow obtaining the final amounts for taxes only in n+3. Besides, final settlements usually contribute to the improvement of B.9, not to a worsening.

Findings and conclusions

Action point 4: Eurostat recalled that the Regulation 479/2009, as amended, foresees resubmission of EDP tables once the deficit or the debt are revised between the two EDP notifications of April and October. For the forthcoming April 2011 EDP notification, a couple of revisions will occur by sub-sectors, due to the revision of national accounts data of November 2010.

2. Follow up of the latest EDP dialogue visit to Denmark (11-12 September 2008)

Two action points of the previous EDP dialogue visit, which took place in September 2008, have not been implemented in time: the provision of a note on the flows and stocks relating to other accounts receivable/payable and the reclassification of a PPP project (Vildbjerg Skole) on government balance-sheet.

Detailed discussions took place under the relevant items of the agenda (item 3.1 and item 4.7).

3. Actual data – October 2010 EDP reporting

Introduction

A revision of Danish national accounts took place in November 2009, when both the figures and the methodology have been revised for the whole series up to the year 2008. The largest revision concerned the general government sector, in particular the financial accounts for a tax claim due to time adjustments of taxes, with no effect on the Maastricht debt, and investment expenditure, impacting B.9.

Under item 3 of the agenda, Eurostat discussed with the Danish statistical authorities the October 2010 EDP notification tables and the Questionnaire related to EDP notifications, as compared to April 2010 EDP notification.

Prior to the EDP dialogue visit, the Danish statistical authorities provided Eurostat with a number of documents: a note describing the balancing adjustments (F.79), a note on the breakdown of "other accounts receivable/payable", and a set of tables on the recording of interest.

3.1 Examination of the EDP tables and the relation with the Questionnaire relating to EDP tables of the October 2010 notification

Discussion and methodological analysis

EDP tables 2

Concerning the revised figures between the April and October 2010 EDP notifications, Eurostat enquired if data for local government were more reliable for the year 2009 in October than in April 2010. SD explained that the figures for local government are calculated in October using final account data, therefore they should be reliable.

SD also explained that, for extra-budgetary funds, for the April EDP notification of year n, the figures for the year n-1 are not available, while for the October EDP notification of year n, they are based on national accounts data, compiled in June year n.

Eurostat wondered why long-term loans were significantly revised. SD explained that a new more detailed and reliable data source from the NCB is used to compile the data for the April 2011 EDP notification, and will also be used from now on.

In relation to table 5 of the EDP related Questionnaire concerning the reporting of "net taxes" and "net claims at the end of the year", Eurostat wondered if there is really no liability of government for taxes. SD explained that the information comes from the tax authorities and promised to investigate the issue. Eurostat pointed out that in table 5 of the Questionnaire, the tax liabilities are reported as "M" (not applicable) and invited SD to show them separately, in case they exist and for significant amounts, or to report zero if they are insignificant.

EDP tables 3

Eurostat enquired on the adjustment "balancing adjustment on F.79" reported in table 4.1.1 of the Questionnaire related to EDP notifications.

This adjustment is done by SD in order to reconcile the B.9f with the B.9. SD is aware about the weakness of the present method of compilation of "other accounts receivable/payable", especially as far as the assets side is concerned. Therefore, SD is already cooperating closely with the Central bank and Økonomistyrelsen (the agency responsible for the central government bookkeeping) to solve the issue and propose improvements. One of the proposed ways, is to use new data sources for quarterly accounts.

Eurostat asked for an explanation on "other payments from debtors" reported under "other accounts receivable" in EDP table 3, as well as in table 4.1.1 of the questionnaire related to EDP notification under "receivables relating to financial instruments". SD recalled that the notes provided before the visit contain the amounts for the year 2010 that will be reported in April 2011, and explained the most significant amount (about 22 bill DKK). However, SD agreed that this issue needs further investigation and agreed to reconsider the reporting in table 4.1.1 in line 12, as they seem to relate to non-financial, rather than to financial transactions.

SD drew the attention of Eurostat to the fact that, due to the improvement in the data sources, the item "balancing adjustments" will also be revised, in connection to the improvement of statistical discrepancies (see below under item 3.2).

Eurostat asked if, in order to analyse the correctness of the transactions recorded in EDP tables, a comparison between budgetary reporting and Money and Banking (MB) statistics is regularly made. SD confirmed that they are comparing the two data sources, however some difficulties are encountered concerning quasi-corporations which are not recorded as part of the government in national accounts, but are reported within MB statistics.

On EDP table 3E, Eurostat asked why the EDP B.9 always equals the assets side of F.79. SD explained the planned improvement in collecting data on "other accounts – F.79", both for assets and liabilities sides, that will be more reliable with the new data source for social security funds sub-sector. The old data source was MFI statistics and securities statistics, which did not always identify the revaluation flows, while the new data source is a statistical questionnaire completed by the unemployment funds, containing information on accounts receivable, securities, shares and revaluations. The improvement will be done gradually, before 2014. The data for the year 2010 will be of better quality in April 2011, while the data for the years 2008 and 2009 will be improved in 2012.

Findings and conclusions

Action point 5: Statistics Denmark committed itself to use in the future more detailed and reliable data from the Central Bank, for the calculation of gross figures for long-term loans, which will reduce their revisions. Deadline: Continuous

Action point 6: Statistics Denmark will work closely with the Danish Central Bank and Økonomistyrelsen to resolve the issues of balancing adjustments currently included in F.7 and to propose improvements. EDP table 3 will be improved in April 2011 for the year 2010 data on long-term loans (F.42), revaluations and other changes (for sub-sectors S.1311 and S.1314) and in April 2012 for the years 2008 and 2009. Deadline: April 2011 for the year 2010 and April 2012 for the years 2008 and 2009⁴

Action point 7: Before the April 2011 EDP notification, Statistics Denmark will analyse the item "Other payments from debtors" in table 4.1.1 of the Questionnaire relating to EDP notification (to be reported rather in line 12) and will provide the split of this line from now on. Deadline: April 2011⁴

Action point 8: Concerning table 5 of the Questionnaire relating to the EDP notification, Statistics Denmark will investigate, before the end of 2011, if information on liabilities for taxes exist, and if the amounts are really negligible and could be reported with code "0" instead of "M". Deadline: end of December 2011⁴

Action point 9: Before the end of 2011, Statistics Denmark will provide Eurostat with a comparison between budgetary reporting and Money and Banking Statistics and explain the differences, if any, by instruments. Deadline: end of December 2011⁴

Action point 11: Eurostat took note that the adjustments in EDP table 2A due to "regulations of provisions to urban renewal" and in table 2 of the Questionnaire relating to EDP notification tables, do not relate to guarantees on urban renewal. By April 2011, Statistics Denmark will provide an explanation of these regular adjustments. Deadline: April 2011⁴

⁴ Action point implemented according to the deadline

3.2 Statistical discrepancies in EDP tables

Introduction

A note has been provided by SD prior to the EDP dialogue visit. The system of compilation of non-financial accounts (DIOR) is the source data for EDP tables 2A-2D. This ensures a complete transition between the working balance and EDP B.9, with no discrepancies. DIOR and the system of compilation of financial accounts (FAC) are the main sources for EDP tables 3A-3E, ensuring the transition between EDP B.9 and the change in the government debt level.

Discussions and methodological analysis

Eurostat enquired on the reasons of discrepancies in EDP tables 3, which for the latest years were significant (the average for the period 2007-2009 was about 0.1% of GDP). SD explained that these are due to the status of data, which is not yet final for all the years.

Eurostat wondered why the rebalancing adjustments are not considered by SD as statistical discrepancies, since they are due to the lack of data on the financial side. SD argued that these are recorded as F.7, because it is considered that they not only relate to "other accounts" but are linked to other financial transaction values, mainly on the asset side. The figures on the liability side are double-checked with the NCB data.

Eurostat asked if the "other payments to debtor" and rebalancing adjustments are somehow related to each other. SD explained that any transaction included under "debtors" that are not supposed to be transactions, are shown under "rebalancing adjustments".

However, SD committed itself to analyse to what exactly the rebalancing adjustments relate and which ministry is involved. SD also explained that the reporting (not showing statistical discrepancies explicitly) suits the users of their data; a discrepancy would imply that data users have to do some adjustments to the data.

Eurostat stressed that if direct data are not available, and financial transactions are calculated as the change in stocks, there might be a problem also with the time of recording, since the balance sheet is not an integrated part of the non-financial transaction report. SD explained that for financial transactions, flow data are available on a cash basis. The cooperation with the accounting department of the Ministry of Finance requires some improvement. However, efforts are made, for the time being, to reconstruct the working balance from the financial transactions side.

Eurostat enquired if SD cross-check the data on "currency and deposits- F.2" from money and banking statistics with government accounts. SD explained that, for the central government sub-sector, the comparison is done regularly, and the differences are insignificant. However, for the local government and the social security sub-sectors, the situation is different. For example, for the local government sub-sector there are differences between the data in money and banking statistics and the information on currencies and loans provided by local authorities, due to different coverage of units. Municipalities administrate some private funds (for culture etc.), which are recorded in national accounts outside the government sector. These amounts would most probably be considered as municipal funds for money and banking statistics. Another issue could be the exclusion of quasi-corporations from the local government sub-sector, which might not be reflected in money and banking statistics.

Eurostat pointed out that cumulated amounts of F.7 over the last 4 years amounting at 45 billion DKK are worrying, and encouraged SD to further analyse these amounts.

Findings and conclusions

Action point 10: Before the end of 2011, Statistics Denmark will analyse other accounts receivable/payable, including the high cumulated amounts over the period and explain why the amounts in "balancing adjustments" are not recorded as statistical discrepancies. Deadline: end of December 2011⁵

4. Methodological issues and recording of specific government transactions

4.1 Implementation of accrual principle

4.1.1 Calculation of accrual tax revenue and social contributions, including recording of final tax settlements and estimation of the amounts unlikely to be collected

Introduction

SD had prepared, for the FAWG of June 2010, a comparison of the time-adjusted cash method and the capital transfer method on taxes and duties in Denmark.

In practice, in Denmark's statistics, all accrued taxes and duties are recorded for the year in which they accrue to the tax authorities. The value of taxes and duties that are never paid is recorded as a capital transfer from the general government sector to the sectors of households or companies. SD uses the capital transfer method, which responds to the first problem above. However, taxes and duties that accrue are not finally settled until three years after the year of accrual, and there can be relatively large running corrections. The final settlement under the capital transfer method can therefore not be made shortly after the end of the year of accrual.

The data set for Statistics Denmark's statement using the capital transfer method is information from the tax authorities on accrued (assessed) taxes and duties.

Discussion and methodological analysis

The final settlement of accrued taxes and duties is not made until three years after the year of accrual, and there may be some relatively large continuous corrections. Income taxes and property taxes are not final until year (n+3).

Eurostat asked if there is no possibility to obtain information on final settlements for taxes earlier than n+3 years, by revising the current collection system, or by using other sources to substitute the existing one. SD agreed that some improvement could be done.

Findings and conclusions

Eurostat took note of the explanation and encouraged the Danish statistical authorities to analyse the possibility to improve the calculation for preliminary data for taxes, with a view of reducing the revision of data (see action point 1).

⁵ Action point implemented according to the deadline

4.1.2. Calculation of accrued interest and recording in EDP tables 2 and 3

Introduction

Prior to the EDP dialogue visit SD provided Eurostat with a table on the reporting of cash and accrued interest in EDP tables and a table on the recording of interest flows in EDP tables 2 and 3.

Discussion and methodological analysis

Eurostat enquired on the methodology for calculation of the accrual interest for instruments other than F.3 – securities other than shares.

SD explained that accrual interest is calculated for the entire general government sector and sub-sectors, however a split by instrument is not possible with the existing data sources.

Based on the data provided prior to the EDP dialogue visit, Eurostat asked the Danish statistical authorities to explain the difference between EDP table 2A and EDP table 3B in the adjustment D41 paid and accrued, on the recording of discounts and premiums and the methods of calculation used in the working balance and for the calculation of B.9.

SD explained that for the central government, the interest is approximately on an accrual basis and that accrued adjustment for interest in EDP table 2A refers only to discounts and premiums. In the future, this adjustment will disappear, as amortisation will be included in the working balance. The timetable for revision is in April 2011, for data of the year 2010, and in 2012, for data of earlier years.

SD also explained that, in EDP table 3B, the adjustment concerns the full amount for discount and premium and also a correction for swaps.

Eurostat wondered why the amount reported in EDP table 2C is higher than the corresponding adjustment in EDP table 3D. SD explained that, for the local government sub-sector, the adjustment also refers to discounts and premiums, though zeros are reported in EDP table 3D in the line issuances above/below par.

Findings and conclusions

Action point 12: Concerning the items "issuance above/below par" and "recording of discounts and premiums", Statistics Denmark will analyse the corrections relating to interest in EDP tables 2C and 3D and correct, if necessary, the tables for the October 2011 EDP notification. Deadline: October 2011⁶

Action point 13: The adjustment for interest accrued refers only to discounts and premiums in EDP table 2A. As the amortisation will be included in the working balance, the item "Difference between EDP D.41 paid and accrued" in EDP table 2A will be reported zero for year 2010 in the April 2011 EDP notification and for years 2008-2009 in the April 2012 EDP notification, with a slight impact on EDP B.9. Deadline: April 2011 for the year 2010 and April 2012 for the years 2008 and 2009⁷

⁶ No correction was necessary in EDP table 2C; EDP Table 3D was corrected according to the deadline

⁷ Action point implemented according to the deadline

4.2 Delimitation of general government sector: classification of institutional units according to ESA95

Introduction

Prior to the EDP dialogue visit, Statistics Denmark provided a description of the classification of new units, updating of the statistical register, application of the 50% criterion and the consistency between different data sources concerning classification of units.

Discussion and methodological analysis

Eurostat enquired if in Denmark there are cases of companies with significant debt which benefit from government guarantees. SD confirmed that there are no calls on guarantees, the companies benefitting from guarantees either do not have significant debt, or are profitable. The following companies were discussed: Øresundsbro Konsortiet, Storebaelt, DSB (train operator), Oresund (bridge) and Danmarks Radio. According to SD, Storebaelt and DSB are profitable and Oresundsbro Konsortiet in recent years did not report an increase in debt. The new guarantees are provided for refinancing of the old debt.

Eurostat enquired if Statistics Denmark had analysed the fees of Danmarks Radio in view of deciding if they should not be classified rather as taxes. SD explained a newly introduced multimedia tax which has a broader coverage in addition to the radio and TV and will cover also mobile phones and computer fees.

Eurostat asked SD if, for the April 2011 notification, any reclassification of companies is expected. SD explained that no reclassifications are foreseen, except for Banedanmark, which will be, however, done in 2014, on the occasion of larger revision of national accounts for the implementation of ESA2010. SD also explained that this reclassification will not have a significant impact on EDP B.9 (because subsidies are already included as government expenditure) or on the debt (because the company has no debt).

Eurostat expressed concerns about the timetable for the reclassification. SD argued that a revision only for reclassification of Banedanmark is not feasible, because this would imply the revision of the whole system of national accounts. Moreover, Banedanmark market/non-market test is around 50%, but they invest and maintain the rails and deal also with planning and administration of the infrastructure. Until 2009 there was no need for capital transfers from government, but it will be the case in the future years.

Findings and conclusions

Action point 14: Due to recent legal changes concerning the TV licence (multimedia tax), Statistics Denmark will analyse the statistical classification of Danmarks Radio with a view of possible reclassification. Deadline: October 2011⁸

Action point 15: Statistics Denmark raised the attention of Eurostat that it would possibly reclassify Banedanmark into the government sector in 2014 at the occasion of the implementation of the new ESA. Taking into account that the impact on deficit and debt will be negligible, Eurostat accepted the proposal. However, in case the impact on EDP aggregates will not be negligible, there will be an earlier EDP correction. Before the end of 2011, Statistics Denmark will provide Eurostat with the accounts and an analysis of the classification of Banedanmark.⁹

⁸ Action point implemented according to the deadline. Danmarks Radio is still classified outside government.

⁹ An analysis of the classification of Banedanmark was provided to Eurostat according to the deadline. Banedanmark is still classified outside government.

4.3 Recording of EU flows in national accounts and reporting in EDP tables

Introduction

SD reports "net figures" relating to EU flows, both in the EDP tables and in table 6 of the Questionnaire related to EDP notification.

Discussion and methodological analysis

SD confirmed that a split between advance payments and reimbursement of expenditure is not possible in the Danish national accounts reporting. The net figures are reported on the asset side (other receivables) in table 6 and in the financial accounts as AF.79 (debtors). In the general government accounts, the payment done by general government to non-government beneficiaries, is recorded when the application has been approved by the Danish authorities. The EU reimbursement is recorded at the same time, therefore there is no net impact on the working balance. These expenditures and revenues are removed when compiling national accounts, because from a national account perspective, they are not revenue and expenditure in general government.

If general government is the beneficiary, the revenue is recorded in the general government accounts when the application has been approved by the Danish authorities and the government unit makes the expenditure, therefore there is no net impact on the government deficit.

Findings and conclusions

Eurostat took note of the explanations provided by SD on the recording of EU flows.

4.4 Recording of military equipment

Introduction

Prior to the EDP dialogue visit, SD provided Eurostat with a note explaining the amounts of military expenditure in EDP tables and in the Questionnaire related to EDP.

Discussion and methodological analysis

Eurostat noted that, unlike in other countries, the amounts reported in EDP table 2A can not be identified in table 7 of the Questionnaire related to EDP. SD confirmed that they show in table 7 the part of military consumption expenditure which would have been recorded as gross fixed capital formation in all other parts of general government. There is no link between the amounts reported in the two tables.

Eurostat requested explanations on the absence of prepayments or late payments in EDP tables 2 and 3. SD explained that, in practice, they record the expense and not the delivery; this is one of the areas where the accounting is on a cash basis. The normal practice concerning the military goods is to pay at delivery and currently there is no issue on the time of recording. If the situation changes, this recording might be problematic.

Findings and conclusions

Action point 18: The information on military equipment provided in table 7 of the Questionnaire relating to EDP notification seems incomplete, since the amounts recorded reflect the expenses and not the deliveries of military equipment. Before the October 2011 EDP notification, Statistics Denmark will contact the Ministry of Defence to obtain information on payments and deliveries on military equipment, and inform Eurostat on the outcome. Deadline: October 2011¹⁰

4.5 State guarantees, debt assumptions, debt cancellations and debt write-off

Introduction

Prior to the EDP dialogue visit, SD provided a note describing some elements on guarantees.

Discussion and methodological analysis

At the request of Eurostat, SD confirmed the recording of the repayments and calls on guarantees in the working balance in EDP table 2A. All related flows on guarantees administered by the NCB are included in an annex to the State accounts.

Eurostat enquired on the revision of data on guarantees in October 2009 as a result of the EDP dialogue visit of September 2008. SD explained that, in October 2009, a methodological revision took place and at that occasion the debt relating to "urban renewal" was recorded as government debt. The reason was that the central government was in fact servicing the debt, both the interest and the principal, paying all the interest and repayments from the beginning until the end of the loans. SD stressed that the guarantee schemes relating to urban renewal has been stopped in 2003, and therefore, for the period 2005-2008, only the interest payments on the debt assumed impacted the deficit.

Eurostat recalled the action point from the 2008 EDP visit to record a debt assumption for the year 2009 and asked if this has been recorded. SD explained that the financial accounts have been revised (F.42) in October 2009, however the revision can be found only in EDP tables and not in the Questionnaire. Eurostat pointed out some difficulties to identify in EDP table 2A the revised reporting of repayments of the assumed debt (financial transaction), previously classified as capital transfer expenditure.

Eurostat asked for an explanation of the decrease of the stock of guaranteed debt in table 9.1 of the Questionnaire related to the notification, and explained that even if the "urban renewal" debt was assumed in ESA95 accounts, the amounts should be shown in table 9.1, if these are still reported as guarantees in public accounts.

Eurostat required that table 9.3 of the Questionnaire related to EDP is corrected for the repayment of government debt and repayment of interest. At the same time, tables 9.1, 9.2 and 9.3 should be completed and corrected by SD, in order to ensure completeness and coherence between them and with EDP tables. SD agreed to make the correction and also to add in line 13, a repayment of 32 mill. DKK.

Concerning table 8.1 on government claims, SD confirmed that the data on cash repayment is not a residual, but is based on information from the Danish Central Bank. However, the data sources used do not allow the split between the principal and the interest.

¹⁰ Action point implemented according to the deadline

Eurostat pointed out that data on guarantees at local government are not provided and wondered if information is available, and whether any steps have been taken to obtain the data. SD explained that local government can not give any guarantees, therefore the code used in the tables should be rather "M".

Eurostat requested explanations on the export credit guarantees. SD explained that the guarantees are provided via the Export Credit Fond (ECF), which is a body classified outside the government sector (in S.123). SD stressed that the ECF operates under commercial terms and is covered by an unspecified guarantee, which, in the state accounts, is considered to be zero. Until now the EFC never activated any guarantee.

Findings and conclusions

Action point 16: For the April 2011 EDP notification, Statistics Denmark will complete tables 9.1, 9.2 and 9.3 of the Questionnaire relating to EDP notification, including the recording of debt assumed by government and related transactions, both for stocks and flows (repayment of government debt and repayment of interest). An additional amount of 32 millions DKK will be recorded in table 9.2. Deadline: April 2011¹¹

4.7 Private-Public Partnerships (PPP) and concessions

Introduction

SD provided, prior to the EDP dialogue visit, two updated notes on the PPP projects "Ørstedskolen" and "City courts", including the analysis of the construction, availability and demand risks, the termination clauses, the government guarantees and the involvement of the government in the financing of the projects. The PPP project Vildbjerg Skole has similar features as "Ørstedskolen".

Discussions and methodological analysis

For the "Ørstedskolen" project, Eurostat accepted the analysis done by SD, concerning the construction and the demand risks. However, it questioned the termination clauses, where a price to be paid by the local authority "corrected for reduction of expenses related to bringing the asset up to the contractual standard" is mentioned. SD explained that an annex to the contract describes the standards of the school and an independent body will assess the stage of the construction.

For the four "City courts" projects, Eurostat agreed on the analysis done by SD concerning the construction and the demand risks. On the availability risk, Eurostat wondered if the government is supposed to pay any rent or other payment, in case the courts are not available for a long time. SD confirmed that, if the buildings are not ready, the government definitely will not pay any rent, however it was not sure how much the payments would be reduced in this case.

Eurostat insisted on the principle, that for zero availability, there should be zero payment by the government and invited SD to investigate on the issue.

¹¹ Action point implemented according to the deadline

Findings and conclusions

Action point 17: Concerning the PPP contracts for which an updated analysis has been sent to Eurostat prior to the EDP dialogue visit, Statistics Denmark will check if zero availability corresponds to zero payment, as well as on the termination clauses, and report to Eurostat for the EDP notification of April 2011. Deadline: April 2011¹²

4.8 Others: Financial derivatives

Introduction

The use of derivatives and their recording in financial accounts and EDP tables was discussed under this point of the agenda.

Discussion and methodological analysis

Eurostat noted that derivatives are widely used in Denmark, mostly by central government. Eurostat pointed out some discrepancies in financial derivatives (F.34) between the financial accounts and EDP tables 3. For the period 2004-2006, the financial accounts report F.34 only on the liability side, for the year 2007, on both assets and liability sides, and for 2008-2009 only on the assets side. Eurostat also recalled that, as a general principle, EDP tables 3 should be consistent with the financial accounts, therefore the item "net incurrence of liabilities in financial derivatives" should not show zero entries for the years 2004-2007.

SD agreed with Eurostat's statements and explained that the financial derivatives will be corrected on the asset side in the financial accounts and in EDP tables 3, however for the earlier years the correction will only be done in 2014, when ESA2010 will be implemented.

Findings and conclusions

Eurostat took note of the explanation provided by SD and of the fact that for the earlier years the revision will only be implemented in the year 2014.

5. Other issues – Government intervention in the financial turmoil

Introduction

The latest information about Roskilde Bank and the Finansiell Stabilitet had been provided by SD prior to the EDP dialogue visit. Roskilde Bank was the first Danish victim of the financial turmoil, in summer 2008. The bank was holding a large portfolio of loans to real estate investors and was therefore vulnerable to downturns in the real estate market. During August, the bank was taken over by the Danish Central Bank and the association of private banks, "Det Private Beredskab". Roskilde Bank was transferred to Finansiell Stabilitet on 10 August 2009. Roskilde Bank is not having a general government guarantee, but the Danish State has provided a separate loss guarantee to Finansiell Stabilitet.

Prior to the visit, SD provided Eurostat with a description of the Finansiell Stabilitet and its subsidiaries with losses: EBH Bank, Pantebrevsselskabet (formerly Gudme Raaschou Bank), Løkken Sparebank (formerly Løkken Sparekasse) and Nova Bank Fyn (formerly Fionia Bank).

¹² Action point implemented according to the deadline

Discussion and methodological analysis

Eurostat pointed out that some of Finansiel Stabilitet subsidiaries could be considered as private defeasance structures. The report mentions that customers are invited to go elsewhere if possible. The guarantees by the private banks are up to 35 bill. DKK on losses. In 2010, the losses amounted to 10 bill. DKK.

SD explained that the 5 subsidiaries reporting losses are on the MFIs list of the ECB and their losses will not be significant enough to obtain guarantees from government, since up to 35 bill DKK of losses incurred by Finansiel Stabilitet are guaranteed by other banks (the Association of Banks).

However, Eurostat insisted that, even if they can be considered as private defeasance structures, the Association of banks itself obtains government guarantees.

SD stressed that all new guarantees were provided by the Danish government to viable banks.

Concerning Roskilde bank, Eurostat considers it as being a public defeasance structure, that is, to be recorded in government. It had losses of about 6 bill DKK at the end of 2009 and does not take deposits anymore. According to the information available, the losses incurred by Roskilde up to 750 mill DKK, will be covered by the Association of banks and all losses above that by government. The amount of the private guarantee is negligible in comparison to the losses that government might incur in the future.

SD recognised that Roskilde depends on the movements in the real estate market. However, SD stressed that the Roskilde business costumers remain and, in case of winding-up, the losses might be insignificant. In case of a reclassification of Roskilde, there might be no significant impact on the debt, due to consolidation, and a negative impact on B.9, due to the recording of Roskilde losses. SD wondered about the recording in national accounts, if the government would purchase Roskilde, and Eurostat explained that a capital transfer is to be recorded towards Roskilde's clients for the difference between the purchase price and market price. SD agreed to further analyse the issue and if relevant, record a capital transfer in 2010.

Findings and conclusions

Action point 19: The financial report of Roskilde Bank and Finansiel Stabilitet provide new information relating to the financial results of Roskilde Bank at the end of the year 2009. Due to this new information, before the April 2011 EDP notification, Statistics Denmark will reanalyse the sector classification with a view of possible reclassification of Roskilde Bank in government sector as a public defeasance structure in national accounts or possibly envisage a correction in EDP tables. Deadline: April 2011¹³

¹³ The analysis has been done, however Roskilde Bank is still on the MFI list and classified outside the general government sector.

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