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EUROSTAT

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

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## **- FINAL FINDINGS -**

### **EDP dialogue visit to Luxembourg**

**20 November 2006**

## Executive Summary

The EDP dialogue visit to Luxembourg took place on 20 November 2006 with the aim to assess 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 review the progress achieved in implementing ESA 95 methodology (sectorization of units, accrual principles), to assure that provisions from the ESA95 Manual on Government Debt and Deficit and recent Eurostat decisions are duly implemented and that specific government transactions are properly recorded in the EDP tables, and, finally, to examine the compliance with the ESA95 transmission programme tables and the consistency of these data with EDP statistics (as requested by the Regulation (EC) 3605/1993, as amended).

First, Eurostat discussed with the Luxembourg authorities the institutional arrangements and source data used for the compilation of government finance statistics, and found that the arrangements are solid and well established.

As far as the analysis of the October 2006 EDP notification is concerned, Eurostat examined in detail the tables of the EDP reporting. Eurostat concluded that an additional effort is required to make the EDP reporting of Luxembourg more complete, especially the tables of the *questionnaire related to the notification tables*. Eurostat drew the attention of Statec on a pattern of noticeable revisions exhibited in the EDP data for LU.

The follow-up of Council Regulation 2516/2000 and the recording of other transactions on an accrual basis were discussed. Eurostat concluded that the accrual principle seemed generally respected in Luxembourg and took note of the existing and specific compilation methods for VAT and company income tax.

As regards the other accounts payable/receivable item, which has not been reported to Eurostat so far, the LU authorities agreed to make further improvements and to provide figures by the time of October 2007 EDP notification.

The implementation of the recent Eurostat's methodological decisions and compliance with the rules given by the ESA95 Manual on Government Deficit and Debt were discussed, as e.g. the treatment of capital injections, debt assumptions, debt cancellations, state guarantees, military equipment expenditure, PPP projects. It was noted that these are in line with the decisions taken by Eurostat.

Concerning the ESA95 transmission programme, Eurostat noted that LU has not delivered annual financial accounts (ESA tables 6 and 7), despite the expiration of all derogations in 2005. The LU authorities promised to send ESA tables 6 and 7 for the sector general government in the course of the year 2007<sup>1</sup>. The other receivable/payable figures will be included in ESA table 27.

The meeting was constructive and Eurostat welcomed the well structured and comprehensive approach to EDP related work. Eurostat also appreciated the additional documentation provided in the meeting by the Luxembourg authorities.

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<sup>1</sup> Luxembourg submitted ESA tables 6 and 7 for the general government sector only, for years 1995-2005 in November 2006.

## **Final findings**

### **1. Introduction**

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005, amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in Luxembourg on 20 November 2006.

The delegation of Eurostat was headed by Mr. Nørlund, Director of National and European Accounts. DG ECFIN and the European Central Bank (ECB) also participated in the meeting as observers. The Luxembourg authorities were represented by STATEC, the Ministry of Finance, the *Inspection Générale des Finances* (IGF), the *Inspection Générale de la Sécurité Sociale* (IGSS), the Ministry of Interior, the *Trésorerie de l'Etat* (Treasury) and the Central Bank of Luxembourg. 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 review the progress achieved in implementing ESA 95 methodology (sectorization of units, accrual principles), to assure that the provisions from the ESA95 Manual on Debt and Deficit and recent Eurostat decisions are duly implemented and that specific government transactions are properly recorded in the EDP tables, and, finally, to examine the compliance with the ESA95 transmissions programme and the consistency of these data with EDP statistics (as requested by Regulation (EC) 3605/1993, as amended).

### **2. Statistical capacity issue**

#### *Introduction*

Eurostat inquired about the institutional arrangements and division of responsibilities in the framework of the reporting of data under the EDP and government finance statistics.

#### *Discussion*

The LU authorities gave an account of the institutional arrangements in place for the EDP reporting. EDP statistics are compiled by Statec and the official reporting authority is IGF, which is sending the tables to the European Commission. Although there is no formal cooperation agreement between the bodies providing source data, the Statec, IGF and IGSS discuss issues on an ad hoc basis. In case a difficult methodological issue is discussed, both IGF and Statec would be involved, although the final decision will be taken by Statec. It was also noted that, following IGF's initiative, it is foreseen to establish a more formal working group comprising IGF, IGSS, the Ministry of Interior and Statec.

The October 2006 EDP notification was delivered late by Luxembourg: the EDP tables and the *questionnaire related to the notification tables* were sent after the deadline (3 and 5 October respectively). It was observed that the delivery of the forecast data and the actual data had been carried out separately, which was not practical for Eurostat. Statec noted a need for political approval of the fiscal forecasts embodied in the EDP tables, which created some unintended delays. Eurostat noted that forecasts are also stored in its EDP database, and are thereafter reported notably in the Eurostat note on the EDP notifications results to the Economic and Financial Committee.

The LU authorities explained that in October 2006, the EDP notification was sent late due to last minute budget returns that were incorporated in the notification. It was also explained that the statistical authorities are going to continue sending the actual and the forecast data separately, although the deadline will be respected.

Statec noted a noticeable reinforcement of its capacity in government finance. The fiscal team, which is located in the national accounts unit of 10-11 staff, rose within 4 years from zero to three staff.

### *Findings and conclusions*

Eurostat took note of these explanations and found that the arrangements seemed solid and well established. Eurostat encouraged the LU authorities to consider the merits of the formalisation of these institutional arrangements. Additionally, Eurostat requested the LU authorities to strictly respect the transmission deadline for the EDP tables' delivery.

## **3. Data source issues**

### *Introduction*

Eurostat enquired about the exhaustiveness, timeliness and consistency of data sources used in the compilation of the government finance statistics.

### *Discussion*

The LU authorities provided detailed information on data sources and availability. The LU authorities welcomed the postponement of the EDP notifications by one month decided by Council Regulation 2103/2005, since it ensures the consistency of their data with other reported figures. The main data sources providers are the Ministry of Finance, IGF, IGSS, the Treasury and the Ministry of Interior.

As regards data sources for central government, it was reported that figures for the "State" are taken from the budget (planned) and from general accounts (that is, the budget as executed). The source of these data is the Treasury. Concerning public establishments, there might be a substantial delay in obtaining the figures owing to a reluctance of some of these bodies to provide the data. The LU authorities distributed a document updating the list of bodies belonging to central government.

As regards data sources for local government, the Ministry of Interior is the data provider, and it provides municipalities' data to Statec by the end of February. The data provided at that time are incomplete and do not include all communities (the small ones report usually late). Municipalities' final accounts are available after 18/20 months. The Ministry of Interior has no legal means to force local authorities to report on time.

Concerning the social security funds sub sector, the LU authorities explained that all the data provided by IGSS are detailed enough to provide EDP table 2D, but a problem subsisted on what could be the possible working balance to be chosen, as it is not published by IGSS. Nevertheless, Statec decided to chose as working balance the figure aggregating the published accounts. IGSS has access to the internal accounting systems of social security funds.

Eurostat took note of the LU authorities' explanation regarding the revision policy in national accounts and in fiscal accounts. The national accounts data are subject to a benchmark

revision every 5 years (next revision foreseen in 2010). Every October the figures of the four previous years are revised. Eurostat noted a pattern of noticeable revisions in the EDP data notified by LU.

As an example, in 2002–2005, some large revisions originated from VAT reimbursements, company income taxes and tobacco duties. A large VAT reimbursement in 2005 was allocated to previous years, in application of the "caisse transactionalisée" recording (see below item 5.3). The company income tax was also affected by a large operation with a company that asked to pay its due amounts in anticipation (in 2005 instead of in 2006), as it has the right to do so (see below item 5.3). Eurostat noted that the company in question was not a public company. Statec pointed out that this latter issue reflected mainly the "little country" phenomenon, where individual transactions occasionally lead to noticeable impacts on macroeconomic data, rather than the impact of the tax compilation method. Modalities of the tobacco duties administration were changed, with duties now payable at the moment of sale on the market, and not at the moment of purchase of the "stamp".

#### *Findings and conclusions*

Eurostat took note of these explanations and found that the situation is generally sound, and improvements on the way are encouraging. Eurostat drew the attention of Statec on a pattern of noticeable revisions exhibited in the EDP data for LU.

### **4. Analyses of the EDP tables and EDP related questionnaire**

#### *Introduction*

Eurostat reviewed the EDP tables as they were reported in October 2006 together with the *questionnaire related to the notification tables*. Some issues related to an absence of data in ESA and EDP tables were discussed and agreed.

#### *Discussion*

Concerning table 2A, it was explained that the working balance is obtained from budget figures and that, separately, EDP B.9 is compiled based on detailed public accounts, for the purpose of the ESA table 2 calculations notably. The LU authorities agreed to remove, from the other adjustments, the "SES" line, since no correction is necessary anymore as far as this item is concerned.

Concerning table 2C, Statec compiles the working balance from the data received from the Ministry of Interior. The LU authorities indicated that the high amounts of loans are related to central government borrowings, and agreed that these items would be moved to the line "other financial transactions". Concerning the "correction of estimates of investment expenses", Statec explained that this line is included for the year n-1 because the statistical authorities have to adjust, at the moment in which the EDP notification is compiled, the working balance to the investments realized, as these are usually only 50% of the planned total. Eurostat took note that the n-1 data for the working balance of local government in March and October is essentially a forecast. This line disappears in the following year, since the realization is then known and the working balance is adjusted.

Concerning the coverage of the EDP tables, the LU authorities committed themselves to send EDP table 2D in the next EDP notification, and promised to provide data on other

payables/receivables by the second notification in 2007. The LU authorities also promised to send a questionnaire on pension funds, which they have not sent to Eurostat yet.

As regards EDP table 3, Eurostat noted that the fact that LU does not report "other payables/receivables" is a situation unique in Europe. This forces Eurostat to put these amounts in the statistical discrepancy, which makes LU having one of the biggest discrepancies in Europe. The LU authorities acknowledged this and promised to include "other payables/receivables" by the October 2007 EDP notification.

As regards table 3B, it was confirmed that the noticeable decrease in "currency and deposits" in 2005 largely relates to VAT reimbursements. It was also explained that the movements in equity in 2004 and 2005 relate to the Arcelor convertible bonds and the SES shares buy-backs operations.

Concerning table 3C, it was stated by the LU authorities that they are not able to report the split between loans increase and decrease due to lack of data. This is also true of EDP table 3E (social security funds).

As regards table 4, the LU authorities promised that they are going to provide information in the future.

#### *Findings and conclusions*

Eurostat concluded that an additional effort is required to make the EDP reporting of Luxembourg more complete and that Local government data for the previous year are largely based on forecasts in March and October.

### **5. Main methodological issues**

#### 5.1. Delimitation of General government sector

##### *Introduction*

The LU authorities provided an updated list of entities included in the General Government sector.

##### *Discussion*

Currently, Central Government includes ministries, the legislature, the monarchy, 32 special funds and, 29 public establishments. Local Government is composed of 116 municipalities, communal administrations and various inter-communal associations. Social Security Funds includes 19 social protection entities. It was noted that the LU authorities review the delimitation of general government issue from time to time and monitor it regularly.

##### *Findings and conclusions*

Eurostat concluded that, at this time, there are no outstanding methodological issues in this respect.

#### 5.2. Implementation of accrual principle

##### *Introduction*

LU does not report other accounts receivable payable in EDP Tables 3.

### *Discussion*

The LU authorities explained that they are not able to provide a complete other receivable/payable line and that they would not like to send incomplete figures. In contrast, Eurostat suggested reporting other receivables/payables even partially, on a best effort basis, for those amounts that are known, such as tax receivables etc, as this is a common practice among many other Member States. This would at least enable Eurostat to monitor the size of these well identified transactions. However, the LU authorities expressed some reluctance to provide the data on a partial basis.

### *Findings and conclusions*

It was agreed that the LU authorities will provide other receivables/payables figures by the second EDP notification of 2007.

## 5.3. Taxes and social contributions

### *Introduction*

The main focus was on the VAT and company taxes, which were discussed in detail with the representatives of the tax administration.

### *Discussion*

It was explained that most taxes are recorded on an accrual basis.

Concerning VAT, it was explained by the LU authorities that they use the "caisse transactionalisée" concept. The "caisse transactionalisée" involves moving backwards each cash flow on tax received to the year of origination of the tax obligation. The LU authorities consider that such a method follows a pure accrual basis and is an acceptable modality of the time adjusted cash method, one of the two methods envisaged by Council and Parliament Regulation 2516/2000. Eurostat noted that this method implied that tax figures are revised all the time. However, Statec announced that, from the next year onwards, the revision period will *de facto* be limited to 5 years.

Concerning the company tax, the Ministry of Finance explained that these taxes are determined when the assessment is made by the tax administration, which can take up to 5 years. The statistical authorities record these transactions at the moment of the assessment, for the measurement of the government deficit. It was noted that tax payers report their tax returns in March of each year. Eurostat wondered whether such a long time lag was in the spirit of the accrual principle, given that the obligation to pay exists at time of profit earned and is estimated with some accuracy within the tax returns in March. It also wondered to what extent changes in administrative processing time of these returns could substantially affect the deficit from one year to the other. The Statec noted that there seemed to be some difficulty in collecting information on tax return and pointed out that the final amount of tax obligation is known only after the final assessment.

Eurostat noted that the the LU authorities did not provide table I of the *questionnaire related to the notification tables*, that reports transactions and stocks of tax receivables, and asked the

LU authorities to send this table in the next EDP notification, as the relevant data seems to be available.

#### *Findings and conclusions*

Eurostat took note of the recording methods of the VAT and of the company tax. Eurostat felt that the method for VAT implemented full accrual but implied noticeable revisions in the data. Eurostat indicated a need to reflect on the company tax. The LU authorities promised to fill in table 1 of the *questionnaire related to the notification tables* by the October 2007 notification.

#### 5.4. Interest

##### *Introduction and discussion*

As regards interest, the LU authorities distributed a document during the meeting, which has to be investigated in detail by Eurostat.

##### *Findings and conclusions*

Eurostat will analyse this document and may require additional information.

#### 5.5. Recording of specific government transactions

##### *Introduction*

Eurostat enquired about the implementation of the recent Eurostat's methodological decisions and compliance with the rules given by the ESA95 Manual on Government Deficit and Debt, as regards the treatment of capital injections, debt assumptions, debt cancellations, state guarantees, military equipment expenditure, PPP projects, etc.

##### *Discussion*

Concerning EU flows, the LU authorities indicated that they consider that they are mostly implementing Eurostat's decision on the recording of EU grants. As regards State guarantees, debt assumptions, debt cancellations, and debt write-offs, the LU authorities provided information during the meeting. There has been no call on guarantees in 2005.

Concerning Public Private Partnerships, the document distributed by the LU authorities contained updated information. Eurostat acknowledged that Statec is following the Eurostat's decision on the recording of PPPs. The LU authorities promised to send a note in January 2007 concerning the PPP project for a building of the Court of Justice, as it had been previously promised during the April 2006 EDP notification, including the impact on the VAT recording.

As regards capital injections, Eurostat examined the document distributed by the LU authorities and found no contentious issues. Concerning the superdividend paid by Arcelor to the LU government in 2006 (the ownership of the LU government in Arcelor is 5.6%), the LU authorities explained that this will not be recorded (in the national accounts) within the financial accounts, and instead it will be recorded as government revenue with an impact on the government deficit, since Arcelor is mainly a private company and government cannot noticeably influence its management. Thus, according to Statec, the provision of the Manual on Government Deficit and Debt would not be applicable. Furthermore, the LU authorities



indicated that the dividends paid in 2006 do not exceed the operating profit of the previous year and that the dividend/profit ratio in 2006 is very close to the one of the year 2005 (58.8 percent and 59 percent respectively), owing to a large increase in Arcelor's profits in 2005.

The LU authorities confirmed that there are no privatisation and securitisation operations at the moment.

Concerning military equipment expenditure, the LU authorities confirmed the information provided in the inventory. They added that the prepayments in connection to a transport plane to be purchased started in 2005, and – according to the Eurostat decision – the acquisition will be recorded as government expenditure in 2017, at the moment of delivery. Payments made in the meanwhile will enter the financial accounts. Eurostat took note of this very long time lag between payments and deliveries.

As regards carbon trading rights, the LU authorities described the establishment of a Kyoto fund, classified inside general government. This fund has already purchased participations in bodies sponsored by international organizations responsible for implementing projects in third countries under the flexibility mechanisms of the Kyoto Protocol. These purchases were recorded as current expenditure (D.74 *current international cooperation*). The fund may later intervene on the EU market for carbon emission allowances. Eurostat mentioned that in the forthcoming Financial Accounts Working Party a methodological note on this issue will be discussed.

#### *Findings and conclusions*

It was noted that the treatment of the aforementioned government transactions is in line with Eurostat's decisions.

As regards PPP issues, the LU authorities will send a note concerning the building of the Court of Justice in January 2007.

## **6. Other issues**

### *Introduction*

The compliance with the ESA95 transmissions programme and the consistency of these data with EDP statistics (as requested by the Regulation (EC) 3605/1993, as amended) was examined.

### *Discussion*

Eurostat noted that the ESA95 Transmission programme tables of Luxembourg are consistent with EDP tables. However two outstanding issues remain.

First, the LU authorities do not transmit annual financial accounts (ESA table 6 and 7), which they have a legal obligation to send since 2005, when all derogations expired.

Second, concerning ESA table 27, it was also noted that the LU authorities do not report the item "other payables/receivables".

### *Findings and conclusions*

Statec promised to send ESA tables 6 and 7 in the future<sup>2</sup>. Nevertheless, the LU authorities promised to provide the financial accounts for general government by the October 2007 notification.

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<sup>2</sup> Luxembourg submitted ESA tables 6 and 7 for the general government sector only, for years 1995-2005 in November 2006.