



EUROPEAN COMMISSION
EUROSTAT

Directorate C: National and European Accounts
Unit C-4: Statistics for Excessive Deficit Procedure II



Luxembourg, 27 July 2011

EDP dialogue visit to Germany

5-6 May 2011

– FINAL FINDINGS –

Executive summary

Eurostat undertook an EDP dialogue visit in Germany on 5-6 May 2011. The main aims of this dialogue visit were to assess existing statistical capacity and divisions of responsibilities concerning the compilation of EDP statistics and government accounts, with special attention being paid to the compilation of state and local government accounts, to discuss whether the information available from public accounts used in the compilation of government statistics is sufficiently detailed (quality of primary data sources), to assure whether provisions from the ESA95 Manual on Debt and Deficit and recent Eurostat decisions are duly implemented and how specific transactions are recorded in the EDP tables, and to examine the recording of government interventions during the financial crisis in national accounts.

Eurostat discussed with the German authorities the institutional arrangements and source data used for the compilation of government finance statistics. Eurostat appreciated the comprehensive description of the compilation of working balances, net borrowing/net lending, and the reconciliation lines in EDP tables 2A-2D provided by the German authorities, and took note of the current arrangements. Concerning the financial accounts for general government, Eurostat took note of recent developments, and the remaining problematic issues, and encouraged further improvements.

As far as the analysis of the April 2011 EDP notification is concerned, the German authorities will apply the guidance on recording of injections into multilateral development banks, once the ongoing discussion has been concluded at the Financial Accounts Working Group. The German authorities undertook to review the possibilities concerning the application of Article 16 of Council Regulation 479/2009, as amended, in the context of the German constitution and the public finance law provisions, for obtaining all source data needed for the compilation of EDP statistics. The German authorities agreed to further investigate the details of the "other" item in the other adjustments line of EDP tables 2, with priority given to central government, and report the results to Eurostat. Moreover, the German authorities will report to Eurostat on the consultations between Destatis and the Bundesbank on the reconciliation of Balance of Payments data and direct government data sources, once these reach a conclusion. Eurostat encouraged the further decrease of statistical discrepancies.

Eurostat appreciated the prudent approach of the German authorities to the recording of government interventions in the financial crisis and noted that there are no further interventions currently planned for additional banks. Eurostat took note of the explanations of the German authorities concerning the current classification of the special bodies created in the context of the financial crisis.

The follow-up of Council Regulation 2516/2000 and recording of other transactions on an accrual basis were discussed. Eurostat reviewed the recording of accrued taxes and social contributions, and accrued interest, and found that these are in line with the corresponding methodology. Eurostat encouraged the intention of the German authorities to compare the current data for accrued interest of central government with the results of an instrument-by-instrument approach. Eurostat acknowledged the progress made on the recording of EU grants and encouraged the developments envisaged.

Concerning the recording of Public Private Partnerships, Eurostat found this to be suitably prudent and encouraged the continuous observation of emerging PPP projects at all levels of the general government. Eurostat took note of the arrangements concerning capital injections and superdividends, notably that the German authorities have aggregated amounts for all government levels but are not in the position to examine each individual transaction for its classification as a capital transfer or an acquisition of equity.

Eurostat took note of the recording of guarantees. The German Ministry of Finance will investigate the split of the recipients of central government guarantees (public/non-public; also by the beneficiary institution) in public accounts and report this list to Eurostat as soon as possible. Based on the results of this investigation the relevant Questionnaire relating to EDP tables will be amended.

Regarding the recording of derivatives, Eurostat took note that the German authorities make the necessary corrections at a central and state government level, but this is not yet possible on the local government level, due to the lack of detailed information. However the new reporting requirements proposed for Local Governments may lead to a correction in the future.

During the second, half day, Eurostat visited the Regional Statistical Office of Hessen. The visit focused on the work undertaken by the Regional Statistical Office of Hessen to collect and validate public finance data relating to local government bodies. It also took the opportunity to clarify the division of tasks and cooperation between the Regional Statistical Office and the Federal Statistical Office (Destatis) with regard to the compilation and reporting of statistical data in the framework of the Excessive Deficit Procedure. Eurostat appreciated the opportunity to meet the Hessen colleagues and the comprehensive explanations provided by the colleagues of the Regional Office during the meeting.

Final findings

Introduction

In accordance with article 11 of Council Regulation (EC) No 479/2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit in Germany on 5-6 May 2011.

Eurostat was represented by Mr John Verrinder, Head of Unit C.4 – Statistics for Excessive Deficit Procedure II, Ms Rasa Jurkoniene, Ms Agota Krenusz and Mr Colin Stewart. A representative of the European Central Bank also participated in the meeting as an observer.

Representatives of the Federal Statistical Office (Destatis), the coordinating Regional Statistical Office (Statistik Berlin-Brandenburg), the Federal Ministry of Finance (BMF) and the Central Bank (Bundesbank) were present on the first day of the visit. On the second day the visit took place in the Regional Statistical Office of Hessen.

Eurostat carried out this EDP dialogue visit with the aim to assess existing statistical capacity and divisions of responsibilities concerning the compilation of EDP statistics and government accounts (institutional risks), with special attention being paid to the compilation of state and local government accounts, to discuss whether information available from public accounts used in the compilation of government statistics is sufficiently detailed (quality of primary data sources), to review the implementation of ESA 95 methodology (sectorisation of units, accrual principles), to assure whether provisions from the ESA95 Manual on Debt and Deficit (ESA95 MGDD) and recent Eurostat decisions are duly implemented and how specific transactions are recorded in the EDP tables, and to examine the recording of government interventions during the financial crisis.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation 479/2009, as amended, indicating that the *Main conclusions and action points* would be sent to the German statistical authorities for review. Then, within weeks, the *Provisional findings* would be sent to the German statistical authorities in draft form for their review. After adjustments, *Final Findings* will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

The meeting was very constructive and Eurostat appreciated the explanations and documentation provided by the German authorities before and during the dialogue visit.

1. Statistical capacity issues

1.1. Institutional responsibilities in the framework of the reporting of data under the Excessive Deficit Procedure and government finance statistics compilation

Introduction

Eurostat enquired about the institutional arrangements and division of the responsibilities for the reporting of data under the EDP and government finance statistics.

Discussion and methodological analysis

The German authorities confirmed that there were no changes in the compilation arrangements of EDP and government finance statistics since the last dialogue visit. ESA tables are reported by the National Statistical Institute (Destatis) (non-financial data) and the Central Bank (Bundesbank) (financial data). The official reporting authority for the Excessive Deficit Procedure is the Ministry of Finance (Bundesministerium der Finanzen – BMF). It was also explained that EDP table 1 (deficit figures) and tables 2 are compiled by Destatis, EDP table 1 (debt figures) and tables 3 by the Bundesbank, while the BMF provide forecasts and EDP table 4 is a joint exercise between Destatis/Bundesbank/BMF.

Eurostat also enquired about cooperation between the statistical authorities. The German authorities explained that their cooperation is still not established formally, but they believe there is no need for formalisation, as the statistical authorities work together actively and maintain regular contacts, in order to ensure consistency between the financial and non-financial accounts.

Findings and conclusions

Eurostat took note of these arrangements and encouraged ongoing cooperation between the statistical authorities. Eurostat took note that, even if the cooperation of the German authorities is not formalised, it functions well.

1.2. Data sources, EDP inventory

1.2.1. EDP Inventory

Introduction

During the last dialogue visit in 2009, the German authorities informed Eurostat that they would update the EDP inventory once a new format is developed by Eurostat.

Discussion and methodological analysis

Eurostat reminded the German authorities, that the latest version of the EDP inventory dates back to September 2007. During the preparation of this dialogue visit the German authorities proposed some updates in the current inventory. They also explained that in 2011 they were undertaking a major revision of national accounts (mainly implementation of NACE Rev.2) and, once this is

finished, they would update the document in the new format. Eurostat explained that the proposal for the new format of the EDP inventory is taking longer than expected, and most probably the new format will be obligatory only from the second half of 2012 onwards. Therefore, Eurostat asked the German authorities to update the current format of the inventory. The German authorities undertook to update the parts on the recording of taxes, interest, and guarantees, and on the compilation of debt statistics, by the end of the October 2011 EDP notification process.

Findings and conclusions

The German authorities will provide an updated EDP inventory, in the current format, applying the changes proposed for the description of the recording of interest, taxes, guarantees, and compilation of debt statistics, by the end of the October EDP notification clarification round (**Action point 2**).

1.2.2. Data sources; state and local government source data

Introduction

Eurostat enquired in detail on the basic data sources for the compilation of government accounts and more precisely on the sources of figures in EDP tables.

Discussion and methodological analysis

The German authorities explained that the source of working balance for the current year is the Quarterly Cash Statistics (Vierteljährliche Kassenstatistik), a quarterly compilation of budgetary statistics. As soon as the results from the annual public finance statistics (which provides an additional breakdown by functions and also includes the data for the so called "Zweckverbände") are available, the quarterly data are replaced to finalize the results. In general, the final results of the public finance statistics are available with a time lag of two years.

For **central government**, the source of quarterly cash statistics is the Federal Ministry of Finance, providing a detailed breakdown by budget items and not only by the aggregates of the economic type (classification by object) of a revenue or expenditure item. This is available for the central government budget and for the special funds of the central government. They are in principal identical with the results recorded at a later date for the central government and its special funds as part of the annual accounting statistics of the public finance statistics. Differences between figures published in this document and entered in EDP table 2A working balance are mainly due to newly identified units (extra-budgetary funds) that are not yet included in the quarterly cash statistics. Other reasons for differences are deviations in data collection and processing, and in periodical delimitation.

The net lending/net borrowing figure (B.9) is initially calculated from the quarterly cash statistics (later on replaced by the annual results of the public finance statistics) with the necessary adjustments for national accounts purposes. The detailed breakdown of revenue and expenditure according to the classification used in the public finance statistics allows for almost complete adherence to national accounts/EDP rules. The minor residual between the working balance + adjustment items and B.9 is attributed to an item under the "Others" line under Other adjustments in the table.

This data source provides input also for accrual adjustments (in connection with taxes also the due dates mentioned in the respective tax laws are used) and other adjustment entered in the "Other adjustments" line, and also the surveys/ business accounts are used.

For other units included in central government, their B.9 is calculated from primary data sources (e.g. quarterly or annual reports / financial statements) and then included in EDP table 2A under Net borrowing/net lending of other central government bodies.

For *state governments*, the quarterly cash statistics are not available for the last quarter of year n for the April of year n+1 EDP notification; therefore no working balance is shown in EDP table 2B. The working balance for other years is similarly calculated from the same data source as for central government (i.e. for the current years by using the quarterly cash statistics and later on by using the annual public finance statistics). The German authorities explained that both central and state governments use the same source of budget classification, which allows for a very precise calculation of national accounts figures. However in the case of the state government, aggregates only according to the budget classification are available, whereas in the case of the central government each budget item is available. Data are supplied to Destatis from state finance ministries in the form of excel files. The German authorities explained that in the April notification, the new extra-budgetary units are not included in the working balance – the corrections for them are placed under the Net borrowing/net lending of other state government bodies. As soon as these new units are covered by the quarterly cash statistics, they are included in the working balance and will thus disappear from the line Net borrowing/net lending of other state government bodies.

The basic data source for *local governments*' core budgets is also the quarterly cash statistics and later on the annual public finance statistics. However these are not available for the last quarter of year n for the April of year n+1 EDP notification, therefore no working balance is shown in EDP table 2C. Similarly to the state governments, only aggregates are reported by the regional statistical offices. For local governments, the budget classification differs from the one used at the central and state governments level. The data can, however, be transferred into each other on an aggregated level of the classification by using a bridging system. For other local government bodies (not included in the working balance) the adjustments are done under Net borrowing/net lending of other local government bodies.

Basic data for *social security funds* are public finance statistics, respectively direct data transmissions from the individual funds or the responsible ministries (e.g. Ministry of Health in the case of the compulsory health insurance). Except for the Federal Employment Agency (which uses the same classification for the economic breakdown of revenues and expenditures as central government), there are special accounting systems for social security units. Within these accounting systems an expenditure or revenue item is only allocated to one dimension, whereas at least in the annual public finance statistics for central, state and local governments a double classification (classification by object and by function) is available. Data for the compulsory health insurance, the compulsory accident insurance and for the compulsory long-term care insurance, as well as for the agricultural pension fund are not available for the last quarter of year n for the April of year n+1 EDP notification; therefore no working balance and no adjustment items are available in EDP table 2D for this first notification.

Concerning the *accounting rules*, it was explained that while core budgets are on a cash basis, some extra-budgetary units (using business accounting) and some other units classified inside government might use accrual accounting, therefore in EDP tables they are referred to as having a mixed basis. The German authorities also explained that there exists a so called 5th quarter ("*Auslaufperiode*") where accrual adjustments are corrected. For instance, for bills arriving in December, even if there are 30 days to pay them, the cash payment is in the 5th quarter, and is shifted backwards to the year. Relating to this, there is a separate questionnaire for capital expenditure, notably for construction.

Eurostat asked on *possible future developments* in public accounts. The German authorities clarified that the current arrangements are based on budget directives and there was no plan to change these. Concerning the new rules on economic governance, where aggregated cash data on a monthly basis are proposed, the German authorities explained that there are no problems with these, except for the social security funds, where only quarterly data were currently available.

Eurostat invited the German colleagues to describe the *estimation procedure* for the last quarter to arrive at net lending/net borrowing figures. For interest, the German authorities have very detailed information on accrued and payable interest from the Debt Agency (*Finanzagentur GmbH*). For taxes there are timely data, and for other accrual adjustments there are individual estimations made by compilers. Destatis is also informed about recent developments in taxes, e.g. new programmes.

Findings and conclusions

Eurostat appreciated the comprehensive description of the compilation of the working balances, net borrowing net lending, and the reconciliation lines in EDP tables 2A-2D provided by the German authorities and took note of the current arrangements.

1.2.3. Financial accounts data

Introduction

Eurostat thanked the German authorities for their note on the current status of financial accounts and asked the German authorities to explain the current developments in this field.

Discussion and methodological analysis

The German authorities explained that in general there is no major change in the basic data sources used. Financial transactions which are covered by budgetary statistics are used as before (related to F.4 and F.5 with the exception of investment fund shares).

The main source for transactions in F.2, F.33 and F.52 is counterpart statistics, mainly derived from central bank statistics. For **F.2**, the main source is monetary statistics, which are adjusted when inconsistencies are identified. F.2 holdings with foreign banks are captured by Balance of Payments (External stocks) statistics. For **F.33**, the improved security deposit statistics are used for all general government subsectors, while the data from the exhaustive collection of financial asset stocks of general government subsectors S.1311, S.1312, S.1313 are generally used when available (T+10/12 months). For **F.52**, the new investment fund statistics is used for general

government as a whole. However, the investment fund statistics do not provide a breakdown for general government subsectors. The subsector breakdown is calculated by using securities deposit statistics for all subsectors except for S.1314 and financial asset stocks statistics upon availability. For S.1314, F.52 is calculated as a residual by subtracting available information on F.52 of other government subsectors from the total amount from the investment fund statistics.

The German authorities pointed out that calculating transactions from non-integrated data sources eventually leads to *discrepancies*. Previously, the federal government data were of not the highest quality, however since the last EDP dialogue visit this had improved considerably, because the information has been improved by a comprehensive assessment of all current (and potential) counterparties of the federal government debt management agency and by attributing the relevant national accounts sector classification to each single potential counterparty. In general, all available data sources are compared and checked for plausibility. In particular, internal information on asset holdings are used where the Bundesbank is managing portfolio investments for federal government or social securities. These sources might be incomplete, but could be used to identify inconsistencies with other statistics.

Eurostat took note of these explanations and encouraged the further improvement of data sources.

The German authorities also described the current challenges they face concerning the classification of some units as a result of the government interventions in the financial crisis. For these units, existing data sources can not be used at the current margin without correction/substitution for additional direct data sources, which required substantial effort. For these units established during the financial crisis, Eurostat welcomed the work undertaken and approach of data comparisons.

Eurostat enquired on the *estimations* in financial accounts for the last quarter. The German authorities explained that they do not use estimations but they use preliminary data. There is agreement with Destatis that the Bundesbank receives the latest available information, with mainly the core budget covered. The discrepancy can also be increased by the lack of availability of accrual adjustments in the April EDP notifications.

Concerning the *comparability of EDP tables and financial accounts*, Eurostat appreciated the note sent with each notification to show the reconciliation of ESA table 27 and EDP data. This explains that the adjustments result from two main factors – balancing/discrepancies, and adjustments for valuation of debt. In the April 2011 EDP notification there was a certain discrepancy caused by a special problem (consolidation of a loan between two sub-sectors of the government which was made in the EDP notification tables but not in ESA table 27). The German authorities intended to eliminate this error in the June 2011 transmission of ESA table 27.

Findings and conclusions

Concerning the financial accounts for general government, Eurostat took note of developments, and the remaining problematic issues, and encouraged the further improvements.

2. Follow-up of the April 2011 EDP reporting – analysis of EDP tables

Introduction

Several issues concerning the October 2010 EDP notification were discussed.

2.1. Coverage and timeliness

Discussion and methodological analysis

Eurostat thanked the German authorities for their timely and accurate transmission of EDP tables and the relating questionnaires and for their fast and effective work in the April 2011 EDP notification round, and encouraged the continuation of this cooperation.

2.2. Examination of EDP tables

2.2.1. EDP table 1

No specific issues were identified.

2.2.2. EDP tables 2A-D

Discussion and methodological analysis

Some issues were clarified concerning EDP tables 2A-D.

In *EDP table 2A* the specific issue of an injection into the World Bank in 2009 and its current recording as acquisition of equity was discussed. Eurostat enquired why the German authorities considered this injection as acquisition of equity and not a capital transfer.

The German authorities explained that they are waiting for the further guidance of Eurostat on the recording of different forms of injections into multilateral development banks. However, Destatis reminded Eurostat that the decision and the proposed treatment should be examined alongside the treatment proposed for the recording of injections into the European Stability Mechanism, since it may also provide concessional loans, and currently these are treated as financial transactions. They proposed to define better in the guidance the notion of "*market interest rate*", on which the distinction between concessional and non-concessional loans is based. They also gave account of the plans to reconsider the budgetary item for these injections.

Eurostat undertook to bring this issue forward during the next Financial Accounts Working Group. The German authorities will then apply the guidance.

During the April 2011 EDP notification the German authorities provided for the first time a more detailed breakdown of the "Others" in the Other adjustment rows, in EDP tables. Eurostat appreciated this practice, and encouraged its continuation. However a small unexplained residual still exists in the tables. Eurostat told the German authorities that it will usually ask for the explanation and for any other main items in this residual. It was explained by the German authorities that out of the amount of 1270mn EUR for 2010, most of the amount is residual, "unknown" but this figure normally decreases for the second EDP notification of the year.

Eurostat encouraged further improvement to reduce the residual, and asked the German authorities to provide a breakdown of this item in the October 2011 EDP notification.

Eurostat had asked during the clarification process of the April 2011 EDP notification whether there is any significant amount within the "others" (of 1270mn EUR in 2010) and the German authorities clarified that there is a considerable amount for adjustments of cross-border transactions, replacing budget figures with balance of payments figures. Eurostat wondered why direct data was being replaced by indirect source data. The German authorities explained that the BOP data available at the Bundesbank are more reliable and detailed concerning revenues coming from abroad than those in the budget. Destatis also added that they have a reconciliation procedure ongoing with the Bundesbank, and they have meetings on this issue. They agreed to notify to Eurostat of the results of their meetings once these are available.

Concerning the "*Home office*" adjustment under Other adjustment rows in EDP table 2A, it was confirmed that the amounts entered in this row are estimations and there could be a further revision once actual amounts are known.

For **EDP table 2B**, the German authorities explained that they have limitations/less detailed breakdown of transactions than on federal level (EDP table 2A). They explained that even though Destatis is allowed to make proposals for amendment of data collections through the statistical board¹ (dealing with the standardization/development of accounting systems of public budgets, taking into account the requirements for national accounts compilation), it has no voting rights in the board taking the decisions.

Eurostat drew the attention of the German authorities to Article 16² of Council Regulation 479/2009, as amended, which might give the necessary basis to have more influence on national source in order to ensure the good quality of data reported in the EDP notification.

The German authorities explained that the Federal Statistical Law is currently under update and there might be some further changes expected in this respect. They promised to discuss this issue within Destatis and within the German statistical community and provide feedback to Eurostat on the outcome.

The general issue of the "*others*" row under the *Other adjustments* in EDP tables 2A-2D was discussed. Eurostat encouraged Destatis to further analyse the other adjustment/other which could be reduced for the second notification for all sub-sectors. It was agreed that priority will be given to the central government sub-sector.

Findings and conclusions

Eurostat will bring to a conclusion the ongoing discussion on the recording of injections in multilateral development banks at the Financial Accounts Working Group meeting.³ Once the

¹ Section 49a of the Budgetary Procedures Act. Committee for the standardization of the government accounting.

² Article 16 of 479/2009, as amended says:

"1. Member States shall ensure that the actual data reported to the Commission (Eurostat) are provided in accordance with the principles established by Article 2 of Regulation (EC) No 223/2009. In this regard, the responsibility of the national statistical authorities is to ensure the compliance of reported data with Article 1 of this Regulation and the underlying ESA 95 accounting rules. Member States shall ensure that the national statistical authorities are provided with access to all relevant information necessary to perform these tasks. "

guidance is in place, the German authorities will apply it to the recording of the relevant injections (**Action point 4**). The German authorities will report to Eurostat on the consultations between Destatis and the Bundesbank on the reconciliation of Balance of Payments data and direct government data sources, once these reach a conclusion (**Action point 3**). The German authorities will review the possibilities concerning the application of Article 16 of the Council regulation 479/2009, as amended, in the context of the German constitution and the public finance law provisions, for obtaining all source data needed for the compilation of EDP statistics. They will report back to Eurostat once the results are available (**Action point 1**). For the October 2011 EDP notification, the German authorities will further investigate the details of the "other" item in the other adjustments line of EDP tables 2, with priority given to central government, and report the results to Eurostat (**Action point 7**).

2.2.3. EDP tables 3A-E, EDP table 4

Discussion and methodological analysis

Eurostat enquired on the row "Changes in sector classification" in **EDP table 3D**, as there seemed to be considerable amounts entered for all reporting years. The German authorities explained that the amounts shown here are the differences of flow and stock data coming from Public finance statistics and Debt statistics, and the assumption is made that this is due to reclassification of units. They also emphasized that the amounts are relatively small (0.026% of GDP), therefore no additional efforts appear worthwhile to resolve them. Eurostat accepted this explanation.

The general issue of the *statistical discrepancies* in EDP tables 3 was discussed. Eurostat assessed the statistical discrepancies as relatively high, especially compared to the nominal value of net borrowing which, however was not seen as a meaningful comparison by the German authorities given that the relation would approach infinity if B.9 approaches zero (the latter being intended by the German budgetary rules). Particularly high discrepancies were observed for EDP table 3E.

The German authorities explained that the high discrepancy for general government and in particular for the social security funds is mainly due to the lack of appropriate direct data sources: for instance, investment fund information for social security is calculated as a residual from counterpart source data (investment fund statistics). In addition, there are almost 250 health care units for which no direct data on financial assets are collected. They also pointed out that since discrepancies are negative, there is no concern that the deficit is underestimated.

Most notably for local government, it cannot be expected that the sector delimitation is always the same in all data sources, in particular in case counterpart information (e.g. monetary and banking statistics) is used. Other possible complications for local government might be due to the changeover to commercial double-entry bookkeeping, where some ongoing complications are observed in the national public finance statistics.

Another potential problem could arise in case general government undertake financial investments in securities outside Germany which are not captured by the national securities deposit statistics.

³ The issue has been discussed during the June 2011 Financial Accounts Working Group, and majority of the Member States accepted Eurostat's guidance, which will be published in 2011.

Concerning **EDP table 4**, Eurostat encouraged the German statistical authorities to make an effort to report the missing items in EDP table 4: Trade credits and advances, and government debt arising from the financing of public undertakings.

Findings and conclusions

Eurostat took note of the explanations provided and encouraged further work in decreasing the observed statistical discrepancies.

3. Government interventions relating to the financial crisis

Introduction

Eurostat described recent developments and guidance published on the recording of government interventions in the financial crisis. The new guidance on the classification of public defeasance structures was introduced. Eurostat thanked the German authorities for following this guidance.

Eurostat appreciated the summary documents on the recording of the related transactions in national accounts provided by both Destatis and the Bundesbank (debt effects).

3.1. General issues (guarantee schemes, capital injections)

Discussion and methodological analysis

The German authorities explained that three types of government interventions were undertaken during the financial crisis by the German government: provision of guarantees, capital injections and creation of new bodies. The stabilisation measures were mainly through the Financial Market Stabilization Fund (Sonderfonds für Finanzmarktstabilisierung – SoFFin), managed by the German Federal Agency for Financial Market Stabilisation (Bundesanstalt für Finanzmarktstabilisierung – FMSA).

Regarding the *guarantees* provided to financial institutions, it was explained that no guarantees have been called so far (except guarantee calls for units classified inside general government which are to be consolidated), so in accordance with the Eurostat guidance on the recording of financial market interventions of government of 15 July 2009, no transactions were recorded in national accounts. Most of the guarantees were provided by SoFFin, but some state governments also provided guarantees to Landesbanken.

Concerning *capital injections*, the German authorities provided to Eurostat a comprehensive list of capital injections undertaken, with their respective recording either as equity injections or as capital transfers. Most of these transactions were in compliance with the relevant state aid rules and, according to Eurostat's 2009 Decision, have been classified as equity injections. Two exceptions are the Hypo Real Estate injections in 2009 and 2010, made by SoFFin, where part of the injections was classified as a capital transfer due to non-conformance with the Eurostat and state-aid rules, and the rerouting of a 2008 transaction of KfW injection in IKB through the government accounts.

Eurostat enquired on future developments and the repayment of these injections from the financial institutions concerned. The German authorities explained that a repayment is expected from Commerzbank in 2011, partly in cash and partly in the form of conversion of silent participations into ordinary shares. Eurostat pointed out that if there are early repayments of government injections and a premium is expected, the German authorities should carefully analyse the case and check the Eurostat advice provided to other Member States on the recording of similar transactions. Eurostat promised to provide to the German authorities a copy of the letter to another Member State.

The German authorities informed Eurostat that FMSA (and therefore SoFFin) ceased providing further support to financial institutions at the end of 2010, and no further interventions are foreseen by the German government in the context of the financial crisis.

Findings and conclusions

Eurostat appreciated the prudent approach of the German authorities to the recording of government interventions in the financial crisis and noted that there are no further interventions currently planned for additional banks. Eurostat will provide the German authorities with the guidance letter provided to another Member State on the statistical treatment of early redemption of government aid provided to financial institutions (*Action point 5*).⁴

3.2. Specific bodies (including liquidation agencies)

Discussion and methodological analysis

In the context of the financial turmoil, the German federal legislation allowed two types of new entities to be created to relieve financial institutions of impaired assets. The Special Purpose Vehicle Model (which was never used) permitted a bank to divest impaired structured securities to a special purpose vehicle (SPV). In exchange the SPV issued bonds to the bank, guaranteed by SoFFin.

The Liquidation Sub-Agency Model permitted a bank intending to divest itself of a business division that was no longer considered strategically relevant and to transfer risk assets to a liquidation sub-agency (Abwicklungsanstalt or AidA), that is not subject to the capital and liquidity arrangements of the German Banking Act. The role of an AidA is to manage and liquidate assets over a medium term.

The German authorities gave an account of the bodies created (two SPVs – Phoenix and Sealink Funding – and two AidAs – Erste Abwicklungsanstalt and FMS Wertmanagement). While the mentioned SPVs were created with the support (guarantees) of two state governments, they are not part of the aforementioned SPV model, the two AidAs are part of the sub-agency model. All four entities are classified inside the general government sector. The German authorities explained that for the SPVs – both of them based in Ireland – data sources are out of date. For Phoenix there are no reports, but its accounts are in the meantime consolidated with the Erste Abwicklungsanstalt. For Sealink Funding, the latest annual report available is that of 2008, therefore estimates were made for its debt for 2009 and 2010. For the two AidAs, reports and information provided by the Ministry of Finance are available and used for the necessary adjustments in national accounts.

The German authorities also described three additional units supporting Landesbanken (HSH Finanzfonds, GPBW GmbH and LBBW GmbH) classified inside the general government sector.

The German authorities informed Eurostat there is no intention to create new institutions.

⁴ Eurostat provided the link to the official advice to the German authorities on 6 May:
http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/recording_EDP%20BE_KBC%20early%20redemption%20of%20government%20aid.pdf

Findings and conclusions

Eurostat took note of the explanations of the German authorities, and of the classification of the above mentioned units.

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government, application of the 50% rule in national accounts

Introduction

Eurostat enquired about the arrangements concerning the delimitation of the general government sector and the application of the market/non-market rule. Eurostat thanked the German authorities for the updated list of government units provided before the visit.

Discussion and methodological analysis

The German authorities explained that they have different data sources (Press releases, Staatsanzeiger, Beteiligungsberichte, Central Bank, Public Finance Statistics) for information on newly created public bodies. When a new body is detected, Destatis examines the legal documents of establishment to determine if it is an institutional unit, the nature of government control, and – if necessary – the accounts (revenues, expenditure) to take a decision on its market/non-market nature.

The cash-based public finance statistics provides the starting point for the delimitation. The lists of public corporations available at central, state and local government levels are checked continuously. Destatis applies a prudent approach, where units – in the case of doubt – are first allocated to the general government sector and then reclassified if necessary.

This lists used for public finance statistics do not however coincide with the national accounts classification, therefore additional checks are made to arrive at the correct list.

The list of general government units is updated once a year. The German authorities informed Eurostat that they consider all public corporations receiving more than 80% of their income from government as ancillary units and thus they are automatically classified inside the general government sector.

Eurostat enquired on the possibility of a public unit creating a private law unit. The German authorities confirmed that this is possible but limited according to the respective local government basic law (Kommunalverfassungen) enacted by the state governments. The creation of such a private body would be noticed through the declaration of public ownership.

The newly updated list of general government units, sent by the German authorities before the visit, was reviewed.

Findings and conclusions

Eurostat took note of the arrangements in place concerning the delimitation of general government.

4.2. Implementation of accrual principle

4.2.1. Accrued taxes and social contributions

Introduction

Eurostat enquired on recent changes in the recording of taxes and social contributions.

Discussion and methodological analysis

The German authorities provided an updated Questionnaire on Taxes and Social Contributions, including the new taxes introduced in 2010. There are no changes in the recording of taxes and social contributions, The German authorities use simple time adjustment. Source data are on a cash basis, and are obtained from the Ministry of Finance and social security agencies, and a time-shift adjustment is used to reflect accrued taxes.

Eurostat noted that in the April 2011 EDP notification, there were no adjustments shown for D.2 and for D.611 for 2010 and wondered how this was possible. The German authorities explained that for the April notification no data are yet available. Eurostat took note of this explanation.

Regarding the new taxes introduced in 2011 (the aviation tax, the nuclear fuel tax and the new bank levy), Eurostat took note of the classification of these and thanked for the German authorities for providing background information on them.

Findings and conclusions

Eurostat reviewed the recording of accrued taxes and social contributions and found that these are in line with the corresponding methodology. Eurostat took note of the recording of the new taxes introduced in 2010. The part on the recording of taxes in the EDP inventory will be updated by German authorities by the end of the October 2011 EDP notification clarification round.

4.2.2. Calculation of accrued interest

Introduction

Eurostat thanked the German authorities for the detailed note on the recording of interest and enquired about any recent changes in recording.

Discussion and methodological analysis

The German authorities confirmed that the accrual data on interest is compiled on the basis of a model, as described in the EDP Inventory. The same model applies for interest paid and interest received. The source data for the model used are quarterly cash statistics (later replaced by the annual statistics). These statistics have a detailed breakdown for all government sub-sectors of interest income and expenditure by the payers and recipients, which enables consolidation between government sub-sectors. For the current quarter (used in the calculations for the April EDP notification) estimations are made. In the case of central government these estimations are

based on data provided by the Debt management Agency (*Deutsche Finanzagentur GmbH*). For the other sub-sectors individual estimations are made by compilers.

Complete and detailed data on interest paid and received are not available by different instruments. The model is applied on the totals, which also includes discounts and premiums. The appropriate accrual adjustments for discounts and premiums on index linked securities are additionally implemented. In EDP table 2A they are reported under item *Other adjustments, Index-linked securities (interest)*, and in EDP table 3B, under line *Issuance above (-)/below(+)* nominal value.

The German statistical authorities intend to test the feasibility of the existing model for accrued interest. The foreseen exercise will be undertaken for central government data, and will involve the comparison of the accrued interest model data with the results achieved through instrument by instrument calculations.

The German statistical authorities informed Eurostat that the so-called "*coupon sold*" are observable mainly at the federal level. Adjustments for "*coupon sold*" are made in the basic data, before they enter the model. As confirmed by the Ministry of Finance, the common situation in Germany is that issuance of a new tranche and the coupon payment occur in the same year. An example was given of a bond which has a coupon payment on the 31st of December and a new tranche is opened on the 1st of April. On a quarterly basis cash interest figures are corrected to exclude coupon sold treated as revenue in the first quarter, and to exclude coupon sold from the cash coupon payment in the fourth quarter, so that only accrued interest would impact on B.9.

Additional adjustments for interest are made for PPPs, rerouting of transactions, sector reclassifications, premiums and discounts on index-linked securities and swaps.

Findings and conclusions

Eurostat reviewed the recording of accrued interest and found that it is in line with the corresponding guidance. Eurostat encouraged the intention of the German authorities to compare the current data of accrued interest for central government with the results of an instrument-by-instrument approach.

4.3. Recording of specific government transactions

4.3.1. Public Private Partnerships

Introduction

During the last dialogue visit, the German authorities confirmed that they continue to record all assets of Public Private Partnership (PPPs) projects on the government's balance sheet. It was explained that this recording of PPPs is also applied for the compilation of government debt at all government levels. Eurostat thanked the German authorities for providing comprehensive information on the PPP projects, their recording and further information on the recording in national accounts, in the document sent before the visit.

Discussion and methodological analysis

The German authorities explained that their source of information for PPP projects is the "*PPP Projektdatenbank*" of the PPP Task Force in the Federal Ministry of Transport, Construction and City Development (*Bundesministerium für Verkehr, Bau- und Stadtentwicklung*), which captures PPP projects in Germany. However, there are no legal reporting obligations for public units entering into Public Private Partnerships, the database is voluntary, so not all existing projects are covered here. The German authorities therefore examine other sources for possible PPP projects such as press releases, the internet, and also construction statistics are used to provide information on projects; therefore the estimated value of PPP projects should be very close to the actual figure.

In the model used for the recording of PPP projects in national accounts all projects are included where the amounts, the contract date and the length of the project are known.

Eurostat enquired on the risk assessment of individual projects. The risk assessment of PPP projects is not undertaken because the German authorities consider this unnecessary due to the complete recording in government's accounts.

Eurostat asked about the existence of any concessions. German authorities were not aware of any.

Findings and conclusions

Eurostat took note of the recording of the assets (and associated debt) of Public Private Partnerships on the balance sheet of government in Germany. Eurostat encouraged the continuous observation of emerging PPP projects at all levels of the general government.

4.3.2. Capital injections in public corporations, dividends (interim dividends), privatizations

Introduction

Eurostat thanked the German authorities for the detailed list of capital injections at central, state and local government levels sent before the visit.

Discussion and methodological analysis

The German authorities gave details of the data source of the list provided. They clarified that the lists are taken from public finance (budget) reporting. Eurostat asked how the capital injections are classified as either equity injections or capital transfers. The German authorities explained that by default they consider all these investments as equity injections, and they do not have access to detailed data to examine whether these investments are expected to lead to market returns. Nonetheless, if injections are to cover losses, these are recorded on a different budget line. They also clarified that large investments are separately checked, but asked for further recommendations on how to systematically handle the list of capital injections.

Data on dividends received by government from corporations are not available on an individual basis, only aggregated. These are analysed and extraordinary movements are looked into. The main contributing entities are identified and the “superdividend test” is applied for these big dividends.

Findings and conclusions

Eurostat took note of the arrangements concerning capital injections and superdividends, notably that the German authorities have aggregated amounts for all government levels but is not in the position to examine each individual transaction for its classification as a capital transfer or an acquisition of equity.

4.3.3. EU flows

Introduction

During the previous dialogue visit this issue was discussed in detail. The German authorities explained then that due to the lack of source data, particularly at state and local government level, they are not able to fully comply with the Eurostat decision on the recording of EU grants. At the end of the meeting, the German authorities undertook to make the necessary corrections for the October 2009 EDP notification once the Commission data were provided to them by Eurostat and cross-checked against national data. For the first time, in the October 2009 EDP notification, the German authorities provided adjustments for EU grants (for structural funds), with data provided to them by Eurostat.

Discussion and methodological analysis

According to the document sent before the visit by the German authorities, even if the budget classification is very detailed, there is no breakdown of expenditures made on behalf of the EU, these flows are reported together with national cash flows, therefore the basic data source does not supply figures for the adjustment. Only BOP statistics can supply further information, which also allows to make a split according to fund, but they do not allow for a distinction between advance, interim and final payments.

Regarding the recording in national accounts, the German authorities explained that the amounts received from the EU funds are recorded as revenue of the government, except for the subsidies, which are directly attributed to the final recipient. In order to comply with the Eurostat decision, the German authorities use both BOP data and the data supplied to them by Eurostat by February each year to neutralize these revenues. Eurostat promised to double-check the quality of figures for the European Social Fund.

Eurostat asked whether any progress is foreseen in the near future. The German authorities explained that there is a possibility to improve the current approach with the help of the Ministry of Finance and the Ministry of Economy and Technology, for ERDF figures, but only for central government. The German authorities agreed to implement these improvements for the April 2012 EDP notification.

Findings and conclusions

Eurostat appreciated the work undertaken in the recording of adjustments for EU grants in the German government accounts. Eurostat will check the quality of European Social Fund data with other Commission services (DG EMPL) and provide a feedback to Destatis (*Action point 6*). The German authorities will implement the improvements for adjustments for central government for the April 2012 EDP notification.

4.3.4. Guarantees

Introduction

During the last dialogue visit the German authorities explained to Eurostat that they are not able to distinguish the nature of the recipient (whether public or non-public) of government guarantees, especially at state and local government levels. The classification used in the annual public finance statistics (time lag of two years) allows only the identification of guarantees by different groups of recipient corporations such as banks, credit institutions or industrial corporations. The amount of new guarantees provided is also not available.

Discussion and methodological analysis

The Ministry of Finance agreed to investigate the split of the recipients for central government guarantees (public/non-public; also by institution receiving) in public accounts as far as possible and report this list to Eurostat. The new amounts of guarantees are not available because only stock data are collected.

Calls of guarantees are recorded as cash payments (national guarantees, recorded as capital transfer in national accounts) or as acquisition of claim for foreign guarantees relating to export-credits. The latter are recorded as F.4 loans in national accounts. Once new information is available on these foreign guarantees (i.e. Ministry of Finance classifies the claims as irrecoverable) they are recorded as debt cancellations.

Eurostat enquired whether the claims in national accounts are recorded at their market value (see MGDD third edition, Chapter VII.4, paragraph 16). The German authorities explained that market values are not available for these loans but the amounts are not substantial. Therefore the MGDD provision could not be implemented.

Eurostat asked the German authorities to amend the Questionnaire relating to EDP tables, table 9.1 by including repayments of claims relating to guarantees in line 14 of the table, to be consistent with table 9.3 where repayments of claims are shown.

Findings and conclusions

Eurostat took note of the current recording of guarantees. The Ministry of Finance will investigate the split of the recipients of central government guarantees (public/non-public; also by institution receiving) in public accounts and report this list to Eurostat as soon as possible (**Action point 9**). Destatis will amend the Questionnaire relating to EDP tables, table 9.1 by including repayments of claims relating to guarantees in line 14 of the table by the October 2011 EDP notification (**Action point 8**). Destatis will also update the part on the recording of guarantees in the update of the current EDP inventory.

4.3.5. Derivatives

Introduction

Eurostat enquired on the existence and recording of derivatives in national accounts, especially for state and local government levels.

Discussion and methodological analysis

The German authorities confirmed that mainly interest rate swaps are being used by the German government. Swaps with embedded options, swaptions and/or options on interest were not used or are negligible. Forex swaps are mainly used by state governments to hedge their exchange rate exposure.

Eurostat noted progress on the information available on derivatives. It was explained that data on central and state government were available. For central government the information is directly provided by the Ministry of Finance, for the state governments the source of data is the "*Zentrale Datenstelle der Landesfinanzminister*", since interest flows` relating to swaps are not separated in public finance statistics. On data for Local Governments, there is a proposal to introduce new breakdowns of interest and gather some more details (amounts of cancellations, etc.) but this is not accepted yet. Therefore no information is currently available for swaps at local government level.

Regarding the recording in EDP tables, the German authorities explained that interest relating to swaps enters the working balance in EDP tables 2 and the relevant corrections are implemented under the D.41 line. In EDP tables 3, swaps are reported net on the assets side (F.33) and under in interest line D.41 (including in the row “of which”).

The German authorities confirmed that the Eurostat guidance on the recording of lump sums on cancellations and off-market swaps were implemented, starting with the April 2010 notification.

For the defeasance structures (Erste Abwicklungsanstalt and FMS-Wertmanagement) the information on derivatives has been received for the first time. These data have to be analyzed further and consequently will be included in the EDP reporting for the October 2011 EDP notification.

Findings and conclusions

Eurostat took note that the German authorities make the necessary corrections for financial derivatives at central and state government levels, but on the local government level, due to the lack of detailed information, this is not yet possible. However a new reporting requirement proposed for Local Government may lead to this possibility in the future. The German authorities will make the necessary adjustments in EDP tables for the defeasance structures for the October 2011 EDP notification.

5. Other issues

5.1. ESA95 Transmission Programme (tables 2, 6, 7, 9, 11, 25, 27 and 28)

Introduction

Eurostat thanked the German authorities of the timely transmission of ESA tables and confirmed that there are no outstanding issues for these, except for that of ESA table 27 (reconciliation with EDP tables) and a historical discrepancy between ESA table 2 and EDP tables.

Discussion and methodological analysis

Eurostat enquired on the considerable discrepancy between ESA table 2 and EDP table net lending/net borrowing for 1995, which according to its knowledge is due to a past decision on the treatment of a capital transfer (debt assumption) in connection with the "Treuhandanstalt" for EDP purposes.

Findings and conclusions

Eurostat will make the necessary adjustments to its EDP data base to resolve the 1995 discrepancy.

6. Any other business

6.1. Impact assessment of ESA 2010

Introduction

Eurostat asked the German authorities to briefly relate their experiences on the ongoing impact assessment of the new ESA.

Discussion and methodological analysis

The German authorities explained that the change in market/non-market rule will only have a minor impact on government accounts (approximately 200mn EUR on the government deficit and around 2bn EUR on government debt in 2009) according to first preliminary estimates.

Findings and conclusions

Eurostat took note of these explanations and thanked the German authorities for this information.

6.2. The 2011 benchmark revision in German national accounts

Introduction

At the beginning of the meeting the German authorities offered to give an account of the ongoing benchmark revision in German national accounts.

Discussion and methodological analysis

The German authorities explained that mainly some non-profit institutions will be reclassified to the general government sector, and this will be shown in the October 2011 EDP notification.

Other changes that might impact government accounts are in the recording of military goods and services, guarantees and interest (i.e. some corrections according to new information provided by the Abwicklungsanstalten and the SPVs). Also the reclassification of the business tax from D.29 to D.51 or the change in the recording of child benefit will affect the presentation of government accounts, however with no impact on B.9.

The overall impact on both government deficit and debt was not expected to be considerable, probably around 0.2% of GDP. The German authorities will inform Eurostat before the October 2011 EDP notification about the outcome of the exercise.

Findings and conclusions

Eurostat took note of these explanations. Destatis will provide a note summarizing the main revisions (reclassification of units and others), and their impact on government deficit and debt data, as a result of the 2011 ESA benchmarking exercise by mid-September 2011 (*Action point 10*).

6.3. Intergovernmental lending

Introduction

Eurostat thanked the German authorities for providing information on the intergovernmental lending in the April 2011 EDP notification. Eurostat explained that apparently there are differences between the data reported by the German authorities and the data provided by DG ECFIN.

Discussion and methodological analysis

The German authorities explained that their source of information is the Kreditanstalt für Wiederaufbau (for bilateral loans) and the European Financial Stability Facility (for multilateral support between Member States in the context of safeguarding financial stability). The Debt Management Agency ("*Finanzagentur GmbH*") is data source for intergovernmental lendings aside from the support measures. Eurostat explained that according to the different data sources there is a difference of 88mn EUR identified and enquired whether the German figures also include fees. The German authorities will investigate this issue and come back to Eurostat.

Findings and conclusions

For data on intergovernmental lending, the Ministry of Finance will investigate the difference between figures reported to Eurostat and those available to other Commission services (DG ECFIN), and provide the breakdown of the loan and fee element to Eurostat as soon as possible (*Action point 11*).

6.4. Quality assurance of underlying data for government accounts

Introduction

Eurostat introduced its communication of "*Towards robust quality management for European Statistics*" (COMM 211/2011). The aim of this Communication is to set out a strategy that would give the European Union a quality management framework for statistics related to enhanced economic policy coordination which includes mechanisms to ensure the high quality of statistical indicators, including data for the Excessive Deficit Procedure.

Discussion and methodological analysis

In this context, Eurostat enquired on the German auditing system, whether this helped to provide assurance to data quality feeding the Excessive Deficit Procedure. The German authorities explained that the courts of audit in Germany have the task to assure the implementation of budget execution and not the assurance of EDP-related data.

Eurostat enquired as to the procedures in place to verify the quality of information received as sources for national accounts and more specifically, for use in the calculation of debt and deficit figures. The German authorities briefly explained that, since two years ago, a quality management unit has existed in Destatis, validating the figures of the public finance unit (the unit providing source data for EDP statistics). Where necessary, the data can be checked with the data provider (federal or state bodies). Therefore, regular procedures are in place for checking the quality of public accounts statistics.

Findings and conclusions

Eurostat appreciated the informative and positive approach of the German authorities and indicated that it intended to follow this up in due course with further questions.

7. Visit of Eurostat to the Statistical Office of Hessen

Introduction

Eurostat visited the Regional Statistical Office of Hessen on 6 May in order to gain further knowledge of its local government finance data sources, its compilation procedures for public finance data; and the division of work between Destatis and the Statistical Office of Hessen.

The Regional Statistical Office of Hessen (RSOH) belongs to the administration area of the Prime Minister of the State of Hessen. In all statistical affairs RSOH is independent. Only the budget of RSOH, which in the framework of the legal and statistical regulations is to the free disposal of RSOH, ultimately is fixed by the Prime Minister. RSOH was established in 1946 and has 550 employees.

The two units of the Office's public accounting directive are: the Municipal cash statistics (Kommunale Kassenstatistik), Liabilities (Schuldenstatistik) and financial assets (Finanzvermögensstatistik); and the Annual accounts (kommunale Rechnungsstatistik and Jahresabschlussstatistik) and University finances (Hochschulfinanzstatistik).

7.1. Discussion of working practices between the Regional Statistical Office and DESTATIS

Discussion and methodological analysis

Work-sharing between the statistical offices in the field of public finance statistics is based on the provisions of the Finance and Personnel Statistics Act (FPStatG) as promulgated on 22 February 2006 (Federal Law Gazette I p. 438), last amended by Article 3 of the Act of 27 May 2010 (Federal Law Gazette I p. 671).

In addition, at expert meetings on public finance and personnel statistics, the statistical offices discuss and settle specific statistical issues concerning their co-operation.

According to the institutional arrangements in place, German Regional Statistical Offices, such as the RSOH, are in charge of the processing of data from local government public accounts, through the collection, validation and aggregation of primary data. Usually they are not responsible for the collection of data on the finances of the Regions (Länder).

Collected, verified and aggregated data for Local Government are provided through a dedicated database system to Destatis. Any additional adjustments to arrive at national accounts figures, including those for EDP purposes, are undertaken at Destatis.

The RSOH explained that its work also involves the maintenance of the register of the reporting units for public finance, which is in line with the Destatis register of units (see below).

The RSOH underlined that it is in regular contact with Destatis (mainly the unit for public finance statistics) to deal with issues arising from the data.

7.2. Discussion of data sources and compilation procedures for public finance data in the Regional Statistical Office

Discussion and methodological analysis

The RSOH introduced their database system for the register of the reporting units for public finance on local government level. This includes all the reporting units, their legal forms, their sector classification and other characteristics (such as the owners' structure or their participation in other units).

Reporting units

The different types of reporting units were introduced:

1. Municipalities (*Gemeinde und Gemeindeverbände*) – main local government units, including their core budget and their special accounts and other units (*Sonderrechnungen*) – entities owned 100% by municipalities and not having legal status, such as quasi corporations. Gemeindeverbände are administrative districts and territorial units (NUTS 3 level units), of which 21 currently exist in the Region of Hessen.
2. The State government: core budget and special budgets.
3. Public Enterprises (founded according to public law)
4. Private enterprises (founded according to private law) where the participation of the state is more than 50%.
5. The RSOH explained that *Zweckverbände* (currently 284 in the Region of Hessen) are legal persons under public law. They operate under a statute adopted by the relevant supervisory authority. They have their own budgets, and are created by 2 or more municipalities to perform public tasks, such as water, waste or sewage management, etc. Out of the 284 entities, 158 are classified in the Local Government sector (using either "cameral" public accounting rules or a double entry accounting system – see below) and 126 are classified as non-financial corporations (for their own accounting they can choose between double entry bookkeeping or commercial accounting). They all have balance sheets.

The RSOH explained that according to the application of Destatis rules, those units whose revenue derives mainly (over 80%) from local government budgets are classified inside the local government sub-sector. This is possible to implement because of the availability of data on the breakdown of revenue coming from government and non-governmental units.

The RSOH also explained that municipalities have no legal obligation to inform the statistical office when they establish new units or abolish existing ones. The list of these units is therefore updated once new information becomes available from diverse sources such as administrative bulletins, publications, special magazines, and from investigations of unexplained patterns in reported time series.

The register of the reporting units for public finance on local government level in the Region of Hessen is physically the same as that in the register of Destatis and only the access rights to detailed information differ.

Data collection

Data collection is undertaken via an electronic questionnaire. 2 weeks before the end of the quarter (in the case of quarterly reporting) the RSOH sends letters to all reporting units on its register via a secure IT system, with a deadline of answering set at 2 weeks after the end of reporting period. These letters include the request for information together with instructions. The questionnaires are tailored to the different groups of reporting units to assist them with conversion from their own accounting systems.

The responses are sent via electronic system, along with a formal, standardised signed and stamped confirmation from nominated officials within each data supplier that the data are correct. This is the case even if the data are provided by an IT contractor.

In case of non-response, the relevant unit is reminded several times. In general this does not happen very often, since the units have a legal obligation to provide the data. In case there is no response after repeated reminders a fine may be levied on the relevant unit.

The received data is then imported into the "FIPS" database system which is used by all Länder. This system has built-in quality and consistency checks, and the data are also evaluated by the RSOH staff. In case of suspected problems, the reporting units are contacted for modifications (this is the case for a majority of reporting units). All modifications made to the data are documented in the system. This validation process usually takes around 2 months.

The data are then sent to Destatis (public finance unit) and are further checked. There could be questions from Destatis raised with the RSOH, especially on observed time series effects, if comparison to the overall trend in Germany shows discrepancies, which leads to an interaction between Destatis and the RSOH. After this, the data are finalized and sent to Destatis.

Breakdown of transactions

Eurostat enquired about the bookkeeping rules for Local Governments in Hessen. It was explained that in Hessen municipalities have a choice between an extended "cameral" accounting system and a double entry bookkeeping system. While the first system is cash based, it still gives account of depreciation and the value of total assets and liabilities. The RSOH explained that the majority of municipalities in Hessen (all except for two) have introduced double entry bookkeeping.

Nevertheless, quarterly reporting (Kassenstatistik) is still on a cash accounting basis, according to the Municipal Budget Ordinance (classification according to functions), binding to all municipalities. It was explained that this is the case because – unlike in Hessen – the majority of the municipalities in Germany as a whole have not yet introduced the new system. Therefore at the moment cash based data are regarded as a “least common denominator” of municipal finance statistics in Germany.

The annual data are requested in different formats depending on the bookkeeping rules used by the reporting unit. It is then provided to Destatis, which uses the data to arrive at a common national accounts basis.

Auditing of local government accounts

The budget accounts of municipalities are to be approved by the responsible supervisory authorities – auditing is compulsory for all municipalities. For municipalities having above 50,000 residents, auditing is obligatory from their own “*Rechnungsprüfungsamt*”. For those municipalities below 50,000 residents, not having their own “*Rechnungsprüfungsamt*”, the “*Rechnungsprüfungsamt*” of the county (Landskreis) undertakes the audit. In this case, the focus of audit is on borrowing and whether revenues are accounted in a timely and complete manner. The audit report is submitted to the municipality.

For quarterly reporting, the municipalities send data that have not yet been audited. Nevertheless, there are normally no changes in data before and after the audit process.

Borrowing of local government units

The RSOH explained that municipalities can borrow from whichever source they want, in any form, including the issuance of bonds or lending to each other. The data reported cover all these forms of financing. However, new forms of financing (such as Public Private Partnerships – see below) were not covered until 2009.

The RSOH undertook to provide more information to Eurostat on the differences between the deficit and the change in debt (stock-flow adjustments) for Local Governments in Hessen.⁵

Timetable

For the quarterly cash-based statistics, the questionnaires are to be returned to the RSOH 2 weeks after the end of the quarter. After the necessary checks, data are to be transmitted to Destatis 2 months after the end of the quarter. In practice this deadline is not respected, and there is usually a delay of around one week.

For annual data, the deadline for reporting to RSOH is 31st of January, but in practice there are commonly delays, in some cases of substantial length. This means that data are provided to Destatis only with some delay.

Availability of other adjustment item for national accounts

Eurostat enquired on the existence of primary data for some issues which are of crucial importance for making the necessary adjustments in national accounts.

Concerning *guarantees*, it was explained that local government units may provide guarantees (Bürgschaften). The data on stocks, and information on fees collected and calls are available. It seems that there are no debt assumptions by municipalities arising from calls on guarantees.

⁵ On 30 May 2011 the Hessen authorities provided Eurostat with the requested explanations.

Regarding *financial derivatives*, it was explained that under the current cash based system, the cash flows relating to these transactions are included with reported interest flows, and that the amendments in national accounts (by Destatis and the Bundesbank) are carried out only on federal and state levels but not on local government levels, as no suitable data are available across Germany. Nevertheless the RSOH explained that data on stocks of financial derivatives for 2010 would be available in a few weeks within collected debt statistics.

Public Private Partnerships (PPPs) exist on both state and local government level in Hessen. However, the definition of PPPs is not always clear and it could be that "PPPs" on local government level may not be PPPs in a statistical sense. Currently there is no reliable information on PPPs at local government level in Hessen. Information on PPPs has now been asked from municipalities for the first time.

Concerning *EU grants*, it was explained that the current data sources are not able to distinguish funds coming from the EU on a local government level, as these amounts are normally shown under income, whether coming from the federal or state government, and would only be identifiable in principle if they arrive directly to municipal budgets from the EU.

On *Debt cancellations*, the German authorities explained that they have information on loans granted by local government. However, in the current reporting system, if a loan is cancelled, only any related would be seen. The German authorities undertook to check in the "*Schuldenstatistik*" whether any further information is available on debt cancellations.⁶

Findings and Conclusions

Eurostat took note of the current arrangements and the separation of work between the Regional Statistical Office of Hessen and Destatis, the Federal Statistical Office. Eurostat appreciated the assistance and informative approach of the Regional Statistical Office of Hessen, and welcomed the comprehensive explanations provided through the meeting.

The colleagues of the Regional Statistical Office of Hessen agreed to provide further information to Eurostat on differences between the local government deficit and the changes in debt (stock-flow adjustments), and data availability on debt cancellations in the "*Schuldenstatistik*".⁴

⁶ On 30 May 2011 the Hessen authorities provided Eurostat the requested explanations.

List of participants of the first day

Name	Institution
1. Mr. Verrinder	Eurostat
2. Ms. Krenusz	Eurostat
3. Ms. Jurkoniene	Eurostat
4. Mr. Stewart	Eurostat
5. Mr. Braakmann	Destatis / National Accounts
6. Mr. Bleses	Destatis / Public Finance Statistics
7. Ms. Schulze-Steikow	Destatis / Public Finance Statistics
8. Mr. Müller	Destatis / Public Finance Statistics
9. Ms. Mödinger	Destatis / Public Finance Statistics
10. Ms. Kuschel	Destatis / National Accounts
11. Mr. Forster	Destatis / National Accounts
12. Mr. Schmidt	Destatis / National Accounts
13. Mr. Burgtorf	Central Bank
14. Mr. Hamker	Central Bank
15. Ms. Baumann	Ministry of Finance
16. Ms. Quaiser	Statistik Berlin-Brandenburg (Regional Statistical Office)
17. Ms. Seyer	Statistik Berlin-Brandenburg (Regional Statistical Office)
18. Ms. Hartwig	European Central Bank
19. Ms. Dietzel	Destatis / Interpreter

List of participants of the second day: Visit at the Statistical Office of Hessen – 6th May 2011

Name	Institution
1. Mr. Grün	Statistical Office of Hessen (Deputy Head of the office)
2. Mr. Rapior	Statistical Office of Hessen - Head of Public Finance Statistics Division
3. Mr. Buck	Statistical Office of Hessen Public Finance Statistics
4. Mr. Kimpel	Statistical Office of Hessen Public Finance Statistics
5. Mr. Rothermel	Statistical Office of Hessen Public Finance Statistics
6. Mses. Balsys Statistics	Statistical Office of the State of Hessen Public Finance
7. Mr. Verrinder	Eurostat
8. Mses. Krenusz	Eurostat
9. Mses. Jurkoniene	Eurostat
10. Mr. Stewart	Eurostat
11. Mr. Braakmann	Destatis / National Accounts
12. Mr. Bleses	Destatis / Public Finance Statistics
13. Mses. Schulze-Steikow	Destatis / Public Finance Statistics
14. Mr. Müller	Destatis / Public Finance Statistics
15. Mses. Kuschel	Destatis / National Accounts
16. Mr. Forster	Destatis / National Accounts
17. Mr. Burgtorf	Central Bank
18. Mr. Hamker	Central Bank
19. Mses. Baumann	Ministry of Finance
20. Mses. Quaiser	Statistik Berlin-Brandenburg (Regional Statistical Office)
21. Mses. Hartwig	European Central Bank

22. Mr. Neubauer

Destatis / Interpreter

Attending from the staff of the Statistical Office of Hessen:
Mr. Arikan, Mses Cil, Mses. Gernert, and Mr. Heidke.