



EUROPEAN COMMISSION
EUROSTAT

Directorate C: National and European Accounts
Unit C4: Statistics for Excessive Deficit Procedure II



Luxembourg, 26 October 2011

— FINAL FINDINGS —

EDP dialogue visit to Luxembourg

19 May 2011

Executive summary

An EDP dialogue visit to Luxembourg took place on 19 May 2011.

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to assure that provisions of the ESA95 Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in the Luxembourgish EDP and Government Finance Statistics (GFS) data.

First, Eurostat enquired about any changes in the institutional arrangements and division of responsibilities in the framework of the reporting of data under the EDP. Second, the quality and exhaustiveness of primary data sources and the corresponding accounting systems were discussed and issues relating to EDP tables raised in the context of recent notifications were clarified. Third, the progress achieved in implementing ESA 1995 methodology (sectorisation of units, accrual principles) was reviewed to assure that the provisions from the ESA 1995 Manual on Government Debt and Deficit and recent Eurostat decisions are duly implemented, and that specific government transactions are properly recorded in the Luxembourgish EDP tables and national accounts. Fourth, the delimitation of the Luxembourgish government sector and transactions with European institutions related to the construction of new premises for these institutions were discussed.

Particular attention was given to the recording of existing PPP projects, notably the PPP on schools in Mersch, as the division of responsibilities for this PPP differs from other PPP-type projects in Luxembourg.

Eurostat very much appreciated the openness and transparency demonstrated by the Luxembourgish authorities during the meeting. Eurostat thanked the Luxembourgish authorities for the documentation provided before the dialogue visit and for the cooperation demonstrated.

EDP dialogue visit to Luxembourg, 19 May 2011

Main conclusions and action points

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 Luxembourg on 19 May 2011.

Eurostat was represented by Mr. John Verrinder, Head of Unit C4, Statistics for Excessive Deficit Procedure II, Mrs Cecilia Pop, Mr. Gabe de Vries and Mr. Colin Stewart. Representatives of the European Central Bank (ECB) and DG ECFIN also participated in the meeting as observers. Representatives of STATEC (Service central de la statistique et des études économiques), the Ministry of Finance, the Inspection Générale des Finances (IGF), the Ministry of Interior, the Trésorerie and the Central Bank (Banque Central du Luxembourg – BCL) were present.

Eurostat carried out this EDP dialogue visit 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 discuss the quality and exhaustiveness of primary data sources, to clarify the issues relating to EDP tables raised in the context of previous notifications, to review the progress achieved in implementing ESA 1995 methodology (sectorisation of units, accrual principles), to assure that the provisions from the ESA 1995 Manual on Government Debt and Deficit and recent Eurostat decisions are duly implemented, and that specific government transactions are properly recorded in the Luxembourgish EDP tables and national accounts.

In relation to procedural arrangements, Eurostat summarised the procedure, in accordance with Article 13 of Regulation 479/2009, as amended, indicating that the *Main conclusions and action points* would be sent within days to the Luxembourgish statistical authorities, who may provide comments. Within months, the *Provisional findings* would be sent to the Luxembourgish statistical authorities 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 following points were discussed.

1. **Institutional arrangements and data sources**
 - 1.1. Institutional responsibilities and cooperation

Introduction

Eurostat enquired about the co-operation and division of responsibilities between STATEC, the IGF, the Ministry of Interior and the IGSS, as well as the role of the National Central Bank (BCL).

Discussion

Eurostat acknowledged the formalised cooperation between STATEC, the IGF, the Ministry of Interior and the IGSS. No changes had been made in the institutional arrangements and responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation. The formal responsibility of transmitting the data continued with IGF, though it has delegated the execution thereof to STATEC.

The Luxembourgish statistical authorities informed that no formal written 'cooperation agreement' between the relevant entities exists in Luxembourg. Eurostat explained the potential advantages of formalising the existing cooperation between these institutions through a written document.

It was also explained that the Luxembourgish Central Bank has a very limited role in EDP reporting and does not directly participate in the EDP compilation process; it provides data from financial institutions that are used in the EDP-compilation process.

On the accounting base (accrual/cash accounting), STATEC informed Eurostat that local government uses a cash accounting system presently. This will be changed into a hybrid system allowing for both a full dataset on a cash basis and a full dataset on an accrual basis. The latter will expectantly be based on Luxembourg GAAP and will become mandatory as of 2016. STATEC informed Eurostat that internal auditing is part of the new accounting legislation for local government; no mandatory external auditing, however, is included. In case of need, the Luxembourgish Court of Auditors (*Cour des Comptes*) could act as the external auditor.

Accounting for social security is on an accrual basis in Luxembourg.

Regarding the Luxembourgish state government, the existing accounting system is expected to continue: a cash based accounting system. Nevertheless, discussions on a possible improvement of the system are ongoing. No clear answer on the direction of the future amendments to the system can be given presently. Therefore, STATEC will continue collecting data on accounts receivable and payable for accrual-based national accounts.

Findings and conclusions

Eurostat took note of the institutional arrangements and responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation and the accounting systems applied by the various levels of government.

1.2. EDP inventory

Introduction

Eurostat asked whether the most recent changes have been incorporated in the latest available version of the EDP Inventory of sources and Methods.

Discussion

Eurostat welcomed STATEC's proposals for updating the existing EDP Inventory of sources and Methods. Eurostat indicated that further issues might be included in the updated EDP Inventory, for example concerning "other accounts payable/receivable".

Findings and conclusions

The following action point was agreed upon.

Action point 1.¹ STATEC will provide Eurostat with an updated version of the EDP Inventory for Luxembourg, notably for the "list of general government entities", compilation of "other accounts payable/receivable" and "taxes and social contributions" by 20 October 2011.

1.3. Financial accounts

Introduction

Eurostat welcomed the progress made in compiling financial accounts and the cooperation established between the relevant institutions.

Discussion

As data on accounts payable/receivable have become available, a full dataset for compiling financial accounts now exists. STATEC is cooperating with the BCL on this issue (also on the balance of payment). The main problem for financial accounts and balance sheets concerns the treatment of the large foreign banking sector in Luxembourg.

Findings and conclusions

STATEC is working to compile a full set of financial accounts back to the year 2000.

¹ Action point 1 is completed.

2. Follow-up of the of the previous EDP dialogue visit

2.1. List of action points (see action points)

Introduction

Eurostat acknowledged the completion of agreed actions by the Luxembourgish authorities. The sole remaining issue concerned the backward revision of the Government Finance Statistics data to the year 2000 to include data on "other accounts payable/receivable".

Findings and conclusions

The following action point was agreed upon.

Action point 2. STATEC will revise the Government Finance Statistics data back to the year 2000 to include data on "other accounts payable/receivable" for all years by 1 October 2011.

3. Follow-up of the latest EDP reporting – analysis of EDP tables and the related questionnaires

3.1. Table 1

Introduction

Eurostat had noticed different figures being published for central government and general government debt on the website of the Trésorerie and STATEC.

Furthermore, significant revisions of central and local government data, especially between the April and October notifications in year t+1, have arisen in the past from the use of data concerning expenditures and revenues as reported in the government budget statement. On the latter point, the Luxembourgish authorities have tried to make corrections in the April 2011 EDP notification.

Discussion

Concerning the data published by STATEC and the Trésorerie, the main cause of the difference was a delay in updating the website of the Trésorerie. Both STATEC and the Trésorerie agree on the accuracy of the debt figures as published by STATEC. STATEC and the Trésorerie will discuss the issue of updating government debt and deficit data in a coherent manner.

The statistical authorities lack timely data on government expenditures and revenues, and are aware of the bias in using data from the budget. This resulted in systematically overestimating the deficit (underestimating the surplus) as the budget is typically prepared from a prudent perspective. This normally results in expenditures lower than the amount in the budget, whereas revenues are normally underestimated. Eurostat enquired whether the use of monthly/quarterly data on a sampling basis might improve the existing procedure.

STATEC explained that no monthly data were available for all sectors and units; it is a mixed situation. The country's size makes a solution of this issue rather complex. Eurostat empha-

sised that the users of the data are especially interested in the April data, the first dataset after the year. STATEC mentioned that IGF is also studying the issue, which is especially important for GFCF. This issue is not only relevant in the framework of EDP- and GFS-reporting but internally as well. Eurostat welcomed the significant efforts of the Luxembourgish authorities to solve the issue. It was agreed to compile a note on the first conclusions on the 2010 data by October 2011.

The Luxembourgish authorities explained the revisions of data on social contributions. These revisions originated from the corrections of past errors in the reported data.

Findings and conclusions

The following action points were agreed upon.

Action point 3.² It was agreed that a possible misinterpretation of statistical data on government debt would be prevented by amending the presentation of the debt data on the website of the Trésorerie, and regularly updating the information.

Action point 4. The Luxembourgish authorities agreed to send a note on their experience in finding a solution for compiling first estimates of figures for the year t-1 which would reduce later revisions by 1 October 2011.

3.2. Table 2

Introduction

Eurostat, referring to the nature of the working balance of the various levels of government, asked for more precision of the labels used by the Luxembourg statistical authorities.

Discussion

STATEC explained the mixed character of the central government working balance, distinguishing between the core government unit and the special funds and further explained the absence of loans and debt cancellations. The Luxembourgish central government does not grant loans (within the country). Guarantees and the corresponding debt cancellations only exist for student loans (that have been granted by banks). The effect of these debt cancellations is included in the working balance of government.

STATEC confirmed that the interest amounts receivable/payable are included in the general lines 'Other accounts receivable' and 'Other accounts payable' whereas no data are reported on the dedicated line 'Difference between interest paid (+) and accrued (EDP D.41)' of table 2. Eurostat advocated in favour of a change in the presentation.

The accounting system within the local government subsector differs between the municipalities on the one hand and the municipal establishments and reserve funds on the other. As the latter, however, are not included in the local government working balance (reported under 'Net borrowing (-) / lending (+) of other central government bodies' and 'Other ad-

² Action point 3 is completed.

justments') the corresponding working balance's label should refer to the municipalities only.

It was agreed that the working balance of Local Government should be labelled as 'cash' instead of 'mixed'.

Findings and conclusions

The following action points were agreed upon.

Action point 5. STATEC will report the payable amount of interest under the dedicated line in table 4.2.2 of the EDP related questionnaire instead of using the general line 'other accounts payable'.

Action point 6.³ The Luxembourgish government will relabel the nature of the local government's working balance into 'cash based' (instead of 'mixed') with the October 2011 notification.

3.3. Table 3

Introduction

Under this point of the agenda, the main discussions focussed on "other accounts payable/receivable" and the existence of guarantees granted by local government.

Discussion

Eurostat thanked the Luxembourgish authorities for their note on the data source for the "other accounts payable/receivable".

STATEC informed Eurostat that cash payments in the months January – March concerning transactions related to the previous year were carried backward and included in the data for the previous year. Eurostat noted that the payment delays for Gross Fixed Capital Formation (GFCF) could vary by contract. A time adjustment procedure as currently applied by the Luxembourgish statistical authorities, therefore, would be expected to produce a satisfactory result for intermediate consumption, whereas the results for GFCF and some other classes of transactions might be less satisfactory.

STATEC informed Eurostat that only a small number of guarantees exist. For central government these exist for two companies (for € 2.5 billion) and for student loans. STATEC agreed to check the data on guarantees notified in the EDP-questionnaire.

The Luxembourgish authorities will investigate the possible existence of guarantees by local government. The Luxembourgish authorities mentioned the existence of intra-subsector guarantees, which are irrelevant for the EDP notification.

³ Action point 6 is completed.

Findings and conclusions

The following action points were agreed upon.

Action point 7. The Luxembourgish authorities agreed to send a note to Eurostat on the possible need for specific accruals adjustments for some government capital projects by 1 October 2011.

Action point 8. The Luxembourgish authorities agreed to provide information to Eurostat on the possible existence of guarantees granted by local government, by 1 October 2011.

Action point 9. The Luxembourgish authorities will seek to further break down the reporting of data on other accounts receivable and payable in tables 4.1.1 and 4.1.2, and will consider the treatment of any entries relating to statistical discrepancies, by 1 October 2011.

3.4. Table 4

No issues discussed.

3.5. Questionnaire relating to the EDP-tables

No issues discussed.

3.6. Questionnaire on the financial turmoil

No issues discussed.

3.7. Questionnaire on inter-government lending

Introduction

Eurostat thanked the Luxembourgish authorities for sending the data according to the Questionnaire on intergovernmental lending. The issue of fees or commissions on the loans granted to the Greek government was discussed.

Discussion

Eurostat mentioned that diverging data were reported by various governments which were due to fees or commissions relating to these loans. The existence of such fees or commissions was known to the Luxembourgish statistical authorities and data were available. The question whether these fees or commissions are included in the inter-government lending table was clarified the day after the visit via telephone.

Eurostat inquired on the bilateral loan to the Luxembourgish government that had been reported by the Belgian authorities in April 2011. This loan, according to the Belgian notification, related to the former Icelandic bank Kaupthing. The Luxembourgish authorities were not aware of a loan from the Belgian government to the Luxembourgish government as it has been classified as a direct loan to the Kaupthing Bank by the Belgian government'

Findings and conclusions

The following action points were agreed upon.

Action point 10.⁴ STATEC will inform Eurostat of the treatment of fees or commissions in the reported bilateral loan to Greece by 1 July 2011.

Action point 11. The Luxembourgish authorities will investigate the existence of an inter-government loan from Belgium relating to the former Icelandic bank 'Kaupthing' and a note on the issue will be sent to Eurostat before 1 September 2011.

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government

Introduction

Eurostat mentioned that a continuously updated list of government entities is essential to arrive at correct figures for the government deficit and debt.

Discussion

STATEC confirmed that it updates the list of government units continuously. It was noted that there is a second (different) list available on the website of the Trésorerie. The Luxembourgish authorities agreed to coordinate both lists of government entities.

STATEC answered to a corresponding question of Eurostat that quasi-corporations are very exceptional in Luxembourg. In the past, "P&T" was the main exception (it is a limited company now). Some other small units are public legal entities. They are predominantly classified in sector S.11.

The list of government units is established by STATEC and can be used by BCL in their statistics as soon as procedural and technical issues have been solved. .

During a discussion on the classification of CFL (the State-owned railway company), STATEC presented an overview of CFL financial data and explained the existence of conventions between transport companies and the State for payment of State contributions. These contributions were paid to CFL and private sector companies according to an identical yardstick. Additionally, it was mentioned that the railway infrastructure (the tracks and the railway station buildings) is legally government property through the Railway Fund (part of the central government subsector).

CFL consists of two companies, respectively for passengers and for freight; the board of both entities, however, is the same, as are the shareholders. The companies' staffs work together. Revenues come from the sale of tickets (passengers and freight), contributions/subsidies of government (passengers only) and from the maintenance work CFL manages/undertakes on behalf of government. The subsidies of government are identical for railway transport and

⁴ Action point 10 is completed.

bus transport, independently of whether they are paid to a public or private owned bus company.

Eurostat indicated that the figures for CFL seem to differ from those in the annual report of CFL. STATEC agreed to make available the STATEC figures for CFL to Eurostat and to explore the differences between both data sources.

Findings and conclusions

The following action points were agreed upon.

Action point 12.⁵ The Luxembourgish authorities agreed to send a detailed overview of the income and expenditure of CFL, and a representative example of a convention, by 15 June 2011.

Action point 13. The Luxembourgish authorities agreed to send a note to Eurostat explaining the differences between the STATEC list of general government units, and other lists of such bodies, by 1 September 2011.

4.2. European Institutions buildings

Introduction

All parties agreed on the relevance of examining the drafting of the contract between the European Commission and the Luxembourgish government, for the statistical analysis of the deficit and debt impact of construction of new European Institutions' buildings in Luxembourg. Eurostat indicated that a discussion with the relevant Commission DG (OIL) had taken place recently.

Discussion

STATEC mentioned that a distinction between the older buildings and the more recently built offices is important. The older ones were built under a lease contract and have generally been purchased by the relevant European institution on maturity of the lease contract. In more recent cases the ownership has been transferred to the relevant EU institution with the Luxembourgish state guaranteeing the corresponding loan, and therefore no gross fixed capital formation (GFCF) is recorded for the Luxembourgish government in these cases.

An extensive discussion took place on the transactions to be recorded concerning the development of new European Institutions buildings in Luxembourg, and in particular for the future construction of the "Jean Monnet 2" building. Eurostat emphasised the importance of STATEC obtaining all necessary information to make its statistical analysis of the case.

In the contract, at least two phases can be distinguished:

- The sale of the land to the European institution:
After the legal sale the economic property remains with the Luxembourgish government until completion of the building;

⁵ Action point 12 is completed.

- The construction of the building:
If a European institution in fact is deciding on the (detailed) elements of the building process and its progress, even whilst the Luxembourgish government is formally responsible for the project, economic ownership should be allocated to the relevant European institution already during the building phase. In this situation, there would be no impact on net lending/borrowing (B.9) for the Luxembourgish government (the corresponding GFCF is recorded for the European institution). On the other hand, Luxembourgish government debt would be impacted, with a corresponding claim of the Luxembourgish government on the relevant European institution (as an other account receivable, AF.7).

Concerning the draft contract for the JMO 2, the Luxembourgish authorities confirmed the strong and detailed involvement of the relevant European institution during the building phase and the obligation to buy the property after its completion.

Given that negotiations were continuing between the Luxembourgish government and the EU institutions, no final decision was taken on the statistical recording of the Jean Monnet 2. The Luxembourgish authorities undertook to analyse the draft framework contract, taking on board the discussion in the meeting, and draw up a recording proposal on the treatment of the transactions in line with the (draft) contract.

Findings and conclusions

The following action point was agreed upon.

Action point 14.⁶ STATEC will analyse the framework contract for the construction of the Jean Monnet 2 building and will draw up a recording proposal, informing Eurostat.

4.3. Accrual accounting (esp. local government debt and central government assets) including so-called 'coupon payments'

Eurostat took note that the main issue here is the transformation of local government interest flows from cash to accrual. The corresponding amount, however, is of limited size.

4.4. Fonds de Compensation (FdC)

Introduction

Eurostat had noticed that the FdC is investing large sums on behalf of the Luxembourgish social security sector.

Discussion

The 'Fonds de Compensation' (FdC), classified in sub-sector S.1314, is the common investment vehicle of the Luxembourg social security subsector, that invests the surpluses of the

⁶ Action point 14 is completed.

participating funds through a dedicated "Sicav". Eurostat and the Luxembourg authorities discussed the main classification and recording issues of the "SICAV". It was noted that the classification of the "SICAV" would have no impact on government deficit and debt figures (unless it has investments in government debt).

STATEC mentioned that, by convention, the corresponding "Sicav" is not included in the social security subsector, following an interpretation of the ESA95 that was discussed in the GNI Committee. STATEC, however, indicated its view that the Sicav should be considered as an auxiliary entity, and should therefore be merged with the FdC.

STATEC asked whether comparable structures existed in other countries and their treatment in national accounts and EDP/GFS.

Findings and conclusions

The following action points were agreed upon.

Action point 15.⁷ Eurostat will investigate whether comparable funds exist in other countries how they are classified and report back to STATEC by 15 June 2011.

Action point 16.⁸ Eurostat colleagues will be made aware of possible classification issues relating to Sicav-type structures under ESA2010.

4.5. Public private partnerships

Introduction

The Luxembourgish government participates in 18 PPP, or PPP-like structures, of which the largest 10 are mentioned in the Questionnaire relating to the EDP-tables. The assets of all PPPs are classified inside government. With the exception of the 'Campus scolaire de Mersch', all risks are with government and government guarantees the projects.

Discussion

With regard to the 'Campus scolaire de Mersch' PPP, the school buildings are to be used by government. It was questioned whether government or the private partner bears the availability risks. Accordingly, the statistical classification of the assets should be decided upon.

Findings and conclusions

The following action point was agreed upon.

Action point 17.⁹ The Luxembourg authorities will send a copy of the contract for the Campus scolaire de Mersch PPP to Eurostat by 1 July 2011.

⁷ Action point 15 is completed.

⁸ Action point 16 is completed.

⁹ Action point 17 is completed.

4.6. Government guarantees

The Luxembourgish authorities indicated that it is unlikely that guarantees are granted by local governments.

Findings and conclusions

The following action point was agreed upon.

Action point 18. The Luxembourgish authorities will verify that no guarantees are granted by local governments by 1 July 2011 and inform Eurostat.

4.7. Debt cancellation and general government transactions in loans/bonds with third parties

The Luxembourg authorities indicated that debt cancellation and loans granted to third parties do not exist in Luxembourg apart from those concerning student loans. Internationally, only the so-called intergovernmental lending exists.

4.8. Taxes and social contributions

Discussion

STATEC explained that it presents net figures for 'other accounts receivable/payable' concerning taxes. Eurostat asked that data for the full time series be entered into the relevant questionnaire table.

Findings and conclusions

The following action points were agreed upon.

Action point 19. STATEC will complete table 5 of the questionnaire relating to EDP with data for taxes and social contributions back to 1995.

Action point 20. STATEC will update the Luxembourg questionnaire on taxes and social contributions at the time of the next deadline for sending it.

4.9. Carbon trading

Eurostat explained the ongoing work on statistical recording of emission permits. The Luxembourg government has not – as yet - auctioned such permits.

5. Other issues (transmission of GFS data etc.)

5.1. Transmission of GFS-tables

No issues were discussed under this point.