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## **FINAL FINDINGS**

EDP dialogue visit to Denmark  
18 September 2006

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Final findings

**Executive summary**

Eurostat undertook an EDP dialogue visit to Denmark on 18 September as part of its regular visits to Member States and with the more specific aim to solve problems identified in the April 2006 notification, in particular capital injections at the level of central and local government, the recording of loans in EDP, flows of receivables and payables and the completion of the "*questionnaire related to EDP tables*".

Concerning capital injections, Eurostat had raised the issue of substantial capital injections into quasi-corporations and other public corporations (mainly local utilities) already in the April 2006 notification. It was then agreed to reclassify capital injections undertaken by government into the corporation Bane Denmark, hitherto recorded as transactions in equity, as capital transfers, as Bane Denmark had been unprofitable for many years. However, as full information on the nature and size of all injections at the central and local level could not be supplied at that time, the issue was partly left open. Furthermore, inconsistencies were identified between the relevant figures for equity injections in EDP tables and in the *questionnaire related to EDP tables*.

In the meeting the equity injections both at central and local level were discussed, based on information provided by the Danish authorities including the profitability of the concerned corporations over the last years, and the amount of equity injections by government in the same corporations. There was also a lengthy discussion about the classification of public entities in Denmark, all reported to be quasi-corporations by the Danish authorities.

Following the conclusions in the meeting, Eurostat requested that all injections in (permanent) loss-making public corporations should be reclassified as capital transfers and that the Danish authorities would intensify the follow-up of quasi-corporations in the future, in order to see whether such a classification is appropriate. In parallel, Eurostat requested the Danish authorities to investigate in detail the basis for recognizing quasi-corporations at both central and local level. If needed, the issue may be discussed in the Financial Accounts Working Group (FAWG) or in other fora.

Concerning the recording of loans, the Danish authorities clarified in the meeting that no loans were included in "other financial transactions" in EDP tables 2.

Concerning the large flows of receivables and payables in EDP tables, it was concluded that the Danish authorities were currently not in a position to fully identify the composition of the flows due to flaws in the data base (coding problems). Eurostat held the view that undocumented flows should be classified as statistical discrepancies ("difference between capital and financial accounts") and should not be included under "other financial transactions" or "net incurrence of other liabilities" as it is the case today in EDP table 3B, and furthermore be classified as "other adjustments" instead of "other financial transactions" in EDP table 2A. The Danish authorities expect this problem to be solved when a new database, identifying all non-financial transactions, will be put in place in the beginning of next year.

As far as the completion of the *questionnaire related to EDP tables* is concerned, Eurostat concluded progress both in terms of coverage and content since the April 2006 notification. Eurostat expects however still some further improvements in the coming months.

Concerning the EDP tables, a range of actions were agreed in the meeting: The Danish authorities were requested to come back to Eurostat on the nature and sign of the adjustment made for "run-off on defined plans" in table 2A, by providing a table for all commitments and payments made in 2002-2005<sup>1</sup>. Furthermore, Eurostat requested that the item "sector delimitation" should be split and moved from "other adjustments" to the lines "net borrowing or net lending of State entities not part of central government" and "net borrowing or net lending of other central government bodies" as appropriate in table 2A, and that in table 2C the Danish authorities would split the amounts for the items "corrections in relations to quasi-sector" and "acquisitions of ownership shares and other financial transactions", and additionally enquire on their appropriate sign.

Finally, Eurostat concluded that in case the Danish authorities would decide to submit two different notifications (one including and one excluding ATP) also in the October 2006 notification, Eurostat would request an accompanying table explaining the methodological differences between EDP and ESA95 national accounts tables.

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<sup>1</sup> This information was sent to Eurostat shortly after the mission including corrected figures

## **Final findings**

### **Introduction**

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005, amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in Denmark on 18 September 2006.

The delegation of Eurostat was headed by Mr. Nørlund, Director of National and European Accounts. The European Central Bank (ECB) also participated in the meeting as observer. The Directorate General for Economic and Financial Affairs (DG ECFIN) was excused. The Danish Authorities were represented by the Statistical Office, The Ministry of Finance and the Central Bank.

Eurostat carried out this EDP Dialogue visit with the aim to solve problems identified in the April 2006 notification and in particular equity injections at the level of central and local government, the recording of loans in EDP, flows of receivables and payables and the completion of the "*questionnaire related to EDP tables*".

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

#### **1) Examination of EDP tables and follow up of identified problems in the April 2006 notification**

##### *Introduction*

Denmark has, in recent years, sent two different versions of the EDP notifications, one including and one excluding ATP (the funded pension scheme) in government. As Denmark has informed Eurostat that they are taking advantage of the temporary derogation granted for delaying the application of the Eurostat decision of 2 March 2004 on the classification of funded pension schemes, the notification including ATP has been the basis for the validation of Eurostat. The discussion in the meeting was therefore based on the draft EDP October 2006 notification tables, submitted by the Danish statistical authorities, including ATP in government. The Danish authorities announced that they did not expect revisions to the draft notification, except those that might come up from the meeting.

##### Table 1

##### *Discussion and methodological analysis*

The only issue raised specifically in EDP table 1 was the recording of Swaps, and in particular the level and negative sign of the adjustment. Eurostat felt that the size of the adjustment suggested a relatively large portfolio of swaps, compared to the total stock of debt, with DK paying the floating rate.

The Danish authorities explained that government uses swaps to lower the duration of its debt by swapping from long-term to short-term interest rates, and as the short-term interest rate is lower than the long-term interest rate, the swap correction reflects a net interest income which increase EDP net lending.

### *Findings and conclusions*

As the issue of the magnitude of the swap correction could not be clarified in the meeting, the Danish authorities were asked to come back with an explanation to Eurostat after the mission<sup>2</sup>.

### Tables 2A- 2D

#### *Discussion and methodological analysis*

In table 2A, the "working balance" in 2005 had been revised for a considerable amount. The Danish authorities explained that this was due to an unusual mistake in the underlying detailed database, provided by the Ministry of Finance, which was used in April 2006, and that the new figures are now correct. Eurostat noted that the mistake had no systemic character.

In table 2A, the item "other financial transactions" for 2005 had been largely revised between April 2006 and the draft October 2006 notifications. Eurostat noted that this item is generally of a limited size, because it encompasses specific well-defined transactions and that it should not end-up being a residual item, particularly if this would reach amounts of a magnitude of 1% of GDP. The Danish authorities confirmed that this item captures large amounts of entries not coded as non-financial transactions and by default considered as financial, and thus had a residual character. This is due to the fact that there are insufficiencies in the way in which the financial accounts are compiled and therefore all financial components can not currently be identified in table 2A. This systemic problem is also replicated in table 3B. The Danish authorities indicated their confidence that net lending/net borrowing of the State was appropriately compiled inclusive of all relevant non-financial transactions. A project has however been initiated to improve the documentation and quality of the accounts, integrated in a new data base system.

In table 2A, the items included under "other adjustments" were discussed and in particular the "sector delimitation" and the adjustment made for "run-off on defined plans". According to the Danish authorities, the latter adjustment was introduced because commitments made by the government (on research and development etc) were included in the budget, whereas the more appropriate accrual measure was when the transfers were paid out. However, the negative sign (-) and the size of the adjustment raised some concern by indicating that actual payments exceeded the initial commitment made for four years in a row, for a cumulated total of close to 4% of GDP. The issue could not be clarified in the meeting.

Concerning sector delimitation, in table 2C the items "corrections in relations to quasi-sector" and "acquisitions of ownership shares and other financial transactions" were discussed. Eurostat noted that the net lending / net borrowing of quasi-corporations of local government

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<sup>2</sup> The documentation was subsequently sent shortly after the mission

was noticeably negative as reported in the document provided, which implied a positive adjustment in EDP table 2C instead of a negative one. In addition Eurostat noted that the item "acquisitions of ownership shares and other financial transactions" should not be all reported under "other financial transactions".

In the draft October 2006 notification, the Danish authorities had for the first time provided a correct split of "other accounts payable and other account receivable" in tables 2, and values for "difference between interest paid and interest accrued" had been introduced for all years (used to be 0). Eurostat welcomed these improvements.

### *Findings and conclusions*

Concerning table 2A, Eurostat requested the Danish authorities to report back to Eurostat after having analysed the nature of the transactions included in "other financial transactions" to see whether these could be split between a genuine "other financial transactions" (separate from loans and equity) and a "statistical discrepancy".

Eurostat also requested the Danish authorities to report back on the nature and sign of the adjustment made for "run-off on defined plans", by providing a table for all commitments and payments made in 2002-2005<sup>3</sup>.

Furthermore, Eurostat asked for the item "sector delimitation" to be split and moved from "other adjustments" to the lines "net borrowing or net lending of State entities not part of central government" and "net borrowing or net lending of other central government bodies" from the October 2006 notification onwards.

Concerning table 2C, Eurostat requested the Danish authorities to split the amounts for the items "corrections in relations to quasi-sector" and "acquisitions of ownership shares and other financial transactions" and enquire on their sign and content.

### Tables 3A-3E

#### *Discussion and methodological analysis*

Tables 3 in the draft October 2006 notification include revisions compared to April for several years for "loans", "shares", "other statistical discrepancies", "other financial assets" and "net incurrence of other liabilities". One of the main reasons behind this is the coding errors which were discovered in the detailed database.

Eurostat noted that the item "currency and deposits" had been considerably changed, and wondered if this information could not in the future be systematically compared with monetary statistics or banking information. The Danish authorities indicated that the deposits of government in the detailed database often deviated for large amounts from the data observed in the books of the Central Bank, and exhibited a pattern of noticeable revisions. They had decided to privilege from now on the Central bank source data, but it was however noted that such a choice was not without inconvenience with respect to the integrity of the detailed database. The Danish authorities stated that they expected full consistency with the quarterly financial accounts of general government (QFAGG) data in the coming October 2006 notification.

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<sup>3</sup> The updated information including corrected figures was subsequently sent and included in the October 2006 notification.

## *Findings and conclusions*

Eurostat noted the development in the Danish financial accounts and encouraged further improvements in this area.

### Equity injections at the level of central and local government

#### *Introduction*

In the context of the April 2006 notification, Eurostat had raised the issue of substantial capital injections into quasi-corporations and other public corporations (mainly local utilities). As full information on the nature and size of these injections could not be supplied at that time, the issue was partially left open. Furthermore, inconsistencies were identified between the relevant figures in table Va in the *questionnaire related to EDP tables* and EDP tables 3A-3E.

#### *Discussion and methodological analysis*

It had been agreed already in the April 2006 notification to reclassify equity injections by government into the corporation Bane Denmark as capital transfers, since it had been unprofitable for many years. This reclassification decreased the government surplus (B.9) by almost 0.2 % of GDP in 2005.

In the meeting the capital injections both at central and local level were discussed, based on information provided by the Danish authorities including both the profitability of the concerned corporations over the last years and the equity injection by government in the same corporations. There was a lengthy discussion about the classification of the public entities, reported to be quasi-corporations by the Danish authorities. At the local level, the corporations "social work activities with accommodation" and "sewage and refuse disposal, sanitation and similar activities" (both with large investments) and "buses" (loss-making), attracted special attention.

Whereas Eurostat took note that such entities in most cases probably did not have an independent status, but had a complete set of accounts (often published), Eurostat questioned whether their autonomy of decision had been fully established. It was recalled that the quasi-corporation status could be a device to recognize, as institutional units, entities that despite the lack of legal existence and of legal autonomy behave genuinely independently from their parent units. As such, the absence of boards or other decision making bodies, would generally preclude the possibility of recognizing such entities as public corporations. Eurostat noted that ESA95 recognized that government units, whilst non market, could host market establishment (local KAU – Kind of Activity Unit).

According to the Danish authorities, the local government owned quasi-corporations are fully market financed and either keep a complete set of accounts or it would be possible or meaningful from both an economic and legal viewpoint to compile a complete set of accounts if they were required (ESA art 2.12). Furthermore, it was said by the Danish authorities that these units, while not having an independent legal status, have an economic and financial behaviour that is different from that of their owners and similar to that of co-operations and therefore they are deemed to have autonomy of decision and are considered distinct institutional units (ESA 2.13.f.). From the viewpoint of the Danish authorities, it would

therefore require a change of the ESA manual to classify these units inside the general government sector.

### *Findings and conclusions*

As a first step, Eurostat requested the Danish authorities to further investigate in detail the basis for recognizing quasi-corporations at both central and local level. If needed, the issue may be discussed in the Financial Accounts Working Group (FAWG) or in other fora.

The Danish authorities accepted the Eurostat suggestion that injections in (permanent) loss-making public corporations should be reclassified as capital transfers and that this would be implemented in the October 2006 notification.

Eurostat also requested that table Va of the questionnaire related to EDP tables would be further elaborated to provide the requested information and to be aligned with EDP table 3.

Eurostat finally requested to the Danish authorities to intensify the follow-up of quasi-corporations by regularly reviewing the smaller entities and by analysing carefully the bigger ones. In particular the profitability of the corporations would be analysed.

### Net flows of receivables and payables

#### *Introduction*

In the context of the April 2006 notification, Eurostat raised concern about the large and undocumented flows of receivables and payables in the Danish accounts.

#### *Discussion and methodological analysis*

In the context of the mission, a detailed list of other accounts receivable/ payable pertaining only to taxes had been provided. These figures were correctly reflected in EDP table 2A, but did not mirror the figures in table 3B, which included a large undocumented part. Eurostat raised the view that undocumented flows should be classified as statistical discrepancies ("difference between capital and financial accounts") and should not be included under "other financial transactions" or "net incurrence of other liabilities", as it was the case today. The Danish authorities were not in a position to identify the composition of the flows in table 3B in the meeting.

### *Findings and conclusions*

As a follow-up it was agreed that the Danish authorities should provide Eurostat with a detailed table on the transactions in the coming days, in order to agree on the recording<sup>4</sup>.

### Consolidation issues

#### *Introduction*

In the April 2006 notification, consolidation checks for EDP tables 3 showed large errors for "other financial assets", "net incurrence of other liabilities" and "difference between interest

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<sup>4</sup> The Danish authorities sent some clarifications to Eurostat, but full documentation and implementation are only expected in the April 2007 notification.



EDP D.41 accrued and paid". The Danish authorities recognized the problem and had agreed to look into it.

### *Discussion and methodological analysis*

In the context of the meeting, a draft October 2006 notification with corresponding consolidation checks had been supplied to Eurostat. Data showed consistency except for a discrepancy identified in the notification including ATP, which could not be explained in the meeting.

### *Findings and conclusions*

Eurostat welcomed the progress made on the consolidation of data. Eurostat asked however the Danish authorities to verify the remaining anomaly identified in the consolidation checks and report back.<sup>5</sup>

## Recording of loans in EDP

### *Introduction*

In the context of the April 2006 notification, the issue on whether loans were included under "other financial transactions" in the Danish accounts was raised.

### *Discussion and methodological analysis*

The Danish authorities stated in the meeting that no loans were included in "other financial transactions", but Eurostat noted large differences between table 2A and table 3B that would need to be investigated. Additionally, the Danish authorities informed Eurostat that they have initiated a project in order to be able to provide a split of "loans" into "loans, granted" and "loans, repayments" as well as "shares and other equity" into "increase" and "reduction" in the April 2007 notification, as requested earlier by Eurostat.

### *Findings and conclusions*

Eurostat welcomed the clarification concerning "loans", as well as the efforts made to provide gross data for "loans" and "shares and other equity" from April 2007. It was also agreed that the consistency between table 2A and 3B would be further verified.

## Consistency of EDP tables and other national accounts data

### *Introduction*

As the Danish notification for EDP purposes had included ATP, whereas all national accounts tables were reported excluding ATP, these methodological differences had resulted in inconsistencies in the Danish data. The same could be observed for the expenditure for infrastructure investments (reclassification of equity injections as capital transfers), which had been included in EDP since April 2006, but not yet implemented in national accounts.

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<sup>5</sup> This was subsequently done and the figures were corrected in the October 2006 notification.

### *Discussion and methodological analysis*

For the October 2006 notification, Eurostat invited the Danish authorities to send one unique version only, with a preference for the version excluding ATP, in order to avoid confusion and to assure full consistency with other national accounts data.

### *Findings and conclusions*

Eurostat requested that in case two versions are sent, the Danish authorities should also inform Eurostat which version should be used in the EDP notification. Furthermore, in the latter case, Eurostat would request an accompanying table explaining the differences between EDP and ESA95 transmission tables due to ATP (as well as SWAPS, UMTS and infrastructure investments). This information<sup>6</sup> can be used in other Eurostat publication, such as the government finance statistics (GFS) summary tables on the Eurostat web site, and in the report to the EFC, to be written shortly after the October 2006 notification.

## **2) Follow-up of the "questionnaire related to EDP tables" from April 2006.**

### *Introduction*

As Denmark only filled some of the tables in the *questionnaire related to EDP tables* in the April 2006 notification, it was agreed that the Danish authorities would take actions in order to improve the quality and coverage in the October 2006 EDP reporting. In the context of the meeting, Denmark had provided draft replies to tables II, IIIa, IIIb, IIIc and IV, along with comments about planned actions.

### Table II Other receivables/payables of general government relating to the EU

### *Introduction*

In the April 2006 notification, the Danish authorities did not provide any information in table II. The Danish authorities had stated that subsidies transited via the Treasury accounts, but that net values due to differences in the time of recording between inflows and outflows were not taken into account when calculating net debt.

### *Discussion and methodological analysis*

In the meeting the Danish authorities confirmed that the transactions in the financial accounts of general government were probably small, but agreed that in concept net transactions should be reflected in the flows of other accounts receivable/payable and that the information to do so existed.

### *Findings and conclusions*

Eurostat concluded that even though the net transactions are likely to be small, the Danish authorities would identify these amounts in the financial accounts and report back to Eurostat.

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<sup>6</sup> This information was subsequently sent to Eurostat in the context of the October 2006 notification.

## Tables IIIa, IIIb and IIIc on government guarantees

### *Introduction*

Denmark only provided a few items in the tables on government guarantees in the April 2007 notification. In the context of the meeting, a new table including most items was disseminated and analysed.

### *Discussion and methodological analysis*

Denmark has a stock of outstanding guarantees of around 7% of GDP, but the amounts called in recent years are negligible. Data have been included in the working balance of table 2A.

It was agreed that the items D1 (guarantees called – amount of new debt called and assumed) and D2 (guarantees called – payments made (cash)) normally are exclusive. Furthermore, line H (write-offs by government of government assets) should generally not record claims immediately written-off, but only those written-off later.

Eurostat noted a possible inconsistency between the stock of debt under call and the amounts of payments made.

### *Findings and conclusions*

Eurostat concluded that the discussion unveiled some misunderstanding on how to complete the table and it was agreed that the Danish authorities would amend the table and enquire on the stock of debt under call in particular.

Eurostat also took note that the Danish authorities found the table difficult to understand in all detail and suggested to Eurostat to provide further clarifications on the table.

## Table IV on debt cancellations

### *Introduction*

Denmark did not complete table IV on debt cancellations in the April 2006 notification and was asked to provide this table in the future.

### *Discussion and methodological analysis*

The Danish authorities provided Eurostat with a draft version of table IV, including data from the Ministry of Foreign Affairs, on the debt cancellations of Paris Club and on third countries debt. There were furthermore some data for cancellation of debt towards public corporations, which could not be fully explained.

### *Findings and conclusions*

Eurostat welcomed the new data provided. It was however decided that the Danish authorities needed to further look into the data concerning debt towards public corporations, to make sure that all data are correct and included.

### **3) Follow-up of Eurostat decisions in recent years**

#### Public-Private-Partnerships (PPPs)

##### *Introduction*

Eurostat raised the issue of whether there are any ongoing or planned PPPs in Denmark.

##### *Discussion and methodological analysis*

The Danish authorities provided information on three planned PPP projects (highway between Kiplev and Sonderborg, the national Archives and a public school) to be carried out in the coming years. It was confirmed that all potential projects are followed closely by the Ministry of Finance and in particular at the central level. The impact on government accounts are expected after 2006 only.

##### *Findings and conclusions*

Eurostat took note of the above mentioned projects and encouraged active monitoring in this area.

#### Securitization operations

##### *Conclusions*

The Danish authorities confirmed that there are no securitisation operations in Denmark.

#### Privatisation operations

##### *Introduction*

The Danish authorities had informed Eurostat that there are no privatisation operations in the pipeline that they are aware of, but that there have been some privatisations in past years.

##### *Discussion and methodological analysis*

The discussion concentrated on recent privatisation operations in Denmark and whether these had been recorded in EDP tables or in the questionnaire relating to EDP tables. It became clear that they had not been included in table Va so far.

##### *Findings and conclusions*

Eurostat concluded that the partial sale of Post Denmark in 2005 as well as the case of Copenhagen Airport in 2002 should be included in table Va. The cases of Nesa and Copenhagen-electricity sale to DONG, should be investigated in order to assure correct recording in the October 2006 notification, in EDP tables as well as in the related questionnaire. More in detail, Eurostat concluded that the Danish authorities should verify that all privatisation proceeds had been appropriately recorded.

#### 4) **Miscellaneous**

##### Eurostat's report to the EFC of the April 2006 notification – the role of NSIs and other reporting agencies

The Danish authorities raised the issue of the role of the National Statistical Institutes in the next EFC reporting and expressed the wish to have the possibility to comment on the draft report before it is forwarded to the EFC.

##### *Findings and conclusions*

Eurostat took note of the comments from Denmark but could not give any detailed information on the procedure to be followed in the October 2006 notification, noting the very tight deadline for producing the report. Nevertheless, Eurostat confirmed that the report could at least be sent to the national statistical authorities at the same time as it is sent to the EFC.

##### Oral presentation by the Ministry of Finance of the new cost principles of government accounts in Denmark.

Eurostat took note of the presentation by the Danish authorities on the new development in the government accounts.