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Directorate D Government Finance Statistics (GFS)
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Luxembourg,

FINAL FINDINGS

EDP Dialogue Visit to Germany

19-20 February 2018

12 March 2018

Executive summary

Eurostat undertook an EDP dialogue visit to Germany on 19-20 February 2018 and 12 March 2018. 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 the institutional arrangements in place for the compilation of EDP statistics. Eurostat took note that no further formalisation of the cooperation between institutions involved in the process of gathering and compilation of EDP data was envisaged by the German statistical authorities, including the informal cooperation concerning specific data between the Federal Statistical Office and “Zentrale Datenstelle der Landesfinanzminister” (“ZdL”).

Apart from that, Eurostat inquired how the decisions of the §49a HGrG Committee which is responsible for budgetary classifications for central and state government, impacted EDP statistics. Specifically, information on the role of the Federal Statistical Office and its rights concerning the §49a HGrG Committee, was sought.

Concerning the progress of the German statistical authorities in putting in place a specific GFS quality management system, Eurostat welcomed the progress in the work on the automatization of the EDP data compilation process. Moreover, Eurostat took note that the debt statistics compilation process had been audited by the German Federal Court of Auditors, as well as by the States’ Court of Auditors.

Eurostat also reviewed with the German statistical authorities the progress achieved and underway with regard to sources in place for compilation of EDP data. Eurostat welcomed recent developments in this context, e.g. the work on the survey on transactions in financial assets, and expressed its full support for further changes envisaged with a view to the necessary enhancing of the quality of the sources. In particular, Eurostat underlined (i) the need for improved quality measures concerning the survey on transactions in financial assets, and that (ii) wherever possible, integrated statistical information should be secured for EDP data compilation. Eurostat took note that the process of amending the Law on the Statistics of Public Finance and Public Service Personnel (“Finanz- und Personalstatistikgesetz”; “FPStatG”) has recently commenced.

It was confirmed that the large majority of the follow-up actions agreed during the 2016 EDP dialogue visit had been completed. For the few remaining action points progress had been noted and related issues were covered under specific agenda points of the 2018 EDP dialogue visit.

In addition, specific issues relating to the EDP reporting were addressed in the discussions, including the availability and the nature of working balance data, data on trade credits and advances, and the reporting of statistical discrepancies.

Concerning the working balance data, Eurostat expressed its concerns about the approach taken by the German statistical authorities of having a statistical product (i.e. the results of public finance statistics as the working balance) as the starting line for the balancing item of the non-financial accounts (i.e. another statistical product).

Eurostat welcomed the progress achieved with regards to data on trade credits and advances. However, it also agreed with the German statistical authorities that more efforts are still needed, particularly on local government level.

It was confirmed that Eurostat and the German statistical authorities have a different understanding of the role of the balancing position in other accounts payable/ receivable, and

hence in further consequence on the reporting presentation of statistical discrepancies in EDP Tables 3. Eurostat reiterated its opinion that the current approach of using B.9 as an estimate for B.9f in the German financial accounts was not compliant with relevant ESA rules.

Moreover, Eurostat encouraged the German statistical authorities to provide data on transactions in financial assets and liabilities in the supplementary tables on government interventions to support financial institutions.

The issue of completeness and timeliness of data reported in the questionnaire on government-controlled entities classified outside the general government sector was raised.

Furthermore, the soundness of the procedure used for the delineation of the general government sector in German national accounts was discussed during the meeting. Firstly, Eurostat appreciated the automatized approach of the German statistical authorities used as an approximation with regards to the qualitative criteria for the market/ non-market producer classification. However, it raised its concerns on the implementation of the approach. Secondly, for the calculation of the quantitative market/ non-market test (50%-test) the accounting item “other revenue” is included in the German calculation of sales. Eurostat was aware that the composition of the accounting item had changed with the German Law on the implementation of Directive 2013/34/EU (“*Bilanzrichtlinie-Umsetzungsgesetz*”; “*BilRUG*”) taking force on 01 January 2016. Eurostat pointed out that, from the year 2016 onwards, “other revenue” should not be included in the calculation of sales and recommended additional analyses for the inclusion of the item for the years prior to 2016.

Particular attention was given to the sector classification issues of individual units. Discussions were held in particular concerning: professional associations, the German Olympic Committee, public broadcasting agencies, public and private hospitals, promotional banks of the German states, social housing corporations, public transport corporations, and the two institutional protection schemes in place in Germany. Further information was requested concerning the professional associations, the German Olympic Committee, public and private hospitals and the social housing corporations.

Concerning promotional banks on state government level, Eurostat appreciated the analysis undertaken by the German statistical authorities. Eurostat and the German statistical authorities agreed that the promotional bank of Mecklenburg-Vorpommern (“*Landesförderinstitut Mecklenburg-Vorpommern*”) acts significantly differently than the other promotional banks, as it seems to be mostly active as an agent of government having predominantly fiduciary assets/ liabilities on its balance sheet. The unanimous opinion was that the unit should be classified in the government sector.

For the main railway infrastructure managing corporation in Germany, Eurostat pointed out that, according to the financial statements of the unit, its assets were recorded net of investment grants. This would mean that consumption of fixed capital would be underestimated in the 50%-test. Also in relation to public transportation, the payments for public service obligations were discussed (“*Bestellerentgelt*”), in particular their nature and the transaction category under ESA 2010.

Discussions on the classification of the German public broadcasting agencies (“*Öffentliche Rundfunk- und Fernsehanstalten*”) had been ongoing between Eurostat and the German statistical authorities for a significant time. Eurostat informed the German statistical authorities that, as a result of the discussions, it expected the public broadcasting agencies to be classified in the general government sector.

In addition, Eurostat pointed out that the German statistical authorities should re-examine the sector classification of the institutional protection schemes for saving banks and for cooperative banks.

Several points relating to the implementation of the accrual principle were also addressed and particularly the recording of interest on German Federal debt securities. The compilation of interest on a transaction-by-transaction approach (referred to as “Capital Cost Model”) was developed by the German Finance Agency. The model, which spreads incurred and estimated interest expenditure over the actual maturity of an instrument, was first discussed in context of the 2016 EDP dialogue visit to Germany, and implemented for the October 2017 EDP data reporting. Eurostat appreciated the explanations provided by the representative of the German Finance Agency. In Eurostat’s view, the model did not fully comply with ESA 2010, most significantly in the approach of including premiums/ discounts resulting from secondary market activities of the German Finance Agency in the recording of accrued interest.

Moreover, the recording of gross fixed capital formation, taxes and social contributions and EU flows were discussed. In this context, the discussions mostly focused on the data sources and to what extent compliance with ESA guidance is ensured.

The recording of specific government transactions was also reviewed, in particular for re-arranged transactions in relation to “*Kreditanstalt für Wiederaufbau*” (“KfW”).

Eurostat appreciated the presentation on the “Development Bank” business segment of KfW provided by the representatives of KfW. Eurostat took note that KfW has different kinds of financial instruments at its disposal for the activities of the Development Bank segment. Although KfW is part of the German delegation at the Paris Club, it could not be established if all loans provided by KfW in context of foreign development aid were subject to the Paris Club. Eurostat understood that no transaction conducted by KfW in relation to its “Development Bank” segment was rerouted through government accounts.

The valuation of loan portfolios transferred to public defeasance structures was also addressed. Eurostat took note of the explanations provided by the German statistical authorities. However, further information was requested, in particular on the operations concerning “hsh portfoliomanagement”.

The methodological discussions closed with inquiries concerning GFS data, e.g. enquiries on the reasons for having no other economic flows in derivatives in the quarterly government financial accounts.

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

19-20 February 2018

12 March 2018

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 19-20 February 2018 and 12 March 2018. The agenda agreed for the meeting is annexed to the report (Annex 1).

Eurostat was represented by *Mr Luca Ascoli* (acting Director of Directorate D "Government Finance Statistics (GFS) and quality"), heading Eurostat's delegation, *Mr Philippe de Rougemont* (Eurostat Unit D1), *Ms Laura Wahrig* (Eurostat Unit D4), *Mr Levente Szekely* (Eurostat Unit D3), and *Mr Michael Oismüller* (Eurostat Unit D3). Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meetings 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 ("*AfS Berlin-Brandenburg*"). Representatives of the German Finance Agency ("*Finanzagentur*") and 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, data sources and the following conceptual and compilation issues were addressed: the sector classification procedure, the reclassification of specific entities controlled by government and the recording of interest.

Moreover, the recording of other accounts receivable/ payable and statistical discrepancies were also reviewed.

Owing to time constraints, a number of agenda items (as highlighted in Annex 1) could not be reviewed in detail.

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 comments¹. Once the report will be 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 very much appreciated the cooperation and transparency demonstrated by the German statistical authorities during the meeting and the quality of documents provided before the visit.

¹ The draft Main Conclusions and Action Points have been sent to Destatis on 22 March 2019 and the final document on 25 April 2018.

The provisional findings were provided by Eurostat on 2 May 2019.

1. Statistical capacity issues

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

Introduction

The collection, processing and compilation of government finance statistics and excessive deficit procedure statistics involve the following institutions:

- The Association of the Federal and Regional Statistical Offices (“*Verbund*”)
- The Federal Ministry of Finance and the ministries of finance of the *Länder*
- The Bundesbank

The tasks and responsibilities within the institutions are furthermore distributed between different directorates.

Due to the complex structure of the system in Germany, the institutional responsibilities and possible resulting risks have been discussed between Eurostat and the German statistical authorities in the past.

Under this agenda point, Eurostat reviewed the previously addressed risks and the relevant developments with regards to the institutional responsibilities.

Prior to the EDP dialogue visit, the German statistical authorities sent an update on the cooperation agreements between the involved institutions and updated EDP flowcharts.

Discussion

The German statistical authorities confirmed that, since the formalisation of the cooperation between the Federal Statistical Office and the Bundesbank (in 2014) and the formalisation of the cooperation between the Federal Statistical Office and the Federal Ministry of Finance (in 2016), no further formalisation process had been commenced. The organisation and coordination in the field of EDP statistics have remained unchanged.

It was recalled by Eurostat that the “*Zentrale Datenstelle der Landesfinanzminister*” (ZdL) was an important provider of specific data on state government level, e.g. financial derivatives of core budgets of the *Länder*, which was not collected through the regular surveys of public finance statistics. Notwithstanding its input for EDP purposes, the cooperation between the Federal Statistical Office and ZdL was organised informally, hence Eurostat enquired if a formalisation of the cooperation was, or could be, envisaged.

It was explained that, although not formalised in writing, the cooperation with ZdL was semi-standardised by oral agreement on the procedures and scope of the data provision. The provision of data for EDP purposes was, nevertheless, not a task of ZdL but rather based on a gentleman's agreement, as ZdL was only a service office of the *Länder* (seven members, including the secretariat) and its main purpose was to support the Ministers of Finance of the *Länder*. The main obstacle for a formalisation of the cooperation was the setup of ZdL. Organisationally, ZdL was part of the senate administration of Berlin, however, as it was an office serving all German states, decisions regarding ZdL were taken by all states jointly. This meant that the Federal Statistical Office would have had to negotiate with the Ministries of Finance of all *Länder*. Given this complication, the German statistical authorities did not plan to formalise the cooperation, also because no issues had previously occurred between the German statistical authorities and ZdL concerning the provision of EDP relevant data.

The relation between the Federal Statistical Office and the committee that was responsible for setting accounting standards for public bodies (§49a HGrG Committee; “*Gremium zur Standardisierung des staatlichen Rechnungswesens*”) and its implication on EDP statistics had been previously discussed with the German statistical authorities. To Eurostat, the rights of the German statistical authorities in relation to the §49a HGrG Committee had not been fully clarified and hence the issue was addressed. Eurostat had previously understood that the Federal Statistical Office had a *de facto* right of initiative in relation to the agenda of the meetings of the §49a HGrG Committee, and a veto right concerning decisions with relevance to EDP statistics. During the meeting, it was however clarified that this was apparently not a correct understanding. The Federal Statistical Office had the status of observer in the Committee and held a prominent role as an advisor to the Committee. The Federal Statistical Office had no veto right in the Committee and no right of initiative in relation to the agenda. The Committee could decide on proposals of the Federal Statistical Office, though.

Eurostat was informed that the Federal Statistical Office could not provide final answers to the questions in the meeting, as the representative of the Federal Statistical Office at the §49a HGrG Committee had been transferred. It was agreed that a follow-up on the discussions needed to be done in the future.

The division of responsibilities between the Federal Statistical Office and the regional statistical offices within the Verbund was also reviewed. The Federal Statistical Office shared responsibilities for data collection with the regional statistical offices. It was recalled by the German statistical authorities that the responsibilities of the Federal Statistical Office and the regional statistical offices were generally laid down in the Federal law on statistics (“*Gesetz über die Statistik für Bundeszwecke*”; “BStatG”) and specifically with regard to public finance statistics in the public finance statistical law (“*Finanz- und Personalstatistikgesetz*”; “FPStatG”). The Federal Statistical Office was responsible for the implementation of methodology, e.g. the development of surveys, the sector classification of units, and the compilation of data through centralised surveys. The compilation of data by decentralised surveys was under the responsibility of the regional statistical offices. The regional statistical offices held the legal ownership over the data provided on a micro-level, e.g. data on institutional unit level, on state and local government level. However, the German statistical authorities gave assurance that the Federal Statistical Office had access to all EDP relevant data upon request. No cases of refusal to grant access by any regional statistical office had ever occurred in the past.

All institutions involved in the process of the data compilation were members of the EDP Experts Group, established and headed by the Federal Statistical Office. Eurostat understood that this group was an informal Committee and had no formal authority to take binding decisions concerning EDP statistics.

Subsequently, the issue of access of the Federal Statistical Office and the regional statistical offices to all relevant information to compile EDP statistics was discussed. The German statistical authorities explained that the parameters of the data compilation were provided by the FPStatG. The law defined which data could be collected, which units were obliged to provide data, and also defined which data could be published. The German statistical authorities benefited therefore from a clear legal mandate. However, the law also restricted the freedom of manoeuvre of the statistical authorities. Any information that was not included in the legal mandate, which also concerned the EDP data compilation, had to be compiled either by using counterpart information or by the use of voluntary surveys, e.g. the survey on EU-flows.

Finally, Eurostat reviewed with the German statistical authorities the flow charts that were provided prior to the meeting. Eurostat had observed the omission of Research and Development institutions. The German statistical authorities assured that no change with

regards to R&D institutions had occurred; only the presentation of the flow charts had been amended.

Findings and conclusions

Eurostat took note of the explanations of the German statistical authorities concerning their cooperation with ZdL, and their relation to the §49a HGrG Committee. Eurostat took also note of the clarifications concerning the structure of the *Verbund*. Eurostat, however, had some doubts if the division of responsibilities between the Federal Statistical Office and the regional statistical offices was laid down in the FPStatG, or rather derived from the more general Federal law on statistics (“*Gesetz über die Statistik für Bundeszwecke*”; “BStatG”), and if this also secured the internal data flows within the *Verbund*.

Action Point 1²³: Eurostat took note of the fruitful cooperation between “*Zentrale Datenstelle der Landesfinanzminister*” (ZdL) and the German Statistical Authorities with regard to EDP data and recommends the German Statistical Authorities to examine ways to reinforce and consolidate such an arrangement. Eurostat recommends formalising this cooperation. The German Statistical Authorities will provide Eurostat with a note on the feasibility and the way forward.

Deadline: end-June 2018

Action Point 2⁴: Eurostat and the German Statistical Authorities will clarify a number of practical aspects of the “*Haushaltsgrundsätze-gesetz*” (HGrG) committee; notably the role and rights of Destatis in the committee as well as the role of HGrG committee in public accounting standard setting (aside from its role in budget reporting standard setting). The German Statistical Authorities will provide a note concerning Destatis' role and rights in the committee and the impact of the committee's decisions on EDP statistics.

Deadline: end-August 2018

Action Point 3⁵: The German Statistical Authorities will clarify to what extent the public finance statistical law sets constraints for the compilation of ESA-compliant EDP statistics, e.g. by impeding access to and verification of data. Eurostat recommends the German Statistical Authorities to find structural means to ensure access to the data needed according to Destatis/Eurostat assessments, to notably be compliant with the Council Regulation (EC) No 479/2009.

Deadline: end-August 2018

Action Point 4⁶: Eurostat takes note that Destatis in practice always obtains the information requested from the States' statistical offices and that the German Statistical Authorities expect this information to be also available upon any Eurostat request. Eurostat stressed the need to ensure an unhindered flow of data within the participants of the *Verbund*. Eurostat recommends that this practice be formalised. The German Statistical Authorities will provide Eurostat with a note on the feasibility and the way forward.

Deadline: end-June 2018

² Compared to the report: “Main conclusions and action points” (of March 2018), the numbering of the follow-up actions has been amended to follow the sequence in the agenda for the 2018 EDP dialogue visit.

³ Completed

⁴ Completed

⁵ Completion of this action point is in progress.

⁶ Completion of this action point is in progress.

1.2. Quality and risk management of EDP/GFS processes

Introduction

Since the 2013 EDP upstream dialogue visit and the following initiation of works to adapt its general quality management to the EDP data production, the Federal Statistical Office had been active on various levels to improve the quality and risk management.

On a general level, the Federal Statistical Office and the regional statistical offices had issued a quality manual ("*Qualitätshandbuch der Statistischen Ämter des Bundes und der Länder*") in 2017, covering all process phases of producing official statistics according to the Generic Statistical Business Process Model ("GSBPM").

Concerning public finance statistics, quality data sheets ("*Qualitätsdatenblätter im Verbund*") collecting information for example on the response rate of statistical surveys, had been developed and adopted by Destatis and the regional statistical offices.

In the field of EDP statistics, a unit for the quality assurance for EDP data had been created in 2015 in the national accounts division with the main responsibility of automatizing the EDP data compilation process.

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

The Division of National Accounts of the Federal Statistical Office provided an update on the ongoing IT-related changes concerning the envisaged automatization of the EDP data compilation process. The application, using MySQL, was presented to Eurostat.

Eurostat understood that the calculations in the new application required four steps: (i) importation of data, (ii) importation of bridge tables, (iii) preparation of data (e.g. the definition of additional attributes), and (iv) exportation of the calculation results. It appeared that all steps of the process required manual input. It was explained that all users of the application had to be authorised and were attributed a specific role, so that no single person could run an entire calculation process alone. Plausibility checks were performed automatically. No changes to the results of the calculations were possible. Eurostat understood that if a change was required, the entire calculation for the concerned data points (i.e. quarter by quarter) had to be undone and a new calculation initiated, which would render the implementation of methodological changes challenging. However, changes were possible. It was also explained that the application functioned under the assumption that the input data was correct.

Eurostat had been informed by the Federal Statistical Office that the new application would be tested for the October 2018 EDP data notification for the compilation of the EDP data for the central government subsector. The statistical office confirmed that this test-run would be performed in parallel to the existing compilation process.

The Maastricht debt compilation process had been subject to an internal audit of the Bundesbank. Eurostat enquired if an audit of the EDP data compilation processes in the Federal Statistical Office were envisaged. Such an audit was not envisaged; however, Eurostat was informed that, in 2015, the Federal Court of Auditors undertook an audit concerning the debt statistics processes. Moreover, the regional statistical offices had also been subject to audits of the States' Court of Auditors concerning the debt statistics. The German statistical authorities explained that the auditors had not found any major deficiencies regarding the

compilation of debt statistics and that all recommendations had been addressed. The report of the audit of the Federal Statistical Office by the Federal Court of Auditors was publicly available, while this was not the case for the regional statistical offices.

Eurostat understood that neither the EDP data compilation, nor the public finance statistics compilation was regularly audited and that the audits concerning the debt statistics compilation were the first and hitherto last of their kind.

As the last point of the discussions, the Questionnaire on national quality management systems in relation to EDP Statistics was reviewed. Eurostat wondered how the inputs under the sections “Impute” and “Calculate weights” should be interpreted, as it was stated that estimations or data from previous quarters were used, for example in case of non-response by units. Eurostat was under the impression that the public finance statistics surveys were comprehensive and did cover all units. The German statistical authorities clarified that the issue did not concern the provision of annual data but rather the provision of data within the year, e.g. the quarterly cash statistics. When units did not report, either estimates were used, or the data of the previous quarter. However, those inputs were corrected and replaced for the annual data. Moreover, extra-budgetary units with business accounting had the possibility to provide updated data on previous quarters during the year.

Findings and conclusions

Eurostat took note of the progress of the German statistical authorities in the automation of EDP processes. Eurostat recommended that the questionnaire on national quality management systems in relation to EDP Statistics should be amended.

*Action Point 5 (ex-9)*⁷: Destatis will amend the questionnaire on national quality management systems in relation to EDP Statistics (QMS questionnaire) following the discussion during the meeting (relating to response rates and imputations).

Deadline: end-June 2018

*Action Point 6 (ex-10)*⁸: Eurostat took note of the intended new compilation system using MySQL. Eurostat recommended a careful analysis of the advantages and disadvantages of the system in comparison to the current system: flexibility (notably in terms of responsiveness to required changes/revisions), traceability (capacity to view the various steps of the compilation), capacity to monitor time series (notably for outliers).

Deadline: end-June 2018

*Action Point 7*⁹: The German Statistical Authorities will write a note explaining how the recommendations of the Federal Court of Auditors (“*Bundesrechnungshof*”) regarding debt statistics dating from 2015 have been addressed.

Deadline: end-May 2018

*Action Point 8*¹⁰: The German Statistical Authorities will provide the recommendations of the States' Court of Auditors (“*Landesrechnungshöfe*”) concerning the audit of debt statistics in 2015 (at state / local government level) to Eurostat and also explain whether/how any recommendations have been addressed.

⁷ Completed

⁸ Completed

⁹ Completed

¹⁰ Completed

Deadline: end-August 2018

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 use of public accounts data and counterparty information for the compilation of the German non-financial accounts and the financial accounts is regularly discussed between Eurostat and the German statistical authorities.

In Germany a wide range of accounting systems is used in the government sector. Units can use the “cameralistic” accounting system (“*Kameralistik*”, cash based accounting), public double-entry accounting (“*Doppik*”, a system of accounting for public administrations derived from the German standards of business accounting as stipulated in the German Commercial Code (“*Handelsgesetzbuch*” – HGB)), business accounting (as stipulated in the HGB, or derived from the HGB), or the charts of accounts for social security funds (“*Kontenrahmen für die Träger der gesetzlichen Krankenversicherung und für den Gesundheitsfonds*”, “*Kontenrahmen für die Träger der gesetzlichen Unfallversicherung*”, “*Kontenrahmen für die Träger der Deutschen Rentenversicherung*”, “*Kontenrahmen für die landwirtschaftliche Alterskasse*”, “*Kontenrahmen der landwirtschaftlichen Alterskassen für die sozialen Maßnahmen zur Strukturverbesserung*”, “*Kontenrahmen für die Träger der sozialen Pflegeversicherung und den Ausgleichsfonds*”). Hence the public accounting systems vary significantly between and within government sub-levels.

Moreover, the reporting obligations of units classified inside the general government sector were set by law, namely by the Public Finance Statistics Act (“*Finanz- und Personalstatistikgesetz*” – FPStatG). This setup restricted the scope of the data collection and also results in a slow reaction to possible changes in the reporting needs/ demands, since changes to the reporting obligations necessitated changes to the law.

Concerning the compilation of financial accounts, the German statistical authorities relied to a large extent on counterpart information (monetary and banking statistics). To improve the situation, a survey on transactions in financial assets had been implemented by the Federal Statistical Office. However, first results had shown the need for improvement in the quality of the data provided via this new survey.

Prior to the EDP dialogue visit, the German statistical authorities sent an update on the data sources, more background information concerning the financial transactions survey and notes with regards to the Public Finance Statistics Act.

Discussion

Eurostat recalled that in the past problems with the information in the source data had been noted, for example budgetary headings had not been updated in a timely manner and/ or statisticians not informed on the changes in their contents (e.g. FZ loans), some government liabilities had not been included in government accounts even though the related claims were recognised in the accounts of a counterparty drawn up based on business accounting standards (student loans under BAföG scheme provided via KfW).

The German statistical authorities explained that a follow-up action point 6 of the 2016 EDP dialogue visit was still on going. Some input had already been received, but more information was expected once the deadline had been reached. It was mentioned that the situation concerning financial transactions had not changed and remained problematic.

Some limited progress on financial transactions had been achieved at local government level, as the budgeting system of local governments was better aligned with the ESA concepts since 2017. The budgeting systems previously only provided for transactions in loans (F.4), and equity and investment funds shares or units (F.5) and thus also included some elements of debt securities (F.3) in F.5. As of 2017, the system also differentiated between F.3, F.51 and F.52, and also transactions in financial derivatives (F.71). However, only financial derivatives that were purchased and sold were covered. In addition to this limitation, transactions in liquidity reserves were also not included. Statisticians pointed to difficulties to collect information on transactions in liquidity reserves from the accounting systems due to the lack of the required instrument breakdown. In this context, the German statistical authorities expressed their doubts on the quality of data compiled by the survey on transactions in financial assets for local governments, as the collected figures for currency and deposits (F.2) could not be aligned with the data compiled under the existing system. The most pressing issue was to improve the quality on state government level. However, this was an issue of availability of resources.

Eurostat understood that some kind of inventories of assets and liabilities (“*Vermögensrechnung*”) existed for the Federal government and for a number of *Länder*. Nevertheless, those inventories were solely a collection of information on assets (and liabilities) and not a system of stocks and flows integrated in the public accounting system. These inventories were not used in the calculation of the financial accounts. The financial accounts were based on the financial transactions, which are part of the public finance statistics and are limited with regard to the available instrument breakdown, and counterpart statistics. The inventories of assets and liabilities were used for plausibility checks for the financial asset and liability statistics, though.

Eurostat expressed its view that the organisation of collecting separately information on transactions in financial assets, stocks in financial assets, stocks in liabilities (which also seemed to provide information on flows) was not optimal, as it could lead to the observed anomalies and would also complicate the identification of transactions and other economic flows in relation to stock data. The heterogeneous organisation might even result in an increase of erroneous inputs by rapporteurs.

Eurostat had received before the visit a note including an EDP Table 3 for state government level which incorporated data on F.2, F.4 and F.5 coming from the survey on transactions in financial assets. Eurostat enquired about the reason why no F.3 transactions had been included and asked if it could receive an updated version, including the information on F.3 from the survey on transaction in financial assets.

The FPStatG and its impact on the compilation of accrual data were briefly addressed. It was mentioned that the law was envisaged to be changed in the upcoming legislative period.

Findings and conclusions

Eurostat took note of the explanations. Eurostat expressed its concerns on the collection of information in financial transactions and stocks in financial assets and liabilities. It is Eurostat's view that the process of compilation of EDP statistics should rely to the largest extent possible on direct source data, and the direct information should be integrated into the data compilation process at an early stage. Eurostat encouraged the German statistical authorities to substitute the existing counterpart data with direct data coming from public accounts provided that they are of a sufficient quality.

Action Point 9 (ex-6)¹¹: Concerning the possible use of accrual based information for state and local governments (profit and loss accounts, cash flow statements, and balance sheets), Eurostat encourages the German Statistical Authorities to, in a first step, ensure the capacity for improved and adequate quality assurance measures in the statistics on financial transactions, and in a second step, ensure the capacity for collecting and using existing accrual based information for state and local governments, so that the currently used counterpart data can be substituted. The German Statistical Authorities will provide (i) a note on the progress achieved in this respect, (ii) a note on the envisaged changes to the public finance statistics law.

Deadline: for (i) end-August 2018, for (ii) once the law is drafted

Action Point 10 (ex-11)¹²: Eurostat encourages the German Statistical Authorities to plan a more comprehensive use of the available accounting reporting, including the possible collection of data directly from cash flow statements, balance sheets, if possible, profit and loss accounts, and from the inventories of assets and liabilities (“*Vermögensrechnung*”) of the Bund and the Länder, where existing. Eurostat notes that the Bund as well as ten Länder maintain such inventories of assets and liabilities for core budgets. Eurostat considers that it would be beneficial to already use these inventories for cross checks.

Deadline: continuous

Action Point 11 (ex-12)¹³: The German Statistical Authorities will write a note to Eurostat to explain the various bases of recording of transactions in liabilities in the annual survey (annual debt statistics), and in the budgets (cameralistic accounting), and the reason why the data are not fully exploited or exploitable.

Deadline: end-August 2018

Action Point 12 (ex-13)¹⁴: The German Statistical Authorities will report to Eurostat the comparison between the F.3 assets currently reported with the information reported in the survey on transactions in financial assets.

Deadline: mid-June 2018

Action Point 13 (ex-14)¹⁵: The German Statistical Authorities will provide a progress note on the usability of the survey on transactions in financial assets for the compilation of the financial accounts, notably for F.3, F.4 and F.5.

Deadline: end-December 2018

1.3.2. Bridge tables

Introduction

Bridge tables provide information on correspondence between categories of classification in data sources, for example budgetary classifications, and accounting categories under ESA 2010.

As a result of the heterogeneous public accounting systems, the system of bridge tables used in the process of EDP data collection and compilation is very complex and was thoroughly

¹¹ Completed

¹² Completion of this action point is in progress.

¹³ Completed.

¹⁴ Completed.

¹⁵ Completed.

discussed in context of the 2013 EDP upstream dialogue visit and the 2014 EDP dialogue visit.

In the context of the 2016 EDP dialogue visit, the German statistical authorities provided Eurostat with bridge tables between the reporting items stemming from the various public accounts systems and the specific categories of ESA non-financial and financial transactions for all general government sub-levels.

Prior to the dialogue visit, Eurostat requested an update of the bridge tables.

Discussion

Eurostat appreciated the update of the reconciliation tables between financial transactions, as collected in the public finance statistic surveys, and transactions in ESA financial instruments and changes in government debt, according to its definition in Council Regulation (EC) No 479/2008.

The German statistical authorities confirmed that no updates to the bridge tables supplied in context of the EDP dialogue visit 2016 have been necessary.

Findings and conclusions

Eurostat took note of the explanations provided. It is also understood that the existing bridge tables will be further assessed concerning a need for amendments in context of the development of the automatized EDP compilation system.

1.3.3. Estimations, imputations and re-balancing procedures

Introduction

The process of compilation of EDP statistics relied in Germany to some extent on estimations and models. However, to Eurostat's understanding, the system was slowly moving towards an extended use of direct data sourced from public accounts. There was a need to estimate if a time lag for data provision was longer than the compilation period, or in cases past data had not been collected (backwards implementation of reclassification impacts). In some cases, estimations by external bodies supported the data compilation process. In addition, some methodological guidance required a different recording in national accounts than in the data sources.

Also, in cases where the system relied on various data inputs, re-balancing procedures are utilised to eliminate discrepancies.

The German statistical authorities had provided, as prior information, a document on the major models and estimations which are part of the EDP statistics compilation process. Under this agenda point, Eurostat sought to review the changes implemented.

Discussion

In the document on major models and estimations, Eurostat had observed the inclusion of local protection schemes and bail-out funds for municipalities. It was clarified during the discussions that this concerned protection schemes in the states of Hessen and Lower-Saxony. For those funds, the legal basis did not allow to collect all necessary data. However, the German statistical authorities had agreed with the Ministries of Finance of Hessen and Lower-Saxony that the data were directly provided by the Ministries. It was also established that the provided data were in fact the actual figures concerning the protection schemes and not estimates.

Moreover, the re-balancing procedures were recalled by the German statistical authorities. These procedures concerned the calculation of the financial accounts. In the case of units with an integrated system, there are several exogenous and endogenous variables. Exogenous data were the information on stocks collected directly from balance sheets, the non-financial transactions calculated by the Federal Statistical Office from the profits and loss accounts of the units and, in the case of the bad banks, the foreign exchange positions, which were used to calculate revaluations. Endogenously calculated were the financial transactions as the difference resulting from the subtraction of revaluations from the flows in the stocks, as the units did not provide data on financial transactions. As the calculations were performed on the basis of data coming from a single integrated system and not from various statistics, the financial and non-financial transactions (including other accounts payable/receivable) should balance.

Findings and conclusions

Eurostat took note of the explanations.

1.4. Revision policy

Introduction

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 made final for their eight EDP notification, debt data were updated for both April and October notifications and made final at an earlier stage.

Discussion

The German statistical authorities agreed that the different revision schedules of the Federal Statistical Office and the Bundesbank had an impact on the statistical discrepancies. In Eurostat's view, the created discrepancies would be of the nature of discrepancies between the balancing item of the non-financial accounts and the balancing item of the financial accounts (B.9 – B.9f discrepancy). However, due to the approach taken by the German statistical authorities with regards to the calculation of the financial accounts, the discrepancies were impacting the “other discrepancies”. Eurostat appreciated this approach.

The Bundesbank explained that it would adhere to its preference to revise data as soon as possible when the need arose.

Eurostat was assured by the Federal Statistical Office that the revision policy was flexible enough to introduce significant ad-hoc revisions for the entire EDP reporting period for the April EDP notifications. For routine revisions, however, the third quarter preference would remain.

Findings and conclusions

Eurostat took note of the explanations of the German statistical authorities.

1.5. EDP Inventory

Introduction

Council Regulation (EC) No 479/2009 provides in article 9 that EU Member States shall provide Eurostat with a detailed inventory containing the methods, procedures and sources used for the compilation of deficit and debt data and the underlying government sector accounts (the “*EDP Inventory*”).

Prior to the visit, the German statistical authorities had provided Eurostat with an updated EDP inventory. In addition, two annexes to the EDP Inventory were also provided: (i) the updated questionnaire on EU flows and (ii) the questionnaire on derivatives. Another annex, the questionnaire on interest, had been previously provided in context of the discussions concerning the compilation of accrued interest on Federal government debt securities.

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. Due to changes in the sources, Eurostat was provided with an updated version of the EDP Inventory prior to the EDP dialogue visit in 2018.

The amendments to the published version of the year 2015 concerned mainly:

- The inclusion of the model calculations for capital injections and dividends,
- The inclusion of the Capital Cost Model for the calculation of accrued interest on Federal debt securities,
- The inclusion of the rearrangement of transactions of state promotional banks,
- The inclusion of information concerning data sources and compilation procedures with regards to the newly created defeasance structure of “*HSH Nordbank*”, namely “*hsh portfoliomanagement*”,
- The inclusion of the model calculations for EPCs, with the model being based on the calculation model for PPPs,
- Corrections concerning the Social Security Funds

Eurostat appreciated the updated draft of the EDP Inventory and proposed to provide feedback on the newly drafted, or amended, sections to the German statistical authorities before the publication on Eurostat's website.

Moreover, it was noted that the list of the general government entities annexed to the EDP Inventory was lastly provided at the beginning of the year 2017 and therefore needed to be updated.

Findings and conclusions

Eurostat appreciated the provision of the updated EDP Inventory. Eurostat, however, also noted that Annex 1 of the EDP inventory, the list of general government units, should be updated on a regular basis.

*Action Point 14 (ex-18)*¹⁶: The German Statistical Authorities will provide Eurostat with an update of the list of general government units (Annex 1 of the EDP inventory).

Deadline: end-June 2018

2. Follow-up of prior EDP dialogue visits

Introduction

Eurostat undertook its last EDP dialogue visits to Germany on 26-27 February 2014, respectively 25-26 February 2016. The discussions in the context of these visits resulted in the

¹⁶ Completed

formulation of follow-up action points. A small number of follow-up action points of the 2016 EDP dialogue visit to Germany remained unaccomplished.

Discussion

Eurostat revised with the German statistical authorities the state of completion of the action points from the 2016 EDP dialogue visits. Most of the action points were considered to have been accomplished. The outstanding open action points, relating to sector classification issues, i.e. the classification of hospitals and broadcasters, and the calculation method of the quantitative market/ non-market test (50%-test), data sources (the compilation of B.9f, the financial transactions survey, and accrual data for local governments), as well as the recording of interest according to the Capital Cost Model (“*Kapitalkostenmodell*”) were addressed under the respective agenda items.

The still outstanding action point concerning the provision of a list of specific institutions created under public law (“*Anstalten des öffentlichen Rechts*”) was briefly discussed. It was recalled by the Federal Statistical Office that it had provided Eurostat, as a follow-up of the 2016 EDP dialogue visit, with the opinion of its legal department regarding the impossibility of producing the requested list on basis of the national statistical confidentiality provisions. Eurostat agreed that the Eurostat reply note on the provision of NACE codes (Action Point 32) shall also address the statistical confidentiality.

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 accomplished.

A number of follow-up actions from the 2016 EDP dialogue visit were referred to the discussions on related matters during the 2018 EDP dialogue visit, and progress in their completion was reviewed in this context.

3. Review of the 2017 EDP reporting and of related data compilation issues

3.1. Consistency of ESA Tables with EDP Tables

Introduction

In general, EDP Tables and ESA tables as reported by the German statistical authorities display a strong consistency. However, discrepancies between EDP Tables and ESA Tables exist for ESA Table 27 (quarterly financial accounts of government), ESA Table 6 (annual financial accounts by sector), ESA Table 7 (balance sheets for financial assets and liabilities; for ESA Table 7 the consistency has solely been assessed for trade credits data reported in EDP Table 4).

ESA Table 27 also shows discrepancies with the EDP Tables. Nevertheless, due to the different approach concerning the recording of transactions in other accounts receivable between EDP Tables and the quarterly government financial accounts (ESA Table 27), the two data sets cannot be consistent. The German statistical authorities regularly provide, for that reason, a supplementary table allowing the reconciliation between financial flows according to ESA Table 27 and EDP Tables.

It was clarified in the context of the past EDP data notification that the inconsistency between EDP Tables and ESA Tables 6 and 7 are a result of vintage differences between the two sets of tables.

Discussion

Eurostat recalled the explanations provided in the clarifications of the past EDP data notifications. Eurostat's understanding that the differences between the two sets of tables during the EDP data notifications are the result of different vintages was confirmed by the German statistical authorities.

Moreover, Eurostat was informed that the tables could also not be fully aligned at any point in time.

Findings and conclusions

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

3.2. EDP notification tables

3.2.1. Working balance of EDP tables 2 (including the nature of the working balance)

Introduction

In Germany, the fiscal outcome calculated based on the results of public finance statistics surveys is reported as the working balance in EDP Tables 2 A-D. Therefore, the availability, accounting basis and status of data in the working balance are determined by the coverage of quarterly and annual public finance statistics surveys, their release and revision calendar.

For the first notification of the year n-1 (April EDP notification), the Federal Statistical Office did normally not report a working balance, as the results of the related public finance statistics surveys are not delivered in time for the EDP notification. However, as a follow-up to the 2016 EDP dialogue visit, the Federal Statistical Office provided a “provisional” working balance in EDP Tables 2. This “provisional” working balance is, however, not linked to the compilation process of EDP data and hence results in an increased residual displayed in the EDP tables for the year n-1.

Discussion

Firstly, Eurostat commented that EDP tables 2 were designed to provide the possibility of reconciling the results from public accounting, possibly audited and/ or voted for in parliament, with the results of the statistical compilation, i.e. the net lending/ net borrowing according to the ESA definitions. It was, however, not meant to reconcile a statistical product as the starting point (the working balance) with another statistical product. It might thus be advantageous to assess the possibilities of using different sources as the working balance that are either audited or discussed in Parliament.

The German statistical authorities noted Eurostat's opinion. It was mentioned that the results of the public finance statistics surveys were published and followed legal requirements. They themselves might not have been audited or voted for in Parliament. Nevertheless, public finance statistics was based on information that was either voted in Parliament, i.e. the budgets, or possibly audited by either Court of Auditors, or in case of units with business accounting by auditing companies.

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 addressed. The issue was also discussed in past EDP dialogue visits and in context of the clarifications during EDP notifications. 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. The “provisional” working balance that was provided for the April 2017 EDP notification would provide no added value, as the data were not linked to the compilation process of EDP data. The result would be that the residual of the calculations, which is shown as non-explained other adjustments, could significantly increase for the year n-1 and thus foil the efforts of the German statistical authorities in reducing the non-explained residual. Eurostat remarked that the German approach of providing no working balance for a year for the April EDP notifications would be a unique case and not preferable.

Eurostat understood from the discussions that data on the net financing requirements of government (“*Nettokreditaufnahme*”) would exist for central government and state governments. This data would be audited and available in January for central government, respectively in February concerning the state governments. However, the usefulness of the net financing requirements for replacing the existing working balance data was doubtful. The net financing requirements did solely cover the core budgets and would not provide information on the special funds (“*Sondervermögen*”) or other extra budgetary units and was not on a pure cash accounting basis. The problematic nature of the data was illustrated on the basis of the example of the net financing requirements of the Federal government. Since 2014, the net financing requirements of the Federal government had been set to “zero”. It seemed to be possible for amounts to be shifted between periods for budgetary equilibrium reasons (“*Haushaltsausgleich*”). The possibility to set the net financing requirements to “zero” was a clear barrier for using it as working balance.

Findings and conclusions

Eurostat asked to reconsider the use of the results of the public finance statistics surveys as working balances in the EDP tables 2 to better reflect the spirit of the tables. Eurostat also expressed its preference to continue using the “provisional” working balance.

*Action Point 15 (ex-20)*¹⁷: The German Statistical Authorities, in cooperation with the MoF, will reflect on the advantages of a potential change of concept of the working balance (WB): towards a balance that is audited, discussed by Parliament(s), policy-relevant, available in time for the compilation of the April notification and available for central and state governments alike. The German Statistical Authorities will provide Eurostat with a note on the feasibility and the way forward, if feasible.

Deadline: end-December 2018

*Action Point 16 (ex-21)*¹⁸: Notwithstanding the previous action point, Eurostat recommends the German Statistical Authorities to use an estimate as the preferred approach for the WB to be reported for t-1 in April notifications in the absence of availability of the regular WB, and avoid reporting the WB as “not available” (“L”).

Deadline: the April 2018 EDP notification

3.2.2. Unexplained other adjustments in EDP tables 2

Introduction

In EDP Tables 2, the transition between the working balance and the net lending/ net borrowing on the basis of ESA 2010 should be presented in detail. For Germany, part of the difference between the working balance and the deficit is reported as an unexplained residual

¹⁷ Completed

¹⁸ Completed.

in the “*other adjustments*” section of the tables. The magnitude of these unexplained other adjustments has been steadily reduced by the Federal Statistical Office. However, the large number of different items of other adjustments commonly raises questions concerning specific items and their revisions.

Discussion

Eurostat acknowledged the considerable progress achieved by the German statistical authorities in relation to explaining the transition from the working balance to the net lending/ net borrowing and thus reducing the unexplained residual.

The Federal Statistical Office informed Eurostat that no particular project was planned at the moment on further reducing the residual.

Findings and conclusions

Eurostat welcomed the past work undertaken by the German statistical authorities and took note of the explanations provided during the discussion. In Eurostat's view, developments concerning the other adjustments, particularly the unexplained other adjustments, of all general government subsectors have to be closely monitored.

3.2.3. Adjustments relating to consolidation

Introduction

Issues related to the consolidation have been discussed on several occasions in the past in the context of EDP dialogue visits and the biannual EDP data notifications.

Eurostat understood that the consolidation of government non-financial transactions is based on a special method using an expenditure side-based approach. In dedicated lines of EDP Tables 2, adjustments relating to clearing within and between subsectors and adjustments relating to settlement of accounts were reported. The EDP Inventory clarified that the correction lines contained discrepancies between consolidation in public finance statistics (working balance) and consolidation in national accounts.

Under this agenda point, Eurostat sought more explanations concerning the current consolidation approach for government non-financial transactions, as well as for government financial transactions.

Discussion

The German statistical authorities recalled briefly the consolidation rules in place for the compilation of government non-financial accounts. Eurostat understood that for the consolidation of intra-governmental flows in public finance statistics, the revenue side of the accounts played a dominant role. Intra-governmental flows were removed from the expenditure and revenue side for the same amount, i.e. the amount recorded on the revenue side was also deducted from the expenditure side. Thus the balance of the accounts was not changed. In case the recorded expenditure did not equal the recorded revenue, this could have been interpreted in national accounts terms as (i) a time of recording issue or (ii) a problem of codification, e.g. a transfer recognised by one involved unit but not by the other. In German national accounts, the starting point for the consolidation was on the expenditure side, as it was deemed to be more reliable than the revenue side. Nevertheless, unlike in public finance statistics, not the same amounts were deducted from expenditure and revenue. Thus, in Eurostat's view, the approach taken in national accounts resulted in the consolidation having an impact on the net lending/ net borrowing (B.9) of general government, since amounts for inter-governmental flows not matching were removed. Therefore, the adjustments due to the

consolidation approach in German national accounts created a discrepancy. Eurostat wondered why the German statistical authorities did not recognise either a flow in F.8 or recognise the possibly wrong codification and changed the counterpart, or the transaction category.

Eurostat informed the German statistical authorities that other Member States used the approaches mentioned in the discussions, either recognising a difference in the time of recording (F.8), or amended the counterpart or the transaction categories.

Findings and conclusions

Eurostat took note of the explanations provided by the German authorities. Eurostat asked the German statistical authorities to reconsider their consolidation approach used in national accounts.

*Action Point 17 (ex-22)*¹⁹: Destatis will re-examine its approach with respect to the consolidation of non-financial flows within and between subsectors, to the effect of removing the discrepancy thus created. Destatis will first enquire on whether the current practice of changing the deficit/ surplus in EDP/ GFS (in contrast to the public finance survey) is justified and, if so, the German Statistical Authorities will accordingly record amounts in other accounts payable/ receivable. Alternatively, Destatis will change its current policy of changing the deficit/ surplus of units and will instead reclassify the counterpart or the ESA transaction as appropriate. To this effect, the German Statistical Authorities will in particular examine the consistency of ESA transactions mapped in the units concerned. The German Statistical Authorities will report to Eurostat the implied statistical discrepancy of the current practice for the notification years.

Deadline: end-August 2018

3.2.4. Statistical discrepancies in EDP tables 3

Introduction

As a part of the regular EDP data assessment, Eurostat monitored the size and the sign of statistical discrepancies arising from the stock-flow reconciliation between the non-financial accounts data and the change in government debt. In the context of the EDP data assessments, Eurostat took note of the considerable efforts of the German statistical authorities to reduce the level of discrepancies over the years. However, large systematic discrepancies remained, particularly for the state government level. One main driver of the statistical discrepancies appeared to be the consolidation approach taken by the German statistical authorities.

Due to the lack of direct data sources covering all government units and their financial transactions, the German statistical authorities did not calculate separately the balancing item of the financial accounts (B.9f) but rather deployed the balancing item of the non-financial accounts (B.9) as a best estimate for the B.9f. To enable consistency between B.9 and B.9f, the other accounts receivable for the compilation of the quarterly government financial accounts (QFAGG, ESA Table 27) were accordingly adjusted.

Discussion

The issue of the adjusted data on a macro-level in other accounts receivable did not concern EDP statistics directly, though. For the purpose of the biannual EDP data assessment, the German statistical authorities disclosed the level of statistical discrepancies, including the

¹⁹ Completion of this action point is in progress.

discrepancies included in the adjusted transactions in other accounts receivable, in EDP Tables 3 in the dedicated item for “*other statistical discrepancies*”. Eurostat has been in continuous discussions with the German statistical authorities concerning the presentation of the discrepancies.

For EDP purposes, the potential discrepancies arising from a micro-level, i.e. from the calculation of financial transactions of units with an integrated system of accounts, i.e. the bad banks, were presented in the EDP questionnaire tables 4 under the item “Impact due to rebalancing / balancing adjustments”.

Eurostat enquired on the calculation of transactions in Maastricht debt in the quarterly financial accounts of government. Eurostat understood that, for this calculation, an index multiplied with the changes in face value stocks was deployed, which was confirmed by the German statistical authorities.

Eurostat was not able to rationalise this approach. The exclusion of other flows in the stock data of Maastricht debt used for the EDP Tables 3 provided implicit transactions. It would be logical to use the same transactions also for the quarterly financial accounts of government. Thus, one avoidable discrepancy between ESA Table 27 (quarterly financial accounts of government) and EDP Tables 3 would be eliminated. The German statistical authorities stated that they planned to implement this approach for the upcoming April 2018 EDP data notification.

Eurostat underlined that, although it acknowledged that challenging situation of compiling financial accounts without any certainty on the completeness of the source data, the current approach of compiling and reporting B.9f by Germany was not compliant with relevant ESA definitions.

The German statistical authorities recalled that the calculation of the financial accounts has been a long-standing discussion with Eurostat, and with the limitations in the quality and completeness of the data sources, using B.9 as the best approximation of B.9f was a workable solution. The financial accounts were not produced solely for EDP scrutiny purposes; however, they reminded Eurostat that the discrepancies were fully disclosed in the EDP tables.

Eurostat, while understanding the reason, i.e. the assumption that B.9 equals B.9f, for the presentation of the discrepancies in “*other statistical discrepancies*” in the EDP tables, expressed its opinion that the discrepancies between ESA Table 27 and EDP Tables 3 should be disclosed as “B.9 – B.9f discrepancies”. This was not a pure matter of presentation, but of acknowledging the difference between horizontal and vertical discrepancies.

Findings and conclusions

Eurostat appreciated the efforts of the German statistical authorities to control and reduce the level of statistical discrepancies. Eurostat underlined that the current approach to compile and report B.9f for the government financial accounts was not compliant with relevant ESA definitions. Furthermore, Eurostat noted that the statistical discrepancies resulting from the difference between B.9 and B.9f were reported and presented in a transparent manner in EDP tables 3, but not in the correct line of the tables.

*Action Point 18 (ex-15)*²⁰: The Bundesbank compilers of ESA Table 27 will use the transactions in Maastricht debt implicit in EDP Tables 3 (calculated also by Bundesbank),

²⁰ Completed

replacing the current estimate based on indices. As a result, the other statistical discrepancy in EDP Tables 3 will be revised.

Deadline: the April 2018 EDP notification

Action Point 19 (ex-16)²¹: Eurostat recommends the statistical discrepancy in EDP Tables 3 to be located under discrepancies between the capital and financial accounts (B.9 – B.9f), rather than under other statistical discrepancies.

Deadline: the April 2018 EDP notification

Action Point 20 (ex-17)²²: For ESA Table 27, Eurostat recommends the Bundesbank to discontinue the current practice of locating the statistical discrepancy between capital and financial accounts in other accounts receivable²³, which would remove the currently existing artificial other change in volume from this instrument. In so doing, this will permit full alignment of ESA Table 27 with EDP Tables 3. *Inter alia*, this will also remove the adverse effect on the F.8A transactions stemming from this practice to locate the statistical discrepancy there coupled with the more flexible revision policy applicable for the financial accounts (than for the non-financial accounts), which benefits users.

3.2.5. Other accounts receivable/payable, including trade credits

Introduction

Data for other accounts receivable/ payable can often not be directly compiled by using public accounts data, as a significant number of government units compile their accounts according to a cash-based accounting system. 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 pure cash basis. At state government level an accrual element is also captured in the cameralistic cash-based accounting system. On this government sub-level, a complementary period (“*Auslaufperiode*”), also called “fifth” quarter, exists, enabling units to record expenditure for economic transactions giving rise to the payment up to several weeks after the end of the calendar year, but also mere error corrections.

For trade credits, the same problem arising from the accounting system applies. A substantial share of non-responses of units concerning trade credit data in the annual debt survey had still been observed, particularly at local government level. However, as a result of the 2016 EDP dialogue visit, the German statistical authorities had started to integrate direct public accounts data on trade credits for social security funds, which resulted in a significant higher total stock of trade credits.

Eurostat requested a number of documents as background information for the discussion, including notes on the quality of trade credits data and data on adjustments recorded in the complementary period (fifth quarter).

Discussion

Firstly, the compilation of other accounts receivable/ payable was reviewed. The cash/accrual adjustments in EDP tables 2 between the working balance and the net lending/ net borrowing, i.e. the entries in the sections “other accounts receivable” and “other accounts payable”

²¹ No progress has been made on the completion of this action point.

²² No progress observed.

²³ An approach only followed by two MS in the EU (incl. DE).

functioned as a basis for the compilation in the financial accounts with the exceptions of cases where the working balance was already recorded on an accrual basis. Given that, Eurostat wondered how the accrual components in relation to the complementary period (referred to as the “*fifth quarter*”), which were inherent in the working balance of the state government subsector, was incorporated in the compilation. The German statistical authorities recalled that the fifth quarter did not only contain accrual adjustments but also some possible error corrections and that it was almost impossible for the statistical authorities to differentiate between these components. However, if it were possible to identify the accrual adjustments, they would be taken into account.

For the Federal government, the German statistical authorities received once a year a detailed assessment of all flows above a threshold of EUR 500.000, for which the cash flow had not taken place in the same year as it was recorded in the budget, but rather with a delay of up to one month, or one month in advance. This assessment enabled the German statistical authorities to undertake a special evaluation for the central government subsector.

Based on the information requested prior to the EDP dialogue visit, Germany reported stocks of liabilities in trade credits and advances in the region of 1.18 – 1.26% of GDP. 65 – 70% of total trade credit liabilities stem from the social security funds subsector. Eurostat had been informed that further improvement measures had been undertaken. The response rate for trade credit data in the annual debt survey had improved but particularly on local government level for units with cameralistic accounting systems the substantial non-response rate remained an issue. The German statistical authorities recalled that the issue had been assessed and several measures had been taken, e.g. amendments to the survey. Nevertheless, in their view, no further measures could be taken that would improve the situation. The statistical authorities had regularly contacted the municipalities with regards to the issue, however, it seemed that the municipalities were reluctant to act. As the cameralistic accounting system did not provide information on trade credits, the provision of the information presented an additional task for the municipalities.

Concerning trade credits of social security funds, Eurostat had observed in the provided documents an unusual amount for the stock of trade credits of the pension insurance for farmers (“*Alterssicherung der Landwirte*”). The exact reasons for the large stock could not be established.

In addition, Eurostat enquired on the sources of the trade credits of the statutory health insurances. The German statistical authorities informed Eurostat that the question of the sources of trade credits of the statutory health insurances had been addressed to the reporting units. The main components appeared to be medicines, invoices of hospitals for their services and invoices of doctors. The average time period between receipt of an invoice and settlement was not known to the German statistical authorities. Finally, Eurostat was informed that hospitals and doctor’s practices may enter into factoring operations, possibly silent factoring. The German statistical authorities assessed annually the data from factoring banks if claims against government were reported. The reported figures were negligible.

Findings and conclusions

Eurostat took note of the explanations.

*Action Point 21 (ex-23)*²⁴: The German Statistical Authorities will again examine ways to apply, for state governments, an adjustment in other accounts receivable/ payable for the “fifth quarter”, similarly to the approach currently carried out for the federal government, so

²⁴ Completion of this action point is in progress.

to eliminate the discrepancy created. To this effect, the statistical authorities will gather expert assessment to determine the predominant origin of the “fifth quarter”: correction of errors, or alternatively delayed settlement of revenue and expenditure, and act accordingly.

Deadline: end-August 2018

Action Point 22 (ex-24)²⁵: Eurostat encourages the German Statistical Authorities to further enquire on ways to improve the data situation on trade credits for units using a cameralistic accounting system, in particular units at local government level. A progress note shall be sent to Eurostat.

Deadline: end-August 2018

Action Point 23 (ex-25)²⁶: The German Statistical Authorities will enquire on the large stock in trade credits, payable for “*Alterssicherung der Landwirte*” (around EUR 900 million).

Deadline: end-May 2018

Action Point 24 (ex-26)²⁷: The German Statistical Authorities will enquire on the use of (silent) factoring by health care providers, notably with institutions other than factoring corporations (or corporations not solely engaged in factoring). Eurostat encourages the German Statistical Authorities to continue actively using MFI information for the purpose of identifying factoring operations to be reclassified in the Maastricht debt.

Deadline: end-August 2018

3.3. Questionnaire relating to the EDP notification tables

Introduction

In the context of the clarifications in the course of the biannual EDP data assessment, Eurostat also assesses the completeness and coherence of the data provided in the supplementary questionnaire relating to the EDP notification tables.

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

Discussion

Eurostat appreciated the efforts of the German statistical authorities in completing the tables of the EDP questionnaire.

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 8.1) and on guaranteed debt assumed by government (table 9.2).

Eurostat was informed that the German statistical authorities were in discussions with the Federal Ministry of Finance to resolve the issue of the missing stock data in the table. However, the discussions were still ongoing. Eurostat suggested as an interim solution to use the stock reported in ESA table 27 for the total stock of loan claims.

The reporting convention in the EDP questionnaire tables 9 was additionally briefly discussed. Eurostat was aware that information on guaranteed debt assumed was stated in Table 9.2 as being not available, as the German statistical authorities had no indication whether the debt assumption by government was linked to guaranteed debt. Nevertheless, in

²⁵ Completed.

²⁶ Completion of this action point is in progress.

²⁷ Completed.

Table 9.1, the guaranteed debt assumed was stated as being not applicable. The German statistical authorities explained that this difference was due to an error in the template of Table 9.1.

Findings and conclusions

Eurostat took note of the explanations and encouraged further efforts to improve completeness of the questionnaire.

*Action Point 25 (ex-27)*²⁸: The German Statistical Authorities will aim at completing EDP questionnaire table 8 (stocks currently missing), starting with showing the total stock of loan claims of central government as reported in ESA table 27 (compiled on an estimate basis) as well as showing preliminary data for foreign claims for core budgets on an estimated basis (using for instance information such as the statistics on financial assets (FV) or “*Kreditanstalt für Wiederaufbau*” (KfW) reports). The German Statistical Authorities will provide Eurostat with a progress note on a structural solution.

Deadline: the April 2018 EDP notification; for the progress note: end-August 2018

*Action Point 26 (ex-28)*²⁹: The German Statistical Authorities will reflect on whether to report in EDP questionnaire tables 9, not available (“L”) or zero by approximation.

Deadline: the April 2018 EDP notification

*Action Point 27 (ex-29)*³⁰: Eurostat will improve formulas in EDP questionnaire table 9.1 to encompass not available (“L”) reporting under some lines in conceptually correct form.

Deadline: the October 2018 EDP notification

3.4. Supplementary table on government interventions to support financial institutions

Introduction

Germany reports the supplementary table on government interventions to support financial institutions on a regular basis, alongside the EDP notification tables and the EDP questionnaire. Apart from the data on relevant government interventions, the EDP net lending/ net borrowing and relevant assets and debt of public financial defeasance structures classified to the general government are included in the amounts reported. However, part 3 of the table, which is reported on a voluntary basis and presents financial transactions, is not filled by the German statistical authorities.

Discussion

Eurostat appreciated that the German statistical authorities regularly provided supplementary tables showing the net lending/ net borrowing and the balance sheet data on transactions and revaluations in assets and liabilities of public financial defeasance structures on an individual unit basis.

Eurostat encouraged the German statistical authorities to fill part 3 of the supplementary table on government interventions to support financial institutions. The German statistical authorities answered that this part 3 was voluntary, that it was not to be published, that they had no resource to compile it, and that all the detailed information was anyway provided to

²⁸ Completed.

²⁹ Completed.

³⁰ Completion of this action point is in progress.

Eurostat. Eurostat indicated that this table, whilst voluntary, was necessary to verify the consistency between the deficit impact of the rescue operations and the debt impact. A gap of 4 billion existed in German data between the cumulated deficit impact (over 2008-2016) and the net asset impact as of end 2016, which could be reconciled through this part 3. Eurostat also enquired how to reconcile the B.9 impact of the defeasance structures and the reporting in part 1 of the supplementary table on government interventions to support financial institutions.

Findings and conclusions

Eurostat took note of the reservations of the German statistical authorities against completing part 3 of the table. Nevertheless, Eurostat encouraged the German authorities to revisit their decision.

Action Point 28 (ex-75)³¹: Eurostat invited the German statistical authorities to detail the cause of those divergences, either through completing part 3, or by other means.

Deadline: the April 2018 EDP notification

4. Methodological issues

4.1. Delimitation of general government, application of the 50% rule in national accounts

4.1.1. Practical aspects of sector classification

Introduction

The national accounts department of the Federal Statistical Office holds the responsibility for the decisions on the sector classification of individual units. The delimitation of the general government sector is based on the reporting units management system (“*Berichtskreismanagementsystem*” – BKM). In order to ensure compliance with relevant ESA rules, the Federal Statistical Office developed several numerical tests, besides the 50%-test including an 80%-test for government ancillary units, and a test for holding corporations.

As background information for the discussions on sector delimitation, Eurostat requested a list of reclassified entities and of units for which sector classification analyses were underway.

Discussion

Eurostat appreciated the regular provision of detailed information on reclassified entities, for all government subsectors, in context of the biannual EDP data notification. As previously discussed, Eurostat understood that, for units controlled by state and local governments, the Federal Statistical Office had to explicitly request the information from the regional statistical offices for every transmission of additional information to Eurostat. The authorisation for the use of the information was, however, considered as tacitly given, once an agreed deadline had passed without reply to the request. As already stated, a refusal had not yet occurred.

The discussion focused on the implementation of the developed numerical tests by the Federal Statistical Office. Eurostat had understood from the information provided in the EDP-inventory that the German statistical authorities used a quantitative approximation for implementing the qualitative criteria, i.e. the criteria for public units supplying government with goods and services according to ESA 20.24 to ESA 20.28, for the delineation between market producers and non-market producers. Public units that had made at least 80% of their

³¹ Completed.

turnover with government were classified as ancillary units inside the general government sector. However, it appeared that this was not the correct understanding. From the information provided in the discussion, the 80%-test was not separately applied but in combination with a further assessment of the 50%-test. Eurostat was of the opinion that ancillary units could only be classified according to the results of the 80%-test.

The German statistical authorities disagreed as they argued that such an approach would result in a number of units, which generated surpluses, being reclassified to the general government sector. The example of special purpose associations (“*Zweckverbände*”) was provided, since these units were created for specific purposes, e.g. waste disposal, which possibly reported surpluses and a majority of revenue from government, although this was arguably coming from households. However, in Eurostat’s view, the mentioned issue was not directly related. It was a different issue of receiving source data that are not aligned with the recording in national accounts. If, in national accounts, the provided services would be recorded to households, this would indeed change the results of the 80%-test. An assessment of the correct identification of the counterpart of the transactions was important and desired. If the sales were to government, the 80%-test should rigorously be applied.

Moreover, Eurostat enquired on the recent reclassifications to the general government sector. Eurostat had observed, that for the most recent reclassification-round, a significant number of units were reclassified to the general government sector based on the results of the 80%-test. The Federal Statistical Office pointed out that this was most probably based on information of better quality. The statistical item of “revenue with government” (“*Umsätze mit öffentlichen Haushalten*”), on which the 80%-test was based, was not an accounting item integrated in the system of accounts of the units but only an item of the public finance statistics surveys. Hence, it could have been the case that units previously did not report, or did not correctly report those revenues.

It was confirmed that the German statistical authorities will continue using the multiplier of 1.5 applied to information on depreciation from financial statements to approximate the consumption of fixed capital.

The issue of the inclusion of the accounting item “other revenue” (“*sonstige betriebliche Erträge*”), excluding grants provided by government, in the calculation formula for the 50%-test was addressed. The issue had been under discussion since Eurostat was notified of changes in the calculation formula prior to the 2016 EDP dialogue visit. In 2015 Germany had implemented the “accounting directive” (Directive 2013/34 (EU) of the European Parliament and of the Council). The law implementing the directive (“*Bilanzrichtlinieumsetzungsgesetz*”; BilRUG) took force in 2016 and impacted the composition of the item “other revenue”. Eurostat had understood that, due to this change, the German statistical authorities planned to exclude the item again from the calculation formula.

However, Eurostat was informed that this was a misunderstanding. The German statistical authorities planned to analyse if the change in the legislation had affected the composition of the accounting item and then a change in the formula could be executed.

Eurostat disagreed with the approach envisaged by the German statistical authorities. The delineation between “revenue” (“*Umsatzerlöse*”) and “other revenue” was, prior to the change in 2016, based on the revenues stemming from either typical ordinary business activities (“revenue”) or atypical ordinary business activities (“other revenue”)³². This differentiation had apparently been removed by the BilRUG. As of 2016, “revenue” apparently included all income from the sale or renting of goods and the sale of services.³³ Thus, a significant part of

³² Not to be confused with “extraordinary income” (“*außerordentliche Erträge*”)

³³ However, “other revenue” still included income from the sale of fixed assets and securities.

“other revenue”, that might fulfil the ESA definition of sales, should, after the legal change, be recognised in “revenue” by the reporting units. Eurostat, therefore, asked that for the reporting year 2016 “other revenue” should be removed from the formula. For the reporting years 2014 and 2015, a detailed analysis of the contents of the accounting item was recommended. If the results of the analysis provided that the majority of the content of “other revenue” would not concern ESA 2010 “sales”, then the item would also need to be excluded for the years prior to the change in the legislation.

In addition, the methodology on the classification of holding companies and head offices was recalled. It was confirmed that the sector classification of units, which were classified according to their activities in the NACE categories 64.20.0, 70.10.1 and 70.10.9, was based on a three steps approach. Such units, if controlled directly by government, had to have more than 10 employees and the turnover of the entity covering at least the staff costs, to be classified outside of the general government sector. Public units under the aforementioned NACE categories and which were directly controlled by government that had less than 10 employees, or whose turnover did not cover their staff costs, were deemed to be units of general government. Eurostat had observed a significant number of reclassifications of units due to this approach in recent years. The statistical authorities expected the situation to start to stabilise with the number of reclassifications decreasing.

Finally, the treatment of losses on inventories/ losses on receivables with regards to the 50%-test was discussed. Losses on inventories/ losses on receivables should not enter the 50%-test and in Eurostat's view should be deducted from sales. It could not be clarified without doubt if losses on inventories/ losses on receivables were deducted from sales, or rather included in costs in German national accounts.

Findings and conclusions

Eurostat welcomed the automatized procedures for the sector classifications developed by the German statistical authorities. Eurostat expressed its concerns on (i) the asymmetry established by the current use of the 80%-test and (ii) the inclusion of “other revenue” in the calculation formula of the 50%-test.

*Action Point 29 (ex-19)*³⁴: Destatis will exclude “other revenue” from the numerator of the 50%-test (sales) from the year 2016 onwards and will review the need to also do so for previous years. This will take into account the change in accounting guidelines from the year 2016, as appropriate (inclusion of secondary sales within revenue rather than other revenue).

Deadline: end-April 2019

*Action Point 30 (ex-31)*³⁵: While welcoming the quantitative automatized approach for implementing the qualitative criteria as a proxy in Germany, Eurostat recommends Destatis to review its procedure to ensure a symmetric treatment (i.e. entities with sales to government above 80% will be checked individually only for verifying the genuine counterpart of the transaction, and not for other criteria). A note shall be provided to Eurostat.

Deadline: end-June 2018

³⁴ Completion of this action point is in progress.

³⁵ Completion of this action point is in progress.

*Action Point 31 (ex-33)*³⁶: The German Statistical Authorities will clarify the accounting rules for losses on inventories and losses on trade receivables generally applicable in business accounting and their location in statistical surveys used on the one hand for national accounts purposes and, on the other hand, specifically for the 50% test, so to clarify whether those amounts are deducted from sales, or are added to costs, or are without impact on value added. A note shall be provided to Eurostat.

Deadline: end-June 2018

4.1.2. Review of the questionnaire on government controlled entities

Introduction

The questionnaire on government-controlled entities classified outside the general government gives a comprehensive picture of the public sector, and enables Eurostat to monitor the changes in the perimeter of the general government sector. In addition, the questionnaire presents data on liabilities of government controlled entities, allowing an assessment/ estimation of the risks to government stemming from the corporations' operation.

The basis for the data presented in the questionnaire is the BKM. This registry covers entities controlled by general government, and contains information on ownership, NACE classification, accounting system and legal form. It is jointly administrated by the Federal Statistical Office and the regional statistical offices with specific access rights.

Eurostat understood that the registry had been updated by use of a special survey ("*Grundbefragung*").

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 and 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

The German statistical authorities confirmed that the processing of the results of the "*Grundbefragung*" had been completed and validated. The survey had encompassed approximately 33000 units. It had been decided by the Federal Statistical Office and the majority of regional statistical offices that the *Grundbefragung* should be annually conducted covering all concerned units. The template of the survey had been amended so that one standardised template could be used. The processing of the responses would be automatized using a module of the "*Verbundsystem der Finanz - und Personalstatistiken*" ("*FIPS*").

It was clarified upon request of Eurostat that it was envisaged for the future that all regional statistical offices would conduct the *Grundbefragung* annually. Nevertheless, this depended on the available resources and it appeared to Eurostat that this could not be guaranteed.

Eurostat received two returns of the questionnaire on government controlled entities, compiled separately by the Federal Statistical Office and by the Bundesbank. The Bundesbank's list included solely government controlled monetary financial institutions. The list compiled by the Federal Statistical Office comprised all other entities controlled by government, including a number of financial institutions that are not monetary financial institutions. Three units were listed for historical reasons in both questionnaires.

³⁶ Completed.

The Federal Statistical Office reported its datasets with a delay of approximately four to five months and the return did not include all information sought in the questionnaire. Information on the NACE classification of the entities or the ESA sector classification were missing. Moreover, the information on operating profit, employees and market-non-market ratios was not provided for all units with large debt. The list did also not include non-resident entities controlled by the German government given that they were not obliged to respond to the public finance statistics surveys.

Eurostat addressed the issue of the non-provision of NACE codes in the questionnaire. It was not clear to Eurostat how NACE codes could fall under the category of sensitive information, particularly as Eurostat did not envisage publishing the data but only use it for quality assessment reasons. Moreover, Eurostat was also part of the European Statistical System (ESS) and bound by the same statistical confidentiality. A transfer of the data would thus in Eurostat's view not be in contradiction with the confidentiality. The Federal Statistical Office stated that it had provided Eurostat with a legal opinion as follow-up action of the 2016 EDP dialogue visit and would appreciate the Commission's opinion.

Concerning the other missing information in the questionnaire, the German statistical authorities explained that some of this information, e.g. 100% ownership of government or information on the ESA sector classification, was either not covered by the BKM or it could not be shared because of statistical confidentiality. There has been progress made in the completeness of the questionnaire, which was also acknowledged and appreciated by Eurostat. The remaining issues were known and also taken into account in the upcoming amendments to the FPStatG.

The underlying data of the questionnaire of the Federal Statistical Office was generally based on the reference year $n-2$, i.e. for the questionnaire of 2017, the year 2015. However, for units with a business accounting system, some information was based on the reference year $n-3$. For 2017, the market/ non-market test was calculated on the underlying data of the years 2012, 2013 and 2014.

The Federal Statistical Office pointed out that the reason for this time lag lay in the compilation of the data for the units with business accounting systems. The information was compiled via the annual statistics for public funds, institutions and enterprises ("*Jahresabschlussstatistik*"). The entire compilation process, including the plausibility assessment, took in total 20 months. Moreover, the units themselves sometimes needed more than a year for closing their yearly accounts and some owner-operated municipal enterprises ("*Eigenbetriebe*") enjoying even longer deadlines. The Federal Statistical Office expressed its view that the duration of the entire process could not be shortened, given that the information would need to satisfy the quality demands of Eurostat. It was also highlighted that the delay in the provision of the questionnaire was also due to the compilation of the data for units with business accounting systems. The compiled data entered also the classification procedure. The following analysis of the delimitation of the general government sector was given priority in relation to the preparation of the questionnaire, which led to the delay in the provision of the questionnaire.

Eurostat was informed that the list that would be provided around the end of April 2018 would hence include data based on the year 2015. Eurostat understood that, consequently, the sector classification decisions of the year 2018 would be taken on the basis of the market/ non-market test results for the years 2013 to 2015.

According to Eurostat's information, Germany was the sole Member State to provide parts of the questionnaire on government controlled entities based on year $n-3$ data. Particularly the Member States that provided data on the year $n-1$, i.e. 2016 data for the year 2017, used different data sources, sometimes several data sources, from the sources used by the German statistical authorities. Therefore, the situation was not acceptable. Eurostat acknowledged the

constraints for the compilation of the data for the German statistical authorities, nevertheless, Eurostat thought that the situation should be improved and more up-to-date figures used, if possible.

The monetary financial institutions (MFIs) included in the questionnaire were also discussed. This concerned state banks (“*Landesbanken*”), promotional banks (“*Förderbanken*”) and saving banks (“*Sparkassen*”). It was explained that saving banks were “normal” banks, taking deposits and providing loans to municipalities, households, public and private corporations. They operated on a regionally restricted basis but fully competed with private banks.

Landesbanken operated globally and, in addition they provided investment banking services. The promotional banks were discussed in more detail under agenda point 4.1.4. Eurostat understood that neither Landesbanken nor the promotional banks took deposits. The German statistical authorities explained that this was indeed the case, with the possible exception of a limited number of Landesbanken. Nevertheless, it was pointed out that they were financed by issuing debt securities which were deemed to be close substitutes for deposits in the meaning that they raised funds from the public.

Eurostat had observed that units abroad were not included in the questionnaire. Therefore the question on the coverage of units abroad was raised. Concerning SPVs of defeasance structures, it was clarified that, as the German statistical authorities received information from the accounts of the defeasance structures, SPVs were covered, as long as they were recognised in the balance sheets of the parent defeasance structure. However, this applies to SPVs only if the SPV was provided with a credit line by the defeasance structure. This would possibly be below the line for reporting it in the balance sheet and thus only included as a contingent liability and therefore not covered in the governments accounts. The German statistical authorities pointed out that, if such arrangements still existed, they were probably very low.

Units abroad, in general, also including holding companies, were not included in the BKM registry even if they were directly or indirectly controlled by government. Only resident units were legally obliged to report. Any change to the “Grundbefragung”, to also cover units abroad would require a change in the legal basis. Nevertheless, for core budgets of central government and state governments, participation reports (“*Beteiligungsberichte*”) existed and the statistical authorities could request information directly from the concerned units on a voluntary basis.

Finally, Eurostat enquired on the classification of certain kinds of units such as public construction yards (“*Bauhöfe*”), public utility companies (“*Stadtwerke*”), etc. In Eurostat's understanding, these units would provide services to government and hence could possibly be ancillary units of government. The German statistical authorities informed that the units were regularly assessed, also by use of publicly available information, e.g. information found on the internet.

Findings and conclusions

Eurostat thanked the German authorities for the background information provided and took note of the aim to conduct the Grundbefragung annually. Eurostat encourages all regional statistical offices to undertake efforts to take part in this annual exercise. Eurostat strongly encouraged the German statistical authorities to improve the completeness of the information in the questionnaire on government-controlled entities classified outside the general government sector, including information on NACE codes of individual units and information of units abroad. Finally, Eurostat took note of the explanations concerning units abroad.

*Action Point 32 (ex-5)*³⁷: Concerning the provision of NACE codes³⁸ to Eurostat during missions and in the questionnaire on public corporations, taking into account that this information remains confidential within the ESS and is not intended for publication, (i) Eurostat will write a note clarifying once again its needs and the reasoning for requesting this, including an assessment of the present position of Destatis. (ii) Subsequently, Destatis will examine ways to ensure the provision of NACE codes to Eurostat.

Deadline: (i) mid-July 2018 for the Eurostat note, (ii) end-December 2018 for the examination of Destatis

*Action Point 33 (ex-30)*³⁹: The German Statistical Authorities will provide the template of the basic survey (Grundbefragung), which Eurostat understood is to be carried out annually.

Deadline: end-May 2018

*Action Point 34 (ex-32)*⁴⁰: Destatis will explain why certain kinds of units, such as Bauhöfe/ Servicebetriebe, are classified outside government despite seemingly appearing to be ancillary units following ESA 20.24-20.28. A note shall be provided to Eurostat.

Deadline: for the note end-June 2018; for the implementation: April 2019

*Action Point 35 (ex-34)*⁴¹: Eurostat strongly recommends an improvement of the timeliness of the data used in the public corporations questionnaire in order to ensure the usefulness of the published associated data. Germany is the only Member State with a three-year delay (end December 2017 shows results for the market/ non-market test most recently based on the year 2014). The German Statistical Authorities will provide Eurostat with a note on the feasibility and the way forward.

Deadline: end-July 2018

*Action Point 36 (ex-35)*⁴²: The German Statistical Authorities will examine the feasibility to provide the information missing in the public corporations questionnaire for the sector classification of the public corporation, the liabilities owed to government, the information regarding the inclusion in the MFI list, the information on 100% ownership of government and on operating profit and loss (where missing for the units with debt of over 0.01% of GDP).

Deadline: end-December 2018

*Action Point 37 (ex-36)*⁴³: The German statistical authorities will review the coverage of units abroad controlled by government (including special purpose vehicles established abroad and holdings or other entities abroad having subsidiaries resident in Germany) and report on the existence of any such entities. In the short-run, the German Statistical Authorities will first (i) provide Eurostat with an evaluation of the information included in the participation reports ("*Beteiligungsberichte*") regarding holdings and other similar entities incorporated abroad of the federal government and the state governments. Secondly (ii), the German Statistical Authorities will send to the relevant state and central government bodies (Ministries of Finance, etc.) a request for information on entities established abroad through ownership

³⁷ Completion of this action point is in progress.

³⁸ NACE codes are provided by all other MS.

³⁹ Completed.

⁴⁰ Completion of this action point is in progress.

⁴¹ Completion of this action point is in progress.

⁴² Completed.

⁴³ Completion of this action point is in progress.

(including minority), control, sponsorship or other relationship, other than reported in participation reports ("*Beteiligungsberichte*").

Deadline: (i) end-August 2018, (ii) end-December 2018

Action Point 38 (ex-37)⁴⁴: For non-resident entities, the German Statistical authorities will assess – for the long-run – the possibility to compile the appropriate information on entities abroad for all general government subsectors.

Deadline: end-June 2019

4.1.3. Reporting of net operating surplus in general government and in NACE O in ESA table 3

Introduction

Eurostat had observed the recording of consistently negative net operating surpluses for the state government and local government subsectors over a long period of time.

Discussion

The German statistical authorities explained that this only concerned local kind-of-activity units (KAUs) of core budgets that could have a market activity as secondary activity. In certain branches of activities of government, like forestry, government acted on a market basis, i.e. taking an economically significant price.

Eurostat understood that the classification of the local KAUs was performed on basis of the automatized 50%-test. Eurostat considered that it should first be established if the products were sold at a market price, which meant at a long-term cost coverage target of 100%, before the automatized test was applied.

Findings and conclusions

Eurostat took note of the explanations of the German statistical authorities.

Action Point 39 (ex-38)⁴⁵: The German Statistical Authorities will examine the reasons for the consistently negative net operating surplus reported for the subsectors state and local governments, in particular the role of the absence of changes in inventories in agriculture, forestry and fishing. Eurostat thought that the 'automatic' application of the 50% test could explain those results and recalled that the non-market nature of the product had to be examined on the basis of economically significant prices, before the application of the 50% test.

Deadline: end-July 2018

4.1.4. 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 transport corporations, social housing providers, and TV and radio broadcasting agencies.

⁴⁴ Completion of this action point is in progress.

⁴⁵ Completion of this action point is in progress.

Discussion

- Professional associations

In Germany professional associations existed that were statutory bodies under public law (“*Körperschaften des öffentlichen Rechts*”). Such associations executed tasks of “self-administration”, i.e. they performed specific sovereign regulatory tasks. Eurostat understood that these professional associations under public law benefited from compulsory membership and hence were financed by compulsory fees. Their compulsory membership was only legally accepted due to their execution of sovereign tasks. The compulsory fees could have a para-fiscal nature, as one could not practice his profession if one was not member in an association (e.g. Medical Chamber, Chamber of Architects, Chamber of Industry and Commerce).

The German statistical authorities explained that the compulsory membership in the professional associations that were statutory bodies under public law only existed because of them being autonomous self-governing bodies with sovereign functions in specific professional areas. The concept had its roots in the history of the professions in Germany. The associations possessed regulatory powers, however these powers were not delegated but only accepted by government. The law only decreed that an association had to exist. However, the compulsory membership was only introduced in the statutes of the units.

Moreover, the German statistical authorities argued that the associations provided services to their members, and hence the membership fees should be seen as sales of services, as the membership gives the right to use the services.

Eurostat took note of the explanations. However, it expressed its doubt on the classification decisions. Eurostat noted that the sovereign/ regulatory tasks and their sovereign powers, i.e. their executive, legislative and judicial authority over their members in context of their “self-administration”, would also need to be taken into account for the sector classification of the units. In addition, Eurostat questioned if the membership fees could be recorded as sales. Such a recording would mean that the fees were at market prices and hence at economically significant prices. Eurostat also raised the question on the legal basis of the compulsory membership in the association, as it was Eurostat’s understanding that compulsory membership in associations of any kind was normally prohibited under the German constitution.

Findings and conclusions

Eurostat took note of the explanations provided by the German statistical authorities. Nevertheless, Eurostat was of the opinion that further assessment of the nature and tasks of the professional associations was necessary to verify the correct classification.

*Action Point 40 (ex-39)*⁴⁶: The German Statistical Authorities will further investigate the classification of the professional associations that are statutory bodies under public law (“*Körperschaften öffentlichen Rechts*”). The assessment should include the statistical consequences of the degree of their sovereign tasks, the market/ non-market nature of the compulsory contributions and the legal basis of the compulsory membership, the ability to determine access to professions and co-determine public exam taking in public schools (exams necessary to be part of the associations). The German Statistical Authorities will accordingly take the necessary steps concerning the sector classification of the units.

Deadline: end-August 2018

⁴⁶ Completion of this action point is in progress.

- *German Olympic Committee*

Eurostat addressed this topic due to a recent case on the classification of sports federations and the Olympic Committee in another Member State. Eurostat enquired about the current sector classification of the German Olympic Committee, the basis of the classification, including its tasks and powers.

The German statistical authorities expressed the opinion that the German Olympic Committee was, to a high probability, classified in the non-profit institutions serving households sectors (NPISH, S.15). However, a detailed assessment on the characteristics of the Committee could not be provided.

Findings and conclusions

Eurostat asked to receive further information on the characteristics of the German Olympic Committee and sports federations that are part of the Committee and the classification in German national accounts.

*Action Point 41 (ex-40)*⁴⁷: The German Statistical Authorities will provide Eurostat with a note concerning the sector classification of the German Olympic Committee, including its tasks, powers, and relationship with government and the justification for its current sector classification. The note will also encompass considerations on the classification of sports federations part of the Olympic committee, presumably distinguishing between amateur and professional sports.

Deadline: end-June 2018

- *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 nationwide public TV broadcaster (“ZDF”), and “*Deutschlandradio*”.

The sector classification of the broadcasting agencies in Germany had been under discussions since the change in the system of financing that took force in the year 2013. The classification of the public broadcasting agencies was reviewed by the Federal Statistical Office as a follow-up action to the 2016 EDP dialogue visit. 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 executive councils of representatives of the “societally relevant groups”, as it was decreed by law that the executive councils should represent the societal composition. Consequently, the classification of the entities to the non-profit institutions serving households sector was upheld.

In Eurostat’s view, however, the decision of the Federal Statistical Office to classify the public broadcasting agencies to the NPISH sector had to be revisited. Eurostat pointed out that the institutions sending officers to the executive councils might not be units controlled by government. However, since the sending institutions were decreed by law, it might have been possible for government to have influence on the decisions, as it would technically be possible to change the institutions. Eurostat also noted that, in its view, the other criteria on government control, as set out in ESA 20.15, are fulfilled, with the exception of control by

⁴⁷ Completion of this action point is in progress.

contractual agreement, in a way that they collectively result in government control over the public broadcasting agencies without impacting their political independence from the “cabinet”.

Eurostat also expressed its view that the public broadcasting agencies may even be seen as genuine “government units”, as defined in ESA 20.05 and the following, since the agencies had the right and power to collect a tax, i.e. the user payments, and levy and collect related penalties in their own name. A right and power that is intrinsically a government sovereign power.

In this context, Eurostat also reviewed with the German statistical authorities the classification of the Commission for the determination of the financial needs of public broadcasters (“*Kommission zur Ermittlung des Finanzbedarfs*”; “KEF”). Eurostat understood from previous discussions, that the unit was viewed as being an institutional unit and a market producer. Eurostat expressed its doubts on this classification. KEF was situated in the state chancellery of Rhineland-Palatinate with no own office capacities, e.g. email servers, as it appeared. Moreover, the classification as a market producer appeared questionable to Eurostat, given that KEF was financed by a tax.

Lastly, Eurostat addressed the recording of the user payments. Given that, under German law, the fee was compulsorily levied on households and businesses and earmarked for financing of the broadcasters’ operation, Eurostat welcomed the recording of the fees as a tax in the German national accounts. Nevertheless, the fees should also have been recorded as a tax prior to the system change in 2013. The German statistical authorities argued that prior to the change, the fee was linked to the ownership of a receiving device and, hence, the households and businesses had the choice to opt out of the compulsory payments. Eurostat agreed that the possibility to opt out is a criterion for the correct classification of the fees. In Eurostat’s view, the system of the broadcasting fees prior to 2013 did not sufficiently fulfil this criterion. To be able to opt out would mean that one would remain being able to access private broadcasting services, although having chosen not to pay for the public broadcasting services. Such a choice was not possible in the old German system, as one could only choose to possess a receiving device and hence being able to access broadcasting services in general, or not.

Findings and conclusions

Eurostat expressed its doubts, based on the recommendations in the dedicated section of the MGDD, on the recording of the previous compulsory TV and radio licence fee prior to the system change in 2013. Based on the definition of genuine “government units” and the criteria of government control of NPIs under ESA 2010, Eurostat expressed its view that the public TV and radio broadcasting agencies (“*die öffentlichen Rundfunk- und Fernsehanstalten*”) should in fact be classified inside the general government sector in the German national accounts. Moreover, as regards the Commission for the determination of the financial needs of public broadcasters (“*Kommission zur Ermittlung des Finanzbedarfs*”), Eurostat expressed its concerns with regards to the classification of the entity as an institutional unit.

*Action Point 42 (ex-41)*⁴⁸: Eurostat considered that the classification of the public broadcasters outside general government was not justified. The German Statistical Authorities will re-examine their sector classification along the lines of the discussion: public broadcasters in Germany may be seen as government units in the meaning of ESA 20.05, given the powers to collect taxes and enforce payment orders; alternatively, they may be seen as publicly controlled NPIs given the five criteria set in ESA 20.15: (1) enabling instrument (inability to dissolve), (2) publicly financed, (3) risk exposure given that public broadcasters

⁴⁸ Completed.

cannot go bankrupt (given the legal provisions whereby state governments are required to ensure their operation), (4) appointment of officers (to the limited extent that the law sets the composition of the board), (5) incapacity to borrow without the approval of KEF, (6) obligation to provide news.

Deadline: implementation of the reclassification August 2019

Action Point 43 (ex-42)⁴⁹: The German Statistical Authorities will further examine whether KEF is an institutional unit, based inter-alia on the following indicators: number of permanent employees, assets and liabilities, location of office, and email server. Destatis will in any case reclassify KEF inside government as a non-market producer (it is a regulator and a non-market producer).

Deadline: implementation of the reclassification August 2019

Action Point 44 (ex-43)⁵⁰: Eurostat considers that the radio or television fee has had the nature of a tax (D.29/D.59) even prior to the change of the system in 2013, implying that the related transactions and classification of public television/ radio should be revised for the years even before that change.

Deadline: end-August 2019

- Hospitals

Germany was one of a limited number of Member States in which public hospitals were classified outside of the general government sector. The sector classification of public hospitals in Germany was briefly discussed before the changeover to ESA 2010 in 2014 and in a more detailed manner as a follow-up action of the 2016 EDP dialogue visit. However, no decision on the correct classification was taken. At the moment of the 2018 EDP dialogue visit, the sector classification of public hospitals was being reviewed by Eurostat on an EU-wide level with a cross-country stock taking exercise being conducted.

The discussions under this agenda point were focused on further clarifications of a small number of details in the obligations and rights of public hospitals in Germany, which are part of the master plan system for the provision of hospital services in Germany (so-called plan hospitals; “*Plankrankenhäuser*”).

The German statistical authorities explained that, in principle, there should not exist non-insured German citizens, as a general insurance obligation was in place in the country. The costs for treatments of non-insured social hardship cases (e.g. unsheltered persons or asylum seekers) would be directly taken over by government. Moreover, an obligation to treat patients would only exist for cases of emergencies. Treatments in hospital departments that were not included in the hospital master plans seemed to be excluded from any treatment obligation.

Eurostat understood that loss compensations were provided by government to public hospitals. Eurostat was aware of a decision of the Federal Court of Justice (“*Bundesgerichtshof*”) concerning loss compensations of local government to the public hospitals in the district of “Calw”. In the decision, it appeared that government bore the obligation to operate public plan hospitals even under the circumstance that the hospitals were not able to cover their costs. This was a distinction from the operators of private for-profit hospitals, or non-profit institutions that did not bear such an obligation. However, it could not be established, in context of the discussions, if government also bore the obligation to provide

⁴⁹ Completion of this action point is in progress.

⁵⁰ Completion of this action point is in progress.

the same support to private hospitals in distress if such hospitals were the sole plan hospitals in a region.

Findings and conclusions

Eurostat took note of the explanations provided by the German statistical authorities concerning a possible obligation to provide hospital services to non-insured persons and requested more detailed information as a follow-up to the discussion.

*Action Point 45*⁵¹: Concerning hospitals included in hospital plans of the Länder (plan hospitals), The German Statistical Authorities will clarify the existence of loss compensation payments by government to publicly owned hospitals, non-profit institutions, and privately owned for-profit hospitals, as well as clarify the impact of the decision taken by the Federal Supreme Court in the case of the county hospital of Calw on the financing of hospitals. The German Statistical Authorities will enquire about any potential obligation for statutory health insurances and private health insurances to reimburse treatments undertaken by plan hospitals in departments that are not included in a hospital plan.

Deadline: end-October 2018

- Promotional banks

In context of the 2016 EDP dialogue visit, the largest German “*Förderbank*” (promotional bank) “*Kreditanstalt für Wiederaufbau*” (“*KfW*”) was examined in detail, particularly given that the operations and the structural setup (including the governance) of the entity were used as a model template for other promotional banks that were established in other Member States. On KfW, it was concluded that the unit's sector classification in the financial corporations sector (S.12) could be accepted, given its operations, in particular activities going beyond the scope of its promotional business and 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 activities within the scope of the promotional activities defined in the KfW Law. However, operations 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*”), were regularly thoroughly examined by statisticians in the light of the MGDD’s rules on re-arranged transactions.

In Germany, nineteen financial institutions could be considered as promotional banks, including the KfW Banking Group and “*Landwirtschaftliche Rentenbank*” at federal level and seventeen regional promotional banks, all of which were classified in S.12. No decision on the classification of promotional banks besides KfW had been taken. Prior to the 2018 EDP dialogue visit, the German statistical authorities had prepared a note on the sector classification of the promotional banks.

According to this note, a questionnaire had been sent to the promotional banks (Eurostat also received the questions as input to the discussions) along the lines of the classification criteria concerning (i) governance, (ii) activities and (iii) financing, identified in context of the discussions on KfW. Eurostat understood from the note that the state promotional banks were set up in a similar way to KfW. The note explained that the units were institutional units controlled by government, as the majority of the representatives in the supervisory boards were representatives of government. However, the German statistical authorities did consider the promotional banks not to be financial captives, as the executive boards of the units were

⁵¹ Completion of this action point is in progress.

not, in majority, composed by government officials, could in general independently take decisions on the activities, the units could reject inquiries by the owners, and they were exposed to a typical banking risk without in general having restrictions in the liabilities side. The activities were assessed by differentiating between activities on own accounts (in the meaning that the banks decide on the activities, undertake them in their own name and bear the asset and liabilities risks) and activities for third parties, for which the promotional banks received commission fees. The differentiation was conducted employing two approaches: (i) a calculation of the share of activities on third party accounts by use of the volume of programmes which needed approval of third parties, and (ii) the proportion between income from commission fees and net interest income. The note also provided an assessment that the promotional bank of Mecklenburg-Vorpommern ("*Landesförderinstitut Mecklenburg-Vorpommern*") mainly conducted business on the accounts of government and should therefore be reclassified.

Eurostat was aware that all but two entities were established as institutions under public law ("*Anstalten des öffentlichen Rechts*") and benefited from the "*Anstaltslast*" and "*Gewährträgerhaftung*", or comparable guarantee arrangements with government, that they were not allowed to compete with commercial financial corporations, and that in many cases the promotional banks channelled their support to beneficiaries through the beneficiaries' house banks (the so-called "*Hausbankprinzip*"). The entities mainly refinanced themselves by issuing debt securities.

Eurostat raised the question on the four units missing in the questionnaire on government-controlled entities outside general government ("*Wirtschafts- und Infrastrukturbank Hessen*", "*Bayerische Landesbodenkreditanstalt*", "*Landesförderinstitut Mecklenburg-Vorpommern*", and "*Investitionsbank Sachsen-Anhalt*"). Those units seemed to have a particular legal form being part of another larger unit, i.e. those units were parts of the public banks of the concerned *Länder* ("*Landesbanken*"). Eurostat was not certain if the units using this concept (the so-called "*Anstalt in der Anstalt*"; "*AIDA*") were deemed to be, or should be, institutional units. The German statistical authorities confirmed that the units were indeed institutional units. However, as the information was derived from banking statistics (from the MFI list), the data of the units would most probably be included in the data of the superordinated entity, i.e. they would be part of the information provided for the *Landesbanken*.

Eurostat appreciated the analysis undertaken by the German statistical authorities on the German promotional banks and agreed that the two approaches taken concerning the delimitation of the activities could be used as a broad approximation.

Eurostat supported the view of the German statistical authorities concerning the classification of "*Landesförderinstitut Mecklenburg-Vorpommern*" ("*LFI*"). However, the Bundesbank raised an issue of the practicality of a reclassification of the unit. Given that the information on the operational list of public corporations, which is not only used for statistical purposes but also for administrative purposes, e.g. the determination of reporting obligations, is based on the MFI list detangling LFI from its parent, "*NORD/LB Norddeutsche Landesbank Girozentrale*". The question was raised if it was known to the German statistical authorities if the counterparts of the activities of LFI recognised the assets/ liabilities of the unit, or recognised only NORD/LB. Apart from that, it was agreed that, in case that a formal reclassification of the unit would prove to be operationally impossible, rearranging the entire activities and the balance sheet of the unit to the government accounts would *de facto* have the same impact as a formal reclassification and could provide a solution to the issue.

Nevertheless, fiduciary assets/ liabilities of which government is the economic owner should in all cases be recognised in government accounts. Since LFI conducted predominantly trust business in the name of government, this would mean that a major part of its business should

already have been recognised in government accounts. This would also hold true for trust business conducted by the other promotional banks.

The specificities of the governance of the promotional banks were also addressed. As these units operated under a structure similar to KfW, the executive boards of the units seemed to take the decision on the majority of its activities, independent of any individual approval by the supervisory boards. However, for some transactions, e.g. transactions/ programmes exceeding a certain threshold, explicit approval by either the supervisory board, or a sub-committee of the board, for example a risk committee, was strictly compulsory. The composition of the boards and committees, in combination with the nature of the transactions that required explicit approval, would impact the question of the sector classification of the units.

It was explained, that for a number of the state promotional banks, a significant share of their business activities was with local governments and public corporations. Eurostat remarked that, in such circumstances, it would be essential that such operations were conducted on a commercial basis with an existing competition between financial institutions for the lending to local governments. Otherwise it might have been argued that those units that predominantly lend to government and public corporations could be seen as ancillary units.

Finally, the case of “*Investitionsbank Berlin*” (“*IBB*”) was discussed. This case had previously been addressed in context of the clarifications for the October 2017 EDP data notification. The discussions during the meeting focused on two aspects. Firstly, according to the Law Establishing *Investitionsbank Berlin* as an Independent Legal Entity (*IBB Law*) section 4 paragraph (2) on the refinancing guarantee by the state of Berlin, Berlin was liable for any loans, debenture bonds, futures transactions, options and swaps subscribed to by *IBB*, as well as for any other loan granted to *IBB*. Another promotional bank, “*Bayerische Landesbodenkreditanstalt*” (“*BayernLabo*”) benefited from a similar guarantee. However, in the case of *BayernLabo*, the guarantee letter of the government of Bavaria stated that *BayernLabo* enjoyed an explicit refinancing guarantee with the state of Bavaria being directly liable to creditors. It was explained by the German statistical authorities that, irrespectively of the wording, the functioning of these guarantees were equal to the functioning of the explicit refinancing guarantee of the Federal government to KfW, namely that the guarantees had similar features to *Gewährträgerhaftung*, i.e. they were not an unconditional guarantee at a first demand. They could only be called by the banks' creditors once the banks were in the process of liquidation and their assets did not suffice to cover their liabilities. The second aspect of *IBB* which was discussed was the delegation of sovereign tasks and powers by Berlin to *IBB*. Under section 3 paragraphs (2) to (6) of the *IBB Law*, *IBB* was delegated regulatory tasks and executive authority in relation to social housing in Berlin. It was pointed out by the German statistical authorities that the volume of these delegated tasks was in all likelihood very minor when compared to the total volume of the activities of *IBB*. It could not be clarified if the state promotional banks, besides *IBB*, were undertaking tasks for government for which they were equipped with sovereign powers, i.e. according to ESA legislative, executive or judicial authority over other institutional units.

Findings and conclusions

Eurostat appreciated the assessment of the state promotional banks provided as input prior to the meeting, as well as the explanations given during the meeting concerning structural setup, business model and activities of the state promotional banks.

*Action Point 46 (ex-53)*⁵²: The German statistical authorities will explain the “AIDA” (“Anstalt in der Anstalt”) concept and how this can influence the autonomy of decision of concerned entities.

Deadline: end-May 2018

*Action Point 47 (ex-54)*⁵³: The German statistical authorities will examine if “Wirtschafts- und Infrastrukturbank Hessen”, “Bayerische Landesbodenkreditanstalt”, “Landesförderinstitut Mecklenburg-Vorpommern”, and “Investitionsbank Sachsen-Anhalt” are to be considered as institutional units and if their accounts are included within their parent institutions accounts for the Questionnaire on government controlled units classified outside general government.

Deadline: end-May 2018

*Action Point 48 (ex-55)*⁵⁴: The German statistical authorities will enquire about the sovereign tasks conducted by (some) promotional banks at state government level in Germany, and the importance of such tasks in relation to the entirety of their operations. Moreover, the German statistical authorities will assess which kinds of transactions normally need the approval of the supervisory boards of the promotional banks, and if the supervisory boards (and the related special committees, e.g. risk committee) are predominantly made of government officials.

Deadline: end-September 2018

*Action Point 49 (ex-56)*⁵⁵: Eurostat agrees with the analysis of the German Statistical Authorities on the nature of the business of “Landesförderinstitut Mecklenburg-Vorpommern”, whose activity mostly consists of trust business for the State government. Eurostat therefore recommends that the unit should – in concept – be classified in the general government sector. For practicality reasons, if a sector reclassification creates specific difficulties or is not possible (e.g. AIDA concept), Eurostat could accept that the entity remains on the official list of public corporation, but be reported in the Eurostat list of government units. In any case, all transactions and stocks of the unit should be reflected in government accounts.

Deadline: the October 2018 EDP notification

*Action Point 50 (ex-57)*⁵⁶: The German statistical authorities will verify that the trust business carried out by “Landesförderinstitut Mecklenburg-Vorpommern” on behalf of government is fully reported in the government accounts. Although this is generally presumed, some reconciliation work was still to be conducted. More generally, the German statistical authorities will verify that this is systematically the case for all developments banks.

Deadline: the April 2018 EDP notification for a provisional analysis of the trust business of “Landesförderinstitut Mecklenburg-Vorpommern”; additional information by end-May 2018; the October 2018 EDP notification for the trust business of other banks.

⁵² Completed.

⁵³ Completed.

⁵⁴ Completion of this action point is in progress.

⁵⁵ Completed.

⁵⁶ Completed.

Action Point 51 (ex-58)⁵⁷: The German statistical authorities will assess the sector classification of “Investitionsbank Berlin” in further detail, including the provisions of the law creating the unit (“*Gesetz zur rechtlichen Verselbstständigung der Investitionsbank Berlin*”).

Deadline: end-August 2018

- Social housing providers

To Eurostat's understanding, social housing promotion took two forms in Germany:

- Direct support to low-income households, (“*Subjektförderung*”, the payment of housing benefits to households), and
- Financial support for the construction, or conversion, of owner-occupied apartments/houses, as well as the financial support for the construction, or conversion, of social rental housing (“*Objektförderung*”, e.g. loans at concessionary terms, possibly investment grants by government, and to a lesser extent government guarantees, or the sale of land at concessionary prices).

The construction of social rental housing was typically performed by housing companies of local governments, cooperatives, and/ or other private housing companies. As a condition for receiving government financial support, the housing providers had to accept limitations in the level of the rent, which they could demand (“*Mietbindung*”), and in the pool of possible tenants (“*Belegungsbindung*”). The pool of possible tenants was limited to households that possessed a “*Wohnberechtigungsschein*” (certificate of eligibility to rent subsidised rental units). Those *Wohnberechtigungsscheine* were issued by the public administration and were based on various criteria, e.g. maximum income thresholds, number of children in the household, etc. The responsibility of the *Objektförderung* lied with the Länder.

The duration of the limitation in the rent and in the pool of tenants had, according to the federal housing promotion act (“*Wohnraumförderungsgesetz*”, WoFG), to be included in the grant approval for the individual projects, i.e. when the provided loan was in its entirety repaid, or no subsidies were provided anymore, the subsidised apartment/ building became a “normal” apartment/ building of the housing corporation and could be rented at market rates.

The granting of the concessionary loans seemed to be typically conducted by the promotional banks at state government level and also by KfW.

Eurostat had received a short note on the five largest public housing corporations by the German statistical authorities before the meeting.

The German statistical authorities explained the relationship between government and the cooperatives. Government might have been (co-)financing housing projects of cooperatives; however, the cooperatives were operating to the benefit of their members, who are at the same time members and customers, and were also controlled by their members.

It was clarified that, particularly in larger agglomerations, the public housing companies had diverse portfolios, not being restricted to the provision of social housing. The largest public housing group “*SAGA Siedlungs-Aktiengesellschaft*” (Hamburg) had a stock of 132,291 rental apartments, of which 32,258 apartments were subsidised.

Concerning the various forms of financial support for social housing providers, the German statistical authorities emphasised that no distinction was made between public and private investors, i.e. that support was provided to housing companies regardless of the ownership. Eurostat, however, requested more detailed information on the forms of guarantees that were

⁵⁷ Completed.

provided by government (e.g. a guarantee by government on the rent if a tenant could not meet his financial obligations), the sale of land at concessionary prices and the other forms of financial support.

Eurostat raised the question if the housing companies could evict tenants once the limitation in the rent and the pool of tenants ceased to be applicable to the concerned rented apartments, or if the level of the rent could be suddenly changed. In principle, due to the cessation of the limitations, the landlord could make changes to the level of the rent. However, the German law restricted the possible amount of the rent increases. In addition, an existing rental agreement could only be terminated taking into account the normal provisions concerning the termination of rental agreements according to the law of tenancy.

Moreover, Eurostat inquired if the German statistical authorities were aware of cases where the authorities, i.e. municipalities, were directly entering into agreements with private landlords and were directly paying for the provided housing, and hence were paying social benefits in cash for private landlords.

Findings and conclusions

Eurostat took note of the explanations provided by the German statistical authorities concerning social housing in Germany.

*Action Point 52 (ex-61)*⁵⁸: The statistical authorities will enquire about the various possible ways of government to support social housing providers, i.e. investment grants and other grants, guarantees provided, sale of land at concessionary prices, etc. The German statistical authorities will verify the modality of recording of the grants provided to the housing companies in their accounts. For public entities, the German statistical authorities shall also assure the basis of depreciation in the business accounts. The German Statistical Authorities will verify whether “*Wohngeld*” is in all cases recorded as D.62 and verify cases where local authorities contract rental agreements directly with (private) landlords (which should be D.632).

Deadline: end-February 2019

- Deposit guarantee schemes

Deposit guarantee schemes had been previously discussed between Eurostat and the German statistical authorities in context of Directive 2014/49/EU taking force in the year 2015. As a result of the change in the legislation, 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.

The Directive affected the existing institutional protection schemes in place in Germany: (i) the scheme for saving banks (protection schemes of German Savings Banks Association; “*DSGV*”) and (ii) for cooperative banks (National Association of German Cooperative Banks; “*BVR*”). Those two schemes were discussed in context of the 2016 EDP dialogue visit to Germany without reaching a final decision on the correct sector classification of the units.

During the discussion, Eurostat saw similarities between the institutional protection schemes and the statutory deposit protection schemes. The institutional protection schemes enjoyed obligatory membership, i.e. every German Savings Bank had to join the protection scheme of *DSGV*, as well as every Cooperative Bank or *Raiffeisen* Bank had to join the protection

⁵⁸ Completion of this action point is in progress.

scheme of BVR. It was also clarified that the institutional protection schemes also functioned as a substitute for EdB, EdÖ and EdW in the sense that any bank taking part in the schemes of DSGVO and BVR did not have to join the statutory deposit protection schemes. This was based on the fact that the institutional protection schemes had been recognised as deposit guarantee schemes by the competent authority, the Federal Financial Supervisory Authority (“*Bundesanstalt für Finanzdienstleistungsaufsicht*”; “BaFin”) triggering paragraph (5) of section 24 of the Act Implementing the Deposit Guarantee Schemes Directive (DGSD) (“*DGSD-Umsetzungsgesetz*”).

The German authorities explained that the protection scheme of DSGVO was a scheme and not a separate fund and that, even in case that a separate fund existed, it might not be possible to separate the “statutory part”.

Finally, the guarantee fund of the building societies (“*Fonds zur baupartechnischen Absicherung*”) was mentioned. Eurostat inquired if this so-called fund was an institutional unit, or if this represented solely a special item in the accounts of the building societies, in its nature comparable to provisions.

Findings and conclusions

In Eurostat’s view, a re-examination of the institutional deposit guarantee schemes was essential taking into account their role in the statutory deposit protection. Furthermore, it was agreed to further examine the nature of the guarantee fund of the building societies.

*Action Point 53 (ex-62)*⁵⁹: The German statistical authorities will reassess the sector classification of the two institutional protection schemes in Germany, in place for saving banks (German Savings Banks Association (DSGV)) and for cooperative banks (National Association of German Cooperative Banks (BVR)), given that the deposit guarantee section is part of the compulsory arrangement in place under EU legislation – which should accordingly be reflected within general government accounts. Under the Act Implementing the Deposit Guarantee Schemes Directive (DGSD) (“*DGSD-Umsetzungsgesetz*”), both schemes are recognised as deposit guarantee schemes and provide the statutory depositor compensation for their compulsory members. The German statistical authorities will need to determine if segregated funds exist and whether the latter can be and need to be separated from other parts of the institutional protection schemes.

Deadline: end-September 2018

*Action Point 54 (ex-63)*⁶⁰: The German statistical authorities will investigate the nature of the “*Fonds zur baupartechnischen Absicherung*”.

Deadline: end-September 2018

- Public transport corporations

Eurostat understood that “Deutsche Bahn” Group (hereinafter DB) was the public national rail company of Germany. It operated mainly in the following segments: passenger long-distance travel, passenger short-distance travel, provision of passenger travel in foreign countries, rail cargo, intermodal cargo, provision of infrastructure (rail, passenger train stations, energy).

⁵⁹ Completion of this action point is in progress.

⁶⁰ Completed.

As far as it was known to Eurostat, Deutsche Bahn AG (parent company of the group) and subsidiaries were classified outside the general government sector. The 50% test was applied to the individual subsidiaries and the test for holding companies to the parent company.

The German statistical authorities had provided a note including information on the relations between government and Deutsche Bahn, the financing of the rail infrastructure (including the calculation basis of the service payments for “DB Netz” and “DB Station&Service”), a breakdown of major investment grants provided for rail infrastructure in recent years, and information on public service obligation payments provided to railway corporations.

The main track infrastructure manager in Germany was DB Netz. DB Netz financed its operations mainly through user charges for the train paths, but also through the leasing of marshalling yards and storage sidings. DB Station&Service (manager of passenger railway stations) financed its operations through user charges for the stations invoiced to the train operating companies and rental income.

The German statistical authorities explained that the level of the charges for the train paths and for the charges for the stations fell under the discretion of the infrastructure operators, with the level of the user charges having to be approved by the Federal Network Agency (“*Bundesnetzagentur*”, the German regulatory office for electricity, gas, telecommunications, post, and railway markets).

According to the annual reports of the year 2016 of DB Netz, the predominant part of the financing of the investment in the infrastructure was provided by government. These investment grants were mainly provided by the Federal Government but also to a lesser extent by state governments. The investment grants were mainly covered by a performance and financing agreement (“*Leistungs- und Finanzierungsvereinbarung*”; current version “LuFV II”) with the Federal Government.

Eurostat was aware that fixed assets were recorded in the balance sheet of the infrastructure companies net of investment grants paid. Hence, the acquisition costs, as shown in the accounts underlying the information in the balance sheet, were significantly lower than the total acquisition costs of the assets. In Eurostat's view, this would also result in the calculated depreciation of fixed assets being too low as an approximation for consumption of fixed capital (CFC). Given the possibly significant amount of investment grants provided by government, it was Eurostat's concern that CFC was underestimated in such a way that DB Netz might possibly not pass the quantitative market/ non-market test.

During the discussions, Eurostat took note that no separate Perpetual Inventory Method (PIM) calculation had been conducted for railway infrastructure. The German statistical authorities also expressed a view that it could be argued that the infrastructure managers were not the economic owners of the infrastructure. However, Eurostat replied that the infrastructure subsidiaries of DB AG were the economic and legal owner of the railway infrastructure, i.e. the infrastructure assets were recognised on their balance sheets. Hence, Eurostat suggested, also in the light of a homogeneous treatment of the recording across the Member States, that a recalculation of CFC not only for the national infrastructure managers, but also for regional and local infrastructure, as the issue could have had a wider impact, should be undertaken.

It was clarified that, to the understanding of the German statistical authorities, no financial support for train stations were provided by local governments.

Concerning the provision of short-distance public passenger transport services (local and regional public transport), the financing of the operations, and in particular the provision of payments for public service obligations, were discussed. In Germany, the Länder provided to the transport companies public service obligation payments in form of a “*Bestellerentgelt*”

(purchaser's fee), in addition to the ticket sales. The amount of *Bestellerentgelt* paid to the individual companies was based on train-kilometres.

The payment of *Bestellerentgelt* could be principally based on two approaches. They could be subject to (i) “Gross contracts” (“*Bruttoverträge*”) where the operators transferred the entire revenue stemming from ticket sales to government and received a previously contractually stipulated amount of *Bestellerentgelt* per train-kilometre. Hence, the revenue risk remained with government. Or, the payment of the *Bestellerentgelt* was based on (ii) “Net contracts” (“*Nettoverträge*”), i.e. the revenue of the operators was comprised of a contractually agreed amount of *Bestellerentgelt* and the revenue from ticket sales.

According to the information provided during the discussion, the contracts for providing regional public transportation were tendered by the state governments with DB Regio AG (part of DB) holding around 50% of the contracts. To the understanding of the German statistical authorities, the contracts held by DB Regio AG were in general of the “Net contract” nature.

Eurostat was informed by the German statistical authorities that the payments of *Bestellerentgelt* were recorded as subsidies on products (D.31), as the calculation was based on a volume indicator (train-kilometres). Eurostat, however, expressed some doubts concerning this interpretation. In Eurostat's view, the public service obligation payments would rather satisfy the criteria for other subsidies on production (D.39) than the criteria for D.31. Eurostat argued that the unit produced for the public service obligations should not be seen as being volume based (train-kilometre) but was rather related to a per-ticket concept (passenger-kilometre). The per-train-kilometre calculation basis of the public service obligation payments resulted in a strong redistribution effect between highly frequented lines and less frequented lines.

Eurostat also raised the question if the public service obligation payments could rather be seen as subsidies on production to the railway infrastructure managers. The public service obligation payments seemed to mostly cover the user charges for the train paths and the user charges for the stations. Hence, it would be possible to argue that the infrastructure managers were the intended ultimate beneficiaries of the payments.

Finally, the existing rolling-stock financing arrangements by the *Länder* were addressed. Eurostat had previously been aware of two units concerned with the financing of rolling-stock, namely: (i) “*BVG Fahrzeugfinanzierungsgesellschaft*” (“BVG FFG”; subsidiary of the public transportation company of Berlin and classified with its parent in S.11), and (ii) “*Landesanstalt Schienenfahrzeuge Baden-Württemberg*” (“SFBW”). Prior to the meeting, the German statistical authorities provided Eurostat with a note on the existing arrangements and the sector classifications of the concerned units.⁶¹ According to the note, three units, besides BVG FFG, existed that were active in the financing of rolling-stock. Of those three units, only SFBW was classified in the general government sector.

The differences in the activities between SFBW and “*Hamburger Schnellbahn-Fahrzeug-Gesellschaft mbH*” (“HSF”) were briefly discussed, as it was not clear to Eurostat from the note, why the unit was differently classified than SFBW. It was clarified by the German statistical authorities that HSF was a subsidiary of “*Hamburger Hochbahn AG*” (public transport company of Hamburg), was mainly providing its services to companies affiliated with its parent and that the financing of rolling-stock was only a minor activity of the unit.

Eurostat understood from the discussions that the basis of the sector classification decisions for HSF, as well as for the third unit “*Landesnahverkehrsgesellschaft Niedersachsen mbH*”

⁶¹ BVG FFG was not addressed in either the note or the meeting, as Eurostat had provided the German statistical authorities in 2017 with an Ex-Ante Advice on the statistical treatment of the unit and its activities.

(“LNVG”), were the results of the quantitative market/ non-market test (50%-test). Based on the information included in the note, LNVG was “*Aufgabenträger*” of Lower Saxony and hence mainly charged with regulatory tasks in the name of the *Land*. According to the structural setup of the public transportation sector in Germany, the so-called “*Aufgabenträger*” were responsible for organising and financing public transport. *Aufgabenträger*, in relation to regional public transport services (“*Schienenpersonennahverkehr*”), were mostly the *Länder*, while for local public transport services (“*Straßenpersonennahverkehr*”) the municipalities were *Aufgabenträger*. It was common for the *Länder* to establish specific companies that executed the tasks in relation to the organisation and financing of public transport.

Against this background information, Eurostat addressed the issue of the classification of the units acting as *Aufgabenträger* in public transportation in general. The German statistical authorities informed Eurostat that “*Rhein-Main-Verkehrsverbund*” (“*RMV*”) would be reclassified to the sector S.13. However, in general, *Aufgabenträger* were classified based on the results of the 50%-test and could therefore be classified in either S.11 or S.13. Eurostat mentioned that the 50%-test should not be applied for policy units. The units acting as *Aufgabenträger* would seem to be merely a different way for government to organise itself and their *raison d'être* would be the handling of regulatory and distributional tasks in the name of government.

Findings and conclusions

Eurostat found that railway assets (co-)financed by grants are recorded net of grants in Deutsche Bahn's balance sheet, that the amortisation of these assets were proportionately reduced, and that no adjustment was carried out for the 50%-test (aside from the standard 1.5 coefficient used by the Federal Statistical Office). Given the size of those grants (that cover 4/5 of investment), it was plausible that this change would lead to a ratio below the 50% for selected entities.

Eurostat noted the recording of *Bestellerentgelte* as D.31. However, Eurostat was not convinced of the correctness of the recording in the German national accounts.

Eurostat agreed with the sector classification of SFBW and HSF. Eurostat found that the classification of LNVG and other units acting as *Aufgabenträger* solely based on the results of the 50%-test was lacking the inclusion of the implications of the unit mainly providing policy tasks on the sector classification of the concerned units.

*Action Point 55 (ex-64)*⁶²: The German statistical authorities will include the amortisation of investment grants provided to “*DB Netz AG*” and “*DB Station&Service AG*” in the market/ non-market test for the units. The German Statistical Authorities will also verify whether for regional/ local transport assets (e.g. cities with a tram/S-Bahn/underground) a similar approach to amortisation is used as for “*DB Netz AG*” and if necessary, recalculate an adjusted 50% test.

Deadline: progress notes (i) for “DB Netz AG” and “DB Station&Service AG” end-August 2018, (ii) for regional/ local transport assets end-October 2018; for the implementation of a reclassification, if necessary (iii) for “DB Netz AG” and “DB Station&Service AG” the October 2018 EDP notification, (iv) for other units April 2019

⁶² Completed.

*Action Point 56 (ex-65)*⁶³: The German statistical authorities will enquire on the nature of the transport operation contracts of “DB Regio AG” and/or its subsidiaries with state and local governments, i.e. if the contracts are “*Nettoverträge*”, or “*Bruttoverträge*”. Moreover, it will be assessed if “*Bruttoverträge*” arrangements *de facto* imply that government is exposed to the risks and rewards regarding traffic, i.e. the fluctuations in the number of passengers, which could imply rerouting those transactions to general government.

Deadline: end-September 2018

*Action Point 57 (ex-66)*⁶⁴: The German statistical authorities will assess on what basis the business accounting of public transport operating companies records “*Bestellerentgelte*” under the accounting item “sales”, and whether those subsidies meet the ESA criteria for being subsidies on products rather than on production (given their basis per train-kilometre, rather than per passenger-kilometre). The German statistical authorities will also assess if these subsidies should not *de facto* be considered as subsidies on production to the infrastructure management companies (rearranging the transactions).

Deadline: end-September 2018

*Action Point 58 (ex-67)*⁶⁵: The German statistical authorities will assess the sector classification of the units acting as “*Aufgabenträger*” of the regional passenger rail transportation (e.g. “*Verkehrsverbände*”), bearing in mind their regulatory and distributional functions.

Deadline: for a note on the concerned units and an impact assessment end-August 2018; implementation April 2019

- *Other units*

Eurostat inquired about the recording of the previously provided capital injections by government to the airport Frankfurt-Hahn (“*Flughafen Frankfurt - Hahn GmbH*”). Given that the unit was included in the questionnaire on government controlled entities classified outside general government, Eurostat concurred that the unit must have passed the 50%-test. However, Eurostat was not certain, as the results were not included in the information in the questionnaire.

In addition, the sector classification of “*SRM Straßenbeleuchtung Rhein-Main GmbH*” (SRM) was addressed. The German statistical authorities explained that the classification decision was based on the 50%-test. Eurostat observed that SRM seemed to provide public (street) lighting and hence a collective service (COFOG 06.4). Eurostat therefore argued that government could possibly be the sole client of SRM and hence the qualitative criteria needed to be assessed for the sector classification.

Findings and conclusions

*Action Point 59*⁶⁶: The German statistical authorities will assess the recording of capital injections to “*Flughafen Frankfurt-Hahn GmbH*”, i.e. if capital injections to the unit have been recorded as capital transfers, or as injections in equity. Moreover, the German statistical authorities will assess the results of the market/ non-market test for this unit.

Deadline: end-September 2018

⁶³ Completion of this action point is in progress.

⁶⁴ Completion of this action point is in progress.

⁶⁵ Completion of this action point is in progress..

⁶⁶ Completion of this action point is in progress.

Action Point 60⁶⁷: The German statistical authorities will explain the reasons for the sector classification of “SRM StraßenBeleuchtung Rhein-Main GmbH”, given that the unit appears to solely provide collective goods to government, as its only customer.

Deadline: for the note end-May 2018; Implementation: April 2019

4.1.5. Public units in S.15

This agenda point was not discussed during the EDP dialogue visit. However, the main issue of the public TV and radio broadcasting agencies was discussed separately under agenda point 4.1.4.

4.1.6. Reporting of extra-budgetary entities at state and local government level

Introduction

In Germany a number of units are co-owned by state and local governments, or by different state governments or local governments. The discussions under this agenda point focussed on the recording of dividends/ equity of such units by subsector.

Discussion

The German statistical authorities informed Eurostat that the equity stakes were recorded in the financial accounts according to the asset stocks statistics. They expected the state governments and local governments to report the correct amounts of their share. For the non-financial accounts, the data source were the public finance statistics. Dividend payments to the individual general government subsectors were part of the statistics, however not at such a granulated level. Individual units could not be identified.

Eurostat understood that special purpose associations (“Zweckverbände”) were mainly established by local governments with only a few possible exemptions of such associations being established by local governments with state governments.

For extra-budgetary units established by two or more different Länder, it was explained that no consolidation flows between the individual Länder would be visible because in the German EDP only data on entire general government subsectors was compiled. The Länder were compiled as one sector and not as sixteen individual states.

Concerning the consolidation of flows in the financial accounts, it was recalled by the German statistical authorities that, for loans, it was not possible to identify if public corporations or extra-budgetary units were involved. By assumption, loans owed by an extra-budgetary unit to another extra-budgetary unit were included in liabilities to public corporations. The result of this assumption was the possibility of the Maastricht debt being overestimated by the amount of the unknown missing consolidation of debt owed between extra-budgetary units.

Findings and conclusions

Eurostat took note of the explanations.

⁶⁷ Completion of this action point is in progress.

4.2. Implementation of the accrual principle

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 applied a time-adjusted cash method to ensure compliance with ESA accruals principle. Questions concerning the nature of the other adjustment item “Difference tax revenue statistics and public finance statistics” in EDP notification tables 2 remained.

Discussion

In their most recent return of the questionnaire on taxes and social contributions of December 2016⁶⁸, the German statistical authorities indicated that sources for major types of taxes and social contributions included cash receipts net of refunds. Consequently, Eurostat requested more detailed explanations concerning the apparently underlying assumption that refunds follow the same pattern as cash receipts. The German statistical authorities explained that they expected the patterns to be stable and that no adjustments were needed.

Following up on this information, Eurostat inquired if an acceleration of differences in the pattern of tax payments and tax refunds was visible and if the tax data were regularly assessed. The reason for Eurostat's concern lay in the fact that in the aftermath of the economic crisis, a distortion in the pattern of the recording of VAT had occurred in another Member State, due to the fact that a delay in refunding taxes had been decided by central government.

The German statistical authorities assured Eurostat that monthly data was processed for the compilation of taxes in national accounts and that the data was followed on a regular, i.e. monthly basis. Moreover, in Germany, the tax administration was organised on a decentralised structure with the *Länder* being tasked with the tax administration. Eurostat was also informed that, apparently, a penalty existed in Germany for slow processing of tax declarations, also providing a disincentive for delaying tax refunds.

Subsequently, the discussions focused on the item “Difference tax revenue statistics and public finance statistics”. The item was related to the “joint taxes” (“*Gemeinschaftssteuern*”), whose revenue was divided between the three levels of government in accordance with specific formulae (“*primärer Finanzausgleich*” respectively “*kommunaler Finanzausgleich*”) and for whom the tax authority was shared between the Federal government and the *Länder* (joint legislative authority, administrative authority with the Federal government delegated to the *Länder*).

The German statistical authorities confirmed that tax revenue cash data directly from the Ministry of Finance was used for the German national accounts, while the compilation of tax revenues in public finance statistics relied on data collected through the public finance statistics surveys. Those parallel reporting systems resulted in a difference that was captured in the specific item in the EDP Tables 2. The German statistical authorities assured that all time adjustments relating to taxes were reported in the dedicated lines in EDP Tables 2 and were not affected by the item “Difference tax revenue statistics and public finance statistics”.

⁶⁸ Eurostat had been informed by the German statistical authorities in 2017 that there had been no changes in the recording of taxes and social contributions in Germany in 2017 and thus no need for Eurostat to receive an amended questionnaire.

Eurostat questioned the approach of splitting the joint taxes between all three levels of government. It was correct that, according to German law, all the government subsectors had a right to revenues stemming from the collection of those taxes. However, not all government subsectors shared the related authority over the taxes. For this reason, Eurostat was of the opinion that recording the forwarded amounts as transfers rather than taxes would possibly better reflect the arrangement. It was also noted that other Member States with a federal government structure did not record the revenues in a similar manner as Germany.

For social contributions, the German statistical authorities briefly recalled the basic system of the chart of accounts of the statutory social security funds in Germany. The German statistical authorities considered that for the majority of the statutory social security funds, cash data equals accrual data. It was mentioned that access to monthly and annual data was guaranteed for the compilation of the social contributions data and that only minor revisions had been occasionally observed. Concerning the statutory pension insurance (“*Gesetzliche Rentenversicherung*”) the German statistical authorities reiterated that the difference in the amounts of accrual contributions (“*Sollbeiträge*”, pension contributions that are fixed based on a number of parameters) and actual contributions (“*Istbeiträge*”) was recorded as time adjustment and that the amounts of accrual contributions and actual contributions were very similar in size. Eurostat could confirm this observation for the year 2015, as Eurostat had been provided prior to the April 2017 EDP data notification with the accounting results of the statutory pension insurance for that year.

Findings and conclusions

Eurostat took note of the explanations.

*Action Point 61 (ex-68)*⁶⁹: The German statistical authorities will examine if tax refunds follow a similar time pattern as tax payments, or if anomalies are visible in the time series (distortion of the time pattern). The German statistical authorities noted, however, that the penalty rate for slow processing (6%, the same as the penalty rate for late payments by taxpayers) were rather dissuasive and also that the tax administration was in the hands of the Länder.

Deadline: end-November 2018

*Action Point 62 (ex-70)*⁷⁰: The German statistical authorities will examine to what extent the constitutional arrangement in place in Germany implies partitioning the taxes collected by central government, also in the light of ESA 1.78. Eurostat noted that the German practices deviated from other countries with a federal structure and invited the German Statistical Authorities to verify whether the current subsector allocation of taxes was in compliance with ESA 1.78.

Deadline: end-November 2018, implementation August 2019

4.2.2. Interest

Introduction

Following the discussions in past EDP dialogue visits, the German statistical authorities had sought a structural solution to accrue interest payable at federal government level on an instrument-by-instrument basis. For that reason, an alternative data source had been explored: The German Finance Agency, which is one of the debt managers for the German federal

⁶⁹ Completion of this action point is in progress.

⁷⁰ Completion of this action point is in progress.

government, developed a calculation model for interest expenditure based on a transaction-by-transaction approach, the so-called “Capital Cost Model” (“CCM”). In the CCM, basically three components were taken into account for the calculations of interest: (i) coupon payments, (ii) premiums/ discounts and (iii) coupon sold. The cash/ accrual adjustment in the model was a simple linear spreading of the components over the lifetime of the instrument. The model had been under discussions with the German statistical authorities, in particular in the aftermath of the October 2017 EDP data notification when the entire impact of the implementation of the new model became visible to Eurostat.

Against the background of significant amounts reported in EDP Table 3B in the item “Redemptions/repurchase of debt above(+)/below(-) nominal value”, Eurostat had clarified with the German statistical authorities that the CCM not only spread premiums/ discounts from inception of the instrument but also introduced corrections for premiums/ discounts from repurchases and resales on the secondary market as the model took into account all interest related costs. Those premiums/ discounts hence also entered the calculation of B.9, spread over the remaining life of the instrument. It was Eurostat's view that the model was not compatible with the provisions of ESA 2010, in particular due to the recording of flows stemming from premiums/ discounts as a result of secondary market transactions of the German Finance Agency.

Participating in the meeting was a representative of the German Finance Agency.

Discussion

Eurostat recalled the debtor principle, as established in ESA 2010. It was recalled that ESA 2010 focused on the cost of borrowing for the debtor anticipated at the issuance of the financial instrument. Market movements or secondary market transactions of the creditor with third parties should not have any impact on the accrued interest from the point of view of the issuer, i.e., when during the lifetime of a financial instrument the market yields differed from the rates that had been used at inception, the debtor principle did not change the interest. As a further consequence, ESA 2010 provided that any repurchase of securities on the market, at a premium/ discount, should not lead to any entry in revenue or expenditure at the time of purchase or later on but instead a holding gain or loss should be recorded. In previous clarifications, the German statistical authorities had argued that, in their view, the CCM ensured that in the longer term all effective interest payments (either in the form of coupons or premiums/ discounts) were reflected in the interest expenditure (D.41), fully in line with the accrual principle and with the economic substance. This would prevent any incentive to buy back before maturity, in an environment of decreasing market interest rates, to achieve a lower D.41, in contrast to the prevailing ESA 2010 interpretation.

Eurostat discussed with the German statistical authorities the relevant entries in EDP Table 3B and confirmed with the representative of the German Finance Agency that, under this assumption, the recorded accrued interest could be overestimated by a possible EUR 20 billion for the entire EDP reporting period (approximately EUR 5 billion a year).

The German Finance Agency confirmed that it was indeed acting as a market maker on the secondary market not only for liquidity management reasons but also to have an influence on the trend of prices in German federal bonds. One intention was to minimise the generating of premiums.

It was not clear to Eurostat if the item “Issuances above(-)/below(+) nominal value” also included the tranches of issuances that were withheld for being sold on the secondary market at a later stage (“*Marktpflegequote*”).

In the context of the discussions on changing the CCM, the German statistical authorities raised the point that the model had already been discussed during the 2016 EDP dialogue visit

and that, at that time, Eurostat agreed on an implementation of the model although having concluded that the CCM “has not offered a perfect compliance with the ESA accruals principle”. Eurostat agreed that the model had been previously discussed. Eurostat remarked that the CCM bore three deficiencies when compared to the provisions in ESA 2010: (i) the linear calculation of the accrued interest, (ii) the recording of coupon sold, and (iii) the recording of the secondary market transactions. However, it had not been fully aware of the magnitude of the deficiencies of the model with regards to its implementation of secondary market transactions before the clarifications in October 2017.

The German authorities argued that a recording of repurchases and resales of debt securities by the issuer according to the prevalent ESA 2010 interpretation, namely as redemptions of old instruments and issuances of new instruments would, besides having a synthetic impact on interest revenue and expenditure, also result in a change in the nature of an instrument. It was argued that long-term debt securities (F.32) would become short-term debt securities (F.31) when recognising a new issuance of a new instrument instead of a resale of an existing instrument. Moreover, it was not fully clear from the provisions in ESA how secondary market transactions by the issuer should be recorded, as ESA 2010 seemed not to address the issue of secondary market transactions of debt securities by the issuer. Finally, the German authorities argued that the recording of transactions should not rely on whichever party was involved in a transaction. If a notional quasi-corporation classified outside general government, for example, was recognised for the trading activities of the German Finance Agency and hence segregated from the issuer, to reflect the current situation that usually private institutions operate as market makers in the secondary market, the recorded accrued interest would be close to the results of the CCM in contrast to the recording of interest when the issuer repurchases and resales instruments on the secondary market. However, the German authorities were of the opinion that recognising a quasi-corporation in the financial corporations sector holding government’s stocks of own security as suggested by Eurostat would be in conflict with economic reality and ESA 2010 concept of ownership. It would artificially increase the stock of debt of central government by 2 % of GDP.

Eurostat agreed that, considering the arguments put forward by the German authorities, a further discussion on the interpretation of ESA 2010 could be beneficial. Nevertheless, taking a short-term point of view, i.e. for the April 2018 EDP data notification, the CCM data would possibly need to be substituted by a macro-adjustment based on an instrument-by-instrument approach. Eurostat took note of the German statistical authorities’ position that no significant change in the CCM could be undertaken by the April 2018 EDP data notification.

Finally, Eurostat proposed to provide the German statistical authorities with its opinion on the recording of interest stemming from repurchases and resales on the secondary market.

Findings and conclusions

Eurostat appreciated the explanations given by the representative of the German Finance Agency. Eurostat indicated, again, that the D.41 reported by the German statistical authorities are overestimated by EUR 3-6 billion a year in recent years, due to a practice of spreading forward within D.41 the discounts of premiums on repurchases of debt securities (CCM model), which was not in line with the widely agreed interpretation of ESA 2010. While the German statistical authorities were of the opinion that the CCM was economically sounder than the currently agreed interpretation of ESA 2010, they acknowledged that it was not a priori in line with ESA 2010. At the same time, they considered that there may be some room of manoeuvre to treat differently issuances and resales; this would then significantly reduce the overestimation (mentioned by Eurostat) in net government expenditure. As an alternative, they argued in favour of treating differently active repurchases for resale and ad-hoc repurchases – for instance with recognising a quasi-corporation inside government (having

non-market primary dealer activities could also similarly significantly reduce the net expenditure overestimation).

Action Point 63 (ex-50)⁷¹: Eurostat recommends the German statistical authorities to take steps to correct the reporting of D.41. In the short-run, in the absence of any possibility to adapt the capital cost model currently used, Eurostat suggested to carry out a macro-adjustment based on information to be provided by the “*Finanzagentur*”. Taking into account the elements discussed, Eurostat will provide the German statistical authorities with its opinion on a way forward for the change in the recording model, also in the light of the discussion to take place in the TF on methodological issues in March 2018.

Deadline: for the short-term solution: the April 2018 EDP notification; for Eurostat's input: 16 March 2018; for the implementation of a structural solution: the October 2018 EDP notification

Action Point 64 (ex-51)⁷²: The German statistical authorities will co-ordinate with the “*Finanzagentur*” to provide, as soon as possible, the following data flowing from the CCM, if possible since 2002: (a) premium and discount on issuance (b) premium and discount on repurchase. It would be useful to have separately premiums and discounts. A distinction of issuances on primary and secondary markets would be also useful. It would need to be clarified whether the premium/ discount on repurchase reflects either (b1) the difference between the purchase price and the face value (Maastricht debt nominal value) or (b2) the difference between the purchase price and the issue price corrected for the premium/discount accrued to date (ESA 2010 nominal value). It should additionally be verified how the CCM behaves upon bonds repurchase, given that one does not know when the bonds were issued (if issued in tranches in the past, given that they are fungible). Separately, it would be very important to have the typical average residual maturity of the bonds/ bills repurchased.

Deadline: April 2018 notification

Action Point 65 (ex-52)⁷³: Eurostat considered that the arguments developed by the “*Finanzagentur*” were important and that it was worth re-examining if a new interpretation of the ESA 2010 rules could be conceived – so to remove the significant disincentives (in high/higher rates environments) for debt agency liquidity enhancing operations (that are otherwise highly welfare improving) and the significant incentives (in low/lower rates environments) for debt repurchases carried out specifically for statistical purposes. Eurostat invited the German statistical authorities to present in the forthcoming TF on methodological issues in March 2018, ways in which ESA 2010 could be interpreted towards favouring a more resilient recording rule of interest in case of active repurchase of debt securities.

Deadline: 7-9 March 2018

4.2.3. EU flows

Introduction

The discussions covered the data source for the recording of the EU grants at central and state government level and the absence of the relevant information for local governments. As input for the discussions, the German statistical authorities had provided a note on developments concerning the data sources for EU flows, as well as the updated questionnaire on EU flows.

⁷¹ Completed.

⁷² Completed

⁷³ Completed

Discussion

The German statistical authorities recalled the data situation concerning EU flows. Information on revenues from the EU was recorded in the budgets of the central government and the state governments. Information on the related expenditure was compiled by means of a dedicated survey that was completed by the Bund and the *Länder* on a voluntary basis.

It was confirmed that no information on EU flows was available for local governments. The EU-related flows were not separately listed in the budgetary classifications of local governments, and it was not possible and not necessary to expand the scope of the voluntary data collection to municipalities.

Eurostat understood that normally central government and the state governments were the first recipients of EU grants. The funds were then further channelled either directly to the ultimate recipients, or by the state governments to the local governments for further distribution. The German statistical authorities hence argued that the voluntary survey, although not including local governments, covered all concerned flows of EU grants. However, it operated on the assumption that all funds that were received by local governments were immediately further distributed. This assumption was necessary, as, in addition to the missing budget classifications for EU flows in the budgets of local governments, no separate budget classification for EU grants forwarded to local governments existed in the budgets of the state governments.

Eurostat inquired if it was indeed impossible for local governments to receive directly grants from the EU, or if some municipalities might have received such flows. The German statistical authorities were not aware of such cases.

Eurostat understood that changes had been made to the voluntary survey, both to the template and to the explanatory notes. Eurostat asked for the provision of an updated version of the survey.

Findings and conclusions

Eurostat took specifically note that the corrections relating to the EU flows were not implemented in government accounts for the local government subsector and that the impacts of the related revenue and expenditure were neutralised through adjustments undertaken at state government level.

*Action Point 66 (ex-71)*⁷⁴: The German Statistical Authorities will provide Eurostat with (i) a brief note on the changes in the template of the voluntary survey on EU flows and a short analysis on the completeness and the timeliness of the responses, and (ii) the template and the explanatory note of the survey.

Deadline: end-May 2018

*Action Point 67 (ex-72)*⁷⁵: The German Statistical Authorities will enquire if it is possible for local governments to directly receive payments from EU funds, and not only via the state governments and subsequently take appropriate recording actions.

⁷⁴ Completed.

⁷⁵ Completed.

Deadline: end-November 2018

4.2.4. Gross Capital Formation (GCF), including military expenditure

Introduction

Under this agenda point, Eurostat enquired about data sources to capture gross capital formation in the German national accounts and relevant impacts on the time of its recording.

Discussion

It was recalled that government capital expenditure other than on construction was captured in national accounts based on public accounts information gathered in public finance statistics surveys.

For the recording of gross fixed capital formation on an accrual basis, a number of data sources was used, notably the results of a dedicated annual survey, VAT statistics and production and foreign trade statistics. The information was gathered for the whole of the general government; its attribution by subsector reflected a subsector's share relative to the total cash government spending on investments.

The German statistical authorities recalled to Eurostat the methodology of the monthly and annual construction surveys which were used as information basis on gross fixed capital formation on construction in the primary construction industry ("*Bauhauptgewerbe*"), which includes the following branches of economic activity: Construction of residential and non-residential buildings (NACE 41.2), Civil engineering (NACE 42.0), Demolition and site preparation (NACE 43.1), and Other specialised construction activities (NACE 43.9). The surveys basically gathered information on order intake, working hours, and domestic turnover split according to types of constructions and contracting entities. The end product of the annual construction survey was the "annual construction output" ("*Jahresbauleistung*") which was the sum of "invoiced construction output" (as proven by a final invoice, also including invoiced but not yet paid), the stock flow of "commenced but not yet invoiced construction output" and own-account production, and thus represented construction work in progress according to ESA 2010.

Eurostat understood that the surveys did not collect cash data that was directly comparable to the cash payments recorded in the budgets and that the difference between the "annual construction output" and the cash data from the budgets was basically used for the time adjustment concerning gross fixed capital formation in the primary construction industry, as the German statistical authorities were of the opinion that the difference represented a time of recording difference and not a difference in the coverage.

Eurostat wondered if cross checks were conducted between the figures derived from the surveys and the cash payments, to assess the long-term consistency in the figures.

Eurostat expressed two concerns with regards to the approach of the German statistical authorities to use the results of the dedicated surveys for calculating the time of recording differences of gross fixed capital formation on construction. Firstly, the surveys were addressed to undertakings in the primary construction industry and hence represented counterparty information. To Eurostat, this approach was understandable given the fact that, mainly due to the cameralistic accounting, the appropriate accrual information did not exist in public accounts. Thus, devising an approach providing accrual data of a sufficient quality for gross fixed capital formation in national accounts was indeed a non-negligible issue. Secondly, Eurostat understood that the split in the survey, which was based on types of constructions and contracting entities, did not provide for contracting units of the general government sector, but rather the entire public sector. It was hence rather probable, in

Eurostat's view, that the difference between the “annual construction output” and the cash data from the budgets would also include a difference in the coverage of the data, as a perfect delimitation between the general government sector and the wider public sector seemed problematic on the basis of the information provided.

Findings and conclusions

Eurostat noted the practice in Germany to record gross fixed capital formation (GFCF) of general government based on counterpart (e.g. the accounts of producers), which is interpreted by the German statistical authorities to reflect an accrual adjustment to the cash information available in the public accounts. In the absence of complete balance sheet and profit and loss account, the appropriate measure of GFCF is indeed problematic. However, Eurostat expressed some worries concerning whether builders correctly identify the sector classification of their clients.⁷⁶ In addition it was questioned how military equipment is captured. Eurostat wondered whether existing information on payables in “quasi-balance sheets” of governments could be more reliably used instead.

*Action Point 68 (ex-69)*⁷⁷: The German Statistical Authorities will inform Eurostat on whether the constructions survey also collect cash information, which could then be reconciled with budget information. In addition, the German Statistical Authorities will report to Eurostat the accrual adjustment reported for GFCF by subsectors for the past ten to fifteen years (Eurostat being in a position to observe only the last 4 years).

Deadline: the April 2018 EDP notification

5. Recording of specific government transactions

5.1. Rearranged transactions

Introduction

The German statistical authorities had already implemented the guidance on rearranged transactions for the largest promotional banking activities at federal level, already for the October 2015 EDP data reporting. For the October 2016 EDP data reporting, the scope of rearranged transactions was extended to the operations of the promotional banks of the *Länder*. To be able to identify possible cases for rearranging in relation to transactions of development/ promotional banks, the German statistical authorities had created a decision tree including three different rearranging cases with an explanatory note and have held workshops with the concerned banks.

As background information for the discussion, Eurostat had requested a note on further developments concerning the implementation of the guidance on rearranged transactions, as well as further explanations on revisions to rearranged transactions that were observed in context of the October 2017 EDP data notification.

Participating in the meeting were representatives of *Kreditanstalt für Wiederaufbau* (KfW).

Discussion

Although a number of transactions of KfW were rearranged to government accounts by the German statistical authorities according to their created decision tree, Eurostat was aware that no transaction in relation to the activities in KfW's development bank business section was

⁷⁶ It should also be verified how construction companies located elsewhere in the EEA are captured.

⁷⁷ Completion of this action point is in progress.

rearranged. Moreover, sovereign loans in context of foreign development policy had previously been bilaterally discussed between Eurostat and the German statistical authorities.

Representatives of KfW presented the development bank segment of KfW. The clients of the development bank were mainly the German government and the European Commission, but also other international donors. KfW provided grants and loans to public authorities in development countries. The extent of its activities in promoting development countries and emerging economies was, however, only a minor part of the total activities of KfW. The volume of new commitments in this segment amounted to approximately EUR 7.3 billion, out of a total volume of new commitments of KfW group of EUR 81 billion.⁷⁸

In the context of its activities concerning the foreign development policy of Germany, KfW development bank could use three different kinds of instruments:

- i. Grants and loans directly transferred from the federal budget: These funds were directly recorded in the government accounts and KfW acted only as an agent that forward them to the recipients.
- ii. “Development loans”: In the case of development loans, KfW combined budget funds of the German Federal Government with its own funds. Development loans were generally structured as reduced-interest loans: KfW financed the principal of the loan with own funds, but the loan interest rates were lowered to concessional levels using grants from budgetary funds.
- iii. “Promotional loans”: The loan principals were also solely funded by KfW. However, the difference between Development loans and Promotional loans, in terms of financing, lay in the interest rate, as the Promotional loans did not benefit from government grants to reduce the interest rate, hence they were provided at a higher interest rate than the Development loans.

The majority of commitments of KfW development bank concerned Development loans and Promotional loans.

Eurostat understood that, apart from using budgetary funds in relation to the interest rate, the main difference between Promotional loans and Development loans lay in the inclusion of the provision of Development loans in intergovernmental agreements between the German federal government and the government of the recipient country.

The approval for providing the loans was taken by the board of directors of KfW after agreement with the risk committee, and in rare cases the supervisory board, for specific transactions (depending on the volume and the risk class of the loan transaction). However, a separate approval for projects/ programmes, although apparently not on individual transaction level, was required from the Federal Ministry of Economic Cooperation and Development concerning the compatibility of a project/ programme with the development policy of the German government.

In relation to the risk exposure of KfW if the provided loans defaulted, it was established that both, Development loans and Promotional loans, could benefit from partial risk coverage from government. If asked by KfW, which appeared to be the case for almost all transactions, the Federal government guaranteed a fixed percentage of the loan. This fixed percentage was equal for all loans regardless of the risk classification and covered the vast majority of the

⁷⁸ All figures are publicly available. The presentation of the representatives of KfW for the 2018 EDP dialogue visit also provided figures for the year 2017 for new commitments, as well as information on stocks and figures for the separate financing tools, which were at the disposal of KfW development bank. However, due to the sensitive nature of the information, it is not reproduced.

loan principal. In addition to the guarantee by the German government, the servicing of the loans was also guaranteed by the government of the recipient country.

Eurostat understood that KfW had to maintain a special fund for the loans that were partially guaranteed by government. The fund was established to cover eventual losses from defaulting loans. Only then, i.e. if losses were not covered by the fund, would the German government be liable to KfW and in a third step, as a last backup line, the recipient country. Any amounts that were recovered from the recipient country would however not go back to the fund.

Given that KfW was part of the German delegation at the Paris Club, Eurostat enquired if all three types of instruments could be eligible for renegotiations in the Paris Club. According to the representative of KfW, the loans from the German budget were clearly negotiable under the Paris Club agreement. The Development loans and Promotional loans might also be eligible for the Paris Club. Nevertheless, it could not be established without doubt if this was the case.

Moreover, the possibility of KfW development bank being *de facto* a financial captive of government was briefly discussed. The German statistical authorities argued that one might see a constraint in the balance sheet because of the guarantees by government, nevertheless KfW had the right to refuse projects with the exception of cases where only budgetary loans are concerned.

Eurostat was also informed that the reason for the fact that no transaction of KfW development bank is rearranged, either rerouted or rearranged due to the recognition of the principal party, to the government accounts, is the fact that, although needing a general approval by government for projects/ programmes, the terms and conditions and the characteristics of projects/ programmes, or even individual loans, are solely at the discretion of KfW.

Finally, Eurostat discussed with the German statistical authorities rearrangement cases of state promotional banks. Eurostat appreciated the detailed information on the reasons for the revision concerning the rerouted transactions of "*Investitionsbank Berlin*". Eurostat was aware of large differences between the promotional banks in the number of rerouting cases which they reported. While for some units the ratio of the rerouting cases to the balance sheet was significant, for others it was negligible (without displaying a correlation to the total size of the balance sheet of the banks). Some banks even did not report a single rerouting case. As the range of activities seemed to Eurostat to be rather similar for the promotional banks, Eurostat enquired about the reasons for these differences.

The German statistical authorities explained that the precise reasons for the differences could not be identified. Nevertheless, the information on the transactions was directly collected by the Federal Statistical Office from the reporting units and any promotional bank which had no case for rerouting identified had to notify this as well. Due to the vast amount of individual transactions, the Federal Statistical Office was not in the position to verify the correctness of every reporting. However, the entries in the template were double checked by the reporting units and the Federal Statistical Office also assessed publicly available information for specific operations. The German statistical authorities ensured Eurostat that they were convinced on the correctness of the information provided by the promotional banks.

Eurostat also understood that the state promotional banks, when acquiring equity of corporations, only purchased equity of private corporations and not public ones.

Findings and conclusions

Eurostat appreciated the explanations provided by the representatives of KfW. Eurostat expressed its doubts on the assessment of the German statistical authorities that no need for rerouting transactions of KfW's development bank business has arisen given that the

concerned loans appeared to be subject to approval by government, of a nature of government to government loans at least for the Development loans (they were part of inter-governmental agreements), were guaranteed by government (both, the German government and the recipient country government) and were possibly eligible to the Paris Club. In addition, those loans had a development purpose and were granted on arguably non-market conditions (assessment of development sustainability, long maturity, grace periods, although meant to cover costs). In addition, the funding cost of KfW could not be considered as commercial, given the government guarantee.

Eurostat took note of the explanations concerning the rerouting cases of state promotional banks.

Action Point 69 (ex-46)⁷⁹: The German statistical authorities will clarify whether loans in the Development Bank business segment of KfW are eligible to the “Paris Club”. This concerns the loans other than “budget loans” (which are held in trust by KfW for the federal government), namely: development loans and/ or promotional loans. It shall also be enquired if KfW takes part in the Paris Club and in whose name.

Deadline: end-May 2018

Action Point 70 (ex-47)⁸⁰: The German statistical authorities will clarify with KfW the functioning of the guarantee mechanism, and the accounting rules applicable: location in the balance sheet – within or outside equity, recording of revenue or not for the part of interest set aside. The impact of a call should also be clarified, notably taking into account that KfW acquires a claim on foreign governments.

Deadline: end-May 2018

Action Point 71 (ex-48)⁸¹: The German statistical authorities will assess the need for re-arranging the “development loans” and/or “promotional loans” of KfW Development Bank that are guaranteed by government, given the specific features of those loans.

Deadline: end-September 2018

- 5.2. Government operations relating to support financial institutions (including progress in unwinding of financial positions of government defeasance structures)/ valuation of loan assets held/ valuation of capital transfer at inception

Introduction

The process of the unwinding of the German defeasance structures was ongoing and in some cases even ahead of schedule. In 2016 a new defeasance structure was established taking over parts of the shipping loan portfolio of “*HSH Nordbank*”, which was being privatised.

As input for the discussions, Eurostat had requested a note on the privatisation process of HSH Nordbank and its implication for national accounts.

Discussion

Eurostat had observed that in 2016 government created a defeasance structure, “*hsh portfoliomanagement AöR*”, for the impaired shipping loan portfolio of HSH Nordbank. In

⁷⁹ Completed.

⁸⁰ Completed.

⁸¹ Completed.

June 2016 a portfolio at nominal value of approx. EUR 5 billion had been transferred to the defeasance structure at a price of EUR 2.4 billion. The difference had been covered by “*hsh finanzfonds AöR*” from the second loss guarantee of Hamburg and Schleswig-Holstein.

The German statistical authorities explained that the second loss guarantee will be terminated with the privatisation. However, the final revenue from the privatisation would also be dependent on the unused amount of the guarantee.

Concerning the valuation of the transferred shipping loans portfolio, Eurostat inquired if any capital transfer had been recorded after the initial transfer. The reason was that, according to the financial statement of hsh portfoliomanagement, within six months the value of the claims against customers (hence the transferred portfolio) had to be lowered by almost a fifth of the transfer value.

The German statistical authorities replied that they were aware of the need for an assessment of any revaluation, which occurred within one year following the transfer of the asset, in accordance with Eurostat's guidance note on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis of the year 2009. The German statistical authorities informed Eurostat that the revaluation had been examined by the auditors of the states of Hamburg and Schleswig-Holstein with the result that it was found that the revaluation was due to changes in the market situation. Hence, the German statistical authorities did not plan to increase the recorded capital transfer, but recorded a revaluation because of changes in the market prices.

Moreover, the German statistical authorities provided their opinion that the market valuation of the initial transfer had been conducted by a sufficiently independent source as the valuation had been provided for the European Commission in relation to the competition case concerning the restructuring of HSH Nordbank (case number: SA.44910).

Findings and conclusions

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

*Action Point 72 (ex-74)*⁸²: The German Statistical Authorities will monitor the developments in relation to “*HSH Nordbank*” and the related defeasance structure (“*hsh portfoliomanagement*” created in 2016). They will explain, in a brief note, the state of play in relation to the outstanding guarantee granted by Hamburg and Schleswig-Holstein.

Deadline: for the note: the April 2018 EDP notification

5.3. Nuclear waste disposal obligations

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

5.4. Investment grants to hospitals

Introduction

The recording of investment grants to hospitals had been previously discussed in the context of the April 2017 EDP notification and the October 2017 EDP notification. Investment grants to hospitals are recorded in Germany on a cash basis.

Eurostat understood that in the accounts of the hospitals a claim for investment grants under the German hospital financing law (KHG) was recorded once the approval of government was

⁸² Completed

received by the hospital (“*Eingang des entsprechenden Bewilligungsbescheides*”). This recording was specifically dictated by the German accounting regulation for hospitals (“*Krankenhaus-Buchführungsverordnung*”, KHBV, *Zuordnungsvorschriften zum Kontenrahmen, Konto 150*).

Prior to the EDP dialogue visit, Eurostat had received a note on investment grants to hospitals, including information on grants paid to public hospitals and private hospitals, and an analysis of elements of contingency in relation to investment grant approvals.

Discussion

The discussions on investment grants to hospital concerned the correct time of recording the transactions. In Eurostat's view, the cash recording applied by the German statistical authorities might not be the correct recording of the investment grants.

Eurostat provided its opinion that the provision in ESA concerning the fact that investment grants had to be recorded when the payment was due to be made, could be interpreted in different ways, either as “due for payment” or “when the obligation arises”. The exact time of the obligation arising would then need to be assessed.

Eurostat was of the opinion that when the beneficiary of an investment grant recorded a claim in his balance sheet, according to business accounting regulations there should be a presumption that a claim existed also in national accounts.

However, if an element of contingency existed, “due to be made” should be interpreted as “due for payment” at the moment the contingency realises, e.g. when a mandatory approval was granted. In the case of investment grants to hospitals, the issue for Eurostat was whether the existence of a claim on the balance sheet of a hospital constituted sufficient proof of the existence of a government obligation. To Eurostat's understanding, “due to be made” should be interpreted in the case of investment grants to hospitals as the time of the approval of the investment grant and thus at the time of the apparent recording of the claim in the accounts of the hospitals.

The Federal Ministry of Finance expressed its view that it could not see any difference between “due for payment” and “due to be made”, since the German version of ESA 2010 (*ESVG 2010*) provided an identical wording for “due for payment” (“*Fälligkeitszeitpunkt*”) and “due to be made” (“*wenn die Zahlungen fällig sind*”).

Findings and conclusions

Eurostat took note of the view of the Federal Ministry of Finance.

*Action Point 73 (ex-44)*⁸³: The German Statistical Authorities will clarify the accounting rules applicable for investment grants to hospitals (i.e. recording in the profit and loss and in the balance sheet) with a view to principally determine when the hospitals' claim for such a grant is established (in accounting) as an asset: at time of investment plan, or at time of investment, or at time of verification/ acceptance of the investment. This information will permit establishing the appropriate moment when the payment is to be made, in the absence of accrual based information in the public accounts of government.

Deadline: end-October 2018

⁸³ Completion of this action point is in progress.

5.5. Guarantees

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

5.6. Debt assumptions, claims, debt cancellations and debt write-offs

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

5.7. Capital injections in public corporations

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.

5.8. Dividends, super dividends, especially S.1314

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.

5.9. PPPs (and concessions), including data sources

This agenda point was not discussed during the EDP dialogue visit. Eurostat intended to review remaining issues under the agenda point during the forthcoming EDP data assessment rounds.

5.10. Energy Performance Contracts (EPCs)

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

5.11. Financial derivatives and reporting of foreign-currency debt

Introduction

Until 2017, information on derivatives had only been available for the central government and the state government subsectors of general government. The collection of data on transactions in financial derivatives on local government level has started in the first quarter of 2017, and data for the year 2017 were planned to be included in the April 2018 EDP notification for the first time.

Eurostat had been informed by the German Statistical Authorities prior to the 2016 EDP dialogue visit that the Federal government intended to transfer its existing swap contracts to the EUREX exchange (a central counterparty exchange system with EUREX clearing as the central counterparty).

Questions had also arisen over the reporting of foreign currency debt.

Discussion

The representative of the German Finance Agency explained that the transfer of the swaps held by the German federal government to the central counterparty system (CCP) had not yet been finalised. The Agency was still in the process of back loading the swaps and getting them transferred to the CCP. Thus, government still had next to the swaps in the CCP also bilateral swaps. Concerning the bilateral swaps, the German government only received collaterals and did not provide them. The transfer to the CCP apparently did not change the

characteristics of the swaps but only resulted in a change of the legal counterpart of the instrument.

Eurostat understood that, in relation to the swaps in the CCP, the German Finance Agency recorded initial margins and variation margins. Moreover, the CCP operated with a daily margin call.

The German statistical authorities stated that, for the year 2016, the stock of collaterals received amounted to EUR 4 billion. However, it was not possible for them to identify the collaterals on the bilateral swaps and the margins from the CCP system, as they only received an aggregated figure for swaps from the German Finance Agency. Eurostat expressed its concern that this might mean that (i) the collaterals from the CCP were netted with the collaterals from the bilateral swaps and that (ii) the variation margins were possibly included in the Maastricht debt. In Eurostat's understanding, Germany received the following flows in collaterals:

- A flow in collateral assets (initial margins of the CCP)
- A flow in collateral liabilities (collaterals of the bilateral swaps)

The variation margins should rather be recorded as transactions in derivatives, as they represented non-repayable margin payments eliminating the asset/ liability position and thus had to be classified as transactions in financial derivatives, according to ESA paragraph 5.220 (c).

Thus, Eurostat feared that the German Maastricht debt might not be correctly recorded as Eurostat was of the opinion that only the collaterals on the bilateral swaps should be included in the debt.

Eurostat informed the German statistical authorities that it had observed that the movements in the stock of derivatives in ESA table 27 matched perfectly the transactions in derivatives. Thus, the stock data did not include other economic flows. In Eurostat's view, stock data should be used for recording stocks and they should not be derived from transaction data.

The German statistical authorities agreed. It was explained that foreign currency debt largely concerned the public defeasance structures and not core budgetary accounts. The information on derivatives on foreign currency debt was based on the explanatory notes in the accounts of FMSW.

Findings and conclusions

Eurostat appreciated the explanations provided by the representative of the German Finance Agency.

*Action Point 74 (ex-49)*⁸⁴: Regarding the recording of collateral for operations undertaken by “*Finanzagentur*”, Eurostat took note of the fact that the German Statistical Authorities currently receive only one aggregate figure for collateral seemingly including both initial and variation margins and that the collateral is included within Maastricht debt (AF.4L). The part concerning variation margins should rather be treated as transactions in financial derivatives. The Bundesbank will arrange with “*Finanzagentur*” a separate reporting of variation margins. The Bundesbank will also verify whether the initial margin received by CCP (an asset of “*Finanzagentur*”) is missing or netted within liabilities. In general, Eurostat recommends that the reporting of the “*Finanzagentur*” to Bundesbank comprises both stocks and transactions for financial derivatives and for the part of the collateral to be treated as part of Maastricht debt.

⁸⁴ Completed .

Deadline: end-September 2018

*Action Point 75 (ex-76)*⁸⁵: Currently the stocks of derivatives reported in ESA table 27 are generally compiled by cumulating transactions, thus setting OEF to zero, which is not appropriate. The German statistical authorities agreed that this situation required improvement, and will undertake to separately collect transactions and stocks where the information exists, e.g. for FMSW.

Deadline: the October 2018 EDP notification

5.12. Emission trading permits

This agenda point was not discussed during the EDP dialogue visit. Eurostat intended to review the background information provided for the discussion under this agenda point bilaterally after the forthcoming EDP data assessment rounds.

5.13. Subsidies on products in COFOG defence division

Introduction

Eurostat had been in discussions with the German statistical authorities concerning the recording of conditional loans provided by the German government with regards to orders of military equipment. Under this agenda points the loans contingent on performance to EADS were discussed.

Discussion

Eurostat recalled that two cases were known to Eurostat and that both cases were included in the EDP questionnaire table 13. The German statistical authorities informed that the cases were included in the table as the contracts had not yet finished. However, no loan transactions were recorded in the financial accounts and only the liability had remained.

Eurostat wondered if such loans that were contingent on the completion of a condition, e.g. the delivery of a minimum amount of goods, should be recorded as loans at inception, as ESA provided that loans had to be unconditional. In Eurostat's opinion, a recording of a subsidy on production (D.39), as the payment was not related to individual goods but rather to a universal ceiling, or a capital transfer (D.99) would better represent the nature of these "loans".

Findings and conclusions

*Action Point 76 (ex-73)*⁸⁶: The German Statistical Authorities will review the recording of performance contingent loans (or performance contingent reimbursable subsidies) to Airbus (A400 M and A350), in the light of the ongoing discussions in the TF on methodological issues.

Deadline: end-November 2018, implementation August 2019

5.14. Others

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

⁸⁵ Completed .

⁸⁶ Completion of this action point is in progress.

6. Any other business

6.1. Implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

This agenda point was included in the discussions under agenda point 4.1.2. "Review of the questionnaire on government controlled entities".

6.2. GFS data

6.2.1. Reporting of statistical discrepancy between capital and financial accounts

Part of this agenda point was discussed under agenda point 3.2.4. "Statistical discrepancies in EDP tables 3".

Action point 77: 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.

Deadline: the next EDP dialogue visit to Germany

6.2.2. Reporting of changes in inventories

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

6.3. Major upcoming government operations

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

6.4. Other

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

Annex 1. Agenda⁸⁷ for the 2018 EDP Dialogue Visit to Germany

EDP Dialogue Visit to Germany

1. Statistical capacity issues

- 1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation
- 1.2. Quality and risk management of EDP/ GFS processes
- 1.3. Data sources and revision policy, EDP inventory
 - 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 previous dialogue visits

3. Analysis of EDP tables – follow up of the October 2017 EDP notification

- 3.1. Consistency of ESA tables with EDP tables
- 3.2. EDP notification tables**
 - 3.2.1. Working balance of EDP tables 2 (including the nature of the working balance)
 - 3.2.2. Unexplained other adjustments in EDP tables 2
 - 3.2.3. Adjustments relating to consolidation
 - 3.2.4. Statistical discrepancies in EDP tables 3
 - 3.2.5. Other accounts receivable/ payable, including trade credits
- 3.3. Questionnaire relating to the EDP notification tables
- 3.4. Supplementary table on government interventions to support financial institutions

4. Methodological issues

- 4.1. Delimitation of general government, application of 50% rule in national accounts
 - 4.1.1. Practical aspects of sector classification
 - 4.1.2. Review of the questionnaire on government controlled entities
 - 4.1.3. Reporting of net operating surplus in general government and in NACE O in ESA table 3
 - 4.1.4. Sector classification of specific entities (including social housing providers, promotional banks, public transport corporations (including infrastructure management and financing), professional associations, public service pension schemes, deposit guarantee schemes)
 - 4.1.5. Public units in S.15
 - 4.1.6. Reporting of extra-budgetary entities at state and local government level

⁸⁷ Underlined items were not discussed.

- 4.2. Implementation of accrual principle
 - 4.2.1. Taxes and social contributions
 - 4.2.2. Interest
 - 4.2.3. EU flows
 - 4.2.4. Gross Capital Formation (GCF), including Military expenditure

5. Recording of specific government transactions

- 5.1. Re-arranged transactions
- 5.2. Government interventions to support financial institutions (including progress in unwinding of financial positions of government defeasance structures) / valuation of loan assets held/ valuation of capital transfer at inception
- 5.3. Nuclear waste disposal obligations
- 5.4. Investment grants to hospitals
- 5.5. Guarantees
- 5.6. Debt assumptions, claims, debt cancellations and debt write-offs
- 5.7. Capital injections in public corporations
- 5.8. Dividends, super dividends, especially for S.1314
- 5.9. PPPs (and concessions), including data sources
- 5.10. Energy Performance Contracts (EPCs)
- 5.11. Financial derivatives and reporting of foreign-currency debt
- 5.12. Emission trading permits
- 5.13. Subsidies on products in COFOG defence division
- 5.14. Others (including, privatisation, sale and leaseback operations, UMTS – planned revision)

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
 - 6.2.1. Reporting of statistical discrepancy between capital and financial accounts
 - 6.2.2. Reporting of changes in inventories
- 6.3. Major upcoming government operations
- 6.4. Other

Annex 2. List of participants

Name	Institution
Thiel, Georg	Destatis – Präsident
Schäfer, Dieter	Destatis – National accounts
Grütz, Jens	Destatis – National accounts
Schmidt, Pascal	Destatis – National accounts
Kuschel, Marion	Destatis – National accounts
Heil, Nora	Destatis – National accounts
Leidel, Melanie	Destatis – National accounts
Schmidt, Daniel	Destatis – National accounts
Kaiser, Julia	Destatis – National accounts
Schmidt, Alina	Destatis – National accounts
Schumacher, Björn	Destatis – National accounts
Römer, Markus	Destatis – IT
Rückner, Christine	Destatis – Public finance statistics
Schulze-Steikow, Renate	Destatis – Public finance statistics
Seese, Olaf	Destatis – Public finance statistics
Riege-Wcislo, Wolfgang	Destatis – Public finance statistics
Schmidt, Arne	Destatis – Public finance statistics
Nicodemus, Sigrid	Destatis – Public finance statistics
Junkert, Christoph	Destatis – Public finance statistics
Burgtorf, Ulrich	Deutsche Bundesbank
Bohm, Thomas	Deutsche Bundesbank
Burgold, Peter	Deutsche Bundesbank
Höhne, Jörg	Amt für Statistik Berlin- Brandenburg
Faber, Cathleen	Amt für Statistik Berlin- Brandenburg
Snelting, Martin	Bundesministerium der Finanzen
Oskamp, Frank	Bundesministerium der Finanzen
Fritsch, Ursula	Bundesministerium der Finanzen
Kämmerer, Stefan	Bundesrepublik Deutschland - Finanzagentur GmbH
Mörschel, Michael	Kreditanstalt für Wiederaufbau
Reichhelm, Nils	Kreditanstalt für Wiederaufbau

Ascoli, Luca	European Commission (Eurostat)
De Rougemont, Philippe	European Commission (Eurostat)
Wahrig, Laura	European Commission (Eurostat)
Szekely, Levente (first part)	European Commission (Eurostat)
Oismüller, Michael	European Commission (Eurostat)
Ahnert, Henning	European Central Bank
Weißschädel, Kai-Young	European Commission (ECFIN)
Brasse, Monika	Translator
Wakenhut, Gillian	Translator