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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

on the quality of fiscal data reported by Member States in 2016

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1. BACKGROUND

Article 8(3) of Council Regulation (EC) No 479/2009 on the application of the Protocol on the excessive deficit procedure (EDP) annexed to the Treaty establishing the European Community¹ requires the Commission (Eurostat) to report regularly to the European Parliament and to the Council on the quality of the actual data reported by Member States. This annual report provides an overall assessment of the timeliness, reliability, completeness and consistency of the data and its compliance with accounting rules. The Commission adopted the previous report (on the 2015 data) on 23 March 2016².

Eurostat regularly assesses the quality of the actual data reported by Member States and of the underlying general government sector accounts. October 2014 was the first time those accounts were compiled in accordance with Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (ESA 2010)³. That assessment concentrates on the factors that explain the general government deficit/surplus and changes in general government debt. Member States send that information to Eurostat twice per year as part of the ‘EDP notification tables’, the ‘Questionnaire relating to the EDP notification tables’, the ‘Supplementary table on government interventions to support financial institutions’ and also via bilateral clarifications. Eurostat also maintains contact with Member States by making regular EDP dialogue visits.

This report is based on the main findings and results of the EDP data reported by Member States in 2016. It focuses on the latest reports submitted in October 2016. Where appropriate, it draws comparisons with the data sent in April 2016 and in 2015.

2. MAIN FINDINGS ON THE 2016 REPORTING OF GOVERNMENT DEFICIT AND DEBT LEVELS

2.1. Timeliness, reliability and completeness

2.1.1. *Timeliness*

Member States are required to report their actual and planned EDP data to Eurostat twice per year, before 1 April and before 1 October⁴. The 2016 EDP reporting covered 2012 to 2016. The figures for 2016 are those planned by the national authorities, while the 2012 to 2015 figures are actual data⁵. In accordance with Article 8(1) of Regulation (EC) No 479/2009, Eurostat assesses the actual data reported by Member States, but not the planned data.

¹ OJ L 145, 10.6.2009, p. 1.

² COM(2016) 164 final.

³ OJ L 174, 26.6.2013, p. 1.

⁴ Articles 3(1) and (3) of Regulation (EC) No 479/2009.

⁵ Actual data can be final, half-finalised or estimated figures.

Compliance with the reporting deadlines has been very good. In 2016, all Member States reported their actual data by the legal deadline for both EDP notifications.

2.1.2. *Reliability*

Revisions made between the April 2016 and the October 2016 EDP notifications were mainly due to source data updates, primarily working balances and tax data, and methodological changes, such as reclassifications.

For 2015, the largest positive revisions, showing a decrease in the deficit as a percentage of GDP, were made in Hungary (+0.4 pp), Bulgaria, Denmark, Luxembourg and Slovenia (+0.3 pp each) and Slovakia and Sweden (+0.2 pp each). The largest negative revisions were made in Estonia (-0.3 pp, reducing surplus), Greece (-0.3 pp, increasing deficit) and the Czech Republic (-0.2 pp, increasing deficit). The largest upward revisions of 2015 debt level were made in Finland (+1.1 pp), Sweden (+0.8 pp) and Luxembourg (+0.3 pp), while in Romania the debt level was revised downward (-0.5 pp).

GDP revisions have a larger denominator effect on government debt ratios than on government deficit ratios. The revision of GDP had an impact on the debt ratio for several Member States. In particular, increases in debt ratio were observed for Spain (+0.5 pp), France and Luxembourg (+0.4 pp each) and Greece (+0.3 pp), and decreases for Cyprus (-1.3 pp), Bulgaria, the Czech Republic and Austria (-0.7 pp each), Hungary and Finland (-0.6 pp each) and, finally, a substantial decrease for Ireland (-15.1 pp⁶). The revision of GDP had a limited impact on the deficit ratio of all Member States, except for Ireland (+0.4 pp) and Bulgaria (+0.1 pp).

2.1.3. *Completeness of tables and supporting information*

The completion of the reporting tables is a legal obligation and is essential for a proper assessment by Eurostat of the quality of the data. Article 8(2) of Regulation (EC) No 479/2009, provides that Member States must transmit to Eurostat the relevant statistical information, which '(...) *in particular (...)* means:

- (a) *data from national accounts;*
- (b) *inventories;*
- (c) *EDP notification tables;*
- (d) *additional questionnaires and clarification related to the notifications.'*

There are four main EDP notification tables. Table 1 covers the reporting of government surplus/deficit as total and by government subsectors, debt levels as total⁷ and by category of financial instruments. It also covers GDP at current market price and government expenditure on gross fixed capital formation and on interest.

⁶ http://ec.europa.eu/eurostat/documents/24987/6390465/Irish_GDP_communication.pdf

⁷ According to the Protocol on the excessive deficit procedure annexed to the Treaty on the functioning of the EU, government debt is the consolidated gross debt of the whole general government sector outstanding at the end of the year (at nominal value). According to Regulation No 479/2009, government debt includes currency and deposits (AF.2), debt securities (AF.3) and loans (AF.4) as defined in ESA 2010.

Tables 2A to 2D provide the data that explain the transition between the national definitions of government balance (called 'working balance' in national accounts methodology) and the surplus/deficit of each government subsector (called 'net lending/net borrowing' in national accounts methodology)⁸. Tables 3A to 3D provide the data that explain the contributions of the government surplus/deficit and other relevant factors to the variation in the government debt level and the consolidation of debt. Table 4 mainly includes data on trade credits and advances⁹. EDP tables 1 and 2 cover 2012-2016¹⁰, while the other tables cover 2012-2015.

All Member States provided Eurostat with all the EDP notification tables¹¹ in both the April and the October EDP notifications of 2016. In the October reporting, all Member States completed fully the EDP table 1 and provided details in the EDP table 2 on the link between the working balance and the EDP surplus/deficit for all subsectors. In the United Kingdom, the working balance is judged to be on an accrual basis and very few adjustments to transform it into a surplus/deficit according to ESA 2010 were reported. Some countries did not report all the transition items as requested in the template (Germany, Austria) and other countries included some residual transition items (Italy, the Netherlands, Finland and Sweden).

Not all Member States provided all the breakdowns in all the EDP tables 3. In particular, Austria did not provide the details requested about shares and other equity, Germany did not provide the details of financial derivatives. Neither Germany nor Austria filled in the adjustment lines related to the valuation of debt.

The general government stock of trade credits and advances should be reported in the EDP table 4. However, complete coverage of all government subsectors as well as inside the subsectors was achieved for around half of the Member States. Belgium, Bulgaria, Germany, Ireland, Greece, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Poland and the United Kingdom flagged the data they provided as provisional, i.e. subject to revisions in future notifications.

The completeness of EDP tables can still be improved. However, the remaining issues are expected to have little impact on data quality.

All Member States submitted replies to the 'Questionnaire related to the EDP notification tables'¹². Although the coverage and quality of answers continued to improve compared to previous years, progress is still necessary, as some countries did not report all the details requested in the questionnaire. This applies notably to data on central government claims and debt cancellations, the breakdown of other

⁸ Article 3(2) of Regulation (EC) No 479/2009.

⁹ See the statements accompanying the Council minutes of 22 November 1993: https://webgate.ec.europa.eu/fpfis/mwikis/gfs/images/e/e7/Statements_9817.en93.pdf

¹⁰ Council Regulation (EC) No 479/2009 only explicitly requires Member States to provide planned data in EDP tables 1 and 2A.

¹¹ The EDP notification tables reported by Member States can be found on Eurostat's website: <http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables>.

¹² That questionnaire comprises 13 sections requesting quantitative and sometimes qualitative information in several areas, such as transactions in taxes and social contributions and with the EU, acquisition of military equipment, government guarantees, debt cancellations, capital injections made by government into public corporations, public-private partnerships, rerouting transactions and other issues.

accounts receivable/payable, the recording of government guarantees (mainly for the coverage of the local government subsector) and the data on capital injections.

2.1.4. Supplementary table for reporting government intervention to support financial institutions

Since 15 July 2009, Eurostat has been collecting a set of supplementary data on government interventions to support financial institutions. The data collected in 2016 related to the period 2007-2015. All but five Member States (Estonia, Malta, Poland, Romania and Slovakia) reported various government interventions during that period. In Finland (2008) and the Czech Republic (2013-2015) the only interventions reported concerned contingent liabilities. In 2015, the impact on deficit of support for financial institutions was particularly large in Greece (4.1 % of GDP), Portugal (1.6 % of GDP) and Slovenia (1.4 % of GDP). Eurostat published a background note alongside its EDP news release providing more information on the content of the supplementary table and data findings¹³.

2.1.5. Questionnaire on intergovernmental lending

Member States also provide data on bilateral intergovernmental lending, usually under financial assistance programmes. Those data and further information on the European Financial Stability Facility form part of the EDP news release. For the years 2012-2015, the intergovernmental lending figures relate mainly to lending to Greece, Ireland and Portugal.

Bilateral intergovernmental lending is deducted when calculating the EU-28 and euro area aggregates for the Maastricht government debt, since both are shown on a consolidated basis.

2.2. Compliance with accounting rules and consistency of statistical data

2.2.1. Exchange of information and clarifications

During the notification period between the autumn reporting deadline of 1 October and the publication of the data on 21 October 2016, Eurostat contacted the national statistical authorities in every Member State to request further information and to clarify the application of the accounting rules to specific transactions. That process involved several rounds of correspondence between Eurostat and the national statistical authorities. A first round of requests for clarification was sent to all Member States by 6 October. A second round of requests was sent to 25 Member States, a third round to 13 Member States and a fourth round to one Member State. Eurostat asked certain Member States to provide revised 'EDP notification tables', revised tables for underlying government accounts (i.e. the annual expenditure and revenue accounts, and quarterly financial and non-financial accounts) and revised 'Questionnaire relating to the EDP notification tables'. In most cases, the changes in the data reported in the October 2016 notification period were corrections of technical errors, internal inconsistencies, adjustments provided in the notification tables or in the related questionnaire or inappropriate recording within tables. A few

¹³ See: <http://ec.europa.eu/eurostat/documents/1015035/2022710/Background-note-on-gov-interventions-OCT-2016-final.pdf>

changes related to specific methodological guidance provided by Eurostat, or to an update of source data.

2.2.2. *Dialogue and methodological visits*

Regulation (EC) No 479/2009 makes provision for dialogue and methodological visits. Representatives of DG ECFIN and the European Central Bank regularly attend those visits as observers. Dialogue visits to Member States take place regularly (at least every second year) to review reported data, examine methodological issues, discuss statistical processes and sources described in the inventories and assess compliance with the relevant accounting rules (for example on the delimitation of general government, the time of recording and the classification of government transactions and liabilities).

The frequency of the regular EDP dialogue visits to the Member States has increased in recent years. If Eurostat raises a specific important issue with a Member State and it cannot be resolved other than by holding a meeting with the authorities concerned, an ad-hoc or technical visit to the Member State can be organised.

In 2016, Eurostat made EDP dialogue visits to Belgium (21-22 January), Hungary (15-16 February), Greece (17-19 February and 22-24 March), Germany (25-26 February), Bulgaria (29 February-1 March), Luxembourg (15-16 March), Lithuania (19-20 May), Malta (8-10 June), Denmark (19-20 September), Portugal (9-11 November) and the Czech Republic (22-23 November). There were also three ad hoc visits to Greece (27-28 June), Hungary (22 September) and Poland (17-18 November). Eurostat also made a technical visit (25-27 January) and a specific visit (26-28 September) to Austria in the context of the ongoing investigation into the possible misreporting of data¹⁴.

The final findings of each dialogue visit, including the action points agreed and the status of the issues raised, are sent to the Economic and Financial Committee and published on Eurostat's website¹⁵. The implementation of such action points has considerably improved data quality over time.

Eurostat made no methodological visits in 2016.

2.2.3. *Specific advice by Eurostat*

Member States regularly consult Eurostat to clarify various national accounting issues in relation to future or past operations. Eurostat provides advice in accordance with the existing published guidelines¹⁶. Since July, in the interests of transparency, Eurostat publishes all its letters of advice¹⁷ without seeking the consent of the

¹⁴ Commission Decision C (2016) 2633 final of 03.05.2016, on the launch of an investigation related to the manipulation of statistics in Austria as referred to in Regulation (EU) No 1173/2011 of the European Parliament and of the Council on the effective enforcement of budgetary surveillance in the euro area.

¹⁵ See: <http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/eurostat-edp-visits-to-member-states>

¹⁶ See: <http://ec.europa.eu/eurostat/web/government-finance-statistics/methodology/guidance-on-accounting-rules>

¹⁷ See: <http://ec.europa.eu/eurostat/web/government-finance-statistics/methodology/advice-to-member-states>

concerned Member State first, as it was the practice until then. In total, 19 letters were published in 2016.

2.2.4. *Recent methodological issues*

The 2016 edition of the Manual on Government Deficit and Debt (MGDD) was published on 4 March and it includes chapters that have been brought into line with ESA 2010, reflecting the results of the work of the task force on methodological issues in 2015.

Eurostat assessed the proper application of the ESA 2010 rules and checked the application of its methodological decisions by analysing the data reported by Member States in the 'Questionnaire relating to the EDP notification tables', as well as through discussions with the national statistical authorities during EDP dialogue visits.

Eurostat provides additional methodological guidance documentation on the accounting rules for the EDP statistics and the GFS, complementing the general rules of ESA 2010. Guidance notes are released under the responsibility of Eurostat, after consultation with the statistical authorities of the Member States. Clarifications are released under the responsibility of Eurostat and explain the accounting rules for some very specific issues.

In 2016, Eurostat published three clarification notes: 'The statistical treatment of PPP contracts' (4 March), 'Statistical implications of new resolution legislation' (31 March) and 'Statistical recording of the 2015 contributions to National Resolution Funds' (26 September).

The statistical recording of PPPs was also extensively discussed, especially in the context of the Juncker Investment Plan for Europe. From Eurostat's side, major efforts have been made in order to clarify the rules on PPPs to compilers. In addition to the note issued in March and the updated chapter on PPPs in the MGDD, together with the European Investment Bank, Eurostat issued a comprehensive PPP guide ('A Guide to the Statistical Treatment of PPPs'¹⁸) on 29 September.

Two task forces were set up in 2016, one on revision policy (3 March and 24-25 May) and another one on the MGDD (13-14 September). The latter focussed on methodological issues needing further clarification and/or for which guidance or updated MGDD chapters could be envisaged in the future. Three dedicated expert meetings were also organised, on resolution contributions and deposit guarantee scheme (4 July), financial defeasance structures (14 November) and toxic debts (15 November).

2.2.5. *Consistency with the underlying government accounts*

The notification deadlines of 1 April and 1 October under Regulation (EC) No 479/2009 were introduced to ensure consistency with the underlying annual and quarterly government sector accounts, as reported to Eurostat in various ESA transmission tables. Eurostat systematically checks that EDP notifications are

¹⁸

<http://ec.europa.eu/eurostat/documents/1015035/7204121/epec-eurostat-statistical-guide-en.pdf>

consistent with the underlying government sector accounts. For example, total government expenditure and revenue should be consistent with the reported deficit figure.

EDP data were generally consistent with the reported ESA 2010 government accounts, although there are some concerns both over balance sheets for financial assets and liabilities (stocks) and quarterly financial accounts of general government (ESA table 27). There are noticeable inconsistencies for Bulgaria, Cyprus, Denmark, Germany, Greece, Ireland, Luxembourg, Portugal, Spain, and smaller differences for France and Hungary.

With regard to net financial transactions, significant differences remained for Greece for a number of years in the October 2016 reporting, the same situation as in the previous notifications. In that context, Eurostat has therefore again withdrawn ESA table 27 from publication and amended the figures for Greece used for the euro area and EU-28 aggregates. It is working with the Bank of Greece and the ECB to address the problem.

The EDP data on surplus/deficit, gross fixed capital formation and interest expenditure, reported by the Member States were fully consistent with annual and quarterly data on government expenditure and revenue (ESA tables 2 and 25). The data on annual debt and the quarterly government debt (ESA table 28) also matched perfectly for all Member States.

2.3. Publication

2.3.1. Publication of headline figures and detailed reporting tables

Article 14(1) of Regulation (EC) No 479/2009 states: 'The Commission (Eurostat) shall provide the actual government deficit and debt data for the application of the Protocol on the excessive deficit procedure, within three weeks after the reporting deadlines [...]. That provision of data shall be effected through publication.'

Eurostat published the government deficit and debt data on its website on 21 April¹⁹ and on 21 October²⁰, together with all the reporting tables²¹ notified by the Member States and also with a note on the stock-flow adjustment, a note on government interventions to support financial institutions and a note on the stock of liabilities of trade credits and advances. It also published a news release on quarterly Maastricht debt, at approximately t+115²² days, as well as a news release on quarterly general government deficit.

Under Regulation (EC) No 479/2009, Member States must make public their actual data on deficit and debt. All Member States publish deficit and debt figures at national level. Most Member States have informed Eurostat that they publish all their EDP tables. Five Member States, Bulgaria, Italy, Luxembourg, Poland and

¹⁹ See: <http://ec.europa.eu/eurostat/documents/2995521/7235991/2-21042016-AP-EN.pdf>

²⁰ See: <http://ec.europa.eu/eurostat/documents/2995521/7704449/2-21102016-AP-EN.pdf>

²¹ See: <http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables>

²² 't' is the last reported quarter

Slovakia, publish only some of the reporting tables. One Member State, France, publishes none of the EDP tables at national level.

2.3.2. *Reservations on the quality of data*

October 2016

Cyprus: Eurostat expressed a reservation on the quality of the data reported by Cyprus in relation to a series of technical issues, such as the recording of EU flows, the basis for the working balance of central government, the incomplete use of source data for accrual reporting and the absence of reporting of statistical discrepancy in EDP tables.

Eurostat withdrew its reservation on France and maintained its reservations expressed in the April 2016 EDP news release on Belgium and Hungary (the reservation on Hungary was amended in October 2016 to include the possible rerouting of operations carried by the Hungarian Central Bank).

April 2016

Belgium: Eurostat expressed a reservation on the quality of the data reported by Belgium in relation to the sector classification of hospitals.

France: Eurostat expressed a reservation on the quality of the data reported by France in relation to the sector classification of the French Deposit Guarantee and Resolution Funds in 2015 and the recording of settlement costs related to the restructuring of complex debt instruments taken on by local government.

Hungary: Eurostat expressed a reservation on the quality of the data reported by Hungary in relation to the sector classification of Eximbank.

Eurostat withdrew its reservation on Austria expressed in its news release of 21 October 2015.

2.3.3. *Amendments to the reported data*

Eurostat has not amended the data reported by Member States in the April or October 2016 EDP notifications.

2.3.4. *Publication of metadata (inventories²³)*

Regulation (EC) No 479/2009 specifies that the EDP inventories are part of the statistical information Member States must provide. It also requires EDP inventories to be published nationally.

Eurostat has changed the format of EDP inventories, making structural changes and requiring more detailed information. The new inventory template adapted to ESA 2010 has been agreed on and, by the end of 2016, Eurostat had published revised inventories for more than two thirds of the Member States.

²³ Inventories of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts.

3. CONCLUSIONS

Eurostat acknowledges continued overall improvements in the consistency and completeness of the reported data. Nevertheless, the quality of fiscal data needs to be further improved. During 2016, Eurostat has intensified the bilateral clarifications during the assessment of the EDP notifications. It also increased contacts and consultations with Member States between notifications. The frequency of dialogue visits has increased. The publication of all Eurostat's methodological letters of advice has improved knowledge sharing and transparency.

Some consistency problems with quarterly financial accounts persist for some Member States, in particular Greece.

In 2016, Eurostat expressed four reservations on the quality of the data reported by Member States. They concerned Belgium, France and Hungary for the April EDP notification and Cyprus for the October EDP notification. It withdrew its reservations on Austria (April 2016) and France (October 2016) and maintained them on Belgium and Hungary (October 2016).

The revisions of past data on deficit and debt were mainly attributed to source data updates, reclassification of units and methodological requests for advice.

Overall, Eurostat concludes that the quality of the reporting of fiscal data continued to improve in 2016. In general, Member States provided higher quality and more complete information, both in EDP notification tables and in other relevant statistical returns.