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FINAL FINDINGS

EDP Dialogue Visit to Germany
25-26 February 2016

Executive summary

Eurostat undertook an EDP dialogue visit to Germany on 25-26 February 2016. The purpose of the EDP dialogue visit was to review the compliance of the German EDP and Government Finance Statistics ('GFS') data with the accounting rules of the European System of Accounts 2010 ('ESA 2010') and with the existing guidance set out in the ESA2010 Manual on Government Deficit and Debt ('MGDD').

Eurostat and the German statistical authorities reviewed institutional arrangements, data sources and procedures in place for the compilation of EDP statistics. Eurostat acknowledged progress in the access of the German statistical authorities to individual data for the state and local government sub-sectors. However, concerns were raised about possible risks arising from the need to get authorisation by the regional statistical offices of each access request of the EDP data compilers. Consequently, Eurostat committed to sharing with the German authorities a note prepared by its legal services on the scope of the application of article 16 of Council Regulation 479/2009. Apart from that, Eurostat took note that the work on a formal cooperation agreement between the Federal Statistical Office and the Federal Ministry of Finance on EDP-related matters and data flows was well advanced, and it requested a copy of the document once finished. Eurostat sought also clarification on how statistical needs were addressed in the process of setting standards by the so-called §49a HGrG Committee for budgetary classifications for central and state government. Specifically on a motion proposed by the German statistical authorities, of adding counterparty information to budgetary headings relating to capital injections, Eurostat requested records of the Committee's discussions explaining reasons why the proposal was rejected.

Moreover, Eurostat took note of the progress of the German statistical authorities in putting in place a specific GFS quality management system. Given that its scope should encompass the entire upstream supply GFS chain and EDP data production, Eurostat recommended that its development should be co-ordinated with all EDP data compilers at the EDP Statistics Experts Group.

The issue of completeness of the lists of general government sector entities (annexed to the EDP Inventory) and the questionnaire on government-controlled entities classified outside the general government sector was raised. Since for a majority of the Member States the detailed data was reported on a regular basis, Eurostat requested clarification of confidentiality restrictions imposed by the German law on the information on classification of the entities by type of economic activity (NACE rev.2).

Furthermore, Eurostat welcomed an extended scope of entities surveyed in the regular public finance statistics survey and new variables added to the data collection, in particular for transactions in financial assets, financial derivatives and debt assumptions and cancellations. It was agreed that the German statistical authorities would send to Eurostat: i) templates used for surveying transactions in financial assets and explanatory notes to the questionnaires, and ii) findings from the examination of quality of the first returns to the surveys, and reconciliation of the reported figures with statistics currently used for the data compilation.

It was confirmed that the German statistical authorities have a different understanding of how the requirements for public accounting systems set out in Council Directive 85/2011/EU on the Budgetary Frameworks should influence the existing collection of data from the public accounts. Eurostat underlined that where integrated and accrual information was available in public accounts it should be collected and used to improve quality of EDP statistics. Specifically, two issues were raised in this context: (i) the extension of the scope of data collection for municipalities to cover the information from their profit and loss statements and balance sheets, and (ii) the use of the data collected from the financial statements of the

entities with commercial accounting. Eurostat requested that for the largest municipalities and the Länder with the accrual accounting system, the German statistical authorities should analyse possible impacts of a switch to new data sources for the compilation of government non-financial and financial accounts. In turn, for government entities with commercial accounting systems, Eurostat recommended that - as a first step - the German statistical authorities should complete a bridge table, (i) adding and explaining the items used in the compilation of financial accounts, (ii) adding items not used at all in compilation of EDP statistics.

It was confirmed that a large majority of the follow-up actions agreed during the 2013 EDP upstream dialogue visit and 2014 standard dialogue visit had been completed. For the few remaining action points progress has been noted and related issues were covered under specific agenda points of the 2016 EDP dialogue visit.

A number of other matters relating to the EDP reporting and data compilation were also addressed. Eurostat noted the measures taken and planned by the German statistical authorities in order to improve completeness of the EDP notification tables. In addition, Eurostat pointed out the need to simplify the presentation of adjustments in EDP tables 2 and to compile additional information by group of entities with the same accounting regime, on the reconciliation of the working balance and deficit for government debt data.

Eurostat appreciated the efforts undertaken by the German authorities to explain and reduce the level of statistical discrepancies. Nevertheless, it was confirmed that Eurostat and the German statistical authorities have different understandings of the role of the balancing position in other accounts payable/receivable. While the German statistical authorities argued that their current balancing routine mainly serves as an estimate to overcome existing data gaps, Eurostat noted that the current practice of compilation and reporting of B.9f in the German financial accounts was not compliant with relevant ESA rules. Apart from that, Eurostat requested that, for the entities drawing up a full set of accounts, the feasibility of compiling B.9f based on direct information from balance sheets and from the new survey on financial transactions should be examined. For the largest government units the German authorities were asked to reconcile the calculated B.9f estimates with net lending/borrowing derived from the non-financial government accounts.

Subsequently, data on other accounts receivable and payable reported in the EDP notification tables were discussed. The use of corrections relating to the time of recording reported in EDP tables 2 as proxies for compiling ESA financial transactions was briefly discussed. In order to better understand the size of the corrections in order to ensure the proper time of recording of the data reported for the complementary budgetary period ('5th quarter'), Eurostat recommended that, for 2015 data on intermediate consumption and capital expenditure, the German statistical authorities should split the figures for large core budgets, separating the corrections approximating the ESA 2010-accrual recording from other adjustments.

Moreover, Eurostat pointed out inconsistency between the level of government liabilities arising from trade credits and advances reported in EDP table 4 (AF.81LI) and transactions in other accounts payable presented in tables 4 of the EDP questionnaire. Overall, it was confirmed that data on trade credits liabilities was not consolidated within the general government sector.

However, for the social security funds sub-sector, the German statistical authorities discounted a possibility that a portion of the trade credits could relate to claims arising from transactions between the statutory health insurance bodies and the Gesundheitsfonds. It was agreed that the quality of data on trade credits reported by the statutory health insurance bodies would be further investigated, with a view to integrating the information into the compilation of data on transactions in other accounts receivable and payable.

Eurostat encouraged further efforts of the German statistical authorities to improve completeness of the reporting in a number of tables of the questionnaire relating to the EDP notification tables (the '*EDP questionnaire*'). In addition, Eurostat took note of their comments on the new template for the supplementary tables on government support to the financial sector.

Particular attention was given to the sector classification issues. Firstly, Eurostat took note of the envisaged changes to the calculation of the ratio used for the market/non-market test for entities with commercial accounting systems. The following modifications were intended: (i) inclusion of 'other revenue' into the calculation of sales and (ii) adjustments for the accounting item relating to own-account production. Eurostat recommended additional analyses and requested a progress note on findings before a final decision on the implementation of these changes is taken. Secondly, Eurostat considered that the German statistical authorities should devote further efforts in order to ensure that all relevant qualitative criteria are taken into account for the classification of government controlled entities, and that the quantitative market/non-market test, for entities with largest debt, is carried out on the most up-to-date information from the units' financial statements. In this context, and as a follow-up to the 2016 EDP dialogue visit, Eurostat asked for additional information on the institutions established under public law ('*Anstalten des öffentlichen Rechts*'; '*AöR*') and, specifically for Berliner Verkehrsbetriebe AöR, it requested that the market-non-market ratio should be re-calculated and its sector classification re-analysed.

In addition, Eurostat pointed out that the German statistical authorities should examine whether the new guidance on the sector classification of statutory market regulators would impact the perimeter of the general government sector. Eurostat also took note of their classification decisions on: (i) the recording of payments to finance the operation of TV and radio broadcasting agencies ('*die Rundfunk- und Fernsehanstalten*'), under the updated MGDD guidance, as taxes, and (ii) the entities' re-classification to the sector of non-profit institutions serving households on the grounds that they are not controlled by government. Eurostat questioned the latter conclusion pointing to multiple criteria of government control stipulated by ESA. For this reason, it was requested that the German statistical authorities should review the governance of the non-market broadcasting system, re-assess government influence over the broadcasters against the ESA control criteria, and, if necessary, adjust their sector classification and recording of the relevant transactions.

Subsequent to this, the main elements of competition between the public and private hospitals in Germany and key principles for financing operational and capital expenditure of in-patient health care providers were reviewed. Following the discussions, Eurostat noted that more complete information was necessary for further analysis of the sector classification of those entities. In this context, the German statistical authorities were requested to provide an example of a Land's hospital master plan, a note assessing the sector classification of public hospitals in Germany against the criteria specified in the MGDD, data on financial performance of the hospitals, and a description of the relations between hospitals and government bodies at various government sub-levels.

Eurostat appreciated the explanations provided by the representatives of the Kreditanstalt für Wiederaufbau ('*KfW*') on the bank's governance, business model and performance of its promotional activities in the field of domestic business, export credit and development aid. Eurostat would examine the sector classification of KfW and inform the German statistical authorities on the outcome of its analysis before the April 2016 EDP notification. Eurostat took note that other promotional banks in Germany, the Landwirtschaftliche Rentenbank and regional development banks, provided their promotional services under a business model with apparent similarities to KfW. In Eurostat's view, the sector classification of these bodies needs to be analysed separately and considered on a case-by-case basis. It is intended to

initiate the review once the examination of the sector classification of Kreditanstalt für Wiederaufbau has been completed.

Additionally, Eurostat noted that the German statistical authorities implemented already for the October 2015 EDP reporting the new MGDD's guidance on re-arranged transactions for a number of operations undertaken by KfW. Investigation of outstanding transactions of the bank was underway, and a review of transactions carried out on behalf of government by other entities (notably by the regional promotional banks) has just been initiated. Thus, Eurostat requested to be kept informed on findings from the statistical analyses.

Eurostat welcomed a clarification by the Federal Ministry of Finance of the recording in the federal budget of government liabilities incurred in relation to the operation by KfW of the BaföG student loans scheme. It considered that public accounting rules and actual records of all government bodies should be reviewed in order to ensure a proper recording and reporting in statistical surveys of claims of non-government bodies vis-à-vis government. Eurostat requested the review to be initiated as a follow-up to the 2016 EDP dialogue visit. Given the complexity of institutional arrangements in Germany, the heterogeneity of accounting rules, and that the project went beyond the mandate of statistical authorities and required a close co-operation with other government bodies, Eurostat acknowledged that the work could be completed only within a longer timeframe (by end-2018).

Several important points relating to the implementation of accruals principle in the German national accounts were also discussed. Eurostat was informed about progress in the implementation of a structural solution for the compilation of interest under an instrument-by-instrument approach for central and state government level. It was noted that for federal government a capital costs method, spreading – at a transaction level – incurred and estimated interest costs of the federal government over the actual maturity of an issued instrument, and differentiating between forecasted and de facto incurred interest costs for past years, would be a basis for the accrual adjustments. The German statistical authorities also described improvements in the sources and methods for the compilation of data on government spending on military equipment and, for outstanding minor procurement projects, agreed to investigate a possibility to introduce accrual adjustments based on the records of national project managers at the Bundeswehr. As a result of the discussions, Eurostat also requested a brief description, by scheme, of data sources used for the recording of social benefits in cash and kind in non-financial government accounts, and comments on the compliance of the accounting standards with the ESA accruals principle.

Moreover, a number of other methodological and accounting matters were addressed, including the recording of court decisions, capital injections, guarantees, debt assumptions, debt cancellations, public private partnerships, EU flows and financial derivatives. In most of the cases, the discussions focused on data sources in place, to what extent they ensure compliance with the ESA guidance and proxies to be used before a structural solution is found. The German statistical authorities were requested to apply a provisional solution for the recording of capital injections and distributions at state and local government level for the compilation of EDP data for the April 2016 EDP reporting. Eurostat asked for additional information on revisions to the largest court decisions arising from an update of source data, and – for debt cancellations and assumptions – a review of the consistency of returns in public finance statistics surveys with the information from assets accounts (*'Vermögensrechnung'*) of federal and state governments.

Subsequently, Eurostat discussed with the German statistical authorities various commitments incurred by government entities, including Anstaltslast and Gewährträgerhaftung, and requested a stock-taking exercise in order to identify all possible forms of commitments leading to explicit contingent or potential obligations into which German government bodies could enter. Before the regular data collection on transactions of municipalities in financial

derivatives would be launched, Eurostat recommended also a similar exercise for derivatives contracted by local government bodies.

The governance of an EDP dialogue visit was also briefly discussed, in order to foster an efficient dialogue visit and supporting its preparation. Some agenda items could not be dealt with during the visit and an additional videoconference was needed. It was agreed that, for future EDP dialogue visits, Eurostat would provide in due course a list of specific topics which needed to be discussed in greater detail, indicating priorities, and a tentative schedule.

Eurostat appreciated the openness and transparency demonstrated by the German authorities during the meeting and the documentation provided before the dialogue visit.

EDP dialogue visit to Germany

25-26 February 2016

Final findings

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty on the Functioning of the European Union, Eurostat carried out an EDP dialogue visit to Germany on 25-26 February 2016. The agenda agreed for the meeting is annexed to the report (Annex 1).

Eurostat was represented by Ms Madeleine Mahovsky (Head of Eurostat Unit D3 '*Excessive Deficit Procedure (EDP) 2*'), heading Eurostat's delegation, Mr Denis Besnard (Eurostat Unit D1) and Ms Monika Wozowczyk (Eurostat's Unit D3). The European Central Bank ('ECB') participated in the meeting as observer.

The German authorities were represented by the Federal Statistical Office of Germany ('Destatis'), the Bundesbank, the Federal Ministry of Finance ('MoF') and the Statistical Office for Berlin-Brandenburg ('SO BBB'). Representatives of the Federal Office of Bundeswehr Equipment, Information Technology and In-Service Support ('BAAINBw') and of Kreditanstalt für Wiederaufbau ('KfW') participated in discussions on specific agenda items. A list of the meeting's attendees is annexed to the report (Annex 2).

The purpose of the EDP dialogue visit was to review the compliance of the German EDP and Government Finance Statistics (GFS) data with the accounting rules of the European System of Accounts ESA 2010 and with the existing guidance set out in the ESA2010 Manual on Government Deficit and Debt (MGDD).

Specifically, the mission addressed the sector classification procedure and the classification of specific entities controlled by government and the time of recording of interest and military expenditure. In addition, the recording and reporting of trade credits, PPPs, guarantees as well as capital injections and distributions were also briefly covered. The current approach for the reconciliation of working balance data and net lending/ borrowing in EDP tables 2, and the reporting of other accounts receivable/ payable and statistical discrepancies in EDP tables 3, were also reviewed.

Particular attention was given to institutional and quality assurance arrangements for collecting, compiling and reporting the German EDP statistics. In addition, the discussions focused on the availability and use of direct information from public accounts, and on the approaches used to reconcile various data inputs in place for EDP data computation and reporting.

Owing to time constraints, several agenda items (as highlighted in Annex 1) could not be reviewed in detail. These issues were appropriately covered in a videoconference held on 17 March 2016 that resulted in some additional action points (presented as an addendum to the main conclusions and action points report; however, integrated in the main part of this report). It was also agreed that the issue of the revision policy for the compilation of non-financial government accounts might be revisited in the future, based on the outcome of consultations between Eurostat and the Member States at various Expert meetings concerning the revision policy in national accounts and BOP, such as the Expert meeting in Luxembourg held on 3 March 2016.

With regard to procedural arrangements, Eurostat indicated that shortly after the meeting the main conclusions and action points would be sent to the German authorities for their

comments. Within weeks, a more comprehensive description of findings from the EDP dialogue visit would be sent to the German authorities for comments. Once the report will have been agreed between Eurostat and the German authorities, the final findings will also be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the openness and transparency of the German authorities during the meeting and the documentation provided before the dialogue visit.

1. Review of institutional arrangements, EDP data sources and procedures

1.1. Governance and co-operation

Introduction

The process of collection and compilation of government finance statistics requires a close inter-institutional cooperation between the Association of the Federal and Regional Statistical Offices (*‘Verbund’*), federal and regional ministries of finance, and the Bundesbank. Moreover, within the institutions, the responsibilities for GFS and EDP statistics are divided between several departments from different directorates.

Based on past discussions with the German statistical authorities, Eurostat identified several risks with regard to these complex institutional arrangements. During the 2013 EDP upstream dialogue visit to Germany, a number of related follow-up actions were formulated along those lines.

Eurostat reviewed with the German statistical authorities under this agenda point the progress in addressing the risks and completion of related follow-up actions.

Prior to the EDP dialogue visit, the German authorities sent an update of process documentation, including EDP flowcharts and the questionnaire on national quality management systems in relation to EDP Statistics.

Discussion

The German statistical authorities confirmed that no major changes to the organisation and coordination of work on EDP statistics had been introduced since the 2014 EDP dialogue visit. The Federal Statistical Office is responsible for the EDP data reporting and for the compilation of EDP and GFS statistics in Germany. On their behalf, the Bundesbank compiles government financial accounts and EDP debt data. The Federal Statistical Office shares responsibilities for data collection with the regional statistical offices.

All institutions involved in the process of the data compilation are members of the EDP Experts Group, established and headed by the Federal Statistical Office.

It was recalled that Destatis was in charge of the interpretation and implementation of methodological guidance underpinning the compilation of non-financial government accounts, while the Bundesbank was entrusted with these tasks for financial government accounts.

Eurostat enquired about progress in formalising the relations between key compilers of EDP statistics, and of their collaboration with data suppliers. The cooperation between Verbund and the National and Regional Audit Institutions was also reviewed.

The German statistical authorities clarified that no amendments to the Memorandum of Understanding between the Federal Statistical Office and the Bundesbank had been necessary since the agreement was signed in November 2014. Eurostat was also informed that the work on the formal co-operation agreement between Destatis and the Federal Ministry of Finance was advancing. It was explained that such formal co-operation agreements were commonly signed in Germany between bodies with equivalent legal or administrative status, while the Federal Statistical Office was an independent higher federal authority within the remit of the Federal Ministry of the Interior. Thus, in this specific case, the form of the document would differ from the typical memorandum of understanding, and it would, together with the procedure for the agreement’s signature, have to be approved by the Ministry of the Interior. Eurostat understood that the initial timeframe for drafting of the agreement was extended also due to a need for internal consultation within the Federal Ministry of Finance supplying a large amount of data to the Federal Statistical Office, produced by different departments. The

German statistical authorities expected that the drafting would be finalised in the first half of 2016, and the formal cooperation agreement would be signed before the October 2016 EDP reporting. Eurostat took note of the timeline envisaged to this end, and requested a draft and final version of the document once available.

Subsequently, Eurostat asked about the co-operation of the Verbund with the Federal and Regional Courts of Auditors. The German statistical authorities referred to the independence of the German audit institutions and noted that, while the courts of auditors may give some consideration to the needs of statistical offices, the auditors could not be instructed by the statistical authorities to audit specific government bodies and/ or government operations.

Eurostat understood that the audits frequently focus on compliance with budget rules or on specific budgetary issues and not necessarily on classification matters relevant for statisticians. The problem concerned also the time when the information could be exchanged. Given the principle of equal access to the audits' findings by all parties, it was not always possible to notify the statistical offices of specific problems detected in the audit procedure in advance. Moreover, the statistical system itself was also subject to audits so that a problem of potential conflict of interest existed.

Notwithstanding these issues, the auditors and statisticians sought to co-operate within the narrow scope determined by the legal and procedural restrictions. In this context, it was recalled that a point of contact for the Federal Statistical Office had been designated at the Federal Court of Auditors.

Eurostat also raised the issue of a possible overlap of coordination responsibilities concerning the GFS/EDP data collection and compilation process, which appeared to be carried out jointly by the Federal Statistical Office and the Statistical Office for Berlin-Brandenburg. During the 2013 upstream EDP dialogue visit, Eurostat recommended that specific tasks should be clearly attributed to the two institutions, taking into consideration the particular role of the Federal Statistical Office as the EDP reporting authority.

At the beginning of January 2016, Eurostat received a progress note on this matter. The note described a functional division of co-ordination responsibilities relating to the collection and compilation of government finance statistics and EDP data in Germany.

Overall, the Federal Statistical Office was responsible for transposing public accounts data collected through public finance statistics surveys into ESA transactions, and for the conceptual framework underlying the sector classification of units. The National Accounts division of the Federal Statistical Office decided on the perimeter of the general government and public sector, which, in turn, determined the population of entities reporting to specific public finance statistics surveys. The regional statistical offices implemented the Federal Statistical Office' sector classification guidelines at state and local government level.

The Public Finance Statistics division of the Federal Statistical Office gathered and processed all requests for modification and development of public finance statistics, examining their feasibility and initiating a dialogue within the German statistical system on changes to the statistical laws. Harmonisation of the data collection and processing was ensured through a comitology procedure, involving experts meetings, related task forces and project groups. Following the consultations, the Public Finance Statistics division of the Federal Statistical Office formulated methodological principles, decided on classifications, drew up bridge tables and defined procedures for data validation, including plausibility checks, and set a work plan and timetable, including deadlines for selected process steps. The rules and procedures had to be applied by all statistical offices.

The Statistical Office Berlin-Brandenburg, on the other hand, coordinated the exchange of views between the regional statistical offices, facilitated their common decision-making process and presented their joint position to the Federal Statistical Office, at the directors'

meetings organised within the Verbund, and outside the Verbund. In addition, the Statistical Office Berlin-Brandenburg represented the regional statistical offices in an inter-institutional expert group on the EU-Stability and Growth Pact data. It also reported the decisions of their supervising bodies to the experts group meetings and relevant task forces.

At the meeting, the Statistical Office for Berlin-Brandenburg underlined that close cooperation between the Federal Statistical Office, responsible for producing the federal public finance statistics, and for compiling and reporting of EDP Statistics, and the Statistical Office Berlin Brandenburg, was essential. Direct communication channels between regional statistical offices and the Federal Statistical Office, in connection with its coordination role on classification issues and with its other methodological responsibilities, were established independently of the function of the Statistical Office Berlin-Brandenburg as a representative of all regional statistical offices in the field of government finance statistics, and its involvement in consensus-building among the regional statistical offices. The Federal Statistical Office also took part in all expert group meetings on public finance statistics. Besides that, it was pointed out that the entire public finance statistics production process was consulted, and needed to be agreed upon, with the Federal Statistical Office.

Subsequently, the issue of access to all relevant information to compile EDP statistics was reviewed. The discussion covered two aspects: i) the possibility for statistical authorities to collect all primary statistics necessary to compile EDP, and ii) data sharing arrangements within the Verbund, restricting the access of the Federal Statistical Office to the data gathered by regional statistical offices. It was highlighted that for a majority of transactions with material impact on the calculations of the government deficit and debt, access to all relevant information was secured. The German statistical authorities recalled that the strength of their data collection system laid basically in a clear legal mandate to collect audited public accounts data. However, the legal mandate did not cover the entire data collected by the statisticians for the EDP data compilation. Voluntary data collections were also in place and counterpart information was used for the purpose of data compilation.

Following the October 2015 EDP reporting, Eurostat noted progress in the German statistical authorities' access to individual data for the state and local government sub-sectors. Eurostat was, however, still concerned about possible risks arising from the need to get each access request of the EDP data compilers authorised by the regional statistical offices. Compliance with ESA and MGDD guidance for a number of methodological issues should be ensured - at least for the largest units – at entity or transaction level. Thus, it is absolutely essential to get access to relevant records without unnecessary delays, notably during the EDP data assessment period. In this context, Eurostat referred to key findings of an analysis of its legal department concerning the scope of the application of article 16(1) of Council Regulation 479/2009, and would send a note on this issue after the meeting.

Finally, the German statistical authorities provided feedback on their co-operation with the Federal Ministry of Finance, with a view to addressing statistical needs relating to the compilation of national accounts and EDP data, on the process of setting standards by the so-called §49a HGrG Committee for budgetary classifications for central and state government.

The Committee was chaired by the Federal Ministry of Finance. Most of the matters decided by the Committee had direct implications for statistics given that the budgetary classifications in place determined the scope of data collected for compilation of ESA-based government accounts in Germany. The level of granularity of the classifications discussed by the Committee appeared to be relatively high. However, the Federal Statistical Office has solely an observer status at the Committee, without a right to vote.

Eurostat addressed this issue in the past, and, as a follow-up to the 2013 EDP upstream dialogue visit, it was provided with assurances that the Federal Statistical Office had a de facto right of initiative in relation to contents of the Committee's agenda and a veto right

concerning decisions on matters with relevance for EDP statistics. During the most recent discussions on implementing the MGDD guidance on capital injections, Eurostat understood, however, that the Committee had rejected a proposal of the German statistical authorities to extend the budgetary classification (“Gruppierungsplan”) to systematically collect information on counterparty of these operations.

The decision was justified by the fact that the extension of the classification did not serve planning and forecasting purposes. It was claimed that the relevant information could be secured through other means, i.e., through data sources other than public accounts, including special surveys. Given that in this case the clarification provided by the Committee appeared neither to take into consideration the statistical needs, nor the views expressed by statistical experts, Eurostat expressed its doubts on the effective influence of the statistical authorities over the decision of the Committee. Eurostat requested the minutes of this meeting on that matter in order to better understand the decision of the Committee.

Findings and conclusions

Eurostat took note of the explanations of the German statistical authorities concerning their cooperation with the German audit institutions, and of the progress in clarifying the coordination responsibilities carried out jointly by the Federal Statistical Office and the Statistical Office for Berlin-Brandenburg in relation to GFS/EDP data collection and compilation.

Action point 1¹: *Eurostat will send to the German statistical authorities, by end-April 2016, a summary of an assessment prepared by its legal services on the scope of the application of article 16 of Council Regulation 479/2009.*

Action point 2²: *A draft of the formal cooperation agreement will be sent to Eurostat by end-June 2016 and a copy of the final version of the agreement should be provided before October 2016.*

Action point 3³: *Eurostat will receive by end-May 2016 a document summarising the §49a HGrG Committee’s discussion on the proposal of the German statistical authorities to extend existing budgetary classifications to collect information on capital injections by beneficiary (public corporations and other) and justification for the decision taken by the Committee on the matter.*

1.2. Quality and risk management of EDP/GFS processes

Introduction

As a follow-up to the 2013 EDP upstream dialogue visit, the Federal Statistical Office has initiated work to adapt its general quality management system to the specificities of EDP data production. To this end, a project group was established, comprised of representatives of the regional statistical offices and the Federal Statistical Office. The main objective of the group was to design the main elements of the system, based on the recommendations of Eurostat’s Task Force on GFS quality management and Generic Statistical Business Process Model (‘GSBPM’).

Under a pilot project it was intended to test the newly devised approach on processes relating to collection and validation of returns to annual debt statistics survey. The findings from the pilot project were envisaged as an input to an ensuing internal consultation within the German statistical system on the way-forward and a timeframe for the entire project.

¹ Completed.

² Completed.

³ Completed.

The Federal Statistical Office prepared a note as background information for the discussion on progress in developing a GFS-specific quality management system, and provided an update of their reply to Eurostat's survey on national quality management systems in relation to EDP Statistics.

Discussion

Two departments of the Federal Statistical Office reported on progress towards the implementation of the GFS-specific quality assurance system.

The Division of National Accounts highlighted the ongoing organisational and IT-related changes orientated towards centralising and improving the quality assurance process in place for the compilation of EDP data. In the second half of 2015, a new unit 'EDP-data quality assurance' had been created within the Directorate responsible for macroeconomic statistics. The unit sought to fully automatise the EDP data compilation process, reducing, as a result, a risk of compilation errors. To this end, work on designing and setting-up of an integrated database started. A stepwise implementation of the project was envisaged, starting from federal government data, and completion is not envisaged before the end of 2019.

The new unit is also in charge of the development and maintenance of a quality management system for EDP data. The task focused on documenting the institutional arrangements and processes necessary for the compilation of EDP data and preparing a quality handbook. The system should be complemented by some elements of risk management, aiming to identify weaknesses and swift implementation of corrective actions. It was pointed out that the GFS-specific quality management will be part of the general quality management system at Destatis and it will use quality guidance developed for the general system, and pursue the overall targets defined in this context.

Following Eurostat's recommendation, the Federal Statistical Office sought to implement the EDP quality assurance system throughout the entire production chain. For this reason, the public finance statistics division started a process of setting-up the EDP specific quality assurance system for all institutions involved in the collection and compilation of public finance statistics relevant for EDP. The Federal Statistical Office recalled in this context the work of the dedicated project group. The primary objective of the group was to describe process components for important centralised and decentralised public finance statistics surveys, starting with GSBPM phases 4, 5 and 6, encompassing data collection, data processing and analysis of the outputs.

Eurostat understood that, in December 2015, it had been decided to continue with the description of the annual debt statistics process also for other phases of GSBPM and, as a next step, to set out objectives and instruments for GSBPM's implementation for the specific survey. Once completed, the quality assurance measures put in place for the entire production chain of annual debt statistics could then be used as a model for other surveys and data collections.

Overall, the project group's discussions led to the following conclusions: (i) the work on the process descriptions facilitates comparisons between processes and the identification of best practices, (ii) the involvement already in the design stage, i.e. in the setting of targets and instruments, of the staff who would subsequently be responsible for the implementation of the quality standards is essential for the development of an operational and practice-oriented system, (iii) the development of a comprehensive system is an ambitious and highly resource-intensive task.

The German statistical authorities underlined the pilot status of the project and the experimental nature of the work, going far beyond the scope of one statistical domain, as well as the inter-institutional dimension of the task. Similarities and synergies between the project

and the ongoing implementation by the German statistical system of standard quality checklists for each domain had been observed.

It was mentioned by the Federal Statistical Office that completing the project in the short-term perspective was not feasible. Moreover, it was essential that the development work was carried out in close co-operation between cross-sectional departments. This approach would ensure that all public finance statistics important for compilation of EDP statistics are covered under the project.

Eurostat requested clarification on the involvement of other EDP statistics co-compilers, notably the Bundesbank, in the design of the GFS-specific quality management system. It was explained that the processes at the Bundesbank were covered under its own quality management system, compliant with quality management standards set up for central banks in the EU. Moreover, it was pointed out that the Bundesbank, as a member of EDP Statistics Experts Group, an important data user and co-compiler, would cooperate and contribute to projects initiated at the Federal Statistical Office and on the design of the quality system or provides suggestions on its own initiative. Eurostat recalled that the GFS-specific quality management system should encompass the entire upstream supply GFS chain and the process of EDP data production, and recommended that its development should be co-ordinated with all EDP data compilers at the EDP Statistics Experts Group.

Findings and conclusions

Eurostat took note of the progress of the German statistical authorities to put in place a GFS-specific quality management system and of the organisational changes within the Macroeconomic statistics division at Destatis, aiming at improving the automation and documentation of EDP processes and risk management. Eurostat recommended that the development of the GFS-specific quality management system, which should encompass the entire upstream supply GFS chain and EDP data production, should be co-ordinated with all EDP data compilers at the EDP Statistics Experts Group.

Action point 4⁴: *Eurostat will receive, by end-December 2016, a progress report on how co-ordination of the development of the GFS-specific quality management system between the EDP data compilers has been organised.*

1.3. Sources and data compilation methods (progress in use of direct data sources for compilation of EDP/ GFS statistics)

1.3.1. Use of public accounts data and counterparty information

Introduction

The scope and timeliness of public accounts data collected for the compilation of government non-financial accounts and government debt is discussed with the German statistical authorities on a regular basis. In the most recent years, the compliance of the German public accounting systems with the requirements of article 3(1) of the Budgetary Framework Directive, in particular their capacity to generate ESA-based accrual data, was also reviewed.

The German public accounting systems vary considerably between and within government sub-levels. The heterogeneous and frequently fragmented public accounts and a restricted scope of the data collection, set out under the Public Finance Statistics Act stipulating the reporting obligations of government and public bodies, make the compilation of coherent government accounts a demanding task for statisticians.

⁴ Completion of this action point is in progress.

Owing to the lack of direct and integrated data sources, the compilation of the German financial government accounts is largely based on counterparty information, primarily monetary and banking statistics. As a first step towards securing direct source data for the government financial accounts, a new survey on financial transactions was being implemented.

Moreover, Eurostat was aware of a number of other introduced or envisaged changes to the scope of data collection. Problems with source data quality had also been identified in previous exchanges with the German statistical authorities.

Discussion

Eurostat noted that some changes to the data collection were implemented, notably an extension of the scope of government entities covered by public finance statistics surveys, and of the scope of information sourced by the Federal Statistical Office directly from public accounts. The German statistical authorities confirmed that all R&D institutions had already been reporting data in regular public finance statistics surveys. In order to reduce the reporting burden for small government bodies, a cut-off threshold was introduced for respondents to the cash statistics survey. Solely the entities with revenue and expenditure at or over EUR 1 million were obliged to report data on a quarterly basis. For smaller bodies, quarterly figures were estimated based on their annual data returns. Changes in the annual debt and financial assets surveys, in order to collect information on debt assumptions and debt cancellations, were also briefly mentioned.

Subsequently, the scope and procedures of a newly introduced data collection on financial transactions were reviewed. The German statistical authorities specified that the new reporting obligation covered only data on transactions in financial assets, and that the data collection was supposed to be extended stepwise over the period 2015-2017. Data had been collected since 2015 for core budgets and extra-budgetary bodies at federal and state level and for all extra-budgetary units with commercial accounting system, whilst for universities and social security funds the collection of the information was being initiated in 2016. The whole of the local government sector would be covered by the new data collection only in 2017. In addition, it was clarified that the data would be collected via a new survey, however, not for all units. For entities with commercial accounting systems, local government bodies and universities, the existing questionnaire used for the collection of quarterly data had been adapted to this purpose. Eurostat also understood that there seemed to be some overlap with already existing reporting requirements for a limited range of financial transactions, and that for selected entities customised breakdowns were included in the survey, e.g., for Versorgungsrücklagen and Versorgungsfonds a split by counterparty was requested.

Eurostat enquired about the definitions underlying the new data collection. The German statistical authorities explained that the new survey relies on the concepts set out in ESA. The reporting categories are further specified in explanatory notes to the questionnaires, and their description seeks to provide references to accounting items typical of the accounting system or information management system of the reporting units. The German statistical authorities agreed, as a follow-up to the discussion, to send the surveys' templates and explanatory notes to Eurostat.

Following the clarifications, Eurostat asked about the quality of the data in the first returns to the new survey, the timeframe for the integration of the newly collected information into the financial accounts compilation, and expected impact on statistical discrepancies. The Bundebank pointed to the very initial stage of the data reporting and the need to proceed with due caution when modifying the existing data compilation procedure. Moreover, it was indicated that the extended scope of the data collection did not satisfy entirely the data needs for the compilation of reliable and accurate financial accounts data for the general government

sector. Eurostat also noted some caveats and limitations to the quality of reported data arising from the accounting system of various government units. Notably, even for the entities with commercial accounting, it was not possible to properly trace financial transactions in the system and it was likely that the information on changes in stock of financial assets would be reported instead. Prior analyses of the accounts of the federal government and Länder led to conclude that the underlying accounting system was highly fragmented, several accounting modules and reports were produced separately and lacked coherence (as it was the case for budgetary reporting and assets accounts). Eurostat understood that the data generated from such an unintegrated system might not necessarily lead to a reduction of statistical discrepancies. Eurostat would closely monitor progress in this matter and requested, as a follow-up to the discussions, the findings from the examination of the quality of the first survey returns, and the reconciliation of the reported figures with statistics used currently in the data compilation procedure.

Moreover, some problems related to the possible sharing of data collected in the new survey with the Bundesbank were mentioned. Eurostat requested that all compilers of EDP data should have secured access to the relevant information, as a matter of urgency. The data were supposed to be cross-checked against the results compiled for the forthcoming April 2016 EDP notification, in order to avoid double-counting with certain financial transactions reported in EDP tables 3.

Secondly, Eurostat referred to an obligation imposed on the EU Member States by Directive 2011/85/EU on the Budgetary Frameworks to have in place public accounting systems providing the information needed to generate statistical data on accruals, compliant with ESA. In earlier discussions on this matter, the Federal Statistical Office referred to a corresponding legal requirement under the German Budget Principles Act (*‘Haushaltsgrundsätze-gesetz’*) and specific accrual macro-adjustments undertaken to compile EDP statistics based on models devised to this end. In Eurostat’s view, the legal provisions of the Directive did not only imply that public accounts had to be modified, should statisticians not be in a position to produce reliable macroeconomic statistics following ESA accruals standards. Eurostat underlined that article 3(1) of the Directive could also be construed as an obligation for compilers of ESA and EDP statistics to use the information contained in the public accounts which: (i) better satisfied ESA rules concerning the time of recording of specific transactions, (ii) ensured coherence between various presentations of the accounts (notably with regard to the reconciliation of data on stocks and flows) and (iii) required fewer adjustments during the statistical data compilation. Thus, Eurostat supported the view that in the cases where integrated public accounting system exists and accrual information is available in public accounts it should be collected, instead of cash or budgetary commitment-based data, and it should be used to improve quality of EDP statistics.

Eurostat referred to two specific cases of the use of cash flow data instead of accrual information available in the accounts of government bodies. The first concerned data from the accrual accounting systems introduced by some Länder and municipalities. An increasing number of municipalities had already switched to accrual recording of their operations and to integrated financial reporting, encompassing a balance sheet, profit and loss account and cash flow statement. Eurostat had requested a note as background for the discussions during the EDP dialogue visit. According to this note, the preparatory work in order to introduce the new survey was well advanced from the statistical perspective. The Federal Statistical Office informed Eurostat that a changeover to accrual public accounts as a main data source for the compilation of the data for the local government sub-sector would require an amendment to the Public Finance Statistics Act. This amendment would be supported by the relevant ministries only if the extension of the data collection and the implementation of the new compilation approach did not require new resources. A resources-neutral switch to the new source data and production process was, however, very unlikely given that in the first instance

quality of the new data inputs and outputs would need to be thoroughly examined and compared with the outputs of the existing compilation procedure. The Federal Statistical Office, in cooperation with *Landesbetrieb Information und Technik Nordrhein-Westfalen* (IT.-NRW), was nevertheless carrying out an analysis on estimated costs. Apart from that, it was explained that not all government bodies at local level intended to introduce the accrual accounting system. Eurostat understood that, accordingly, the Statistical Office did not envisage major changes in the scope of the existing data collection. As a follow-up to this discussion on implementation of accruals principle in the German national accounts, Eurostat requested for the largest municipalities and for those Länder with accrual accounting systems, a review of possible impacts of a switch to new data sources for the compilation of government non-financial and financial accounts, and the provision of the findings from the analysis.

In addition, Eurostat referred to the data collected from the financial statements of entities with commercial accounting, and pointed out that selected information on, e.g., specific cash payments was used for the compilation of EDP statistics, rather than integrated direct data from balance sheets and profit and loss accounts. In Eurostat's view, it should be examined whether the approach followed really generated ESA estimates of comparable quality, as the compilation based on inputs from the records made in the public accounts drawn up under the accruals principle. The issue was also referred to in discussions under agenda points 1.3.2 (on bridge tables) and 3.1.4 (on statistical discrepancies), and it was intended to follow it up in connection with Eurostat's related recommendations.

Finally, Eurostat recalled an issue discussed in the October 2015 notification with regard to BaFöG loans undertaken by KfW on behalf of the German federal government. The German authorities acknowledged the difficulties of presenting the transactions in government accounts, and explained that the budgetary rules might be amended to ensure the proper registration of the operations in public accounts, and their correct reporting in statistical returns. Eurostat enquired whether a similar problem could concern other government operations or occur at other government levels. According to the Federal Ministry of Finance, and given the specificity of the operations and circumstances, resulting in the absence of relevant entries in the federal budgetary reporting, it was impossible that a similar problem could be again encountered. Given the risks arising from some operations not being captured properly in government accounts and reported in statistical surveys, so that statisticians would in such cases not be in a position to detect possible misreporting, Eurostat insisted that, since the issue could not be properly addressed within the mandate of statistical authorities, the government administration at all levels should review the budgetary rules in order to ensure that in all cases where claims against government are entered in business accounts, counterpart liabilities are recorded in government accounts and reported in the annual debt survey.

Findings and conclusions

Action point 5⁵: *The German statistical authorities will send to Eurostat: i) by **end-July 2016**: templates used for surveying transactions in financial assets adapted to different accounting systems of government units, and explanatory notes to the questionnaires including, where available, the information on how the reporting items have been linked to public accounts' classifications, and ii) by **end-April 2017**: findings from examination of quality of the first returns to the surveys, and reconciliation of the reported figures with statistics used currently in the data compilation procedure.*

Action point 6: *A first progress note on the outcome of the review of the accounting rules at federal government level and for the Länder should be sent to Eurostat by **end-November***

⁵ Completion of this action point is in progress.

2017. A final outcome of the analyses is expected: for the federal government and the Länder - by end-March 2018, for other government sub-sectors – by end-2018. In addition, the German authorities will investigate whether supplementary plausibility checks can be developed.

Action point 7⁶: *For selected municipalities and the Länder with the accrual accounting system, the German statistical authorities will analyse possible impacts of a switch to alternative data sources for compilation of government non-financial and financial accounts. A note presenting the outcome of the examination should be sent to Eurostat by end-March 2017.⁷*

1.3.2. Bridge tables

Introduction

The system of transposition tables between various classifications used by the Federal Statistical Office in the process of EDP data collection and compilation is very complex, and it was extensively discussed during the 2013 EDP upstream dialogue visit and the 2014 EDP standard dialogue visit.

Prior to the 2016 EDP dialogue visit, the German statistical authorities sent to Eurostat, for all government sub-sectors, cross-classification tables between the reporting items from public accounts and specific categories of ESA non-financial and financial transactions ('bridge tables').

Discussion

Eurostat appreciated an update of the bridge tables used for the compilation of non-financial accounts for government bodies at central, state and local level, and for the first provision of bridge tables for the social security funds sub-sector. It was noted that for the financial accounts data compilation no direct cross-classification with detailed budgetary codes existed. The German statistical authorities supplied instead reconciliation tables between financial transactions sourced from public finance statistics surveys and transactions in ESA financial instruments and changes in government debt (according to its definition in Council Regulation 479/2009).

Eurostat pointed out that the cross-classification of categories from financial statements of government entities with commercial accounting system left out some reporting items from the units' accounts. As a follow-up to the discussion, Eurostat requested that all categories of the profit and loss account, balance sheet and cash flows statements should be included in the bridge table and that the items used for compilation of ESA financial accounts should be properly flagged.

Findings and conclusions

Action point 8⁸: *The German statistical authorities will 1) complete the bridge table for government entities with commercial accounting systems, adding items not used in EDP data's compilation process (relating to non-financial and financial government accounts) and 2) adding and explaining the items used in the compilation of financial accounts, indicating (a) survey(s) through which the data are collected. The complete bridge table should be sent to Eurostat by end-August 2016.*

⁶ Completion of this action point is in progress.

⁷ Eurostat has been informed by the German national statistical institute that under the current German legislation the provision of the requested data by the municipalities and Länder to the German statistical authorities is not obligatory, but can only be conducted on a voluntary basis.

⁸ Completed.

1.3.3. Estimations, imputations and re-balancing procedures

Introduction

Eurostat supports that the process of compilation of EDP statistics should rely to the largest extent possible on direct source data, and that the direct information should be integrated into the data compilation process at an early stage.

Prior to the 2013 EDP upstream dialogue visit, the German statistical authorities disclosed the major models and estimations in place for the compilation of EDP statistics. Under this agenda point, Eurostat sought to review the changes implemented by the EDP data compilers since the earlier discussion on the matter.

The German statistical authorities had provided, as prior information, a list of operations re-routed through government accounts.

Discussion

In Eurostat's view, the EDP data compilation in Germany appears to move, albeit very slowly, towards a system less dependent on models and estimations, and relying to a larger extent on direct observations sourced from public accounts. The collection of data from public accounts is being extended (resorting in some cases to voluntary data reporting by respondents) and statistical models are being reviewed and accordingly adjusted. On the other hand, the methodological guidance (including the newly introduced section in the MGDD on re-arranged transactions to highlight the economic substance of certain operations) explicitly requires different recording than in source data, including public accounts. Moreover, given the reliance on various data sources for the compilation of specific transactions of non-financial and financial government accounts, and problems with data on certain operations, data processing and compilation would be difficult, if not impossible, without the recourse to imputations and balancing and/or re-balancing procedures.

It was recalled that in the past balancing was also necessary because of the use of structural information from Balance of Payments statistics. Following discussions on the matter in past EDP dialogue visits, the Federal Statistical Office decided to rely entirely on budgetary information for all government transactions with non-residents. Thus, Eurostat understood that the balancing procedure was mainly used to ensure a proper consolidation of government transfers.

Apart from that, it was pointed out re-balancing was, and would remain, essential even for the entities with an integrated compilation system for stocks and financial transactions, i.e., entities drawing up financial statements under international or German commercial accounting rules. Re-balancing adjustments were undertaken for all defeasance structures and holding corporations. The outcome of the corrections was reported under the dedicated line of table 4 of the EDP questionnaire given that it was not considered a statistical discrepancy. Eurostat noted that for some years the amounts were non-negligible. It was also observed that the amounts decreased over time, mainly as a result of revisions arising from the finalisation of source data. It could not be confirmed during the discussion whether the different revision policies for compilation of financial and non-financial accounts would have an impact on the size of the revisions.

Eurostat also took note of the large impact on government debt arising from the re-arranged transactions reported as background information for the discussion. The type of the re-arranged operations, practical implementation of the guidance underpinning the recording, including data sources used to this end were reviewed with the German statistical authorities under agenda point 5.1.

Findings and conclusions

Eurostat took note of the explanations.

1.4. Revision policy

Introduction

The revision policy for government deficit and debt data was discussed with the German authorities in detail during the 2014 EDP dialogue visit. The Federal Statistical Office and the Bundesbank followed two different revision schedules: i) for deficit data and related non-financial transactions, and ii) for debt data and government financial accounts. While deficit data were revised only for the October EDP reporting and finalised for their eighth EDP notification, debt data were updated for both April and October notifications and finalised at an earlier stage. The Federal Statistical Office assured Eurostat in past discussions that if a need for large revisions to government deficit was identified for the April EDP reporting, it would be undertaken already for the spring notification.

A general discussion between Eurostat and the Member States on the revision policy for GFS and EDP statistics was ongoing. The Expert Meeting to discuss the matter was scheduled shortly after the EDP dialogue visit.

Discussion

Eurostat noted large revisions to EDP deficit and debt figures reported for Germany over the recent years, due to the changeover to ESA 2010, corrections, and reclassifications of units and transactions. Notably, the size and direction of revisions to government deficit (by sub-sector) and debt observed in October 2015 stood out compared to past notifications.

In Eurostat's view, the magnitude and sign of the recent data updates demonstrated the need for a more flexible revision policy for the compilation of government non-financial accounts, ensuring an implementation of relevant corrections to government deficit data in a timely manner. The German authorities agreed that accuracy of deficit figures is an important quality aspect, which needs to be secured in a certain timeframe. Given the ongoing discussions at the EU level on countries' revision policies, it was considered that the matter needed to be further examined once the position of relevant task forces on acceptable practices is known.

Findings and conclusions

It was agreed that the issue of revision policy for the compilation of non-financial government accounts might be revisited in the future, inter alia based on the outcome of consultations between Eurostat and the Member States at various Expert meetings concerning revision policies in national accounts and BOP, such as the Expert meeting in Luxembourg held on 3 March 2016.

1.5. EDP Inventory

Introduction

Under article 9 of Council Regulation 479/2009, the EU Member States shall provide Eurostat with a description of the methods, procedures and sources in place for compilation of EDP data and of the underlying government accounts (the '*EDP Inventory*'). Eurostat designed a standard template that should be used to this end, and which was endorsed by the Committee on Monetary, Financial and Balance of Payments Statistics (the '*CMFB*') in June 2012. The template was modified in 2014, in view of the changeover to ESA 2010. The Member States were requested to update and transfer relevant descriptions to the ESA 2010-compliant template by end-2015.

Discussion

The Federal Statistical Office and the Bundesbank compile jointly the EDP Inventory for Germany. The ESA 2010-compliant version was provided by the Federal Statistical Office before the end of 2015 and it was published within the timeline agreed with the Member States. Eurostat appreciated corrections and factual updates and intended to provide more detailed comments in due course.

It was noted that the provision of two annexes to the EDP Inventory: of the updated questionnaires on EU flows and interest was still outstanding. The German statistical authorities agreed to send an update of their reply to Eurostat's survey on EU flows shortly after the meeting and explained that the questionnaire on interest could be updated only once the new methods for compilation of interest at federal and regional level are fully implemented.

Eurostat acknowledged the improvement in the completeness of the list of the general government entities annexed to the EDP Inventory, given that it was extended compared to the December 2014 submission to include a listing of core budgetary bodies. However, no information on the branch activity of the entities was provided. Neither was the data delivered in the questionnaire on government-controlled entities⁹. Destatis confirmed that NACE classification is part of the system of administration of the reporting entities ('*Berichtskreismanagement*'; '*BKM*'), and explained that confidentiality restrictions imposed by the German law were a key reason why the detail could not be supplied. Only the information collected and compiled under the Public Finance Statistics Act could be provided to Eurostat. Given that a majority of the Member States sent the information that Eurostat requested, and as a follow-up to the discussion, a note was requested explaining i) the status of the information on the branch of economic activity for the entities controlled by government (classified to and outside the general government sector) and ii) for which legal reasons the data should neither be shared with Eurostat nor published.

Findings and conclusions

Eurostat appreciated the provision of the updated EDP Inventory in a timely manner and that all modifications introduced to the document compared to the previous version of the Inventory were presented transparently.

Eurostat highlighted a problem concerning the completeness of the information provided in the listing of entities of the general government sector and in the questionnaire of non-MFI government controlled entities classified outside the general government sector.

Action point 9¹⁰: *The German statistical authorities should provide, by end-April 2016, a note prepared by Destatis explaining 1) the status of the information on the branch of economic activity for the entities controlled by government (classified to and outside the general government sector) and 2) for which legal reasons the data should neither be shared with Eurostat nor published.*

⁹ The matter was also mentioned in the discussion under agenda point 4.1.2.

¹⁰ Eurostat received feedback from the German statistical authorities on this follow-up action. Eurostat has requested the opinion of the Commission's Legal Service concerning the validity of the legal reasons adduced by the German statistical authorities.

2. Follow-up of prior EDP dialogue visits (the 2013 upstream dialogue visit and the 2014 standard dialogue visit)

Introduction

Eurostat undertook an upstream EDP dialogue visit to Germany on 18-21 June 2013 and 22-25 October 2013, and a standard EDP dialogue visit on 26-27 February 2014. Discussions at these visits closed with the formulation of a number of follow-up actions. The German statistical authorities were, inter alia, requested to put in place several structural solutions to identified institutional, data sources and compilation problems.

Discussion

Eurostat revised with the German statistical authorities the state of completion of the action points from the past EDP dialogue visits. Outstanding follow-up actions from the EDP upstream dialogue visit (relating to institutional arrangements, formal co-operation agreements and source data at government sub-level for capital injections, distributions and financial derivatives) were addressed under the respective agenda items. There were three UDV action points to which Destatis had reacted in the past with Eurostat's feedback still outstanding at the time of the discussion. Two of the outstanding points concerned the application of article 16 of Council Regulation 479/2009 (discussed under agenda point 1.1). The implementation of two other UDV follow-up actions (on formal co-operation agreements and data sources for capital injections, distributions) was considered to be in progress, and the issues had been or would be covered in discussions under related agenda points, which could eventually lead to new follow-up actions.

It should be underlined that for several UDV action points, even though the Federal Statistical Office had delivered the requested information and, consequently, the points had been closed, Eurostat considered that the underlying structural matters needed a regular follow-up and the issues were to be reviewed during the EDP dialogue visit.

For all follow-up actions of the 2014 EDP standard dialogue visit progress was noted, and most of the action points were considered to have been accomplished. For two action points, relating to trade credits and interest, some of the requested deliverables had been provided. Progress in explaining and reducing residual adjustments in EDP table 2B was monitored on a regular basis and feedback was provided in the clarifications on the biannual EDP reporting. Moreover, further discussions also on these matters were envisaged under related agenda points of the 2016 EDP dialogue visit.

The German statistical authorities confirmed that they shared Eurostat's views concerning the state of completion of the follow-up actions from the past EDP dialogue visits.

Findings and conclusions

Eurostat and the German statistical authorities agreed that a majority of the follow-up actions from the past EDP dialogue visits had been completed, and that completion of the remaining action points was well advanced.

A number of follow-up actions from the past EDP dialogue visits were referred to in the discussions on related matters during the 2016 EDP dialogue visit, and progress in their completion was reviewed in this context.

3. Review of the 2015 EDP reporting and of related data compilation issues

3.1. EDP notification tables

3.1.1. Completeness of the EDP notification tables¹¹

Introduction

The German statistical authorities identified, measured and duly reported all significant adjustments sought in the EDP notification tables. Nevertheless, several standard adjustments lines were not completed in the tables. Even though there were only few, and their size was considered to be minor, Eurostat enquired about measures undertaken and envisaged by the German statistical authorities to close the information gaps.

Discussion

Eurostat recalled the items not reported in the past EDP notifications. The German statistical authorities informed that data on adjustments relating to issuances above and below nominal value for the state government sub-sector would be calculated and included in table 3C for the April 2016 EDP notification. Information on transactions in financial derivatives at local government level would be collected starting from 2017 onwards. Once the information was available, the statisticians would be in a position to report the related corrections in tables 2C and 3D.

Eurostat briefly clarified the convention followed by other Member States for the reporting of '*Amounts outstanding from the financing of public undertakings*', sought in EDP table 4. The reporting item was not covered under the scope of the EDP reporting obligations set out in Council Regulation 479/2009, but it was reported as '*other data in accordance with the statements contained in the Council minutes of 22/11/1993*'. Eurostat encouraged the German authorities to report this information.

Finally, the problem with the availability of data on the working balance of state, local government and social security funds for the first notification of year (n-1) data in year (n) was revisited. The issue was also discussed in past EDP dialogue visits. Overall, the Federal Statistical Office considered that the approach systematically followed for the April year (n) notification of (n-1) data, i.e., reporting the entries as 'not available', was the most transparent solution given that at the time of compilation of net lending/net borrowing the aggregates had not yet been compiled by the Public finance statistics division. As a possible solution, the German statistical authorities considered the reporting of estimated working balance figures, aligned to the extent possible with the estimations underlying compilation of reported B.9 data. Eurostat, however, pointed out that, at the time of the data reporting or a few days later, the balancing items calculated based on the returns to public finance statistics surveys had already been available and disseminated. In addition, it pointed to availability of monthly data for state government and social security bodies as alternative data sources for the working balance of the two sub-sectors. In Eurostat's opinion, the first annual working balance results and working balance calculated based on monthly data had an advantage over estimations. Nevertheless, the Federal Statistical Office was not in a position to recalculate their first estimates once the surveys' results had been available, and at the same time control their impact on residual adjustments in tables 2B-D and explain large discrepancies in a timely manner.

As a first step, it was agreed that for the April 2016 EDP reporting a set of complementary tables with the most recent information on the working balance for all sub-sectors and/or data

¹¹ The title of this agenda item has been amended compared to the draft agenda (cf. Annex 1), in order to better reflect the scope of the discussions at the meeting.

supporting analyses of the (n-1) net lending/borrowing compilation would be provided. Eurostat also pointed out that during the biannual data assessment procedure it would continue to request clarifications on the plausibility of the assumptions underlying the compilation of the first net lending/borrowing estimates, as well as on the reliability and accuracy of the figures, and a magnitude of revisions expected once the working balance data has been compiled.

Findings and conclusions

Eurostat took note of the measures taken and planned by the German statistical authorities to improve the completeness of the EDP notification tables for Germany.

Action point 10¹²: *The German statistical authorities will provide, by end-March of 2016, a set of complementary tables with the most recent information on the working balance for all sub-sectors and/or data supporting analyses of the (n-1) net lending/borrowing compilation for the spring notification.*

3.1.2. Working balance and its reconciliation with B.9 in EDP tables 2¹³

Introduction

The scope and composition of the working balance data and unexplained other adjustments in EDP tables 2 are monitored in the context of the biannual EDP data assessment process, and discussed on a regular basis during the EDP dialogue visits.

Even though the presentation of the adjustments in the EDP notification tables had been streamlined in the past, in the clarification procedure Eurostat commonly raises questions concerning specific adjustments and their revision. In order to improve its understanding of the types and magnitude of the adjustments introduced for specific groups of government bodies depending on their accounting systems, Eurostat requested EDP tables 2A-D to be compiled separately for these groups of entities. With a view to obtain a comprehensive picture of the compilation process and size of the entities' financial transactions and positions, Eurostat asked for the provision of corresponding sub-tables for EDP tables 3B-E.

Discussion

Eurostat acknowledged progress of the German authorities in reconciling fiscal balances calculated based on public finance statistics surveys with the ESA net lending/borrowing and explaining statistical discrepancies in EDP tables 2. Notably for state government the work on unexplained residuals has been progressing over the recent notifications, as a follow-up to the 2014 EDP dialogue visit.

However, Eurostat considered that the high level of aggregation of the adjustments in tables 2 and the complexity of their presentation made the process of data analysis during the biannual EDP assessment procedure particularly demanding for all parties. In Eurostat's view, further efforts were necessary to simplify the presentation of adjustments in EDP tables 2 and/or to provide additional information – for all government sub-sectors – on the reconciliation of the working balance and deficit by group of entities with the same accounting regime. This would help to gain better insight and to have a control over the corrections and their revisions. Hence, Eurostat appreciated very much the detailed EDP tables 2 provided by the German statistical authorities as background for the discussion. Eurostat took note of the Federal

¹² Completed

¹³ The title of this agenda item has been amended compared to the draft agenda (cf. Annex 1), in order to better reflect the scope of the discussions at the meeting.

Statistical Office's remark that the tables were prepared on a best effort basis and that the task was very difficult and time-consuming.

The Federal Statistical Office could not provide the detailed information as requested by Eurostat, given that the EDP data compilation was not organised according to the accounting system of the entities. Only for central government and social security funds the exercise could be conducted. EDP table 2A was drawn up separately for (i) core central government bodies and for extra-budgetary central government bodies with: (ii) cash-based and (iii) commercial accounting systems, whilst EDP table 2D was compiled separately for individual social security schemes for the most recent years only. For the state government and local government sub-sectors, the data could not be prepared within the short timeframe, and it was explained that, in particular for the state government sub-sector, it would be particularly demanding to deliver the split requested by Eurostat.

The detailed tables EDP 2A were briefly reviewed. Eurostat took note that some adjustments, e.g., in connection with accrual recording of construction expenditure, could not be attributed to specific entities and that only the largest, easily identifiable consolidation adjustments were reported for central government bodies with commercial accounting. In Eurostat's view, further efforts were needed to analyse thoroughly the adjustments and to compile similar tables also for state and local government sub-sectors. Eurostat pointed out that such detailed information could be useful to support the process of EDP data assessment and thus its regular production should be considered. The German statistical authorities could not commit to a systematic compilation of the data, but agreed to produce equivalent information for other sub-sectors. Eurostat requested that the data should be complemented by information on the level and change in debt of the groups of units to gain a very first overview of the entities' financial position and its evolution over time.

Findings and conclusions

Eurostat asked to simplify presentation of adjustments in EDP tables 2 and/or to provide additional information – for all government sub-sectors – on reconciliation of the working balance and deficit, by group of entities with the same accounting regime, as well as a similar breakdown for government debt data (end-year levels and their year-on-year changes).

Action point 11¹⁴: *The German statistical authorities will provide EDP tables 2B and C compiled separately for entities with similar accounting systems, and - for all government sub-sectors – data on changes in debt and debt level for core budgets, extra budgetary units, distinguishing, to the extent possible, between units with different accounting systems (e.g. single-entry, double-entry public and commercial, entity-specific).*

Timeline:

- *Data on changes in debt and debt level for central government and social security funds should be provided **before the April 2016 EDP reporting.***
- *Data for state governments (EDP table 2B) should be provided **before the October 2016 EDP reporting.***
- *Data for local governments (EDP table 2C) should be provided **before the April 2017 EDP reporting.***

¹⁴ Closed; data on changes in debt and debt level had been provided and hence this sub-item was completed. However, it has to be acknowledged that the provided figures on debt do not form a consistent time series due to reclassifications. In addition, it is solely based on the data from the annual debt statistics which does not account for model-based debt calculations, as for instance, the debt related to PPP. Separate EDP tables 2B and C split by accounting systems could not be provided by the German statistical authorities, since such a split could not be achieved with the existing compilation system.

- *In principle, data for all sub-sectors should be sent on a regular basis alongside the EDP notification if the information is considered to contribute substantially to EDP data's quality enhancement.*

3.1.3. Adjustments relating to consolidation

Introduction

Issues related to data sources used for consolidation have been discussed on several occasions in the past, notably in relation to the consolidation of financial accounts data for the general government sector.

Eurostat was aware that, for consolidation of government non-financial transactions, a special method is used with the leading source data being the information on transfers payable to other government bodies (expenditure side-based approach). In dedicated lines of EDP tables 2, adjustments relating to clearing within and between sub-sectors were reported. The EDP Inventory clarifies that the correction line contains discrepancies between consolidation in public finance statistics (working balance) and consolidation in national accounts.

Discussion

The German statistical authorities recalled briefly the consolidation rules in place for compilation of government non-financial accounts. Eurostat understood that even though for a majority of government units the data in the accounts of a payer is used as leading information for consolidation adjustments, for the entities with commercial accounting systems the data on transfers receivable is collected in the statistical surveys. This information is used for correction of the expenditure made by other government bodies to the units. It was pointed out that the approach did not warrant the recording of relevant transfers on an accrual basis given that some of the entities with commercial accounting system might register them on a cash basis.

It was also explained that the largest consolidation adjustments at local government level referred to the investments grants from the state governments earmarked for hospitals recognised as quasi-corporations in the German national accounts.

Finally, the differences between consolidation for the needs of public finance statistics and national accounts were briefly mentioned.

Findings and conclusions

Eurostat took note of the explanations provided by the German authorities.

3.1.4. Statistical discrepancies in EDP tables 3

Introduction

Given the incompleteness, heterogeneity and the fragmentation of source data, and reliance in many cases on a cash/commitment-based single entry accounting in core budgets, and/or use for the data compilation of counterpart information, the German statistical authorities appear to have doubts about the completeness and the overall quality of their data sources for the compilation of financial assets. In their view, the B.9 calculated as a balancing item of non-financial government accounts is the best estimate of B.9f. and, consequently, the data on transactions in other accounts receivable is estimated in order to ensure coherence and improve completeness of financial government accounts and their consistency with non-financial government accounts. The balancing item for the general government sector as a separate accounting category is thus not separately compiled for the quarterly government

financial accounts (QFAGG) and financial sector accounts, but serves as an input to estimate other accounts payable for which source data is incomplete.¹⁵

The issue of the adjusted data in other accounts receivable does not concern EDP statistics though. For the purpose of the biannual EDP reporting, the German statistical authorities disclose transparently the level of statistical discrepancies, including the discrepancies included in the adjusted transactions in other accounts receivable, in dedicated cells of EDP tables 3.

In April 2015, large discrepancies (at over 0.3% of GDP) were observed in EDP table 3A for the first notification of the 2014 data. Following a detailed review of source data and enhanced compilation of financial transactions for the pension reserve funds (Versorgungsrücklagen/-fonds), the discrepancies decreased considerably in October 2015, for the second notification of the data for 2014.

Discussion

Prior to the EDP dialogue visit, Eurostat sought a comprehensive picture of the reconciliation between working balance, B.9, financial transactions and change in debt, compiled by group of entities with a specific accounting system. Given the source data and compilation method in place, a separate presentation of the reconciliation between B.9 and change in debt in EDP tables 3 for the groups of units could not be prepared. Nevertheless, the Bundesbank updated a table with the reconciliation between the working balance of federal government and change in its debt, which was also an important tool for monitoring the quality of data on transactions in cash and deposits compiled for the federal government and included in totals reported in table 3B.

Eurostat thanked the German authorities for their efforts in order to closely monitor and control the level of statistical discrepancies and enquired about the findings from the past reporting rounds and issues under review, in the context of preparation for the April 2016 EDP notification.

It was pointed out that the investigation into the reasons behind the unusually high level of statistical discrepancies at local government level for 2014 did not reveal any specific data or compilation problems. The Bundesbank pointed to an ongoing work on improving quality of data on other accounts receivable/payable for social security funds. It was not clear whether the project would be completed before the April 2016 EDP reporting and whether it would lead to a decrease in statistical discrepancies.

Eurostat took note that these analyses pointed to an issue with the reporting of deposits of the Health Fund. Overall, it was also possible that the sector classification of certain units in the money and banking statistics differed, even though the list of extra-budgetary units classified to the general government sector was publicly available.

For many financial instruments, the transactions were not sourced directly from public accounts but compiled based on counterpart information. As discussed under agenda point 1.3.1, the new data collection on financial transactions has just been initiated. In Eurostat's view, better information on financial transactions, based on direct observation and public accounts records, would eventually lead to an "independent" calculation of B.9f. The German authorities considered that this might not be possible given uncertainty about quality of the returns to the new survey and the information on transactions in liabilities still not covered in the regular data collections. Eurostat pointed out that in other Member States similar problems with data sources are encountered. In spite of these problems, the countries measure independently B.9f and report it in ESA tables 27 and 6. Moreover, Eurostat underlined that

¹⁵ This issue of treating discrepancies is also interdependent with the compilation of other institutional sectors' data.

the current approach to compiling and reporting B.9f by Germany was not compliant with relevant ESA definitions. Consequently, Eurostat encouraged the German authorities to examine, as a first step, feasibility of compilation of B.9f. based on direct information from balance sheets and from the new financial transactions survey of the entities, drawing up a full set of accounts.

For the largest government units (in terms of impact on government deficit and/or debt; by government sub-sector), Eurostat requested a first reconciliation of B.9f calculated from public accounts data with net lending/borrowing calculated as a balancing item in the non-financial government account. Based on past exchanges and the background information provided for the 2016 EDP dialogue visit, Eurostat was aware that for some entities, e.g. defeasance structures, B.9f. had already been calculated independently. The difference between it and B.9 was, however, not considered an element of statistical discrepancies given that the entities had an integrated accounting system.

Findings and conclusions

Eurostat thanked the German authorities for the efforts undertaken to closely monitor and control the level of statistical discrepancies. Eurostat underlined that the current approach to compile and report B.9f for the government financial accounts is not compliant with relevant ESA definitions. Nevertheless, Eurostat noted that the statistical discrepancies resulting from the difference between B.9 and B.9f were calculated for the needs of the EDP reporting and presented in a transparent manner in EDP tables 3.

Action point 12¹⁶: *The German statistical authorities will review the feasibility of compiling B.9f based on direct information from balance sheets and from the new financial transactions survey of the entities drawing up a full set of accounts. For the largest government units (in terms of impacts on government deficit and/or debt; by government sub-sector), the German authorities will undertake a first reconciliation with net lending/borrowing derived from the non-financial government accounts. A progress report should be sent to Eurostat **by end-2016**.*

3.1.5. Other accounts receivable/payable, including trade credits

Introduction

The procedure established for the compilation of transactions and stocks of other accounts receivable/payable relies, to a large extent, on accrual adjustments calculated by the Federal Statistical Office based on models, rather than on direct observations and public accounts data. As a consequence, it is not possible to reconcile the information on transactions in other accounts receivable/ payable with data on government liabilities arising from trade credits and advances from the units' accounts. Apart from that, in some cases the adjustments calculated do not properly capture the time difference between a payment and an economic transaction giving rise to the payment, since not all transactions are recorded in the working balance on a cash basis.

Progress in the work on quality of trade credits data was discussed and source data and compilation issues relating to other accounts receivable and payable of the social security funds sub-sector were reviewed.

Eurostat requested a number of documents as background information for the discussion, including notes on the quality of trade credits data, the accounting system of social security funds, and data on adjustments recorded in the complementary period (5th quarter), on

¹⁶ Completion of this action point is in progress.

transactions in other accounts receivable and payable by sub-sector and their reconciliation with stocks reported in the QFAGG dataset and trade credits in EDP table 4.

Discussion

Firstly, the reporting of corrections in connection with the time of recording in EDP tables 2, i.e., under the section ‘other accounts receivable/ payable’, and their use as proxies for compiling the ESA-based other accounts receivable/ payable relating to non-financial transactions were briefly reviewed. Eurostat underlined that, given the complementary period for the registration of transactions budgeted in the past year but paid in the first months of the following year (referred to as the ‘*fifth quarter*’), the accrual adjustments calculated for the purpose of the reporting in EDP table 2 did not comply with the ESA definition of other accounts receivable and payable and, consequently, another source data and compilation method should be chosen for the recording in the financial government accounts.

In this context, a general problem with the quality of data on other accounts receivable and payable was raised given that the recording of financial accounts could not be aligned with the estimates of trade credits compiled based on the annual debt accounts survey.

The German statistical authorities report data on government liabilities arising from delivered but not yet paid goods and services and received advances at 0.93-98% of GDP for 2012-2014. Based on the information requested prior to the EDP dialogue visit, social security funds account for circa 70% of the value of the reported trade credits. Local government accounts for over 10% of the value of trade credits, while shares of the central and state governments amount to less than 10%. For central government, a large increase was observed between the end-2013 and end-2014. Some extra-budgetary entities at the federal and state government level reported large trade credits liabilities, at over EUR 100 million. Other public institutions, funds and enterprises at the federal, state and local government sub-levels also reported relatively large trade credits for 2013-2014.

Several improvement measures have been undertaken in order to improve the quality of trade credits data. Eurostat followed closely the developments. Apparently, for units with single-entry accounting system, the identification and quantification of ‘bookkeeping trade credits’, i.e. the values of invoices recorded in the accounting system at the end of a period, but not yet paid, was envisaged. In order to ensure that bookkeeping trade credits meaningfully approximated the level of actual trade credits as defined under ESA, the invoices would have to be booked in the system exactly at the time when they were received.

Nevertheless, a substantial share of non-response to the question in the annual debt survey had still been observed, notably at local government level. Improvements were expected for the entities switching to the new – accrual – accounting system. For the units that continued to rely on the single-entry accounting, the problem would, however, persist.

The German statistical authorities confirmed that data on trade credits liabilities were not consolidated within the general government sector. They discounted, however, a possibility that a portion of the trade credits could relate to claims arising from transactions between the statutory health insurance bodies and the Gesundheitsfonds.

Already during the discussion on statistical discrepancies Eurostat noted the ongoing examination of the quality of data on other accounts receivable/payable for social security funds, accounting for the largest portion of trade credits¹⁷. The data were analysed at an aggregated level, based on the information supplied by the Ministry of Health.

¹⁷ Discussions with the Member States on the classification of cash-accrual adjustments relating to social benefits in kind were ongoing and could lead to substantial revision to the trade credit liabilities should changes to the reporting convention be decided.

The accounting system of social security schemes, described in the background information requested for the EDP dialogue visit was not discussed under this agenda point in detail.

Findings and conclusions

Eurostat took note of the explanations.

Action point 13¹⁸: *The German statistical authorities will investigate the quality of data on trade credits reported by the statutory health insurance bodies with a view to integrating the direct information from public accounts into the compilation of transactions in other accounts receivable and payable. Eurostat will receive a first progress note by the April 2016 EDP reporting.*

3.2. Questionnaire relating to the EDP notification tables

Introduction

In the process of the changeover to ESA 2010, the contents of the EDP questionnaire were reviewed and a number of modifications were introduced. The German statistical authorities followed the schedule agreed between Eurostat and the Member States for implementing the resultant changes.

Following the clarifications with Eurostat in the course of the biannual EDP data assessment and having introduced a number of quality assurance measures, the German statistical authorities undertook non-negligible revisions to the reporting in tables on military equipment expenditure and guarantees. Eurostat welcomed these improvements.

The discussion concentrated on outstanding issues in relation to the completeness of specific tables of the EDP questionnaire.

Discussion

Eurostat appreciated the supplementary information provided in a number of tables of the EDP questionnaire, sent as background information for the EDP dialogue visit. The German statistical authorities completed the provided templates (table 4 and 13) or sent the available data in another format (data on guarantees). The discussion on specific matters was envisaged under related agenda points.

Eurostat pointed to the outstanding issues in relation to the completeness of specific tables of the EDP questionnaire. Particular attention was given to the tables on central government claims (table 8) and on capital injections, distributions and privatisations (table 10).

Findings and conclusions

Eurostat appreciated the supplementary information provided in the selected tables of the EDP questionnaire prior to the EDP dialogue visit, including tables 4 and 13, and encouraged further efforts to improve completeness of the questionnaire.

3.3. Supplementary tables for the financial crisis

Introduction

The name and template of the supplementary tables and the instructions for their completion had been revised. The EDP Statistics Working Group agreed that the new template would be used for the EDP data reporting starting from the April 2016 EDP notification.

¹⁸ Completed

As background information, the German statistical authorities had provided separate EDP tables 1-3 completed separately for each defeasance structure.

Discussion

The German authorities expressed some reservations about the envisaged amendments to the reporting template and, in particular, on the extension beyond EDP debt components of the scope of liabilities reported in Part 2 of the tables. It was pointed out that, as a consequence of the changes, the tables would cease to serve its primary purpose, i.e. the presentation of impacts of support measures granted to the financial sector on government debt. Eurostat took note of the views of the German authorities, and indicated that the new reporting convention needed to take into account various approaches followed by the Member States and the data users' needs, and that a strong preference for a balance sheet-type of presentation existed, with a clear distinction between assets side and liabilities side.

Eurostat also thanked the German authorities for the detailed data provided as background information for the discussion. In this context, Eurostat took note that the work on the compilation of revaluation effects for financial defeasance structures classified to the general government sector was ongoing.

Findings and conclusions

Eurostat took note of the German statistical authorities' reservations concerning the modification of the template for the supplementary tables on government support to the financial sector and of upcoming revisions to data on other economic flows for financial defeasance structures.

4. Methodological issues and recording of specific government transactions

4.1. Sector delimitation

4.1.1. Practical aspects of sector classification

Introduction

Given the large number of entities controlled by government in Germany, and the existing institutional arrangements, notably the division of responsibilities for the data collection and compilation within Verbund, a consistent application of the ESA sector classification procedure at a unit level is a demanding task for statisticians. In order to ensure compliance with relevant ESA rules, the Federal Statistical Office developed special guidance, and several simple numerical tests have been put in place, besides the 50%-test including also the 80%-test for government ancillary units, and a test for holding corporations. The procedures implemented for determining the perimeter of the public and government sectors in Germany were examined in detail during the prior EDP upstream and standard dialogue visits.

As background information for the discussion on sector delimitation, Eurostat had requested the lists of reclassified entities and of units for which sector classification analyses were underway, and a note on implemented and envisaged changes to the quantitative test for market producers.

Discussion

Eurostat welcomed the progress in the provision of detailed information on reclassified entities, for all government sub-sectors, during the biannual EDP data assessment exercise. For units controlled by state and local governments, an explicit authorisation by the regional statistical offices, who were the owner of the data, is needed for every sending of the information on to Eurostat. Thus, the procedures in place for consultation between the Federal

Statistical Office and regional statistical offices had been streamlined in order to ensure that data could be delivered in a timely manner.

Eurostat thanked the German authorities for the lists of entities reclassified from and to government and noted a relatively large number of reclassifications in summer 2014 and summer 2015, arising from the changeover to ESA 2010 and the subsequent streamlining of the classification procedure. Eurostat took note that further changes to the perimeter of the general government sector could be expected as a result of envisaged changes to the computation of the market/non-market test ratio. A number of modifications were being underway for entities with commercial accounting systems. Firstly, it was intended to extend the scope of the numerator by including 'other revenue' (corrected for the transfers from government) into the calculation of sales. Secondly, adjustments to both sales and production costs were planned for the amounts recorded for the own-account production. Moreover, for all entities, the calculation of the ratio's denominator would be modified by the elimination of the (cost-reducing) impact of negative net interest charge. The latter change was discussed and agreed by EDP Statistics Working Group and it was not expected to affect the ratio's level for many entities.

Notwithstanding this, other adjustments to the ratio's calculation were likely to result in a considerable number of reclassifications from the general government sector in the year of implementation and, as a consequence, in a reduction of the perimeter of the general government sector in Germany. Hence, Eurostat supported the corrections relating to the treatment of own-account production costs, which improved compliance with the relevant ESA guidance. It expressed, however, doubts over a need to add 'other revenue' to the 50%-sales and considered that a detailed examination of the envisaged change against ESA rules and of its impacts on government deficit and debt was needed.

The Federal Statistical Office presented the rationale for the amended treatment. Data on 'other revenue' reported by entities with commercial accounting system were recorded in national accounts as government revenue, even though it was not included in the calculation of sales for the market-non-market test. As a result, the entities re-classified to government on the grounds that they did not satisfy the market test, i.e. were not covering a majority of their costs through their output, frequently generated non-negligible other revenue, and could overall be profitable and contribute to the general government sector's surplus. Given that, under a principle of caution, 'other operating costs' were added to the costs of production for computing the market-non-market ratio, the Federal Statistical Office held the view that the inclusion of 'other revenue' ensured a symmetric treatment of the residual categories of operating costs and revenue. Furthermore, the Federal Statistical Office underlined that all payments from government were subtracted from the other revenue considered for the 50%-test. Eurostat took note of the explanations. It insisted, however, that before adjustments to the ratio's calculation were introduced a review of the contents of 'other revenue' by industry should be undertaken, and the impact on government deficit and debt arising from the resultant changes to the general government sector perimeter should be estimated.

In the discussion, the multiplier applied by the German statistical authorities to compute the consumption of fixed capital based on depreciation, i.e. a proxy from financial statements, was briefly reviewed. The Federal statistical office considered the level of the multiplier, set in the past at 1.5, as too high, given that inflation decreased considerably in recent years. Eurostat commented that the approaches to estimate consumption of fixed capital varied across Member States. It referred to an example of a higher value of the multiplier (at 2.0) applied by another country for entities with sizeable fixed assets. No conclusions were drawn from the discussion.

Finally, Eurostat considered that the German statistical authorities should devote further efforts to ensure that all relevant qualitative criteria are taken into account for the

classification of government entities, and that quantitative market/non-market tests, for entities with the largest debt, are carried out on the most up-to-date information from the units' financial statements. These matters were also addressed in the discussions under agenda points 4.1.2 (relating to the questionnaire on government controlled entities) and 4.1.3 (on sector classification of specific entities).

Findings and conclusions

Action point 14¹⁹: *Before a final decision on modifications to the sector classification procedure will be made, the German statistical authorities should undertake further analyses: 1) of the composition of the accounting items: 'other revenue' and 'own-account production' [by major types of economic activities for which different accounting rules might apply], 2) of impacts of the envisaged changes on the perimeter of the general government sector, and 3) on the measurement of government deficit and debt. The German statistical authorities should send to Eurostat a progress note with their findings **before end-June 2016.***

4.1.2. Questionnaire on government controlled entities

Introduction

The questionnaire on government-controlled entities classified outside the general government sector serves for two purposes. Its primary objective is to complement the list of the general government units, providing a comprehensive picture of a country's public sector, and enabling Eurostat to monitor the changes to the perimeter of the general government sector and verify that the classification of specific entities and the data underlying the statistical analyses were correct. The second objective of the questionnaire is the collection of data on liabilities of government controlled entities, used to calculate the debt of the largest public corporations published as one of the indicators of fiscal risks stemming from the corporations' operation.

During the meeting, the outstanding issues relating to the reporting in the questionnaire were addressed. As background information for the discussion, Eurostat requested a note on progress in improving completeness and timeliness of the questionnaire, data on the population of the entities covered in the questionnaire (the number of units, their liabilities and number of employees) broken down by NACE, as well as a list of the largest government controlled units (with debt at over 0.005% of GDP) with market-non-market ratio at 50-75%.

Discussion

Eurostat thanked the German authorities for the background information provided. Eurostat had received two returns of the questionnaire on government-controlled entities, compiled by the Federal Statistical Office and by the Bundesbank. The Bundesbank's list included solely government controlled monetary financial institutions while Destatis' list comprised all other entities controlled by government. Three units, for historical reasons, were listed in both questionnaires.

The Federal Statistical Office reported its datasets with a four-month delay and the return did not specify the NACE classification of the entities or the ESA sector classification. Moreover, the information on operating profit, employees and market-non-market ratios was missing for some units with large debt. The list did not include either non-resident entities controlled by the German government given that they were not obliged to respond to the public finance statistics surveys. During the 2014 EDP dialogue visit, Eurostat raised also concerns over the exhaustiveness of the list with regard to subsidiaries of public monetary financial institutes not captured in Destatis' reporting system.

¹⁹ Completion of this action point is in progress.

In their feedback, the Federal Statistical Office recalled key points outlined in the background note prepared for the meeting. A number of measures had been taken to improve the exhaustiveness of the list of the government-controlled entities reported to Eurostat. Firstly, processing the results of the Germany-wide survey on reporting entities (*‘Grundbefragung’*) was underway. The survey was launched to verify and update the information on entities controlled by government in the system of administration of the reporting entities (*‘BKM’*). It was being carried out jointly by the federal and regional statistical offices over years 2015 and 2016. The survey collected primarily information on the units’ owners and subsidiaries. It was confirmed that subsidiaries of public MFIs were included in the scope of the BKM’s review. It was planned that, until end-March 2016, an additional module of *‘Verbundsystem der Finanz - und Personalstatistiken’* (*‘FIPS’*) would be put in place to automatize processing of the results of the Grundbefragung and support the standardisation and efficient data compilation process.

Secondly, since mid-2014, a close co-operation was established with the Bundesbank to improve the exhaustiveness of the BKM. It specifically aimed to identify early public entities providing financial services and all bodies controlled by public MFIs. To this end, the Federal Statistical Office tested the population of units reporting under the framework of banking statistics for their control by government. Thirdly, it was agreed with the Ministries of Finance at federal and Länder level that the Federal Statistical Office would be informed of all newly established entities, and consulted on their sector classification. In addition, a working group *‘Public finance statistics reporting population’* was established in autumn 2015. Its primary objective was to clarify and ensure homogeneous treatment of complex, Länder-specific cases, and to address questions arising in relation to the reporting obligations of entities to the public finance statistics surveys.

The Federal Statistical Office also pointed out limitations to improving completeness and timeliness of the questionnaire and highlighted a need to prioritise the data compilation and reporting obligations. Specifically, it informed Eurostat that:

- i. the time lag with which some data were available, e.g. on the number of employees, operating profit and market/non-market ratio of public corporations, could not be shortened given that returns to respective surveys were due – at the earliest – 20 months after the end of a reporting period,
- ii. the analyses determining the perimeter of the general governments sector for the following EDP data compilation round were given priority, leading to a certain delay to updating the questionnaire on government controlled entities.

Consequently, the timeline for provision of the questionnaire on government controlled entities and the time lag for reporting specific characteristics of the bodies could not be shortened.

Eurostat took note of the upcoming improvements to the exhaustiveness of the BKM and to the list of units reported in the questionnaire. It also underlined the major issues that needed to be addressed for the forthcoming data submissions: (i) the reporting of information on classification of the government controlled units by NACE and (ii) the inclusion of more up-to-date figures for the largest entities reported in the questionnaire. Eurostat acknowledged and thanked the Federal Statistical Office for its support of the analyses of the population of units reported in the questionnaire for specific ad-hoc requests, which could not be handled independently given shortcomings of the reporting. The data provided as background information for the discussion also considerably improved Eurostat’s understanding of the structure of non-government public sector by principal activity of government controlled bodies. However, Eurostat insisted that the reasons for the confidentiality status of NACE data should be clarified as a follow-up of the 2016 EDP dialogue visit. Eurostat pointed also to a limited number of entities reported in the questionnaire with large liabilities – some one

hundred and thirty units – and considered that for these public bodies further efforts should be made to report the most recent data from their financial statements irrespective of the deadlines for the returns to the public finance statistics surveys.

Findings and conclusions

Eurostat took note of the upcoming improvements to the exhaustiveness of the BKM and list of units reported in the questionnaire. Moreover, it insisted that the reasons for the confidentiality status of NACE data should be clarified as a follow-up of the 2016 EDP dialogue visit (cf. also action point 9 agreed as a follow-up to agenda item 1.5 on the EDP Inventory). Eurostat pointed to a limited number of entities reported in the questionnaire with large liabilities and considered that for these public bodies further efforts should be made to report the most recent data from their financial statements irrespective of the deadlines for the returns to the public finance statistics surveys.

4.1.3. Sector classification of specific entities

Introduction

Under this agenda point, Eurostat and the German statistical authorities discussed the approach to the sector classification of specific entities, including promotional banks, public hospitals and TV and radio broadcasting agencies.

Discussion

- Public law institutions

Multiple government-controlled entities in Germany were established under public law and function with a special legal and administrative status of a public law institution (*‘Anstalt des öffentlichen Rechts’*). Apparently, only units entrusted with a public task or pursuing public policy purposes were eligible for such a status. Given their public mission, the entities also enjoyed a maintenance liability of their owner (*‘Anstaltslast’*), who was supposed to secure their solvency and liquidity so that, in principle, they could not go bankrupt. Eurostat was aware that a number of these entities were classified outside the general government sector in the German national accounts. The German statistical authorities confirmed that the entities with the status of a public law institution performed various economic activities, were driven by commercial considerations and that their legal status was not taken into consideration for their sector classification. For all the entities, the market-non-market ratio was calculated and the entities then classified inside or outside the general government sector.

Eurostat acknowledged that, according to the ESA classification rules, the legal form of a unit could not predetermine its institutional sector. Eurostat questioned whether, the entities indeed competed with private bodies on relevant markets and could be considered as market producers under ESA, given the explicit commitment of the owners or stakeholders of the units to secure their solvency and liquidity (the *Anstaltslast*). Moreover, Eurostat noted that the qualitative aspects of classification of the institutions established under public law might had to be reviewed on a case-by-case basis, notably whether the entities’ economic behaviour was driven by market forces and economically significant prices. As a first step towards a more detailed examination, Eurostat requested that the German statistical authorities should provide, as a follow-up to the discussion, an exhaustive list of the units and information on their branch of activity, sector classification and criteria on which the sector classification had been decided.

Findings and conclusions

Eurostat noted that the qualitative aspects of classification of the institutions established under public law [*‘Anstalten des öffentlichen Rechts’*; *‘AöR’*] might need to be reviewed on a case-

by-case basis, notably whether the entities compete on relevant markets and/or whether their economic behaviour is driven by market forces and economically significant prices.

Action point 15²⁰: *The German statistical authorities will provide, by end-August 2016, a list of public law institutions (Anstalten des öffentlichen Rechts), including information on their branch of activity, sector classification and on criteria on which the sector classification has been decided for the units.*

- Public transport and utility corporations and public holdings

The list of government-controlled entities classified outside the general government sector by their economic activity (NACE), prepared as background information for the discussions on the sector delimitation, comprised nearly six thousand utility providers, including electricity, gas, and steam suppliers and corporations in charge of water supply, sewerage, waste management and remediation activities, and some five hundred transport providers. Moreover, public transport and utility corporations were included in the list of entities with large liabilities and with the market/non-market ratio at 50-75%. Eurostat was also aware of over two hundred transport providers - mainly at local government level – reclassified to the general government sector in the past years.

The major concern expressed by Eurostat related to the application of the 50% market-non-market test for these units, notably with regard to the reference period for data input into the statistical analysis and the practical implementation of the qualitative criteria for the sector classification of government-controlled entities. Eurostat noted that some of the transport and public utility corporations had the status of public law institutions, and thus were considered to implement a public task and could not go bankrupt.

The discussion concentrated on the specific example of 'Berliner Verkehrsbetriebe AöR' (BVG). The market-non-market ratio for the public transport operator of the Land Berlin consistently amounted to over 50% for the three years reported in the questionnaire on government controlled entities, but did not increase above 55%. Eurostat's attempts to recalculate the ratio for the most recent period for which the financial statements were publicly available (2012-2014) raised doubts about the treatment of specific accounting items presented in the profit and loss accounts and accompanying notes. As a follow-up to the discussion, the German statistical authorities agreed to re-examine their calculations based on the most updated information from the financial statements and provide an overview of how the qualitative criteria were taken into account when deciding the sector classification of the unit.

The issue of subsequent re-classifications of public holding corporations was briefly mentioned. Eurostat was aware that a special algorithm for the classification of the entities existed. The procedure was described in the EDP Inventory. The German statistical authorities confirmed that they monitored the units' classification on a regular basis and detailed analyses were conducted for entities with large liabilities.

Findings and conclusions

Eurostat re-iterated its request that a structural solution should be found for the entities with large debt so that the most recent information from published financial statements is used for calculating the ratio in the quantitative market/non-market test.

²⁰The German statistical authorities have provided Eurostat with a note stating the legal reasons why the list cannot be transmitted to Eurostat. Eurostat has requested the opinion of the Commission's Legal Service regarding the validity of the reasoning. Consequently, Eurostat considers the action point as being open.

Action point 16²¹: *For Berliner Verkehrsbetriebe AöR, for which the market/non-market test ratios ranged from 53 to 55% over 2010-2012, Eurostat asked that the entity's sector classification should be re-analysed based on the 2012-2014 financial statements and taking into account all relevant qualitative criteria. The outcome of the analysis should be sent to Eurostat before April 2016.*

- *Statutory market regulators*

Eurostat referred to the rules on the treatment of statutory market regulators and professional associations in the revised version of the MGDD (2016 edition) and observed that various regulatory bodies appeared to belong to different institutional sectors in the German national accounts. The issue was not discussed in detail. Eurostat requested that, as a follow-up to the meeting, it should be examined whether the classification of all statutory market regulators complied with the new MGDD guidance and whether any changes to the government sector perimeter would be needed as a result of implementing the MGDD's recommendations.

Findings and conclusions

Action point 17²²: *In light of the revised MGDD (2016 edition), Eurostat requests a report, before October 2016, on whether, and if yes how, the new guidance on the sector classification of statutory market regulators could impact on the perimeter of the general government sector in Germany*

- *Promotional banks*

Following the changeover to ESA 2010, Eurostat has been particularly paying attention to the sector classification of government controlled financial institutions. Irrespective of whether an entity was holding a banking licence and/ or was included in the list of monetary financial institutions (*MFI*s), the units' autonomy of decision and their possibly 'captive' nature required examination. Specifically, the German Förderbanken (*promotional banks*) required a thorough statistical review, given that the governance and the operation of state development banks in some other Member States were modelled upon the largest German promotional bank Kreditanstalt für Wiederaufbau (*KfW*). Prior to the meeting, the German statistical authorities had prepared a note on the sector classification of promotional banks at federal and regional level, and the rationale behind their statistical treatment.

According to this background note, nineteen financial institutions could be considered as promotional banks in Germany, including KfW Banking Group and Landwirtschaftliche Rentenbank at federal level and seventeen regional promotional banks. The note also pointed out some key features of the promotional banks, notably: (i) a dedicated legal act founding the bank and defining its mandate, (ii) a scope of activities concentrating on: environmental protection and resource management measures, promotion of social housing and urban development, financing of small and medium enterprises and of start-ups, financing of public infrastructure and local governments, investments in health, education, employment, technical progress and innovation, (iii) governing bodies, (iv) the promotional banks are primarily not orientated towards maximising profits and do not distribute profits earned, (v) they are not allowed to compete with other financial corporations, (vi) they benefit from government support in the form of a maintenance obligation (*Anstaltslast*), a guarantor obligation towards its creditors (*Gewährträgerhaftung*) and explicit unconditional government guarantees, (vii) in many cases the promotional banks channel their support to beneficiaries through the beneficiaries' house banks, (viii) they rely on various financing sources, which however exclude direct deposits from households and businesses.

²¹ Completed

²² Completion of the action point is in progress.

During the meeting, the business model of the largest German state development bank, Kreditanstalt für Wiederaufbau ('KfW'), was reviewed. Representatives of KfW participated in the discussion.

The representatives of KfW briefly presented the governing bodies of the bank and the influence of government – as a shareholder and member of the governing bodies – on its day-to-day operation was examined. KfW's legal status and key aspects of its governance and operation are laid down in the Law Concerning Kreditanstalt für Wiederaufbau (the '*KfW Law*'). The Federal government owns 80% of KfW's share capital and the Länder hold the remaining 20% of the shares. Starting from 1 January 2016, KfW Group is subject to the German Banking Law and Regulation (EU) No 575/2013 (CRR).

KfW is governed by the Executive Board ('*Vorstand*') and by the Board of Supervisory Directors ('*Verwaltungsrat*'). While the Executive Board was responsible for managing KfW's operation, the Board of Supervisory Directors was in charge of planning and approving the annual management report.

The KfW Law does not require general shareholders' meetings given that the Board of Supervisory Directors performs this function, and shareholders are represented in the governing body. The Board of Supervisory Directors comprises thirty seven members, of which seven (federal ministers) serve in the Board '*ex officio*', whilst fourteen members are appointed by the Bundesrat and Bundestag, and sixteen members represent banking industry practitioners, other branches of activity whose financing KfW supports, trade unions and (associations of) municipalities, and are appointed by the federal government after having heard the groups concerned. The Board of Supervisory Directors commonly meets three times a year and it appoints the Executive Board's members.

Eurostat enquired about the scope of application of article 7(4) sentence 2 and 3 of the KfW Law, stipulating that the Board of Supervisory Directors "*may give the Executive Board general instructions. In particular, it may reserve the right to approve the conclusion of certain transactions and type of transactions.*" In addition, in KfW's Bylaws, article 9(2) sets out that the Board of Supervisory Directors has the power, inter alia, to: '*specify additional approval requirements in relation to the conclusion of certain transactions or types of transactions*'. Based on the explanations by KfW's representatives, Eurostat understood that the Executive Board decided independently on specific operations up to a certain risk exposure (up to EUR 100 million for loans granted to a borrower whose credit risk was rated as 'investment grade', and up to EUR 50 million for loans to customers with higher credit risk). Once an operation's value exceeded those limits, the Executive Board needed to get the approval of the Risk and Credit Committee of the Board of Supervisory Directors. The representatives of KfW pointed out that the Committee was composed of fifteen members of the Board of Supervisory Directors, with the majority of which representing the German banking industry, and it convened on a monthly basis. Moreover, it was confirmed that the proportion of the loans subject to the Committee's approval relative to the total value of loans was small.

Subsequently, the structure of the bank's financing business was outlined. It comprised three key business segments: i) domestic finance business, ii) export/ project business and iii) development aid. The main purpose, profitability and type of operations undertaken in each of the business segments were briefly discussed. Overall, Eurostat took note of the relatively large and heterogeneous scope of KfW's activities and observed that in other Member States the three areas were commonly covered by independent promotional banks specialised in a given banking segment.

The first business segment of KfW's operation, '*domestic finance*', encompassed promotional activities supporting the national economy, including low-interest long-term loans to small and medium enterprises and start-ups, financing of the housing and infrastructure

development and loans for students. The new loans granted in this business segment accounted for the largest share (over 60%) of the entire volume of new transactions. Eurostat understood that the ultimate borrower risk in this business segment was predominantly borne by on-lending institutions. Overall, KfW extended most of its promotional loans in this area through commercial banks, and the banks – and not their borrowers, e.g. small or medium enterprises or retail customers, albeit the ultimate beneficiaries of the promotional activities – were counterparty to KfW's transactions and, consequently, the credit risk of the banks was borne by KfW. Eurostat understood that the loans were not subject to approval by the Risk and Credit Committee. At Eurostat's request, KfW representatives described briefly how the financing advantage was passed on to the ultimate borrower under a given scheme. The issue of a potentially large accumulation of banking sector risk as counterparty to the transactions was also mentioned.

The second business segment concentrated on lending via KfW IpeX Bank for export activities and for projects and investments undertaken in the German and European interest. It encompassed inter alia loans provided to enterprises for financing aircraft or ship construction, or renewable energy infrastructure. The lending operations were subject to the common risk exposure limits. The risks of the projects were, however, considerably higher than in the case of KfW's domestic business. Hence, the lending operations exceeded the risk exposure threshold more frequently and the projects had therefore to be authorised by KfW's Risk and Credit Committee.

Finally, the specificity of development aid as a business area of a development bank was mentioned. In Eurostat's understanding, KfW could perform in this segment three different roles; it could act in its capacity as: (i) a bank operating the State's account, and, consequently, carrying out specific transactions already recorded in the federal budget, (ii) a trustee and administrator of related financial assets, (iii) an independent bank driven by its own promotional objectives, profitability considerations and risk management policy. It was underlined that the latter part increasingly gained importance over the recent years. Given that the business segment focused on provision of loans to developing and transition countries, the representatives of KfW acknowledged that for the operations covered in this segment the closest relations with the federal government were established. The overall funding strategy was, however, devised by the bank itself and it was part of the annual planning. The strategy followed the broad objectives defined for the German development policy, translating them into practice with regard to specific lending operations. Eurostat understood that neither the geographical scope nor the instruments were strictly predetermined. A large degree of flexibility was granted to KfW in this context. It was also mentioned that only a small percentage of the loans needed to be examined by the Risk and Credit Committee, given the specific nature of the financing under the development aid business segment.

KfW representatives pointed out that, in addition to its common business, the bank undertook:

1. some activities going beyond the scope of its promotional business, notably the operations assigned to it on a case-by-case basis by the federal government under article 2 (4) of KfW Law (*'Zuweisungsgeschäfte'*), and
2. operations within the scope of the promotional activities defined in the KfW Law; however, not compliant with the profitability targets or risk profile sought by KfW, commissioned by the federal government and compensated for possible profitability loss or for which government assumed an excessive risk (*'Auftragsgeschäfte'*).

Eurostat also noted that the specific operations mentioned above were being thoroughly examined by statisticians in the light of the MGDD's rules on re-arranged transactions.

It was confirmed that the Länder, holding 20% of KfW's shares, were not entitled to attribute special tasks to KfW. The representatives of the bank also explained that there was no co-

operation between KfW and Landwirtschaftliche Rentenbank and that there was a refinancing link between KfW and the regional promotional banks.

Against this background information, Eurostat re-addressed the issue of the influence exercised by the Board of Supervisory Directors, notably the government officials being members of the board, on the day-to-day operation of KfW. Article 4 of KfW's By-laws was cited as a legal provision explicitly stipulating the limitations to the Executive Board's powers with regard to KfW's management and the administration of its assets. Eurostat understood that, overall, the Board of Supervisory Directors authorised new business initiatives (e.g. venture capital), occasional acquisitions or disposals of equity and had a right to give general guidance concerning KfW's strategy and operation whilst KfW defined its own strategy and decided the specifics regarding the operation of its daily business. As mentioned at the beginning of the discussion, for more risky operations, the Risk and Credit Committee's approval was necessary. It was again emphasised that to efficiently fulfil its task, the Committee was composed of the members of the Board of Supervisory Directors who were experts from the banking industry and practitioners from other sectors of economy benefiting from the promotional activities of KfW, rather than government officials.

Eurostat specifically referred to the role of the Board of Supervisory Directors in respect of KfW's annual planning and enquired about the volume of lending decided by the board in this exercise. KfW's representatives acknowledged that the plan for the upcoming year decided by the Executive Board required once a year an authorisation by the Board of Supervisory Directors. The annual plan subject to the authorisation appeared to include a rough number for the following year's lending volume and information underlying its calculation. In any case, a room for manoeuvre was granted to the Executive Board. KfW representatives mentioned as an example of the Executive Board's relatively large discretion over the lending a substantial amount of loans recently granted to municipalities to accommodate refugees, which was not foreseen in the planning. Moreover, KfW's representatives underlined that the annual planning needed to reflect the bank's overall strategy. For this reason, the Board of Supervisory Directors could not amend considerably the Executive Board's proposal.

Furthermore, Eurostat requested information on who decided the parameters of the share of financing in the projects. KfW's representatives explained that they were indeed approved by the Board of Supervisory Directors, but not at a very granular level. In general, the product development group functioning within the bank designed all conditions of KfW programmes. KfW's representatives mentioned specifically an envelope for investments for energy efficiency for which the specifications were determined in the project development group but not discussed by the Board of Supervisory Directors.

In addition, Eurostat was interested in whether the annual plan for KfW set out profitability targets and, if yes, whether they were binding for the Executive Board. Apparently, the annual plan set out the general profitability indicators targeted by the bank. It was, however, explained that the discussion at the Board of Supervisory Directors would rather focus on the discrepancies from the profit targets envisaged by the Executive Board and not on the targets themselves.

In this context, Eurostat sought comments of KfW's representatives on the bank's profit on its operational activities. Based on the information in the 2014 financial statements of the KfW Group, Eurostat noted that for the small and medium enterprises financing segment KfW was reporting losses. The low profitability of the SME business segment was explained by the evolution of interest rates.

Overall, the scope of KfW's operation was not determined based on profitability considerations and Eurostat understood that KfW would not step out from a specific business segment should it be loss-making. KfW sought profit as a general outcome of its products' mix and its very low costs of financing. KfW borrowed at an interest rate for risk-free debt

since borrowing was guaranteed by the German State. For this reason, even though there might be some cross subsidising across various business segments, the overall profitability was secured for its business model. Its overall profit target was set in relation to the combination of profitable, less profitable and non-profitable business. Losses in specific domains might also be assumed by the government, e.g. by the provision of interest rate subsidies. Moreover, it was underlined that given its financial advantage KfW was not allowed to distort competition on the financial market.

Concerning the risk management policy, KfW's representatives specified that for exceptional lending programmes KfW might participate in the risk of the house banks, e.g. for loans to start-up companies. Overall, however, KfW divided its potential ultimate beneficiaries into risk classes; by capping risk margins, it eliminated the borrowers with the highest risks. Under the system, the local banks classified the customers to specific risk classes and assumed the borrowers' credibility risks. The system ensured competition across the local banks and enabled KfW to pass the financial advantage via the local banks onto the ultimate beneficiaries of its promotional business.

KfW confirmed that the annual plan set out the overall financing volume sought by the bank, which was also subject to approval by the Board of Supervisory Directors. No information on margins, neither in relation to lending nor financing, was covered under the annual planning exercise though.

In addition, KfW representatives underlined that the bank held a banking licence, was partly regulated by the banking supervision authorities, and participated in the inter-bank market. It was, however, not allowed to accept deposits from the public and refinanced itself by issuing debt securities. Eurostat also understood that the operations undertaken by KfW upon instruction of the federal government were financed by general debt issuances and not by earmarked borrowing. The share of the related financing could be calculated based on the volume of loans granted. The explanations of KfW were complemented by the German statistical authorities, which briefly outlined the reporting procedure established to source information from KfW on its operations conducted on behalf of government.

Government commitments towards KfW, its borrowers and lenders were also briefly discussed. In accordance with Article 1a of the KfW Law, the Federal Republic of Germany is liable for KfW's liabilities. It was underlined that the guarantee had similar features as Gewährträgerhaftung, i.e. it was not an unconditional guarantee at a first demand. It could only be called by the bank's creditors once the bank was in the process of liquidation and its assets did not suffice to cover its liabilities. It was explained that additional guarantees - i.e. unconditional guarantees at a first demand - could also be issued on KfW's debt issuances. Government guaranteed also KfW's assets, notably if the profitability or risk of certain transactions did not meet KfW's targets.

Eurostat thanked the participants for the detailed information provided on KfW's governance, business model and performance of its promotional activities in the field of domestic business, export credit and development aid. Eurostat decided that it needed to re-examine it against the MGDD's guidance before a final decision of the sector classification of KfW is made.

Eurostat took also note that other promotional banks in Germany, more precisely Landwirtschaftliche Rentenbank and regional development banks, provided their promotional services under a business model with apparent similarities to KfW. In Eurostat's view, the sector classification of these entities needed to be further analysed on a case-by-case basis. The review should be initiated once the examination of the sector classification of Kreditanstalt für Wiederaufbau will have been completed.

Findings and conclusions

Eurostat appreciated the explanations given by the representatives of the Kreditanstalt für Wiederaufbau ('KfW') on the bank's governance, business model and performance of its promotional activities.

Action point 18²³: *Eurostat will analyse the sector classification of KfW and inform the German statistical authorities on the outcome of its analysis **before the April 2016 EDP notification.***

Eurostat took note that other promotional banks in Germany, i.e. Landwirtschaftliche Rentenbank and regional development banks, provided their promotional services under a business model with apparent similarities to KfW. Nevertheless, in Eurostat's view, the sector classification of the entities needs to be further analysed, and considered on a case-by-case basis. The review should be initiated once the examination of the sector classification of Kreditanstalt für Wiederaufbau will have been completed.

Action point 19: *Eurostat and the German statistical authorities will discuss in detail, and on a case-by-case basis, the sector classification of other promotional banks in Germany **after the April 2016 EDP reporting.***

- Deposit guarantee schemes

In view of the changes to the design of statutory deposit protection schemes enforced under Directive 2014/49/EU, which entered into force in July 2015, and in the light of the relevant guidance in the MGDD, the Federal Statistical Office reviewed the sector classification of all deposit guarantee schemes in Germany. As a result, the statutory deposit protection schemes, i.e. the Compensation Scheme of German Banks ('EdB'), the Compensation Scheme of the Association of German Public Sector Banks ('EdÖ') and the Investor-Compensation Scheme ('EdW') were classified to the general government sector on the grounds that they lacked autonomy of decision.

The Directive affected also the functioning of institutional protection schemes. The members of those schemes were legally obliged to ensure their depositors' protection equivalent to the protection under statutory deposit guarantee schemes, i.e. an explicit right to receive compensation up to a hundred thousand Euro if a bank went bankrupt. Consequently, the principle of solidarity among the members of an institutional protection scheme alone did not suffice, and a hybrid structure had to be put in place, containing elements of solidarity and explicit commitments of the member institutions.

In Destatis' opinion the amendments to the functioning of two institutional protection schemes in place in Germany: (i) for saving banks (protection schemes of the Sparkassen-Finanzgruppe; 'DSGV') and (ii) for co-operative banks (Federal Association of German People's Banks and Raiffeisen Banks; 'BVR') did not affect the sector classification of the entities.

During the discussion, Eurostat saw some similarity between the system of commitments of the members of the institutional deposit guarantee schemes and the over-guarantee arrangement for the EFSF. The German authorities explained that it was not possible to split the new hybrid arrangement into a 'statutory part' and a typical institutional solidarity-based deposit guarantee scheme. It was also confirmed that the scheme could call for extraordinary contributions in the event of emergency. Eurostat also pointed to a considerable systemic risk arising from the participation of large saving banks in one of the institutional schemes and enquired about who would step in to cover a financing gap should the scheme's liabilities

²³ Completed

exceed its assets and calls for member institutions to provide financial resources proved to be insufficient.

In the view of the German statistical authorities, the deposit guarantee provided under the institutional schemes would never be called by depositors given that for the member institutions an early reaction to a member's financial problems was more efficient and less costly than compensation to be paid to depositors in the event of a member bank's insolvency. For this reason, the elements of solidarity among the member institutions retained its importance under the re-designed institutional schemes, with the statutory-deposit-guarantee features of the schemes having a secondary role. It was also confirmed that it was up to BaFin, the German financial market regulatory authority, and not to government to define the major features of the scheme.

Moreover, it was underlined that there was no legal obligation for the government to step in should the institutional guarantee scheme cease to perform its key function. Hence, only an implicit obligation of government towards the depositors could be inferred under the arrangements.

Finally, the German statistical authorities indicated that one of the major differences between the institutional schemes re-designed to comply with the Directive's requirements and the new statutory protection of the depositors was a flexibility of the member institutions to use the funds accumulated under the scheme. Unlike under the statutory deposit protection schemes, the accumulated resources would be used:

- in the first instance, to support the financial institution in the event of liquidity or solvency problems, and
- only in the case should the intervention remain ineffective, for the compensation of depositors.

Findings and conclusions

In Eurostat's view a further examination of the methodological guidance on the classification of deposit guarantee schemes and of arrangements in other Member States was essential before drawing conclusions on the existing treatment of the institutional protection schemes in the German national accounts.

- Public broadcasters

The German broadcasting agencies comprised regional public-service broadcasters (e.g. Bayerischer Rundfunk, Westdeutscher Rundfunk, Rundfunk Berlin-Brandenburg), their joint organisation known as the Consortium of public broadcasters in Germany ('*Arbeitsgemeinschaft der öffentlich-rechtlichen Rundfunkanstalten der Bundesrepublik Deutschland*'; 'ARD'), the second public TV broadcaster ('ZDF'), and Deutschlandradio.

The sector classification of the broadcasting agencies in Germany had been reviewed in the past alongside the discussion on statistical implications of the changes to the system of financing of the units that entered into force in 2013. Under German law, a compulsory fee was levied on households and businesses, earmarked for financing of the broadcasters' operation. The amount of the fee – recommended by a committee and decided by the Länder governments and parliaments – was based on the level of costs incurred by the units.

According to the background note prepared for the discussion, the Federal Statistical Office had re-analysed the treatment of the payment and the classification of the broadcasting agencies giving due consideration to Eurostat's clarifications of the relevant ESA rules. Overall, the German authorities agreed that, based on the recommendations in the dedicated section of the MGDD, the levy should be classified as a tax, and be re-routed through government accounts. The national accounts treatment implied that the broadcasting agencies

were entirely financed from government subsidies, and not directly by households and businesses' contributions. The amended recording of the payment led also to a change in the sector classification of the units, since they were not in a position to cover their costs by sales revenue and, as a result, did not comply with ESA definition of market producers.

However, the German statistical authorities retained their opinion expressed in past discussions that the entities were not controlled by government given that their operation was governed by 'councils of representatives of the 'societally relevant groups''. Consequently, the classification of the entities to the non-profit institutions serving households sector was envisaged. The Federal Statistical Office also pointed out that the reference in the discussion (and the EDP dialogue visit documentation) to the broadcasting agencies as 'public broadcasters' was in this context incorrect as long as it had not been demonstrated that the entities were controlled by government.

The entity collecting the fees retained its market producer status in the Federal Statistical Office's view. Hence, its classification to the non-financial corporation sector did not need to be changed. The German authorities concluded, however, that the change in the treatment of the payments for financing the broadcasting entities would lead to a reclassification of the regional regulatory authorities for commercial broadcasting to the general government sector. This classification decision would neither impact government deficit nor debt.

During the meeting, the discussion focused on the classification of the broadcasting agencies themselves. Eurostat did neither question the envisaged classification of the body collecting the taxes nor of the regional regulatory authorities for commercial broadcasting.

In Eurostat's view the decision of the Federal Statistical Office to classify the broadcasting agencies to the NPISH sector had to be revisited. Eurostat pointed out changes to the concept of government control under ESA 2010, notably multiple control criteria and a specific guidance on the concept of control of non-profit institutions by government.

The German authorities acknowledged that the units operated under public law (as public law institutions), they were financed by tax revenues, and that the degree of financing was considered as one of the indicators of government control. They argued, however, that the government financing alone was not a decisive factor to recognise government control over the broadcasting agencies and that other criteria of government control were more important in this case. Since no consensus on the matter could be reached during the meeting, Eurostat considered that government control of the TV and radio broadcasting agencies needed a thorough review. Hence, it requested that, as a follow-up to the meeting, the German statistical authorities should prepare a note on the governance of the non-market broadcasting system in Germany, presenting findings from their assessment of government influence on the broadcasters against ESA criteria of government control. Eurostat also insisted that the outcome of the analysis should be implemented for the compilation of the October 2016 EDP and ESA data reporting.

Findings and conclusions

Eurostat took note that, based on the recommendations in the dedicated section of the MGDD, the German statistical authorities intended to record the compulsory fee levied on households and businesses and earmarked for financing of the broadcasting agencies' operation as a tax, and re-route the payments through government accounts. Based on the criteria of government control under ESA, Eurostat expressed doubts whether the TV and radio broadcasting agencies ('*die Rundfunk- und Fernsehanstalten*') could indeed be classified outside the public sector (comprising government controlled entities classified to and outside the general government sector) in the German national accounts.

Action point 20²⁴: *Eurostat and the German statistical authorities will review government control of ‘die Rundfunk- und Fernsehanstalten’ (TV and radio broadcasting agencies). To this end, the German statistical authorities should prepare a note on the governance of the non-market broadcasting system in Germany, presenting findings from their assessment of government influence over the broadcasters against ESA criteria of government control. The outcome of the analysis should be implemented for the compilation of the October 2016 EDP data reporting.*

- Hospitals

According to the questionnaire on sector classification of hospitals in Germany of April 2015, there are over two thousand hospitals in Germany, one third of which are publicly owned. Military hospitals (“*Bundeswehrkrankenhäuser*”), included in the central government core budget, are regarded as non-market producers. All other public hospitals are tested – at unit level – using the market-non-market quantitative test and the outcome of the test determines their classification in the German national accounts. As a result, a majority of government - controlled hospitals are considered to comply with the ESA definition of a market producer and only a few public hospitals (23 units) are classified to the general government sector.

The sector classification of public hospitals in Germany under ESA 2010 was briefly reviewed in February 2014, when discussions on the update of a related section in the Manual on Government Deficit and Debt were still ongoing. Following the changeover to ESA 2010, several EU Member States re-classified public hospitals to the general government sector, mainly based on qualitative criteria, notably the fact that hospitals do not enter in an actual competition with private hospitals. Additional insights obtained by Eurostat in the discussions with the countries raised overall doubts whether the institutional arrangements for provision of hospital services, the system of operation and financing of hospitals, and competition across the whole of the industry in the few Member States which continued to classify public hospitals in the non-financial corporations sector (including Germany) vindicated the latter treatment.

Hence, during the meeting, the Federal Statistical Office explained key features of the institutional framework for providing hospital services in Germany, ensuring the competition between public and private hospitals. It also described key principles of financing the operation and capital expenditure of the inpatient healthcare providers and commented on the autonomy of decision of the hospitals, taking in this context account of their commitments made under hospital master plans.

In Germany, the task of securing the provision of hospital services is principally entrusted to the state governments (Länder). As a result, the Länder are responsible for safeguarding the hospitals’ capacity to provide the services, including the responsibility to ensure that the hospitals have the adequate equipment and infrastructure at their disposal. The acquisitions of fixed assets by hospitals were, thus, funded by the Länder via investment grants. The patients were in turn supposed to cover solely the operating costs and profits of the hospitals, via their contributions to statutory health insurance, private insurance or direct payments for hospital services. Apart from that, the local governments who were owners of public hospitals might choose to provide additional resources to a hospital, e.g., loans, grants or equity injections should an individual hospital suffer from liquidity or solvency problems.

In the view of the Federal Statistical Office, a level playing field was ensured for all hospitals in Germany, notably given the uniform system of inpatient healthcare’s financing. It was explained that the hospital master plans encompassed all hospital services that needed to be secured for the population within a given geographical coverage. In addition, the German

²⁴ Completion of the follow-up action is in progress

statistical authorities argued that in spite of the hospital master plans, the hospitals enjoyed autonomy with regard to their day-to-day operation.

Specifically, it was recalled that in Germany all private and public hospitals' operation was financed according to a universal, performance-orientated flat rate payment system: a pricing system based on Diagnosis-Related Groups ('DRG')²⁵. The pricing system was agreed upon and administered among: (i) an umbrella organisation of the statutory health insurance bodies, (ii) the association of the private health insurance bodies and (iii) the German hospitals association. Only if the system of self-administration across the three partners failed, government was obliged to intervene and impose the DRG rates, which then needed to be accepted and applied by all three parties. The Federal Statistical Office also re-confirmed that solely the DRG-based revenue of hospitals was considered as sales for the needs of market-non-market ratio calculation for public hospitals in Germany.

Furthermore, Eurostat understood that the activity profile of the public and private hospitals did not fundamentally differ. The Federal Statistical Office clarified that the privately owned hospitals in Germany were obliged to provide emergency services as well, and that the DRG-based pricing system resulted in specialisation across both – the publicly and privately owned – types of hospitals. Overall, the hospitals sector in Germany was considered to be very competitive. Mergers, acquisitions, restructuring and bankruptcies of hospitals were commonly observed.

Given their role in the supply of hospital services – the public task entrusted under the German Constitution to the Länder – the hospitals covered under a master plan were eligible for financing of their investment costs by government investment grants. In Eurostat's view, the financing arrangement could be perceived as a restriction to the hospitals' autonomy of decision should the specific investments be authorised by the Länder. Eurostat also pointed out that the investment financing system appeared to distort the competition on the market by creating barriers to entry of potential new providers of hospital services. The German statistical authorities claimed that this interpretation was not entirely justified given that neither all private nor all public hospitals were covered under the hospitals master plans, and, hence, benefited from the special investment financing arrangement. Moreover, master plan hospitals could also construct or purchase fixed assets without using government funds, and it was commonly observed that some of them indeed chose to finance their investments by other resources than the government investment grants.

The Federal Statistical Office also considered that the autonomy of decision of all hospitals was ensured under the German institutional arrangements given that a hospital was overall entitled to change the profile of its activity and sell its fixed assets. In such an event, it would, however, be obliged to return the investment grants received in the past.

It was acknowledged that hospitals might receive subsidies if they record losses, or be entrusted with an additional task by their owners (local governments), e.g. with the assistance to refugees. The German statistical authorities could, however, not find evidence that public hospitals were systematically loss-making or that local governments consistently chose to subsidise the operation of the public hospitals to avoid their bankruptcy. By contrast, cases of closure of public hospitals, or mergers with private hospitals, as a result of insolvency, were observed.

Moreover, no specific demand-side restrictions were affecting the competition across the hospitals. Despite a regional attribution and proximity of a given hospital, patients enjoyed a

²⁵ The EDP Inventory for Germany and the German return to Eurostat's questionnaire on sector classification of hospitals contained more specific information. The DRG-based system is applied for the pricing of inpatient healthcare services by all hospitals that are covered under a hospital master plan. Hospitals not included in a plan may choose a different pricing model.

liberty as to which hospital to choose for a treatment. The patients had the possibility to base their decisions on publicly available information, e.g. quality reports, comparing the level of quality in provision of specific services across individual – public and private – hospitals.

Eurostat enquired about state-specific institutional arrangements or financing rules. Apparently, in the north of Germany, non-profit religious or charity organisations owned a relatively large proportion of hospitals. Otherwise, no specific differences across the states could be pointed out.

Following the discussion, the Federal Statistical Office retained its view that the majority of hospitals in Germany were market producers, irrespective of their ownership. Eurostat, on the other hand, considered that a more detailed examination of the hospitals' sectorisation in Germany was necessary, and it requested, as a follow-up to the EDP dialogue visit, a note assessing the sector classification of public hospitals in Germany against specific criteria listed in the MGDD, an example of a Land's hospital master plan, information on financial performance of the hospitals, and a description of the relations between hospitals and government bodies at various government sub-levels.

Findings and conclusions

Eurostat took note of the elements of competition between public and private hospitals in Germany and key principles of financing of operation and capital expenditure of the inpatient healthcare providers outlined by the German statistical authorities during the meeting and requested more detailed information as a follow-up to the discussion.

Action point 21²⁶: *The German statistical authorities will send to Eurostat as soon as possible, however not later than by end-March 2016: 1) an example of a Land's hospital master plan and 2) a note assessing the sector classification of public hospitals in Germany against criteria specified in the MGDD chapter I.2.4.4 and discussed broadly during the dialogue visit (such as competition, financing and economic ownership of capital expenditure), and 3) for the EDP reference period: i) information on financial performance of the hospitals, their aggregated income statement and balance sheets positions and off-balance liabilities incurred (if any), ii) individual data for a sample of the largest entities, and 4) a description of the relations between hospitals and government bodies at various government sub-levels, and type and magnitude of transactions and financial positions recorded in government accounts.*

4.2. Time of recording

4.2.1. Taxes and social contributions

Introduction

The time of recording of taxes and social contributions was discussed on a regular basis during past EDP dialogue visits. For a majority of taxes and social contributions, the German statistical authorities apply a time-adjusted cash method to ensure compliance with ESA accruals principle. Doubts concerning the accounting system of the social security funds and the recording of social contributions in source data have been under clarification following the EDP upstream dialogue visit. In the most recent EDP notifications, large revisions to government deficit data were observed in relation to the recording of impacts of court decisions relating to taxes.

²⁶ Completion of the follow-up action is in progress

Discussion

The German statistical authorities committed to update their return to Eurostat's questionnaire on taxes and social contributions on the method of recording of social contributions. It was agreed that other outstanding issues concerning the recording of social contributions would be discussed bilaterally after the meeting.

Eurostat mentioned that, following discussions with other Member States on compulsory levies earmarked to cover future government expense, doubts arose over the treatment of 'Kernbrennstoffsteuer' in the German national accounts, notably whether the payments should not be recorded as a financial transaction under ESA. The German authorities confirmed that the levy's characteristics complied with the ESA definition of a tax and the recording of the transaction was correct under the existing methodological guidance and could not be changed.

The discussion concentrated on data sources used and the compilation method for the recording of deficit impacts arising from court decisions relating to taxation. Eurostat recalled that compensation payments by government set out under a court decision should be recorded in the government accounts once a ruling issued by a court was final, i.e. it could not be overturned, and reliable estimates of the amounts payable as a consequence could be made by statisticians. Overall, Eurostat did not expect revisions of the amount of the capital transfer expenditure imputed in relation to a court decision should the actual claims of the taxpayers differ from the initial estimates.

The German statistical authorities referred to the estimates of the Expert Group on Tax Revenue Forecasting, an advisory body to the Federal Ministry of Finance, as source of the information on the impacts of the court decisions. In addition, it was explained that subsequent revisions to EDP deficit were due to updates of the estimates by the Expert Group. It was confirmed that the group provided the most reliable and up-to-date estimates of reimbursements by government of taxes unduly paid in past and that no alternative sources existed.

Eurostat considered that the existing practice required further clarification. Subsequent revisions of the initial estimates pointed to a treatment possibly not compliant with the MGDD recommendations and diverging from an approach employed by other Member States. It was agreed that as a follow-up to the discussion the German authorities would provide data on the recording of impacts of specific court decisions in subsequent notifications indicating the status of the figures.

Findings and conclusions

Action point 22²⁷: *For the largest court decisions, the German statistical authorities will provide, by end-August 2016, a note presenting timing and magnitude of subsequent revisions to government deficit arising from an update of source data used to implement the relevant guidance of the MGDD (flagging-up the status of the source data: first estimates, provisional, half-finalised and final data).*

4.2.2. Interest

Introduction

Following the discussions in the past EDP dialogue visits, the German statistical authorities have sought a structural solution to accrue interest payable at federal government level on an instrument-by-instrument basis. During the meeting, the Federal Ministry of Finance presented a methodology for the compilation of costs of capital for debt issued by the federal government. Given that the approach resulted in spreading the interest incurred on a given

²⁷ Completed

debt instrument over its maturity, the German statistical authorities envisaged to use this calculation for compilation of interest payable in the national accounts.

The changes to the recording of interest at state government level were also briefly mentioned under this agenda point.

Discussion

Eurostat was informed of progress in the implementation of a structural solution for the compilation of interest under an instrument-by-instrument approach for central government level. As a follow-up to action point 12 of the 2014 EDP dialogue visit, the German statistical authorities implemented a provisional solution for the accrual recording of premiums and discounts on debt issuances of the federal government. Based on selected parameters of past operations, a model calculation was introduced for the October 2014 EDP reporting to estimate, instrument-by-instrument, cash payments arising from premiums and discounts and spread the amounts over the securities' maturity to ensure compliance with ESA accruals principle.

In the long-term perspective, however, a structural solution for the compilation of accrual interest payable by federal government was sought. To this end, the German authorities planned to use the results of a newly introduced method for the estimation of the cost of capital for the debt issuances. It was intended to employ the new source data for the calculation of both premiums and discounts, and the regular coupon payments.

During the meeting, a representative of the Federal Ministry of Finance outlined, in a presentation prepared in co-operation with the Finance Agency, key features of the new method to compile the 'cost of capital'. The new approach was devised jointly by the two institutions for debt management purposes. It enabled the calculation of risk and performance indicators for a given portfolio of financial instruments and comparisons across various debt instruments.

The new approach aimed to spread interest expenditure consistently over the entire period of the maturity of a debt instrument. In the calculations, the following components of interest were taken into account: (i) coupon payments, (ii) premiums/ discounts, (iii) coupon sold. For inflation-indexed bonds, capital uplift and interest indexation were also included in the capital cost estimation.

Under the method, the cost of capital was calculated at a transaction level. For specific components of interest, the adjustments undertaken corresponded to a large extent to cash/accrual corrections stipulated under the accruals principle for the recording of interest under ESA. Coupon payments were spread over the total lifetime of a financial instrument with a fixed interest rate, or the current interest period for financial instruments bearing variable interest or inflation-linked financial instruments. Corrections were introduced for premiums and discounts, also spread over the total lifetime of a financial instrument, and for coupon sold.

The compilation was being implemented for the transactions dating back to 2002. It took account of all interest payments over the maturity of a given instrument, known at the time of the calculation. For this reason, for instruments with variable interest rates and linked to an index, forecasts were used for the payments of interest in the periods following the moment of the compilation. Eurostat was assured that it was possible to differentiate in the outputs of the model calculation between amounts estimated based on the forecast and de facto incurred interest costs for past years.

Eurostat acknowledged that even though the method has not offered a perfect compliance with the ESA accruals principle, it ensured considerable progress compared to the existing approach. The German statistical authorities confirmed that the switch to the new source data

would not impact on the responsibilities for the compilation of data on interest expenditure under ESA.

It was mentioned that the first results of the compilation of costs of capital were under examination and impacts on government deficit arising from the implementation of the new data inputs were not known at this stage. As a follow-up to the meeting, the German authorities committed to send a detailed description of the capital costs method and a progress note presenting impacts of the switch to the new approach on deficit for the central government sub-sector, once the analyses of the newly available detailed data have been completed.

Finally, Eurostat took note of the changes underway to compile interest at state government level. It was explained that an instrument-by-instrument approach was also being introduced for this sub-sector and that, to this end, the model relying on calculation of ‘theoretical’ cash payments of premiums and discounts, in place for the federal government data since October 2014, would be used.

Findings and conclusions

Eurostat noted progress in the implementation of a structural solution for compiling interest instrument-by-instrument for central and state government level. For federal government, the Federal Ministry of Finance was in the process of introducing a capital costs method, spreading – at a transaction level – incurred and estimated interest costs over the actual maturity of an issued instrument, and differentiating between forecasts and de facto incurred interest costs for past years. Eurostat took also note of the changes envisaged at state government level, notably the implementation of an instrument-by-instrument approach based on a model currently in place for the federal government data.

Action point 23²⁸: *The German authorities will send, by end-April 2016, a handbook describing the capital costs method and templates devised for the purpose.*

Moreover, Destatis should provide a progress note presenting impacts on deficit of the switch to the new approach for compilation of interest for central government, once analyses of the newly available detailed data have been completed (however, not later than by end-August 2016).

4.2.3. Gross capital formation (GCF), including military expenditure

Introduction

Under this agenda point, the sources and the approach for the recording of GCF on an accrual basis were reviewed with the German authorities, and the progress in securing proper source data to ensure compliance with the MGDD’s guidance on the time of recording of military equipment expenditure was examined.

Discussion

- Gross capital formation other than military expenditure

At Eurostat’s request, the Federal Statistical Office recalled briefly the sources used for compilation of the data on gross capital formation. For primary construction, a census for all companies classified to the related NACE category and with a number of employees exceeding nineteen was conducted on an annual basis. The survey distinguished between various types of construction, e.g. construction of commercial and public structures, construction for private non-profit organisations, construction of public roads and other civil engineering works for the public sector. It was confirmed that the survey covered also public

²⁸ Completion of this follow-up action is in progress.

infrastructure constructed under public private partnership contracts. For dwellings and residential buildings, the classification in place did not provide the information on the owner's sector classification.

Even though the survey collected the information on government sector's construction, no detailed split by government sub-sector was available. For this reason, the allocation of the construction expenditure by government sub-sector was based on proxy information on related cash payments collected in public finance statistics surveys.

The German statistical authorities pointed out that the survey's purpose was to trace and record progress in construction of infrastructure and buildings to ensure the compliance with the ESA accrual recording principle. In the Federal Statistical Office's opinion, the source data ensure better compliance with the relevant ESA rules than the accrual information from public accounts.

Eurostat enquired about the use of the fifth quarter data in the process of the compilation of gross fixed capital formation. The German statistical authorities clarified that the settlements of the budgeted operations recorded in the complementary period did not affect the accrual recording of GFCF for the general government sector. It was also explained that revisions to cash payments for investment expenditure due to availability of the 5th quarter data and audited annual accounts impacted solely on the split of the GFCF by sub-sector and the cash-accrual adjustments reported in EDP tables. In this context, Eurostat pointed out that the cash-accrual corrections reported in EDP tables 2 and 3 should not be identical if large amounts relating to investments recorded in the complementary period were reported in the working balance. Given that there have been doubts about the nature of the corrections reported within '5th quarter' and the size of cash-accrual adjustments undertaken in this context, it was agreed that the 5th quarter data would be further examined.

Eurostat took note that buildings under construction were allocated to the institutional sectors based on the data from a monthly survey of enterprises in the primary construction industry on the hours worked by type of buildings. Moreover, the German statistical authorities confirmed that monthly surveys were primarily used for the compilation of quarterly data on gross capital formation and for the estimation of detailed breakdowns for the data collected in the annual survey. The Federal Statistical Office pointed also to the draft ESA 2010 GNI Inventory provided to Eurostat Unit C3 and comprehensive descriptions of the data collection and compilation procedure contained in the document.

Findings and conclusions

Eurostat noted the explanations provided and decided that the revised descriptions in the GNI Inventory would need to be examined before deciding the way forward.

The discussion led to the formulation of action points in connection with the compilation of data based from public accounts compiled under accrual accounting system and a request for a detailed investigation into the 5th quarter data recordings (cf. action points 7, 12, 26).

- Military expenditure

In the clarifications on the April 2014 EDP reporting, a problem with the recording of prepayments for procurement of military equipment was identified. As a result of the analyses requested by Eurostat, the German statistical authorities undertook improvements to the recording of cash-accrual adjustments in relation to the largest military procurement contracts and a majority of the German military expenditure. The examination of the remaining, minor part of the military expenditure was underway.

Eurostat appreciated the participation in the discussion of the provider of the source data for the recording of adjustments to the government military expenditure, the Federal Office of

Bundeswehr Equipment, Information Technology and In-Service Support ('BAAINBw'). The BAAINBw explained its key responsibilities and operation model. A stronger cooperation between the Federal Statistical Office and the BAAINw had been initiated in recent years to clarify the outstanding issues relating to the source data for the recording of military procurement expenditure.

Eurostat briefly recalled the rules for the recording of military expenditure and noted overall progress in compliance with the MGDD guidance following the October 2014 revisions to EDP data. Subsequently, it enquired about outstanding issues, notably a possibility to trace relevant information on equipment delivery, related payments and unit prices. The German statistical authorities acknowledged that the process of the data compilation was demanding given that the sources did not perfectly satisfy the needs of the EDP data compilers and pointed to solutions implemented in those cases where methodological guidance left some discretion about the interpretation of the rules, and informed of open methodological questions.

Eurostat took note that, overall, the budgetary classification in Germany did not offer sufficient detail to compile the data in line with the accrual principle set out in ESA and elaborated in the MGDD, and that it was thus necessary to examine the individual contracts. Eurostat was also informed that the extraction of the relevant detail was a labour-intensive process, and that it was not feasible to evaluate all the large number of contracts signed by German government. The BAAINBw pointed to heterogeneity of the military equipment procurement contracts and presented examples of various practices concerning (i) coverage of projects under a contract, e.g., multiple projects or a single element of a project, (ii) counterparty: producers of the equipment or procurement agencies, (iii) the delivery schedule and a pattern of payments. It was mentioned that commonly payments were made upon milestones defined in the contracts. The milestones did not necessarily coincide with the delivery of specific equipment or its parts but they might be connected with a certain stage of development of new military equipment (or its segment) or with provision of certain documentation and/or training. Both prepayments and post-payments might be envisaged under a contract.

The German authorities highlighted problems with the information on the unit price of a piece of equipment. It was not straightforward to calculate the price given frequently observed modifications to the amount tentatively agreed upon in a contract, notably due to reduction of the volume of the original order or renegotiation of the price should extra costs arise in the process of the construction of the equipment or following an audit of the procurement procedure. Moreover, the information on the price was not readily available in the data management system of the procurement agency and, consequently, it might be up to the statisticians to estimate it for the purpose of the recording of specific transactions in national accounts.

Another problem identified during the review of source data by the Federal Statistical Office in collaboration with the BAAINBw concerned the point in time when a transfer of risks and rewards with regard to the specific military equipment should be recognised. It was mentioned that the provision of equipment for testing purposes could result in a final agreement about transfer of risks and rewards only three years after the first delivery of the equipment. Eurostat supported the practical approach followed by the Federal Statistical Office that the expenditure should be recorded in the accounts already at the time of the first delivery of the equipment. Eurostat also acknowledged that where the information on the value of additional services provided by the contractor alongside the equipment's delivery, e.g. training, was not available in the source data, the total value of the equipment recorded in the government accounts did not need to be corrected.

Eurostat took note that statisticians introduced the adjustments to the data received from the BAAINBw in the process of their reconciliation with relevant budget lines. For this reason, for each data position, the reporting encompassed the information on the budgetary line under which it was covered and on the programme to which given expenditure related. This data sufficed to implement the MGDD's guidance on the recording of military expenditure. However, at the time of the discussion, the data sources provided the detailed information solely for the largest, flagship projects.

The work on a minor share of the expenditure relating to procurements of the equipment of smaller value was underway. The small projects would continue to be recorded on the cash basis until an adequate solution had been devised. The German authorities recalled that there were close to twelve thousand contracts requiring examination in this context. The contracts in question encompassed projects at various stages of realisation, including contracts completed but not yet closed. It would not be feasible to thoroughly analyse all contracts. Consequently, a satisfactory estimation method was sought to ensure compliance with the MGDD guidance. It was explained that some of the outstanding contracts were short-term, so that the cash recording of expenditure could be considered to correctly approximate the time of delivery.

In the discussion, the procedure followed upon a call for funds or receipts of an invoice and the involvement of the national project managers were mentioned. Eurostat considered that the collection of additional information directly from the project managers could complement the existing data sources and support the proper recording of the expenditure incurred in relation to the smaller projects. It was agreed that the German statistical authorities would examine, as a follow-up to the discussion, whether this option could indeed enhance the existing data inputs and help to improve the compilation method.

Eurostat also enquired about the status of the data compiled for the flagship military procurement projects. Since October 2014, revisions to the adjustments for the recording of military equipment in table 7 of the EDP questionnaire and related ESA reporting categories had been observed in subsequent notifications. The Federal Statistical Office confirmed that no major changes with regard to data inputs and methods employed were envisaged. Eurostat took note that the revisions observed in recent transmissions of ESA tables resulted from the replacement of estimates undertaken for the compilation of quarterly accounts with the figures calculated based on the actual information reported in the source data.

Findings and conclusions

The German statistical authorities presented improvements of the sources and methods for the compilation of the data on government spending on military equipment. The role of the Federal Office of Bundeswehr's Equipment, Information Technology and In-Service Support (*Bundesamt für Ausrüstung, Informationstechnik und Nutzung der Bundeswehr*; 'BAAINBw') was also reviewed in this context.

Action point 24²⁹: *Destatis will investigate a possibility to introduce accrual adjustments for minor projects of procurement of military equipment based on the records of national project managers at the Bundeswehr, and send its findings to Eurostat by end-August 2016.*

4.2.4. Other

Introduction

The efforts of the German authorities to ensure compliance with the ESA rules on the time of recording of specific transactions have concentrated on the most complex methodological

²⁹ Completed.

issues, for which rules were set out in the MGDD and in Eurostat's decisions and guidance notes. Given problems with direct and integrated data sources, in many cases, model-based solutions have been put in place. Specifically, under this agenda point, Eurostat raised the issue of the cash-accrual adjustments relating to compensation of employees, subsidies and social benefits.

Discussion

Eurostat referred to the relatively low value of cash-accrual adjustments reported in EDP tables for certain sub-sectors, and it noted that not for all ESA categories of transactions the corrections were shown. The German statistical authorities recalled that for the compilation of financial accounts data on trade credits other than identified for the purpose of deficit-relevant adjustments had not yet been taken into consideration. It was not clear whether the information collected on trade credits through public finance statistics was comprehensive, and how to reconcile it with the adjustments carried out based on the model approach or in the context of compilation of the non-financial accounts for the entire economy. Moreover, the part of the cash-accrual adjustments relating to operations already reported on an accrual basis in the working balance data was underestimated for the compilation of financial accounts owing to the lack of detailed information.

Eurostat pointed to the units with commercial accounting systems classified to the general government sector for which the data on other accounts receivable and payable was readily available in their financial statements. Moreover, Eurostat encouraged all the German authorities participating in the meeting to examine the type of entries recorded in the 5th quarter in the accounts of the Länder for intermediate consumption and gross fixed capital formation, to identify the share of adjustments relating to the time of recording.

At Eurostat's request, the German statistical authorities briefly commented on the reasons for which no or small amounts were reported in table 4 of the EDP questionnaire as cash-accrual adjustments in connection with compensation of employees, subsidies or social benefits.

Eurostat understood that certain accrual adjustments relating to compensation of employees were recorded directly in the federal budget, and that a small correction was undertaken for compensation of employees in the military service but the adjustments were not reported in a separate line of table 4 of the EDP questionnaire. Moreover, the Federal Statistical Office clarified that a majority of the adjustments relating to remuneration payments to civil servants concerned prepayments or post-payments of compensation for the work carried out within the same calendar year and, consequently, other accounts receivable/payable recorded to this end were unwound during the same accounting period. For the Länder, all relevant corrections relating to the time of payment of salaries to government employees were recorded in the complementary period for a given year (the 5th quarter recording).

The Bundesbank recalled that prepayments were recorded in connection with agricultural subsidies from the EU. The treatment was, however, supposed to be changed for the April 2016 EDP reporting to ensure consistent recording of the transactions in non-financial and financial government accounts.

The German statistical authorities recalled that they were in the process of investigating, for the compilation of government financial accounts, data for the social security funds sub-sector, notably the recording of other accounts receivable and payable reported by statutory health insurance and long-term insurance bodies. It was also acknowledged that sources and compilation methods used for non-financial government accounts had to be further examined by the Federal Statistical Office with special regards to their compliance with the ESA accounting rules relating to the recording of social benefits in cash in kind.

Findings and conclusions

Action point 25: *The German statistical authorities will briefly describe, by scheme, the data sources used for the recording of social benefits in cash and kind in non-financial government accounts, and comment on the compliance of the accounting standards in place for a specific scheme with the ESA accruals principle. The note should be sent to Eurostat by **end-March 2017**³⁰.*

Action point 26³¹: *For 2015 data on intermediate consumption and capital expenditure, the German statistical authorities will split the 5th quarter figures for the federal government and for six largest Länder, separating the corrections undertaken to ensure the proper time of recording (i.e. approximating the ESA 2010-accrual recording) from other corrections (including revisions to the 2015Q1-Q4 reporting). The outcome of the analysis should be presented in a brief note expected by Eurostat by **end-December 2016**.*

5. Recording of specific government transactions

5.1. Re-arranged transactions

Introduction

The revised MGDD (the 2016 edition) includes guidance on re-arranged transactions. Following the recommendations, two types of arrangements give rise to re-routing through government accounts of the transactions carried out by non-government entities: i) when the entities are acting on behalf of government, i.e. they have been instructed by government to implement a transaction for which government assumes the risks and possibly the rewards; ii) when the entities acting for government incur no risk in this context but participate in the rewards.

The German statistical authorities implemented the guidance on the re-arranged transactions for the largest promotional banking activities at federal level already for the October 2015 EDP reporting. As background information for the discussion, Eurostat had requested a list of government transactions, assets and liabilities re-arranged, as stipulated under ESA 2010 paragraph 1.72, for the purpose of compilation of the German national accounts, in the template of the new table of the EDP questionnaire on re-routing (table 13).

Discussion

Eurostat thanked the German statistical authorities for the return of the completed table 13 of the EDP questionnaire on re-routed transactions and liabilities. From past discussions with the Federal Statistical Office, Eurostat understood that the transactions were re-arranged in the German national accounts, i.e. recorded in a different manner than in the accounting system of the units, solely for those cases where this was explicitly required by ESA or the MGDD and the transactions impacted on government deficit or debt. The re-routing cases reported in table 13 could be divided into three categories:

- i. transactions carried out by KfW, identified based on past bilateral discussions with Eurostat or guidance on intergovernmental support provided in the context of the sovereign crisis, including *Platzhaltergeschäfte* and loans to Greece (bilateral and under EFSF),
- ii. promotional banking activities undertaken by KfW on behalf of the federal government, notably loans to students other than BaföG loans, special programmes launched to support the economy, R&D and export credits financing – the MGDD guidance on re-arranged

³⁰ Completion of this action point is in progress.

³¹ Completion of this action point is in progress.

transactions was implemented for these operations in the EDP data reported for the October 2015 notification,

- iii. cases of other entities acting on behalf of government, such as the financing of urban development projects or of a hospital by a regional promotional bank, or the acquisition of equity in a local corporation by a holding company.

Other cases of re-routing discussed with the German statistical authorities in the past, e.g. with regard to the loan support programme of municipalities of the Land Hessen, were subject to consolidation and did not need to be reported in the table with re-arranged transactions.

The German statistical authorities recalled that, following the discussions of Eurostat's Task Force on methodological issues, they undertook a systematic review of KfW's operations. In this context, meetings with representatives of the promotional bank and the Federal Ministry of Finance were organised. As a result of the analyses, several arrangements had been identified which needed to be recorded in government accounts given that KfW was explicitly instructed to carry out the transactions and government bore the related risks. Both forms of instructions issued by government to KfW were examined in this context: (i) stipulated under article 2 (4) of KfW Law ('*Zuweisungsgeschäfte*') and (ii) public mission activities ('*Auftragsgeschäfte*'; not a typical business of KfW, not compliant with the bank's profitability targets or risk profile, commissioned by the federal government and secured by its unconditional guarantees at a first demand).

Problems arose with a clear identification of those re-routing cases where the entities acting for government incur no risk but participate in the rewards, and cases where risks were shared between government and KfW. For the latter, it was decided that where guarantees on assets covered more than 50% of an asset's value, all risks of the asset were deemed to be covered by government.

Eurostat was informed that the list of KfW's re-routed transactions in table 13 of the EDP questionnaire could not be considered final and changes might be expected in the forthcoming EDP notifications. Some new transactions of KfW requiring re-routing had been identified and for a number of operations the examination was still ongoing. Based on prior analyses and decisions of national accountants, some of the flows involved had already been interpreted and classified in government accounts under specific ESA categories e.g. interest accrued on KfW's loans was recorded as subsidy. It was also not clear how related revenue should be recorded.

Moreover, the German statistical authorities pointed out difficulties with the practical implementation of the re-routing in the data compilation process. For the re-arrangement of transactions, in addition to already sourced data at entity level, specific transaction-level data needed to be secured and compilation results for two institutional sectors had to be consistently corrected. For the operations undertaken by KfW on behalf of government, a special template was designed by statisticians to gather all relevant information to record properly re-routed stocks and flows. The promotional bank was obliged to return the completed questionnaire on a regular basis.

The analysis at federal level was followed by the investigation of possible re-routing cases at state government level. In this context, the German statistical authorities sent a letter at the end-2015 to *Arbeitskreis Stabilitätsrat*. In the letter, the new statistical guidance was presented with information on specific categories of transactions to be re-routed and specification of data necessary as inputs to the compilation. Moreover, the letter requested that statisticians should be notified on possible re-routing cases identified based on the description of the new guidance. Given that additional clarifications were needed, a meeting was planned in May 2016 to discuss the matter in detail. For certain Länder, first analyses had

already been carried out. However, the cases identified in this context might have already been recorded in government accounts and included in the stock of the government debt.

Overall, Eurostat took note that the work on identifying relevant operations was on-going, and that the process was relatively complex and might require a longer timeframe in Germany given the institutional arrangements, notably the federal structure of government administration.

Findings and conclusions

The German statistical authorities have implemented part of the new MGDD's guidance on re-arranged transactions already for the October 2015 EDP reporting. Given that analyses of certain KfW's transactions were still ongoing, and that the review of transactions carried out on behalf of government by other entities (notably by the regional promotional banks) has just been initiated, Eurostat requested to be informed on the further developments as soon as possible.

Action point 27³²: *The German statistical authorities will provide notes on further progress in the implementation of ESA and MGDD guidance on re-arranged transactions **before the April 2016 and October 2016 EDP reporting.***

5.2. Government operations relating to the financial crisis, including progress in unwinding of financial positions of government defeasance structures

This agenda point was not discussed owing to time constraints. Eurostat intended to review the background information provided for discussion under the agenda point during the forthcoming EDP data assessment rounds.

5.3. Guarantees and other potential obligations of government (incl. government obligations arising from environmental and nuclear policy developments)

Introduction

Progress has been noted with regard to the quality of data on guarantees reported to Eurostat following the October 2015 EDP notification. However, compliance with ESA definition of guarantees of two types of government commitments in Germany: (i) a maintenance obligation of the owner of an institution established under public law (*'Anstaltslast'*) and (ii) the owner's obligation as a guarantor of the entity's obligations towards its creditors in the event of bankruptcy (*'Gewährträgerhaftung'*) was still being examined and discussed between Eurostat and the German authorities. A problem of measurement of the latter government commitment has also arisen in this context.

Moreover, Eurostat was aware of occurrences of other contingent and potential obligations arising for the German government e.g. from environmental and nuclear policy developments. Their implications for EDP data compilation were briefly reviewed during the meeting.

Prior to the EDP dialogue visit, the German authorities had provided available information on guarantees, guarantee calls, and the amounts under guarantees on assets and liabilities provided by public defeasance structures.

Discussion

The Federal Statistical Office confirmed that the annual debt statistics survey did not collect information on statutory guarantees (neither *Anstaltslast* nor *Gewährträgerhaftung*). It was not

³² Completed.

clear whether other guarantees granted to promotional banks were included in the totals reported to Eurostat.

Overall, it was recalled that the measurement of government exposure to risk arising from the guarantees was problematic both in conceptual and practical terms. The value of liabilities and/or net assets covered by the statutory guarantees changed over time and annual debt statistics survey collected data on guarantees for which guarantee value was contractually fixed. Eurostat understood that some of the commitments, which might in fact comply with ESA definition of guarantees, overlap. For this reason, the likelihood that fiscal risks for certain commitments would materialise was considered nil or negligible.

Eurostat acknowledged that statutory guarantees were granted also in other Member States and to ensure a comparable presentation of the data on guarantees it would be necessary to consult all countries before deciding on the reporting convention.

Subsequently, Eurostat enquired briefly about other government commitments, notably with regard to the environmental cleanup of contaminated land and phase-out of nuclear energy production. It was confirmed that some of the public corporations responsible for the remediation of legacy environmental damage in the eastern Länder, for which provisions were recorded in the federal accounts, were re-classified to the general government sector. The German statistical authorities pointed to ongoing discussions between government and nuclear plants operators about how the decommissioning would be organised and how the costs would be covered. Moreover, Eurostat took note that the Federal Statistical Office closely followed legal disputes between government and nuclear plant operators and their possible statistical implications.

Eurostat considered that the German statistical authorities should review in a greater detail various types of government commitments and examine whether they were already recognised in government accounts and/or whether relevant data were collected in annual debt statistics surveys.

Findings and conclusions

Eurostat noted that an entity classified outside the general government sector might benefit from different types of government commitments (under statutory and/or contractual arrangements) to provide financial resources in the event of liquidity shortages and/or to compensate its creditors/ specific third parties. Eurostat understood that some of the commitments, which might in fact comply with ESA definition of guarantees, overlap. For this reason, the likelihood that fiscal risks for certain commitments would materialise was considered nil or negligible. Moreover, Eurostat took note of problems with the measurement of resultant government contingent liabilities.

Action point 28³³: *The German statistical authorities will conduct a stock-taking exercise aiming at identifying all possible forms of commitments into which the German government bodies can enter, their magnitude, relations between various types of commitments, and inform Eurostat whether data on the government contingent and potential obligations are collected in Destatis's surveys. A first note on progress (covering at least the federal government level) should be sent to Eurostat by **end-August 2016**.*

³³ Completed.

5.4. Debt assumptions, debt cancellations and debt write-offs

Introduction

According to the EDP Inventory of December 2015 the scope of the public finance statistics surveys on financial assets and on debt statistics has been extended to collect information on debt cancellations and debt assumptions.

In the 2015 EDP reporting rounds, problems with the identification of a grant-component in development assistance loans provided by the federal government were noted.

Discussion

Firstly, Eurostat requested detailed information on the definition of the variables newly added to public finance statistics surveys and enquired about the time lag with which the data would be integrated into EDP statistics compilation. Apparently, the concepts underpinning the data collection followed the definition of debt assumption set out in the IMF Public Debt Guide and the ESA definition of debt cancellation. The data was collected for the government entities at all government levels for the reference period 2013-onwards. First results of the survey, for 2013 and 2014, had already been processed. No returns had been available at the time of the discussion for 2015.

Overall, the direct source data on debt-related operations indicated that the impact of the transactions on government accounts was not large. A first quality review, comprising a cross-check with the already available information at the Federal Statistical Office, confirmed that the data for debt assumptions calculated from the returns to the survey was reliable. It led, however, to changes in the description of debt cancellations in the explanatory notes to the survey given that problems with coverage had been detected for this reporting category. Based on the initial definition, no cancellations in connection with development aid loans granted by the federal government were reported. Destatis informed that they were still in the process of examining the issue and they intended to implement corrections to ensure complete coverage at all government levels.

Eurostat enquired whether the plausibility checks carried out by Destatis included the comparison with the information on changes in stock of claims and liabilities in the assets accounts (*‘Vermögensrechnung’*) released by the federal government and the Länder. The German statistical authorities confirmed that the analysis was still outstanding and agreed to review the consistency of the data reported in public finance statistics surveys on debt cancellations and assumptions with the information as a follow-up to the discussion.

It was confirmed that the newly available information on debt assumptions and cancellations would be integrated into the EDP data compilation procedure for the forthcoming EDP reporting exercise.

Eurostat understood that no information on debt write-offs was reported in the public accounts of government bodies.

Findings and conclusions

Action point 29³⁴: *For the federal and state governments, the German statistical authorities will review consistency of the data reported in public finance statistics surveys on debt cancellations and assumptions with the information on changes to the stock of claims and liabilities of the government bodies presented in their assets accounts (Vermögensrechnung). A progress report should be sent to Eurostat by end-January 2017.*

³⁴ Completion of this action point is in progress.

5.5. Capital injections into and distributions from public corporations³⁵

Introduction

Eurostat was aware that all large injections and distributions, including the operations undertaken to provide support to the financial sector during the crisis, were scrutinised for their compliance with relevant MGDD rules, i.e. with the ‘capital injection’ and ‘superdividend’ tests. For all injections and distributions at central government level, relevant data were secured at transaction level. The budgetary classification of injections to loss-making quasi-corporations for all sub-sectors facilitated the identification and the proper treatment of these operations by statisticians. Eurostat also closely followed the changes introduced to the recording of investment grants to quasi-corporations as a consequence of an update of the related sections of the MGDD. Nevertheless, in Eurostat’s opinion, further efforts were necessary to ensure full compliance with the MGDD guidance on capital injections to and distributions from public corporations at state and local government sub-levels.

As a follow-up to the 2013 upstream dialogue visit, the German statistical authorities were requested to develop a system of regular collection of detailed information on capital injections and distributions for state and local government sub-level (cf. action point 14).

Prior to the EDP dialogue visit, the German statistical authorities were requested to provide a list of capital injections undertaken and distributions received by government over the period 2011-2015, by sub-sector and, if possible, by beneficiary/subsidiary.

Discussion

Eurostat reviewed with the German statistical authorities the progress in devising a structural solution to ensure that the recording of capital injections and distributions at state and local government level in national accounts fully complies with the MGDD guidance.

Following the examination of available information and of relevant budgetary rules, consultation with the regional statistical offices and related exchanges with Eurostat in spring and autumn of 2015, the Federal Statistical Office had put forward proposals for amending the current approach for analysing and classifying capital injections and distributions in a note on this matter prepared as a follow-up to the 2013 EDP upstream visit.

Within the solutions suggested by the Federal Statistical Office, an amendment of the legal basis underlying the collection of public finance statistics was presented. The German statistical authorities pointed out, however, that the legal amendment could be undertaken only in a medium or long-term, and would not necessarily yield all essential and good-quality data for the analyses of capital injections and distributions. For this reason, the Federal Statistical Office supported another approach, aiming at:

- i. identifying relatively large operations, by applying a threshold for capital injections at Länder level and by comparing evolution of aggregated amounts at state level for distributions receivable by the Länder, and for capital injections and distributions at local level,
- ii. testing the operations and/or clarifying the reasons for large changes from year to year,
- iii. applying a standard correction to the remainder of capital injections and distributions and recording a fixed proportion of the total injections as capital transfer and distributions deviating from a trend determined based on a model as superdividends.

³⁵ Compared to the draft agenda, issues relating to the recording of capital injections and distributions have been described under one agenda item.

In addition, the German authorities considered two other solutions for the recording of capital injections:

1. detailed analyses at an operation level, based on currently available information,
2. recording of all capital injections with deficit-impacts.

In the view of the Federal Statistical Office, the implementation of the first solution would not be feasible and justified under cost-benefit considerations, whilst the second solution was considered biased and did not guarantee the proper measurement of government deficit.

The Federal Statistical Office envisaged the implementation of the new approach for the recording of injections and distribution for state and local government in the compilation of EDP statistics for the October 2016 EDP reporting (capital injections) and October 2017 EDP reporting (distributions). Irrespective of the structural solutions, the Federal Statistical Office also intended to undertake some steps in order to improve the quality of the currently reported data by annual reporting to the committee setting public accounting standards and elaborating instructions for the classification of transactions in public accounts.

The German statistical authorities underlined in the discussion that they did not have the information and resources to verify the injections and distributions for all government sub-sectors at transaction level. For the Länder and municipalities, the German statistical authorities considered that it was crucial to distinguish between large and smaller operations, and to concentrate the resources on testing the larger injections and distributions while estimating the share of deficit-impacting transactions for the latter. According to Destatis' estimations, non-financial transactions account commonly for 10-15% of the value of capital injections. The ratio could, however, change from year to year. Under the procedure envisaged, over two thirds of the total value of capital injections would be scrutinised.

The German statistical authorities confirmed that they still considered a legal amendment and changes to the scope of data collection as an option to secure relevant information for all government sub-levels. They pointed, however, to high costs of the solution.

They also explained that, as a short-term solution, a default rate could be applied to the available data (2012) in order to compute the value of deficit impacting injections for 2012-2015. Eurostat was also informed that for superdividends a more advanced model was envisaged and that its output could only be considered as a rough estimate at this stage. Eurostat noted the options considered by the German authorities, and insisted that a provisional solution ensuring compliance with ESA guidance on the recording of capital injections and distributions should be implemented already for the April 2016 EDP reporting.

The German statistical authorities had overall doubts whether a satisfactory solution could be found within the short-term perspective, i.e. in time for the compilation of data for the April 2016 EDP reporting. Specifically on distributions, Eurostat was assured that no sizable operations were commonly reported in the public finance statistics surveys by municipalities, and that the largest transactions were already tested using the superdividend test (e.g., distributions by Stadtwerke München). Moreover, Eurostat understood that the budgetary classification sought information on withdrawals of profits (*'Gewinnentnahmen'*), and for this reason even though the accounting category could be affected by provisions and financial transactions it should not cover withdrawals of earnings retained in the past years.

Finally, the German authorities confirmed that the treatment of all investment grants to quasi-corporations that were recorded previously as financial transactions was revised, and that the transactions were recorded with deficit impact following the revision.

Findings and conclusions

Eurostat noted progress and the options considered by the German authorities in the process of devising a structural solution to ensure that the recording of capital injections and distributions at state and local government level in national accounts fully complies with ESA guidance.

Action point 30³⁶: *The German statistical authorities will seek to apply a provisional solution for the recording of capital injections and distributions at state and local government level for the compilation of EDP data for the April 2016 EDP reporting.*

5.6. PPPs and concessions

Introduction

For all public private partnerships identified based on the information in source data, the German statistical authorities record the constructed assets on the government balance sheet. In the EDP Inventory for Germany it is explained that the recording convention has been decided both on procedural and methodological grounds.

Overall, due to confidentiality reasons, the Federal Statistical Office does not have access to PPP contracts and, consequently, they are not in a position to undertake a detailed analysis of risk sharing between the public and private partner, essential to determine the proper accounting treatment of specific cases. The statisticians are, however, aware of a standard clause in nearly all PPP contracts stipulating that in the event of early termination of the contract owing to a private partner's default the compensation paid by government is calculated on the basis of the book value and not the market value of the assets. According to the MGDD, the early termination clause places the risk of the assets constructed under a PPP with government.

Under this agenda point, a brief discussion on the exhaustiveness of the source data on PPPs was held.

Discussion

Information on PPP projects at central, state and local government level is sourced by the German statistical authorities primarily from a public database maintained by ÖPP Deutschland AG. Given that the records in the database are created and updated based on voluntary submissions by private contractors and contracting authorities, Eurostat enquired about safeguards built into the data compilation procedure to ensure that impact of all PPP contracts was taken into consideration for measurement of government deficit and debt.

The German authorities referred to the notes provided prior to the EDP dialogue visit as background for the discussion. For cross checking purposes and to complement the database's records, the information on PPPs from federal and state budgets was used in the data's compilation. Apart from this, other publicly available sources, including press reports, were consulted in the course of statistical analyses. Finally, for the purpose of validation and plausibility checking of the results calculated under the model, the Federal Statistical Office relied on the information reported by government units in the annual debt survey. All reporting entities provided information on the contract value of all PPPs under construction and operation and on the cumulative value of all unitary payments made by government under the PPP contracts to the public partner. The German authorities cited the most recent outcome of the survey and mentioned that in their view the returns to the survey by local governments

³⁶ Completed

pointed to a possible overestimation of the impacts on deficit and debt arising from the calculation model employed by the Federal Statistical Office

Findings and conclusions

Eurostat took note of the explanations provided.

5.7. EU flows

Introduction

The discussions focused on the switch to direct source data for the recording of the EU grants at central and state government level and problems with securing the relevant information for local governments. Ongoing methodological developments relating to the financial instruments were also mentioned.

Discussion

In summer 2015, the Federal Statistical Office switched to direct source data for the calculation of adjustments relating to EU grants. Under the new approach, the adjustments are compiled based on the information reported on a voluntary basis by the federal government and the Länder in a dedicated survey. On the basis of the collected data the German statistical authorities are in a position to entirely neutralise the impact of the EU flows on government accounts at central and state government level. The amended method has been described in the EDP Inventory of December 2015.

The voluntary data collection was launched already in 2012. However, the first returns to the survey demonstrated that the scope of the reporting entities and quality of the data reported needed further clarification and improvements. Hence, the newly collected information has been integrated into the compilation of EDP statistics solely for the October 2015 EDP reporting for the reference period 2014-onwards. For years up to 2013, macro-adjustments calculated based on data from the Eurostat and Balance of payments statistics have been retained.

Under both methods, the previous and the new, local governments have been left out from the calculations of the EU flows adjustments. The EU-related flows are not separately listed in the common budgetary classification of local government bodies, and it is not possible to expand the scope of the voluntary data collection to municipalities under the German legal and institutional arrangements. Thus, the Federal Statistical Office does not have the relevant information to correct local government data. On the other hand, it was confirmed that all EU grants received by municipalities in Germany were administered and distributed by the Länder. The size of the transfers passed through the Länder to municipalities and a time lag between when the cash was first recorded in the Länder's accounts and when it was spent by local governments were not known.

Under ESA 2010, the Bundesanstalt für Landwirtschaft und Ernährung, which is in charge of distribution in Germany of the EU agricultural subsidies, was reclassified to the general government sector. The re-classification involved splitting operation of the entity and recording impacts of a portion of non-financial and financial flows relating to the agricultural subsidies through a quasi-corporation classified outside the general government sector. Given that the reporting of prepayments of the subsidies as other accounts receivable of the general government sector continued, Eurostat requested clarification. It was explained that the implementation of the amended treatment of the subsidies was still outstanding in the government financial accounts and that the corrections would be undertaken before the April 2016 EDP reporting.

The German statistical authorities pointed to the recording of related financial instruments as one of the outstanding issues linked to the EU flows in the German national accounts. Eurostat noted that the methodological discussion with the Member States on the treatment of the transactions was ongoing. The German statistical authorities explained that an initial review of the matter led to the conclusion that the amounts involved were negligible. Notwithstanding, the discussions with various stakeholders continued.

Findings and conclusions

Eurostat recognised progress in compliance with relevant ESA and MGDD rules on the time of recording of EU grants given that since summer 2015 the relevant adjustments had been compiled based on direct source data. Eurostat encouraged further efforts to solve outstanding reporting and data availability issues. In this context, Eurostat took specifically note that the corrections relating to the EU flows were not implemented in government accounts for the local government sub-sector and that the impacts of the related revenue and expenditure were neutralised through adjustments undertaken at state government level.

5.8. Financial derivatives

Introduction

Given the limitations of the existing data collection, the German statistical authorities are in a position to implement the proper recording of financial derivatives solely for core federal and state government budgets and for the large public defeasance structures. Since cash flows arising from relevant operations cannot be properly traced in public accounts, a special evaluation is undertaken to this end by the Federal Ministry of Finance and by “*Zentrale Datenstelle der Landesfinanzminister*”. For defeasance structures information on derivatives from their annual reports is used.

Under this agenda point, the discussion concentrated on progress in securing relevant information on government financial positions and transactions in financial derivatives for all government sub-sectors. Prior to the EDP dialogue visit, a background note on this matter, prepared jointly by Destatis and the Bundesbank, had been provided.

Discussion

Eurostat welcomed the changes introduced to the data collection with a view to improve the availability of information on financial derivatives contracted by government bodies in Germany.

Firstly, at the beginning of 2015, the survey on financial derivatives used by the state governments (the Questionnaire on Financial Derivatives; QFD) had been extended to comply with the updated MGDD guidance on the recording of swaps. Eurostat was provided with the new template used for the data collection. Following the revision, apart from the standard and non-standard unbalanced (off-market) swaps, the survey covered occurrences of swap restructuring and of swap cancellations with no immediate redemptions. The Bundesbank confirmed in the background note that enquiries about similar operations made at the federal government level were undertaken in the context of preparation of biannual EDP data returns to Eurostat.

Secondly, the new surveys on transactions in financial assets contained questions relating to financial derivatives. The templates of the surveys and explanatory notes were annexed to the background document sent before the EDP dialogue visit. For local governments, universities and other government bodies with commercial accounting system only aggregated information on payments made and received in connection with the financial derivative contracts was requested in the survey, while for other government entities a more detailed

breakdown was sought. The German authorities expected good quality data, albeit of limited granularity, to be collected from local government bodies. Data quality was assured by the integration of the newly collected characteristics into standard classifications for public accounts of municipalities.

It was confirmed that the Federal Statistical Office was responsible for the new data collection, and that the Bundesbank would be provided only with the aggregated data.

The timeframe for implementing the changes to the data collection was also briefly reviewed. Eurostat expressed its concerns over the relatively late availability of the first data sourced in the financial transactions survey at local government level and enquired about alternative sources, e.g. a voluntary survey of a sample of largest municipalities before the new data collection is in place. The German statistical authorities clarified that it was not possible to launch a collection of data at local level without the authorisation of the State Ministries of the Interior.

Finally, the German statistical authorities enquired about the availability of detailed data at government sub-level for other EU Member States. Eurostat confirmed that for a number of countries the information was already available and its collection was being initiated, and explained recent legal amendments introduced in several Member States to ban speculative transactions. The German statistical authorities confirmed that all government bodies in Germany use financial derivatives solely for hedging purposes, and that speculative transactions must not be undertaken.

Findings and conclusions

Eurostat noted progress in securing information on financial derivatives contracted by the government bodies in Germany

Action point 31³⁷: *Before the regular data collection on transactions of municipalities in financial derivatives is launched, Eurostat recommends that the German authorities should take stock of the types of derivatives local government bodies commonly contract and amounts involved, e.g. through carrying out a one-off survey. A brief note on the approach envisaged should be provided to Eurostat by end-July 2016.*

5.9. Other (incl. cash pooling system, pension schemes, emission trading permits, privatisation, UMTS, sale and leaseback operations, tax credits)

This agenda point was not discussed during the EDP dialogue visit.

6. Any other business

This agenda point was not discussed during the EDP dialogue visit.

7. Wrapping-up and preliminary conclusions

The governance of an EDP dialogue visit was briefly discussed, aiming at fostering an efficient dialogue visit and supporting its preparation. Certain agenda items could not be dealt with during the visit and an additional videoconference was needed.

Findings and conclusions

Action point 32 (ex-26): *Eurostat will provide, two weeks in advance of future EDP dialogue visits, a list of specific topics which need to be discussed in greater detail, indicating priorities, and a tentative schedule.*

³⁷ Completed

Annex 1. Agenda for the 2016 EDP Dialogue Visit to Germany

EDP Dialogue Visit to Germany

1. Review of institutional arrangements, EDP data sources and procedures

- 1.1. Governance and co-operation
- 1.2. Quality and risk management of EDP/ GFS processes
- 1.3. Sources and data compilation methods (progress in the use of direct data sources for compilation of EDP/ GFS statistics)
 - 1.3.1. Use of public accounts data and of counterpart information
 - 1.3.2. Bridge tables
 - 1.3.3. Estimations, imputations and re-balancing procedure
- 1.4. Revision policy
- 1.5. EDP Inventory

2. Follow-up of prior EDP visits (the 2013 upstream dialogue visit and the 2014 standard dialogue visit)

3. Review of the 2015 EDP reporting and of related data compilation issues

- 3.1. EDP notification tables
 - 3.1.1. Working balance of EDP tables 2
 - 3.1.2. Unexplained other adjustments in EDP tables 2
 - 3.1.3. Adjustments relating to consolidation
 - 3.1.4. Statistical discrepancies in EDP tables 3
 - 3.1.5. Other accounts receivable/ payable, including trade credits
- 3.2. Questionnaire relating to the EDP notification tables
- 3.3. Supplementary table on government interventions to support financial institutions

4. Methodological issues

- 4.1. Sector delimitation
 - 4.1.1. Practical aspects of sector classification
 - 4.1.2. Questionnaire on government controlled entities
 - 4.1.3. Sector classification of specific entities (including promotional banks, statutory market regulators, deposit guarantee schemes, public broadcasters, public transport and utility corporations and public holdings)
- 4.2. Time of recording
 - 4.2.1. Taxes and social contributions
 - 4.2.2. Interest
 - 4.2.3. Gross capital formation (GCF), including military expenditure
 - 4.2.4. Other (social benefits, compensation of employees, subsidies, financial transactions)

5. Specific government transactions

- 5.1. Re-arranged transactions
- 5.2. Government operations relating to the financial crisis, including progress in unwinding of financial positions of government defeasance structures
- 5.3. Guarantees and other potential obligations of government (incl. government obligations arising from environmental and nuclear energy policy developments)

- 5.4. Debt assumptions, debt cancellations and debt write-offs
- 5.5. Capital injections into public corporations
- 5.6. Dividends and super-dividends
- 5.7. PPPs and concessions
- 5.8. EU flows
- 5.9. Financial derivatives
- 5.10. Other (incl. cash pooling system, pension schemes, emission trading permits, privatisation, UMTS, sale and leaseback operations, tax credits)

6. Any other business

- 6.1. Implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States
- 6.2. GFS data
- 6.3. Major upcoming government operations
- 6.4. Other

7. Wrapping-up and preliminary conclusions

Annex 2. List of participants

Name	Institution
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