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Unit D-3: Excessive Deficit Procedure (EDP) 2

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FINAL FINDINGS

EDP dialogue visit to Luxembourg

24-25 January 2019

Executive summary

Eurostat conducted an EDP dialogue visit to Luxembourg (STATEC) on 24-25 January 2019 with the aim to discuss with the Luxembourgish statistical authorities, methodological issues relating to the EDP reporting

The following were the main issues discussed during the meeting:

On taxes, it was agreed that a GFS interpretation of the recording of the retained part of the VAT on electronic services will be provided to STATEC by Eurostat after the conclusion of the relevant discussions in the GNIC and GFS TF. Furthermore, following the GFS interpretations by Eurostat, STATEC will implement the required change and it will record all the amounts retained as D.74r on electronic services as financial.

The method of recording VAT (caisse transactionalisée) was extensively discussed. Eurostat asked STATEC to consider changing the current method of recording VAT in national accounts. Eurostat, taking into account the arguments and concerns of STATEC, underlined the possibility of using as alternative to the currently used method, the time-adjusted cash method, which is used by the majority of the Member States. Eurostat pointed to the next benchmark revision as the best timing for STATEC to introduce this change, which would contribute to stabilising the VAT time series.

In the same context, it was agreed that the questionnaire on taxes and social contributions needs to be updated to include details on practices such as reimbursements and payment deadlines for VAT payments.

On social contributions, STATEC confirmed that some small amounts are occasionally written-off and Eurostat recommended that these amounts be recorded as capital transfers in the year that the relevant decisions are made.

In the context of the discussion on methodological issues and the recording of specific government transactions, Eurostat requested STATEC to carefully examine the subsidies on products provided by government to private and public transport companies and to closely monitor the sector classification of any municipal transport company that remains classified outside the subsector of local government.

STATEC was requested to consider the recording of payments made by CNS (National Health Fund) to public hospitals as current transfers within general government. A similar treatment should also be considered for the payments made by CNS to S.15 controlled hospitals. During the discussion, it was confirmed that the finalisation of the reclassification of public hospitals in S.1314 is expected by the October 2019 EDP notifications.

Regarding the statistical institutional issues and the responsibilities of the institutions involved in the EDP reporting, STATEC briefly reviewed the current arrangements and confirmed that there have been no major changes since the latest EDP dialogue visit.

In the context of data sources, the issue of the new data collection system developed by the Ministry of Interior for the financial accounts of local government was extensively discussed. STATEC informed Eurostat that the Memorandum of understanding with the Ministry of Interior on data delivery arrangements was ready to be signed by the two parties and a copy

of it will be sent to Eurostat along with the template, which is used for the collection of data. According to the existing schedule of implementation, the new data collection system will be fully operational, replacing the information currently derived from the Money and Banking Statistics, when the coverage is improved and the quality checks are tested.

Discussing about the results of the previous EDP dialogue visit (2016) and the ad-hoc visit (2017), STATEC provided explanations about the status of some action points, which had not been fully clarified.

Regarding the recording of emission permits, it was agreed that STATEC although ready to report the required information, will do so after the completion of the updating of the MGDD.

On the problem of identifying the main sources of recurrent statistical discrepancies, STATEC confirmed that their work continues on the collection of information on revenue and expenditure as well as on financial transactions by grouping of units.

STATEC was requested to address the issue of consolidation imbalances within central government. In particular, the problem of the observed differences in the recording of transactions between the budgetary central government and the extra-budgetary entities.

In the same context, it was agreed that Eurostat will provide advice to STATEC on the statistical treatment of the intra-government VAT.

STATEC described the arrangements regarding the statistical treatment of flows related to the EU budget. Eurostat asked for a note on the recording of the transactions with the EU budget in national accounts.

Eurostat was informed by STATEC about the observed delays in the payments of bills issued by local government entities. Eurostat asked STATEC to change its current recording as other change in volume (K.5) and to record the relevant amounts as capital transfer (D.99).

STATEC will continue to work on improving information on other accounts receivable/payable with the aim to further reduce statistical discrepancies.

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Luxembourg on 24-25 January 2019.

Eurostat was represented by Mr Luca Ascoli (Acting Director of Directorate D "Government Finance Statistics (GFS)"), Mr Jukka Jalava (Head of Unit D3 "Excessive deficit procedure (EDP2)"), Ms Laura Wahrig, Ms Corina Mihaela Niculet, and Mr Stylianos Pantazidis. A representative of the European Central Bank (ECB) also participated as observer.

The Luxembourgish authorities were represented by the representatives of STATEC (l'Institut National de la Statistique et des Études Économiques du Grand-Duché du Luxembourg), the Ministry of Finance, the Inspectorate General of Finances (Inspection Générale des Finances - IGF), the Ministry of Interior, the State Treasury (Trésorerie), the General Inspectorate of Social Security (Inspection Générale de la Sécurité Sociale - IGSS) and the Central Bank (Banque Central du Luxembourg – BCL).

Eurostat carried out the EDP dialogue visit with the aim to discuss with the Luxembourgish statistical authorities issues related to the compilation and reporting of EDP data.

Eurostat appreciated the co-operation and transparency demonstrated by the Luxembourgish statistical authorities during the meeting and the quality of documents provided before the visit.

1. Implementation of the accrual principle

1.1. Taxes and social contributions

Introduction

For the recording of taxes, STATEC uses the time adjusted cash method of one or two months, depending on the tax, except for revenue from VAT. For the recording of VAT, STATEC uses the method of "caisse transactionalisée". This method requires attributing the VAT revenue of year t back to the years when the obligation was generated. This is done on a continuous basis. Consequently, the use of this method entails constant revisions to past data on VAT revenue, rendering thus the time series quite unstable over time.

As indicated in the EDP Inventory, the amounts for social contributions recorded in national accounts are the amounts booked according to the accrual recording of the IGSS and they are additionally adjusted by STATEC. Social contributions recognised as unrecoverable are recorded in social security funds accounts as expenditure of the relevant year, based on the additional information provided by IGSS to STATEC.

On taxes, the discussion of this section focused on two issues: (a) the statistical treatment of the retained part of the VAT revenue related to e-commerce (MOSS receipts), and (b) the method of "caisse transactionalisée" for the recording of VAT revenue in national accounts.

Discussion

Taxes

(a) Starting the discussion, Eurostat recalled the main points regarding the statistical treatment of the MOSS revenue. It was mentioned that the relevant issues concerned the time of recording of the retained amounts as well as the time of recording of amounts transferred to the concerned Member State.

STATEC explained that the retained VAT on e-services is statistically treated as D.211, like all other VAT related revenue and not as D.74. Furthermore, STATEC briefly explained that the e-commerce VAT is collected on a quarterly basis 20 days after the end of the relevant quarter and the amounts are transferred to the concerned Member State (where the purchaser is resident), within 40 days after the end of the quarter.

Eurostat, commented that, according to its understanding, the part of the collected amounts that are transferred at t+40 days after the end of the quarter are booked as other accounts payable when they enter the MOSS account and asked STATEC if these amounts are distinguished from the other VAT revenue.

Eurostat reiterated its preference for recording the retained amounts as D.74 and referred to the discussion in the GNI Committee, recalling that, according to this discussion, the retained part of the VAT receipts related to e-services should be recorded in D.74 (expenditure for the receiving MS and revenue of the host MS).

Furthermore, Eurostat pointed out that, as a result of the agreement in the GNIC meeting, the change in the VAT recording will be monitored across MSs in order to ensure consistency in their national accounts and to identify the size of the impact on the GNI estimates. The change will contribute to the harmonisation of practices on this issue among Member States.

STATEC expressed their concern about the impact of this change on GDP as well as on EDP data (although the impact on B9 should not be material). STATEC pointed out that in monthly data on VAT provided by the tax administration, the retained VAT related to e-services can be identified but this is not possible when the received amounts are attributed to the relevant past tax years. Therefore, as these amounts cannot be separated, it is not possible for STATEC to have the required information on the time of recording of the retained amounts.

In addition, STATEC mentioned that the amounts transferred to the Member States concerned, transit via third party operations and the transfer is completed within a month after they are received. The recording in other accounts payable is on a cash basis and effectively the impact on quarterly data is negligible (if at all) as the relevant amounts are transferred to the other MSs within days.

STATEC pointed out that they are not opposing the proposed change in the recording of the retained amounts of the e-services related VAT, but they would prefer not to introduce this change before an official decision is made by Eurostat.

Eurostat agreed with this procedure of issuing a GFS interpretation on the recording of the retained part of the e-services related VAT after the completion of the discussions in the

GNIC and the GFS TF. In the meantime, Eurostat asked STATEC to continue monitoring the relevant amounts of the MOSS account and reporting to Eurostat the updated table, which STATEC provided before the meeting.

Main conclusions and action points

GFS interpretation on the recording of the retained part of the VAT on electronic services following the conclusion of the discussions in the GNIC and GFS TF. *Deadline: September 2019 (Action point 1).*

STATEC will implement the change after the publication by Eurostat of the GFS interpretation (recording of the full amounts received for the VAT on electronic services as purely financial, amounts retained as D.74r). *Deadline: October 2019 if possible, otherwise in the October 2020 benchmark revision (Action point 2).*

STATEC will continue monitoring the cash receipts and transfers of amounts received in the MOSS. *Deadline: continuous until the introduction of revised recording (Action point 3)¹.*

(b) It was recalled that STATEC uses the method of transactionalised cash (caisse transactionalisée) for the recording of VAT revenue in national accounts. STATEC provided a detailed document describing with numerical examples the caisse transactionalisée method before the mission and briefly described it during the meeting: the VAT cash received is grossed up using a coefficient based on past experience to receive the so called "caisse transactionalisée estimée". The amounts received are then adjusted for tax arrears and reimbursement arrears for each tax year and taxpayer category to arrive at the "caisse transactionalisée" before the B11 and B12 reimbursements². Subsequently, the B11 and B12 reimbursements³ are deducted leading to the (final) caisse transactionalisée amounts.

Eurostat indicated the merits of the method in terms of the implementation of the accrual accounting in the recording of taxes in national accounts but on the other hand, it expressed its concerns about the unavoidable continuous revisions and the instability of the time series thereafter.

Eurostat wondered whether the benefits of the method are not being outweighed by the complicated procedures and the costs in terms both of time and resources compared to the more efficient method of time-adjusted cash, which is already applied by STATEC for all the other taxes. Moreover, Eurostat pointed to the majority of Member States, which have replaced the caisse transactionalisée method by the time-adjusted cash.

Continuing, Eurostat pointed to the observed inconsistency in the revisions of non-financial and financial transactions due to the caisse transactionalisée method. Specifically, with the

¹ Last update was received on 27-06-2019.

² Tax arrears refer to taxes due based on the periodic and annual declarations. Reimbursement arrears refer to VAT amounts not reimbursed by tax authorities.

³ Bureau 11-Remboursement étrangers and Bureau 12-Remboursement logement.

current practice, only the last four years are open to revisions for non-financial transactions, while financial transactions are open to revisions for all the past years.

The amounts collected in year t that need to be attributed to past years can be attributed to the year to which they belong. The fact that the year $t-5$ is not published leads to asymmetries. These asymmetries in the compilation of financial and non-financial accounts possibly contribute to statistical discrepancies.

In an action point (AP17)⁴ agreed during the ad-hoc visit of 2017, STATEC was requested to estimate the ESA revenue for VAT in case of a switch from *caisse transactionalisée* to the time-adjusted cash method. STATEC provided its estimates and its analysis of the issue in a document transmitted to Eurostat before the mission.

STATEC briefly explained the conclusions of its simulations pointing to the differences between the figures produced by the current method and those that would result from the implementation of the time adjusted cash with $t+1$, $t+2$, and $t+3$ months. STATEC explained the difficulties in choosing the appropriate time lag due to the lack of the necessary information on the amounts declared and paid not by the big companies (which pay 75% of the declared amounts within the same year) but by the medium and small companies for which the information is not complete.

In addition, STATEC mentioned that, given the complexity of the VAT, several adjustments⁵ are required to arrive at the accrual figures. For these adjustments, a set of detailed information is now being systematically provided by the Administration de l'Enregistrement et des Domaines to STATEC. STATEC wondered about the timing of the application of the selected time lag assuming that the problems of selecting the right time lag are solved.

Eurostat reiterated the efficiency gains of switching from *caisse transactionalisée* to time adjusted cash, adding that the statistical pattern observed by the simulation done by STATEC might help addressing the problems involved in the selection of the appropriate time lag (with the $t+3$ months option being a good candidate).

Moreover, Eurostat indicated that all the detailed information currently produced by the Administration de l'Enregistrement et des Domaines and used by STATEC to derive the accrual VAT figures could continue being produced and partly used for improving the information content of the Questionnaire on taxes and social contributions. For example, information on reimbursements and tax arrears, on VAT payments by type of companies. In addition, Eurostat suggested that the absence of payable tax credits in Luxembourg confirmed by STATEC should be clarified in the Questionnaire.

Summarising the discussion on the *caisse transactionalisée* method and responding to the questions of STATEC, Eurostat proposed the next benchmark revision as the best time for

⁴ *AP17. STATEC will provide an estimate of the ESA revenue for VAT (and thus the revision in B.9) in case of switch to a time adjusted cash method.*

⁵ Adjustments for the tax arrears, reimbursements (foreign and housing), VAT on the Fonds du rail expenditure.

introducing the time adjusted cash method for VAT. Regarding the starting year, Eurostat indicated that this would depend on the availability of data.

STATEC stated that they will consider the suggestions of Eurostat taking into account all the possible consequences including the issue of the detailed monthly data they receive from the Ministry of Finance.

Main conclusions and action points

STATEC is invited to reflect on the opportunity of using the benchmark revision to change the accrual method for VAT from *caisse transactionalisée* to time-adjusted cash in order to ensure the stability of the time series on VAT data as well as to avoid complications arising from revision policy and MOSS (**Action point 4**). *Deadline: note to Eurostat in December 2019 and further discussion with Eurostat in early 2020.*

STATEC will update and fully complete the questionnaire on taxes and social contributions. Notably, full information on the payment deadlines for VAT (by types of companies) and the practice for important reimbursement should be provided. Furthermore, the update should clarify that no payable tax credits exist in Luxembourg⁶ (**Action point 5**). *Deadline: end-April 2019.*⁷

Social contributions

In the context of the discussion about the recording of social contributions, Eurostat recalled the conclusion of the discussion during the ad-hoc visit and the October 2018 EDP notification, notably that STATEC needed to clarify (with the assistance of the IGSS) whether the accrued social contributions were net of the amounts not expected to be collected (Action point 19 of the ad-hoc visit of 2017).

It was Eurostat's concern that if the accrued amounts were booked gross (i.e. without a reduction by a coefficient for the unrecoverable amounts), this might entail an overestimation of the recorded revenue.

From the information on the recording practices provided by the IGSS, it was then understood that social contributions not paid remained as claim in the books of social security institutions until the Directors Committee of the Centre Commun de la Sécurité Sociale decides to write off the amounts and book a loss. Expected losses on social contributions are estimated and booked in the accounts as provisions. The decision for writing off the unpaid amounts is taken every 5 years.

Eurostat repeated that this actually confirms the concerns about the overestimation of the accrued revenue of social contributions. STATEC agreed with this assessment but underlined that the amounts involved are very small.

⁶ The relevant series in ESA table 2 (PTC, TC) should henceforth be provided as "not applicable".

⁷ This action point has been accomplished.

Eurostat indicated that in any case the written off social contributions should be treated as capital transfers in the year in which the decision is made and recommended STATEC to apply this principle for as many years backwards as possible.

Main conclusions and action points

STATEC should ensure that, for the write-offs related to social contributions, a capital transfer (D.995) is recorded in the year in which the decision is made to write off the amounts. This simplifying solution can be for the moment acceptable given the difficulties in the estimation of the write-offs and the small amounts involved. This recording should be adapted for as many years as possible (**Action point 6**). *Deadline: April 2019 for the reporting period*⁸.

Finally, STATEC was requested to clarify the observed (during the EDP notifications) adjustments related to differences between taxes included in the budget and cash tax data. STATEC explained that these are not to be considered as accrual adjustments because:

(a) they represent the difference between some taxes that are recorded in the budget on an accrual basis and the corresponding cash tax data (as for taxes on some products excluding VAT and import taxes), (b) they relate to reimbursements linked to tax adjustments (for taxes on wages and salaries), considered as a negative revenue in the budget, and (c) they reflect corrections made by STATEC to cash data for the years 2014 and 2015 which were required due to the wrong allocation of taxes related to company directors' fees, corporation tax and the communal trade tax.

STATEC, responding to a question by Eurostat about the source of AF.89 data on taxes reported in EDP Questionnaire table 5, indicated that for all taxes the difference between the cash data (provided by the tax administration) and the accrued (or the time adjusted cash) data is used for the calculation of the AF.89.

2. Methodological issues

2.1 Delimitation of general government, application of the market/non-market rule in national accounts

Introduction

General government includes the public institutional units that are non-market producers while the public non-autonomous units are also considered part of general government. The nature of the activity (market/non-market) of institutional units is checked on the basis of quantitative (50% test) and qualitative criteria. STATEC is responsible for the sector classification of units.

According to the EDP Inventory, "*Government controlled units classified outside general government which have total liabilities larger than 0.01% of GDP are annually tested. The*

⁸ This action point has been accomplished.

remaining government controlled entities classified as public corporations (outside general government) are being continuously monitored. For those entities, market/non-market tests usually cover the three last years available of individual data from the profit and loss accounts available at the Luxembourg business register”.

The discussion focused on the information contained in the Questionnaire on public corporations as well as on classification related issues of hospitals and local government transport companies.

Discussion

Eurostat asked STATEC to clarify the information reported in the Questionnaire on public corporations classified outside general government (2018). Specifically, Eurostat inquired about the lack of information on the results of market /non-market tests for several government-controlled units classified in the institutional sector S.11. STATEC explained that the relevant information is not reported because the units concerned have liabilities not exceeding the set threshold.

Eurostat observed that the information is indicated as being unavailable and asked STATEC to confirm that the classification of the units in S.11 was based on their market/non-market ratios being above 50% and that, regardless of the presentational issue, this information is available to STATEC. STATEC confirmed that this information is available and it has been used for the sector classification of the units.

Eurostat revisited the issue of the capital injection into Luxembourg Future Fund (LFF, created by the European Investment Fund (EIF) and the SNCI-classified in S.13) which took place in 2016 and it was discussed during the October 2018 EDP notification.

Eurostat asked STATEC to explain their decision to consider this transaction as financial. STATEC recalled that the participation of the EIF weighed on the decision and mentioned that the capital injected was not related to a recapitalisation of the entity for past losses but it was in fact a callable capital for the starting of the operations of the entity.

Continuing the discussion, Eurostat inquired about the case of the classification of the Office du Ducroire⁹ which was discussed in both previous Eurostat visits to STATEC (EDP DV (AP21) in 2016 and the ad-hoc DV in 2017(AP25)). STATEC was then requested, amongst other issues, to investigate whether the entity might be considered as a captive. STATEC clarified that there has been no evidence of government control over the assets and liabilities of the entity.

In the same context, Eurostat asked about the sector classification of transportation companies controlled by municipalities. STATEC clarified that in all cases, except the public bus company of the region of Esch, bus companies controlled by municipalities are classified

⁹ The Office du Ducroire is classified in S.128 – it is a public entity providing financial support to Luxembourgish exporters. The entity mainly provides credit insurance schemes for exports, imports and investment abroad. In the Questionnaire of 2018, the entity was reported with 0 liabilities, operating losses of 9 mill. euro in 2016, 0 employees, 100% owned by government.

in S.1313. Eurostat asked STATEC to closely monitor the evolution of the market/non-market test for the bus company of Esch and reclassify the entity if the ratio falls below 50%.

In the same context, Eurostat inquired about the rationale of the classification of government subsidies provided to bus companies (whether private or public). STATEC was requested to investigate that the amounts paid and recorded as subsidies on products (D.31) are linked to an activity indicator: number of tickets sold.

Regarding the classification of public hospitals, it was recalled that nine public hospitals had been reclassified into general government last year following the discussions between Eurostat and STATEC during the ad-hoc visit of 2017. However, until now the implementation of that decision in government accounts was not fully completed.

STATEC explained that, as agreed, the B9 (proxied by the change in the stock of debt) and the debt of hospitals are currently reported under S.1311 for technical reasons. However, later, when the required complete set of data will be transmitted to STATEC by the CNS, public hospitals will be classified and their data will be reported in S.1314. So far, STATEC was not able to finalise this work for technical reasons (delays in the transmission of information, lack of resources, and more pressing priorities).

With this background, it was agreed that the period up to the EDP notification of October 2019 would be used for completing the full implementation of this reclassification in government accounts.

In the same context, STATEC analysed the issue relating to the statistical treatment of the payments made by CNS to public hospitals, asking the opinion of Eurostat. It was recalled that public hospitals are mainly financed by social contributions to the national health fund (CNS). Payments by CNS represent the majority of the revenue of the hospitals covering their fixed and variable costs. As mentioned by STATEC, similar payments are made by CNS to the S.15 controlled hospitals, which are currently classified in S.11.

The question of STATEC to Eurostat concerned the classification of these payments by CNS. Eurostat replied that STATEC should consider treating such payments as current transfers within general government (D.73) for the public hospitals following the full implementation of their reclassification into general government, in the subsector S.1314.

Likewise, for the S.15 controlled hospitals which are receiving similar amounts from CNS (payments on the basis of the costs of the provided services), STATEC, taking also into account ESA 3.36, should consider a similar statistical treatment for those payments as well.

The two parties agreed on the need for coordination with the GNI colleagues to investigate several aspects (including their sector classification) of the S.15 controlled hospitals with a view to ensure consistency in the statistical treatment of their transactions. Eurostat committed to discussing the issues involved with the GNI desk for Luxembourg in Eurostat.

Finally, it was agreed that, following the full implementation of the reclassification of public hospitals, the relevant part of the EDP Inventory should be updated accordingly, while parts of the text on revision policy should also be expanded to improve the provided information.

Main conclusions and action points

STATEC will provide a short note on the rationale for recording subsidies on products to public and private transport providers (verify whether the amount paid is strictly linked to volume, i.e. tickets sold) (**Action point 7**). *Deadline: end-2019*.

STATEC will monitor carefully the sector classification of the public bus company of the region of Esch. In case of the entity failing the 50% test in the near future, it will be immediately reclassified to S.1313, without waiting for three years of failed 50% tests (**Action point 8**). *Deadline: continuous*.

STATEC will consider whether, following the full implementation of the reclassification of public hospitals to S.1314¹⁰, payments by the CNS should be treated as D.73. This solution would follow the rationale of the reclassification and thus be preferred by Eurostat Directorate D. However, for the S.15-controlled hospital¹¹ currently classified in S.11, similar payments are made. Following ESA 3.36, a similar treatment of the payments of the CNS to S.15-controlled hospitals should be considered (**Action point 9**)¹². *Deadline: May 2019*.

Eurostat Directorate D will seek the views of GNI colleagues on certain aspects of the S.15-controlled hospitals (**Action point 10**)¹³. *Deadline: April 2019*.

STATEC will aim at finalising the reclassification of public hospitals *by October 2019* (**Action point 11**).

3. Statistical institutional issues

3.1 Review of institutional responsibilities

Introduction

General government statistics are compiled by the NSI (STATEC), which is responsible for the non-financial and financial accounts (annual and quarterly data). STATEC is also responsible for the compilation of the EDP Table 1 (actual data: Net lending/net borrowing, and other items) while for the planned data the responsible institution is the Ministry of

¹⁰ Related to the discussions during the ad-hoc visit of 2017, this agreement was based on MGDD (2016), p.34, footnote 49 (on the sector classification of hospitals mainly financed by social contributions to Social security entities).

¹¹ From 2017, there is only one S.15 controlled hospital.

¹² This action point is in progress.

¹³ This action point is in progress.

Finance (MoF). STATEC has the responsibility for the compilation of EDP Tables 2, 3, and 4.

The following institutions are involved in the compilation and reporting of EDP statistics:

- Institut national de la Statistique et des Études Économiques (STATEC) – National Statistical Office
- Inspection Générale des Finances (IGF) – the Inspectorate General of Finances
- Inspection Générale de la Sécurité Sociale (IGSS) – the Inspectorate General of Social Security
- Ministère de l’Intérieur (MinInt) – Ministry of the Interior
- Trésorerie de l’État (Trésor) – State Treasury

Discussion

STATEC briefly reviewed the current arrangements on the responsibilities of the institutions involved in the compilation of the EDP data, indicating that there have been no major changes from the latest EDP dialogue visit.

3.2 Data sources and revision policy, EDP inventory

Introduction

In general, government data on deficit and non-financial accounts are revised in every EDP notification for the past 4 years (EDP reporting period). The annual figures are finalised at T+4 years. The final annual data are revised at major benchmark revisions. All ESA2010 EDP data (ESA Tables 0200, 0900 and 1100) are revised at the same time and are sent to Eurostat at the time of EDP notifications.

According to the EDP Inventory (October, 2018 p. 47), “*Financial accounts of general government are continually revised. Major and minor revisions are included in each quarterly update, as financial accounts source data are on a quarterly basis and compiled with a time lag of t+3 months. Routine revisions are coordinated and synchronised with the institutions that provide source data. There is no specific revision calendar. Revisions are regularly reported as metadata*”.

Discussion

After a brief description by STATEC of the main source data used for the compilation of the general government statistics, Eurostat focused on the current revision practices pointing to the recently observed inconsistencies in the revisions of non-financial and financial transactions. Eurostat mentioned the revisions to receivables related to taxes observed in the October 2018 EDP notification, which in financial accounts appeared at the end of December. Eurostat wondered whether this seemingly non-integrated compilation of the non-financial and financial accounts might contribute to the problems concerning statistical discrepancies.

STATEC explained that in updating general government data their main concern is to ensure consistency with National Accounts data. Responding to Eurostat's remark on frequently observed differences in the information included in ESA tables 2 and 9, STATEC observed that these differences are usually very small.

STATEC informed of an internal database with updated ESA, GFS and EDP tables that are not nationally published according to the official revision policy. Eurostat mentioned that it would be very useful if these updated tables could be transmitted by STATEC to Eurostat at least for the preceding 4 years. STATEC responded that in such a case the data on years that are not covered by the revision policy should be marked as confidential. Eurostat mentioned that it will take all the necessary measures to respect the embargo.

Finally, Eurostat suggested that the text on the revision policy should possibly be expanded in the EDP inventory and that this could be done on the occasion of the completion of the reclassification of hospitals when the relevant parts of the Inventory will need to be adapted.

The discussion continued on source data issues related to local government. It was recalled that a new reporting system for local government EDP statistics was to be developed by the Ministry of Interior with the aim to collect information directly from the municipalities instead of relying on counterparty information (Action point 13¹⁴ of the 2017 ad-hoc visit).

Eurostat was informed, via the consecutive progress reports of STATEC on the implementation of action points of previous visits, that the project was in progress and that the new reporting system, being currently in a pilot phase, was expected to be operational from January 2019.

A representative of the Ministry of Interior confirmed that the new database is almost completed and the quality of the collected information is currently tested. It was mentioned that the IT infrastructure for the development and management of the new information is quite demanding. It was also mentioned that while the main entities (municipalities) are fully covered (almost 100%), there remain some issues regarding the coverage of intercommunal associations (only 1/3 covered). In total, the coverage of entities of local government is above 50%.

STATEC informed Eurostat that the new system will be implemented replacing the currently used source of Money Banking Statistics for local government financial transaction, when the coverage of units reaches a satisfactory level and after the completion of the necessary quality tests.

¹⁴ *API3 Eurostat encourages the MoI to pressure reporters to report a complete set of data, encompassing balance sheet information, using the standardised chart of accounts. This pressure should be targeted to large reporters.*

Eurostat inquired about the progress on the Action point 9¹⁵ of the 2017 ad-hoc visit relating to the signing of a Memorandum of Understanding (MoU) between STATEC and the Ministry of Interior on the delivery of the new data on local government financial transactions. STATEC confirmed that the document is ready for signature by the Director of STATEC and then by the Ministry.

Main conclusions and action points

The parts on revision policy in the EDP inventory will be expanded in the next update of the EDP inventory. At that time, also the part on public hospitals will be adapted (**Action point 12**). Deadline: end-2019

STATEC will provide ESA GFS and EDP tables updated as present in the internal database. The data relating to periods not normally nationally published in accordance with the revision policy will be flagged as confidential. Eurostat informed that it will take adequate measures to fully respect the embargo and any other specific associated instructions by Eurostat to STATEC for the back data relevant to EDP. Eurostat is to provide further specific instructions/ information (**Action point 13**). *Deadline: continuous.*

STATEC will provide Eurostat with the Memorandum of understanding with the Ministry of Interior relating to the new data collection on local government financial accounts currently being signed. STATEC and the Ministry of Interior will also provide to Eurostat the template/ structure used for collecting the data. (**Action point 14**, former AP9 of ad-hoc visit 2017)¹⁶. *Deadline: when signed by both parties.*

STATEC will implement the new data collection replacing information from MBS as soon as coverage is acceptably high and other quality verifications are passed (**Action point 15**). *Deadline: progress note by October 2019, implementation when the conditions are met.*

4. Follow-up of the previous EDP dialogue (2016) and ad-hoc visits (2017)

4.1 Progress on the implementation of the action points of the EDP dialogue visit of 2016 and of the ad-hoc visit of 2017

Discussion

Eurostat inquired about the status of some of the action points of the above EDP visits, which remained marked as pending in its records.

¹⁵ **AP9**. STATEC and the MoI will design a MoU regulating the data to deliver.

¹⁶ This action point has been accomplished.

More specifically, for the 2016 EDP dialogue visit, Action point 3¹⁷, STATEC confirmed that a representative of the Court of Auditors of Luxembourg participates in the meetings of the Working Group on EDP statistics¹⁸.

For the Action point 11,¹⁹ STATEC confirmed that the relevant recommendation of Eurostat was transmitted to the institutions involved in the EDP data compilation and reporting and therefore the action point can be considered as being implemented. Eurostat agreed with this conclusion.

In the same context, Eurostat inquired about the progress of the work of the Treasury on developing a compilation system for accounts receivable/payable in financial accounts. STATEC explained that they use the set of cash data produced by the IGF on non-financial transactions and the data on financial transactions of the Treasury, taking into account the complementary period. STATEC confirmed that the coordination among the three institutions has significantly improved and that the relevant work and cooperation is ongoing.

Regarding the Action point 14²⁰, STATEC pointed out the institutional constraints leading to the overestimation of investment expenditure in the budgets of local government entities. It was understood that, because of these constraints, the problem cannot be fully addressed by the competent authorities. However, as mentioned by STATEC, efforts are made by the Ministry of Interior so that more information on realised investment outlays is received in time for the April notification (see also Action point 12²¹ of the ad-hoc visit of 2017).²²

On the Action point 25²³ related to the statistical treatment of emission permits, STATEC informed Eurostat of the availability of the required data for the implementation of this action point (reporting the relevant amounts under F.8 and as taxes when the permits are surrendered) in the April 2019 EDP notification. However, STATEC explained that they would prefer to proceed with the recording in national accounts after the finalisation of the updating of the MGDD. Eurostat agreed with this approach. STATEC will update the progress report (Table) on the implementation of this action point.

¹⁷ **AP3.** STATEC will establish contacts with the National Audit Institution with a view to improve the quality of data on government transactions. STATEC will provide feedback to Eurostat on these contacts as soon as possible.

¹⁸ A document providing evidence on this was transmitted to Eurostat on 4 February 2019. The action point has been closed.

¹⁹ **API1.** STATEC should be consulted and involved in the procedures before changes in the accounting systems of the subsectors of general government are introduced.

²⁰ **API4.** IGF and the Ministry of Interior will incorporate all available information in the estimation of investment expenditure of central and local government for year (n-1) reported to STATEC for the April notification in order to avoid big revisions in the October notification.

²¹ **API2.** STATEC will ask the MoI to ensure that data on realised budget be obtained, in a simplified and informal way, for the 5 biggest municipalities, in time for the April notification (see previous point).

²² A note of the Ministry of Interior explaining the situation and the actions for improving the flow of relevant information was transmitted to Eurostat in January 2018. Therefore the Action point is considered accomplished.

²³ **AP25.** STATEC will identify emission permits auctioned in Luxembourg and record in EDP tables the amounts involved under F.8, and as tax when surrendered.

Moving to the action points resulting from the 2017 ad-hoc visit, on Action point 5²⁴, STATEC confirmed that all the required information for the period 2013-2016 was received from the Treasury and integrated into the EDP notification of October 2017²⁵. The co-operation between the two institutions continues but no more revisions are foreseen.

On the Action point 7²⁶, STATEC confirmed that, as indicated in the last progress report of 10 January 2019, this work is still in progress. STATEC explained that they have arrived at an adequate split of B9 and B9f for the budgetary and the extra budgetary central government that would allow an analysis of the statistical discrepancy by groups of units. However, the current compilation of F.8 of central government and the consolidation of budgetary and extra budgetary central government imposes constraints to conducting a full analysis.

STATEC clarified that the work is ongoing and Eurostat agreed to keep the action point as Action point 17 of this EDP dialogue visit.

STATEC informed Eurostat of some consolidation errors observed in the transactions between budgetary central government and the SNCFL which are to be corrected in the April 2019 EDP reporting.

Eurostat recommended that the observed consolidation imbalances within central government be consistently addressed. In particular, the issue of differences in recording VAT charged expenditure with and without the amount of VAT (in transactions between budgetary central government and extra budgetary entities like the SNCFL) as well as the possible differences in the time of recording of transactions within central government leading to consolidation imbalances in financial accounts, should be further analysed by STATEC.

Continuing the discussion, Eurostat observed that, currently, the non-consolidated S.13 is reported as the sum of subsectors. Thus, no consolidating transactions between government subsectors can be identified. On this backdrop, it was agreed that STATEC will accelerate its efforts to complete its work on developing non-consolidated accounts for central government.

Eurostat, responding to a request by STATEC, agreed to provide advice on the statistical treatment of VAT on transactions among general government subsectors.

In the same context, STATEC informed Eurostat that from now on they are able to provide regularly information on D.7r and D.9r from S.212, starting from the April 2019 EDP notification.

²⁴ **AP5.** Eurostat suggested STATEC to obtain, without waiting, from the Treasury the information for those two causes for discrepancy, which may be significant, without waiting a more detailed file.

²⁵ Progress Report on the implementation of action points of June 2017 and consecutive reports (September 2017, January 2018).

²⁶ **AP7.** STATEC will compile a table expenditure/revenue and financial accounts by grouping of units, and eventually by unit, in order to identify the largest cause of discrepancies.

The discussion continued on the remaining action points of previous EDP visits. Specifically, for the Action point 10²⁷ of the 2017 ad-hoc visit, STATEC referred to a document transmitted to Eurostat in April 2017, explaining that there is no official template of the working balance for local government published by the Ministry of Interior to report as the starting line of the EDP table 2C. STATEC receives from the Ministry the required information on revenue and expenditure of municipalities, which have a single entry bookkeeping system. After the clarifications provided by STATEC, the action point was considered completed.

Main conclusions and action points

On the recording of emission permits, STATEC will wait for the finalisation of the MGDD update and then implement the prescribed recording in the accounts (**Action point 16** - AP25 of the EDP DV 2016). *Deadline: October 2019.*

STATEC will continue its work on compiling the table with revenue and expenditure and financial accounts by grouping of units, in order to identify the largest causes of discrepancies or consolidation imbalances (**Action point 17** - AP7 of the ad-hoc visit 2017). *Deadline: October 2019.*

Regarding consolidation imbalances within central government, in the medium-term (*deadline October 2020*), time of recording differences in the accounts of budgetary central government and the accounts of extra-budgetary units will be addressed consistently in the non-financial and financial accounts (**Action point 18**).

STATEC will continue to work on developing non-consolidated accounts, especially for central government (EDP table 3B1 and 3B2) (**Action point 19**). *Deadline: progress note by end-2019.*

Eurostat will provide advice on the best treatment for intra-governmental VAT (**Action point 20**)²⁸. *Deadline: end-June 2019.*

STATEC indicated that it could now regularly provide D.7r and D.9r from S.212 (*including April 2019*), but also indicated that the ambition was to fill the extended ESA table 2 template (**Action point 21**)²⁹.

5. Recording of specific government transactions

5.1 Implementation of the accrual principle

²⁷ **AP10.** STATEC will reflect on an appropriate definition of WB. STATEC will send to Eurostat the reporting template forwards by the MoI to STATEC.

²⁸ This action point is in progress.

²⁹ This action point has been accomplished

5.1.1 Interest

Introduction

The main sources of information on interest (interest revenue/expenditure) are the IGF and the Treasury for central government, the Ministry of Interior for local government, and the IGSS for social security funds. For extra-budgetary entities, information on interest is derived from their profit and loss accounts and provided to STATEC by the IGF.

The accounting basis of information is cash/accrual for central government (depending on the instrument), accrual for extra-budgetary bodies, cash for the main units of local government and accrual (from 2006) for the main units and the other social security bodies of SSF subsector.

Discussion

Eurostat mentioned the recently observed improvement on the recording of interest (payable) for central government debt securities. It was observed, and confirmed by STATEC, that interest is recorded on an accrual basis. However, in financial accounts interest is not recorded with the instrument for central government loans.

Eurostat also pointed out that no interest is accrued for local government (no information reported in EDP tables 2C and 3D). STATEC responded that the amounts involved are negligible.

5.1.2 EU flows

Introduction

According to the existing institutional arrangements,³⁰ the EU budget related payments are in most cases channelled to the final beneficiaries through the third party operations budget, having no impact on government accounts. In particular, payments related to the European Agricultural Guarantee Fund (**EAGF**) are recorded in the third party operations budget. Likewise, all payments linked to the European Social Fund (**ESF**) as well as the European Regional Development Fund (**ERDF**) and the **Interreg** are mostly recorded in the third party operations budget.

Expenditure related to the European Agricultural Fund for Rural Development (**EAFRD**), are from 2007 onwards made through the special fund "Economic and Social Guidance Fund for Agriculture".

Discussion

³⁰ See EDP Inventory, October 2018, pp.57-59.

Eurostat inquired about the recording practices of STATEC regarding the flows of funds related to the EU budget. STATEC confirmed that the amounts linked to the EAGF are transferred directly to farmers by Treasury advances. Subsequently, the Ministry of Agriculture submit, on a monthly basis, claims for reimbursement to the European Commission and the amounts received are recorded in the third party operations budget. Therefore, no adjustments are required in EDP tables. Regarding EAFRD, the final beneficiary is the private sector and all the flows are recorded in the accounts of the special fund “Economic and Social Guidance Fund for agriculture”.

Eurostat requested and STATEC agreed to provide a short note on the statistical treatment in national accounts of all flows linked to the EU budget.

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

Discussion

STATEC confirmed that there are not any known cases of debt assumptions at inception. Debt cancellations are recorded in the year they occur and as they are recorded in the State budget. According to STATEC, there have recently been no debt cancellations by government.

Discussing the information reported in the EDP Questionnaire table 8, Eurostat inquired about the missing data on other flows. STATEC agreed to provide the missing information in the next EDP reporting in April 2019.

STATEC informed Eurostat about some delays in the payments of bills issued by local government entities. In such cases, the written-off amounts were in the past recorded as K5 (other changes in volume). Eurostat commented that STATEC might instead consider recording those amounts as D.99p. STATEC agreed to do so in the medium term with the collection of the relevant information.

Main conclusions and action points

STATEC will provide a short note on the treatment of EU flows and will reflect on the presentation of EU flows in the EDP table 2A (**Action point 22**). *Deadline: October 2019.*

STATEC will complete the information on other flows in the EDP Questionnaire table 8 (**Action point 23**)³¹. *Deadline: April 2019 EDP notification.*

Write-offs (local government) will be treated as D.99p instead of K.5 in absence of other information (**Action point 24**)³². *Deadline: progress by October 2019.*

³¹ This action point has been accomplished.

6. Other issues

6.1 Reporting of capital injections

Eurostat mentioned the issue of other capital injections, which was discussed in both EDP notifications of 2018. STATEC explained that the operations concerned capital injections by government to private corporations, NPISH, households and international organisations.

STATEC clarified that, due to current difficulties to distinguish between D.9 (capital transfers) and transactions in equity, they have decided to report in table 10.1A the whole relevant amount as capital transfer payable (D92p-99p). STATEC re-confirmed their intention to continue working on the issue to improve the reporting in future EDP notifications

6.2 Subsidies on products

Discussion

STATEC informed Eurostat of planned revisions related to imputed subsidies on products provided to public market units in order to compensate for their persistent losses resulting from their activity being priced at levels below their average costs, following government policy decisions.

STATEC explained that ESA2010 provides for such subsidies only for public corporations and quasi-corporations (ESA2010, par. 4.35c). Therefore, the statistical treatment of these subsidies should be changed. This was suggested by Eurostat and it was the subject of a GNI action point for STATEC.

Eurostat inquired about the details of this action point and asked STATEC to provide the note on the issue transmitted to the GNI desk officer. Furthermore, Eurostat requested STATEC to consider whether P.11/P.131 split and B.2n would need to be adjusted following these changes.

6.3 New collective labour agreement for hospitals

During the discussion in the context of the October 2018 EDP notification, Eurostat was informed that a new collective agreement for hospitals was decided in 2017, affecting past wages and salaries back to 2014. STATEC then clarified that the relevant amounts were booked in the corresponding years. Eurostat's view was that the total amount should have

³² This action point has been accomplished.

been recorded only in the year in which the decision was made (2017) and requested STATEC to amend the recording.

Before the mission, STATEC informed Eurostat that, in coordination with IGSS, it decided to adopt the view of Eurostat and to remove the accrual adjustments of D.632 from the years 2014-2017 and to record the whole amount (34 million euro) in 2017 for the April 2019 EDP notification. STATEC confirmed this modification.

6.4 Statistical discrepancies

STATEC informed Eurostat on the progress of the work on identifying the main sources of statistical discrepancies. As mentioned, after having several meetings with all the parties involved in the preparation of EDP data, they identified some of the reasons contributing to occasionally sizeable statistical discrepancies and explained the actions that they have taken for the improvement of the quality of financial and non-financial data. The work will be continued with the aim to further reduce statistical discrepancies.

Main conclusions and action points

STATEC will continue to work on distinguishing capital transfers related to capital injections from other capital transfers (**Action point 25**). *Deadline: progress by October 2020.*

STATEC will provide the note on imputed subsidies on products sent to the GNI desk officer. STATEC will furthermore consider whether related adaptations in the P.11/P.131 split as well as B.2n will become necessary (**Action point 26**)³³. *Deadline: immediately for the note, progress by October 2020.*

STATEC will continue to work on statistical discrepancies/ other accounts receivable/ payable in line with the progress note provided (**Action point 27** - former Action point 5 of the Ad-hoc visit of 2017). *Deadline: continuous.*

6.5 Remarks and information by STATEC

- STATEC informed Eurostat about an error in pension funds for the years 2016 and earlier, which will be corrected in the April 2019 notification. Details will be provided during the EDP reporting.
- STATEC informed Eurostat of the difficulties to finalise the forecast data in time for the April 2019 notification, due to delays in the finalisation of the 2019 budget, following the recent national elections.

³³ This action point is in progress. The note was received on 04-02-2019.

- For the next EDP visits, STATEC would prefer to receive a more detailed agenda for the meeting in order to better organise the discussions.
- STATEC expressed concerns about the transmission of confidential information from Eurostat to STATEC during the EDP notifications by e-mail. According to STATEC, the transmitted documents can contain confidential information for individual companies and therefore such a practice cannot be accepted in the context of the ESS IT security measures for confidential data.
- Information on the SAAM Luxembourg SARL (100% owned by SNCI), a captive financial institution, which holds equity of the US company "Planetary Resources" specialized in space mining activities, will be reported consolidated with the SNCI.
- Replying to a question of Eurostat on the possible reasons for the sizeable and frequent revisions to GDP data, STATEC pointed out that the recent revisions were both structural and temporary. It was explained that, due to the small size of the economy, changes in the composition of sectors of production usually have a significant impact on the GDP of Luxembourg. Therefore, to the extent that such changes continue, we should expect revisions to GDP figures to continue as well.

ANNEX I

EDP-dialogue visit to Luxembourg

24-25 January 2019

Draft agenda

1. Statistical institutional issues

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

1.1.1. Changes in institutional arrangements (if any)

1.2. Data sources and revision policy, EDP inventory and its annexes

1.2.1. Recent developments regarding source data and progress of the work on EDP inventory

1.2.2. Differences between taxes as included in the budget and cash tax data

1.2.3. New reporting (for local government) based on direct data on financial accounts

1.2.4. Consistency of compilation of the non-financial and financial accounts

2. Follow-up of the of the previous EDP dialogue visit

2.1. Implementation of the action point of the EDP dialogue visit of 2016 and of the ad-hoc visit of 2017

3. Analysis of EDP Tables and related Questionnaires - follow-up of the October 2018 EDP notification

3.1. Closing remarks of the October 2018 EDP notification:

3.1.1. Statistical implications of the new collective labour agreement for hospitals

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government, application of the market/non-market rule in national accounts

4.1.1. Nature of the activities of the entities: Luxembourg for Business and Luxembourg Future Fund

4.2. Implementation of the accrual principle

4.2.1. Taxes and social contributions (notably: statistical treatment of VAT reimbursements and method of caisse transactionalisée)

4.2.2. Interest

4.2.3. EU flows

4.2.4. Military expenditure

4.3. Recording of specific government transactions

4.3.1. Estimates of investment expenditure for central and local government

4.3.2. Government operations relating to the financial crisis

4.3.3. Government guarantees

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

4.3.5. Capital injections in public corporations (notably: capital injections to African Development Bank and to Asian Infrastructure Investment Bank)

4.3.6. Dividends, super dividends

4.3.7. PPPs (and concessions)

4.3.8. Financial derivatives

4.3.9. Other: emission trading permits, privatisation, sale and lease back operations, UMTS, tax credits, securitisation.

5. Other issues (transmission of GFS data etc.)

5.1. Transmission of GFS tables

5.2. Treatment of MOSS receipts

5.3. Consistency between the EDP and within the ESA GFS tables (revision policy)

ANNEX II

List of participants

<u>Name</u>	<u>Institution</u>
Duclos Christophe	BCL
Maurer Henri	ECB
Ascoli Luca	EUROSTAT
Jalava Jukka	EUROSTAT
Pantazidis Stylianos	EUROSTAT
Wahrig Laura	EUROSTAT
Niculet Corina	EUROSTAT
Linden Michel	IGF
Johanns Gérard	IGSS
Englaro Tom	MINFIN
Muller Clara	MININT (24.1)
Schram Philippe	MININT (25.1)
Greiveldinger Anne	STATEC
Krippes René	STATEC
Haas Michel	STATEC
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Hildgen Paul	TS