

No 88/97  
17 December 1997

## **NEW DECISIONS OF EUROSTAT ON DEFICIT AND DEBT**

### **Payments from Central Bank to the State**

### **Changes in the due for payment dates for taxes, salaries, social contributions and benefits**

**Eurostat, the Statistical Office of the European Communities in Luxembourg**, has taken new decisions<sup>1</sup> specifying the guidelines to ensure a better comparability for the public deficit and debt data in Member States and assuring conformity with the European System of Accounts (ESA 79)<sup>2</sup>.

#### **New decisions were taken on the following subjects:**

- **Payments from Central Bank to the State**
- **Changes in the due for payment dates for taxes, salaries, social contributions and benefits**

Following specific requests from Member States seeking clarification, Eurostat has undertaken a wide consultation process<sup>3</sup> at **EU**-level with the relevant technical groups involved. Having heard their opinion, Eurostat decides on methodological rules which must be applied by all Member States. These rules should be implemented immediately.

The decisions on these subjects have been taken after the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB)<sup>4</sup> had given its opinion.

Eurostat will in the very near future examine the implementation of these decisions in Member States.

#### **Payments from Central Bank to the State**

Eurostat has analysed the effect on the public deficit of payments made by central banks to the State following operations relating to foreign exchange reserves, composed of monetary gold and foreign currencies. Several cases have been distinguished. As a result, three decisions were taken.

The first decision deals with **revaluation of foreign exchange reserves**. Payment to the State of a part or all of the counterpart of this revaluation has the effect of reducing the value of the State's shareholding in the central bank relating to foreign exchange reserves. It is a financial transaction with no effect on the public deficit.

The second decision concerns **sales of foreign exchange reserves**. As in the case of sales of monetary gold<sup>5</sup>, repayment to the State of the proceeds of exceptional sales of foreign currencies is a financial transaction, with no effect on the public deficit.

The last decision refers to **capital gains and losses** realised by central banks when they **intervene on a regular basis on the exchange market**. Income distributed to the State must exclude capital gains and losses and be limited to the income from assets held by central banks and to the fees they receive. The net profit resulting from interventions is recorded as a financial transaction and can in no way have an effect on the public deficit.

## **Changes in the due for payment dates for taxes, salaries, social contributions and benefits**

Eurostat has examined the possible impact on government deficit of measures taken by Member States to change the timing for the payment of certain government expenses (elements of civil servants' salary and social benefits) or the levying of certain government receipts (taxes and social contributions).

As far as **taxes linked to production and imports** are concerned, including VAT, Eurostat has decided that any change in the timing of collection for these taxes, which affects the amounts cashed by the State, should not have an impact on the public deficit measured according to ESA 79.

In 1996, the **Swedish** government and the **Portuguese** government reduced by respectively, one month and ten days, the time-lag for VAT payments by large enterprises. In their national accounts, **Portugal** and **Sweden** have treated these transactions in accordance with this decision.

As far as **taxes on income and wealth, salaries, social contributions and benefits** are concerned, a change in the due for payment dates also affects the amounts cashed by the State. However, two different situations should be distinguished:

- if the due for payment date is changed either by a law or by measures expected to be permanent, the public deficit is affected;
- if the due for payment date is changed temporarily by an administrative measure, the public deficit is not affected.

---

1 For the previous decisions, see news releases 10/97 of 3 February, 16/97 of 21 February, 24/97 of 26 March and 33/97 of 30 April 1997

2 See regulation 3605/93 on the excessive deficit procedure

3 For the procedure, see annex 2

4 See annex 1

5 See decision of 3 February 1997, Press release 10/97

# Eurostat's decisions

## 1. Payments from Central Banks to the State

Eurostat has first analysed the nature of payments made by central banks resulting from the **revaluation of foreign exchange reserves**, including monetary gold and foreign currencies. Because of the specific role played by the central bank within the economy, General Government usually holds most of or all the equity capital. In the national accounts (ESA 79), as a principle, any revaluation of foreign exchange changes the value of its shareholding. The latter includes the counterpart of the revaluation, recorded in the balance sheet on the liabilities side in a reserve account or in a clearing account. Thus, when the central bank pays back to General Government the counterpart of the revaluation of foreign exchange reserves, the value of shareholding is reduced, similar to a capital reduction. It is a financial transaction. Therefore, it has no effect on the public deficit measured according to the principles of ESA 79.

Eurostat has also examined the question of **exceptional sales of foreign currencies** realised by central banks. In contrast to regular interventions on the exchange market, the exceptional nature of these transactions is linked to their large size and to the fact that they are not related to the exchange rate policy. Referring to the decision on sales of gold<sup>1</sup> made in several Member States, Eurostat considers that the repayment to General Government of all or a part of the proceeds of exceptional sales of foreign currencies must be recorded as a financial transaction. Therefore, no effect on the public deficit can arise.

Both these decisions were taken following the unanimous favourable opinion of the CMFB.

Eurostat has also analysed the **capital gains or losses** realised by central banks when they **intervene on a regular basis on the exchange market**. Given the evolution of exchange rates, which may be volatile, the buying and selling of foreign currencies leads in effect to capital gains or losses.

After having received the opinion of CMFB's members, Eurostat has judged that income distributed by a central bank could result only from revenues received for their assets (foreign currency reserves, domestic securities, loans to banks) and, of secondary importance, from various fees they are paid. Net gains resulting from interventions on the exchange market are to be excluded. Thus, any payment in respect of net profit from interventions has to be recorded as a financial transaction. In these conditions, if the dividend paid to the State is exceeding the amount of both above-mentioned sources, a correction has to be made and only a part of the dividend can have a positive effect on the public deficit.

A priori, all Member States may be affected by these decisions of Eurostat. It is notably the case for the treatment of capital gains and losses resulting from interventions on the exchange market. Because of present practice, several Member States, in particular **Belgium, Germany** and **Spain**, will have to make relevant corrections in order to calculate their public deficit.

---

1 See decision of 3 February 1997, News release 10/97

## 2. Changes in the due for payment dates for taxes, salaries, social contributions and benefits

In 1996, the **Swedish** government reduced by one month the time-lag for VAT payments granted to large enterprises. This measure led in the **Swedish** public accounts to cashed amounts corresponding to 13 months of VAT receipts in 1996. The same situation happened in **Portugal** in 1996 (reduction in the time-lag for VAT payment by ten days). The question then raised is whether or not the government deficit measured according to ESA 79 rules is improved by the additional receipt of this thirteenth month.

Eurostat was therefore asked to examine the impact on government deficit of measures that may be taken by Member States to change the timing for the payment of some government expenses (elements of civil servants' salary and social benefits) or the levying of some government receipts (taxes and social contributions).

These questions are linked to the time of recording transactions. In general, transactions can be recorded at three different points of time:

- time when amounts are cashed (cash payment)
- time when amounts are due (due for payment date)
- time when activities giving rise to transactions took place ("accrual basis")

The problem under discussion deals with a change in the due for payment date of some transactions (taxes, social contributions and benefits, salaries).

Concerning time of recording for these transactions, ESA 79 makes a distinction between taxes linked to production and imports (including VAT), and other transactions (taxes on income and wealth, social contributions and benefits, salaries).

As far as **taxes linked to production and imports** are concerned, ESA 79 foresees that they are recorded on an accrual basis, i.e. at the time goods and services are produced, sold or imported. Therefore the amounts of these taxes to be recorded in year (n) include the amounts due in respect of transactions realised from 1st January to 31st December (n), that is, amounts in respect of transactions realised during the 12 months of the year.

Eurostat's decision aims to specify that any change in the due for payment date of taxes linked to production and imports, though affecting the cash amounts in public accounts, should not be taken into account for the calculation of taxes recorded in national accounts. Such a change has thus no impact on government deficit measured according to ESA 79 rules.

This decision has been taken following the largely favourable opinion of the CMFB.

The treatment implemented by **Sweden** and **Portugal** in the national accounts for 1996 is in conformity with this decision. In **Sweden**, the adjustment in national accounts, in relation to data compiled on a cash basis in public accounts, was about 0.6% of GDP.

As far as **taxes on income and wealth, salaries, social contributions and benefits** are concerned, ESA 79 foresees that they should be recorded at the due for payment date.

Eurostat has decided that any change in the due for payment date resulting either from a law or from a change expected to be permanent, and which affects the amounts cashed by the State, has an impact on the amounts recorded in national accounts and thus on the government deficit measured according to ESA 79 rules.

On the other hand, a temporary change resulting from an administrative decision, though affecting the cash amounts received by the State, should not have an impact on the government deficit measured according to ESA 79 rules.

This decision has been taken after the CMFB had given its opinion.

## **CMFB's opinion on the decided cases**

### **1 Treatment of payments from central bank to central government**

The CMFB was unanimous in recommending to Eurostat that central bank payments to government arising from revaluation of monetary gold or foreign exchange should be recorded as financial transactions. A large majority of CMFB members felt that revaluations and/or sales of other central bank financial assets should be treated in the same way.

The CMFB was split on whether holding gains and losses resulting from routine trading by central banks on financial markets and reflected in payments to government should be recorded as financial transactions or as dividends. If Eurostat were to decide that payments from the central bank to the government reflecting these holding gains and losses should be recorded as financial transactions and if in dividend payments the share of holding gains and losses cannot be separately identified, Eurostat is advised to calculate in the national accounts "Central bank dividends" solely as the amount of profit earned from sources other than holding gains or losses.

### **2 Treatment of changes in tax (etc) collection and payment procedures**

In the case of taxes linked to production and imports, the CMFB felt almost unanimously that a change in tax collection procedures that affect the timing of cash receipts by government should have no impact on the measurement (in the national accounts) of government deficit.

For other distributive transactions (such as current taxes on income and wealth, social contributions and benefits), a large majority of the CMFB felt that changes in collection procedures should affect the measurement of the deficit in the national accounts when the change arose from a legal act.

# A long process of prior consultation

The convergence criteria on public deficit and debt are an essential element for the admission of Member States into economic and monetary union. In conformity with the Treaty on European Union<sup>1</sup>, the European Commission monitors the development of the budgetary situation in Member States and the extent to which the criteria are respected. The statistical data used for evaluation<sup>2</sup> are provided by the directorate general responsible, **Eurostat, the Statistical Office of the European Communities in Luxembourg**.

The statistics required to measure the convergence indicators clearly have to be strictly comparable. This is why Eurostat, in close collaboration with the statistical institutes of the Member States and statisticians of the central banks, has compiled **texts** setting out the **accounting treatment for transactions**, and put in place a **consultation procedure** to prepare rulings.

## Evaluation on the basis of ESA79

Statistical information on Member States' budgetary transactions are presented by Member States and evaluated<sup>3</sup> by Eurostat on the basis of the national accounts manual **ESA79**. Following a decision of the Council the new version (ESA95) will not enter into force before the year 1999. In certain cases, however, the ESA95 is being used as the basis for classifying certain budgetary transactions.

## The final decision belongs to Eurostat

In recent years problems have arisen when trying to classify, in a harmonised way in all the Member States, economic and financial transactions which are not clearly defined in the ESA79. Therefore, with the aim of assuring good comparability between the statistics, Eurostat has for the past three years engaged in **consultations** with Member States, in the framework of a well-defined procedure.

This **consultation over methodology** is prepared by a task force. The issues are then submitted to two groups of experts: the national accounts working party and financial accounts working party. Following this, Eurostat consults the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB)<sup>4</sup>, comprising senior representatives of the central banks, national statistical institutes, the European Monetary Institute, and Eurostat.

After having heard the position of its members on each point for consultation, the CMFB formulates its opinion in conformity with its rules of procedure and presents it to Eurostat. As a consultative committee, the CMFB's **opinion is not binding on Eurostat**. In its final decision Eurostat does, however, take the utmost account of the opinions expressed by the CMFB and the other consultative expert groups on the accounting treatment of a transaction. The decision is made in complete **independence** and **neutrality**, according to **purely technical criteria**.

Eurostat does not decide on the individual cases of Member States, but on the **principles** of accounting treatment of specific budgetary transactions. Every decision in this area applies automatically to similar cases in all the Member States.

The decision on each issue is recorded in a **methodological note** addressed to the institutions concerned, notably the Commission, CMFB, central banks, and national statistical offices.

---

- 1 Article 104c of the Treaty on European Union
- 2 Protocol on the excessive deficit procedure
- 3 Regulation EC 3605/93
- 4 See annex 3

**Annex 3**

## **Committee on monetary, financial and balance of payments statistics (CMFB)**

Principles and procedures for assessing the opinion of the CMFB (advisory committee of senior statisticians from government statistical offices, central banks, the Commission and the EMI) when an opinion is required from Eurostat on the calculation of government debt and deficit.

### **Background**

- Eurostat makes the final decision on debt and deficit statistics.
- Gross domestic product estimates are approved by the Gross national product committee.
- Member States provide the Commission with an early warning of transactions that are likely to raise questions concerning statistical treatment; and provides full information about those transactions.
- Eurostat draws up a timetable for consideration of each case which is consistent with timetables set up by the Council. This leads to a work plan for the totality of cases.
- The work plan is given to the Statistical programme committee, to CMFB and other official institutions and regularly updated.
- Eurostat consults widely as it thinks fit.

## **Consultation of CMFB**

- Eurostat consults the CMFB and notifies its proposals including a timetable.
- The process aims to identify the "best" technical solution for which there is a large support.
- The CMFB seeks advice from its working party, Financial accounts working party, from National accounts working party and from any other expert source it considers appropriate.
- The CMFB opinions are based on three criteria:
  - the solution must be in conformity with ESA79;
  - when ESA79 does not describe the problem or cannot lead to a solution, reference should be made to ESA95.
  - if two or more solutions satisfy the previous criteria, reference should be made to the guiding principles of economic accounts as outlined in the opening chapters of the world-wide systems of national accounts 1993.
- The CMFB consults its members, analyses results and informs Eurostat of the outcome of the consultation.

## **The process is transparent**

- Eurostat makes its decision and informs at the same time, the Commissioner, the National statistical institutes (NSIs) concerned and the CMFB.
- Eurostat informs the CMFB and the NSIs on which methodological grounds the decisions are based.
- The outcome of the consultation of CMFB and the final decision of Eurostat are made publicly available at the same time.

Issued by:

**Eurostat Press Office  
Jean Monnet Building  
L-2920 LUXEMBOURG**

**Tel: +352-4301-33 444**

**Tel: +352-4301-33 496**

**Fax: +352-4301-32 594**

**pressoffice@eurostat.cec.be**

For further information:

**Jean-Pierre DUPUIS**

**Tel: +352-4301-34 983**

**Christine COIN**

**Tel: +352-4301-33 722**

**Denis BERNARD**

**Tel: +352-4301-35 282**

**Fax: +352-4301-32 929**