



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 23 April 2012

8881/12

**ECOFIN 335
STATIS 27
UEM 74**

COVER NOTE

from: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 13 April 2012

to: Mr Uwe CORSEPIUS, Secretary-General of the Council of the European
Union

No Cion doc.: COM(2012) 170 final

Subject: Report from the Commission to the European Parliament and the Council on
the quality of fiscal data reported by Member States in 2011

Delegations will find attached Commission document COM(2012) 170 final.

Encl.: COM(2012) 170 final



EUROPEAN COMMISSION

Brussels, 13.4.2012
COM(2012) 170 final

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

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1. BACKGROUND

Article 8(3) of Council Regulation (EC) No 479/2009 (amended by Regulation (EC) No 679/2010), on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community¹ requires the Commission (Eurostat) (hereinafter referred to as “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 compliance with accounting rules, completeness, reliability, timeliness and consistency of the data. The previous report (on the 2010 notifications) was adopted by the Commission on 11 April 2011.

Eurostat regularly assesses the quality of the actual data reported by Member States and of the underlying general government sector accounts compiled in accordance with Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community (ESA95)². The assessment is mainly based on data regarding the general government's budget execution and general government assets and liabilities. This work concentrates on the factors that explain the general government deficit/surplus and the change in the general government debt. Member States send this information to Eurostat twice per year. This also includes supplementary information such as the “Questionnaire relating to the EDP notification tables” and bilateral clarifications by Member States. Eurostat also undertakes regular EDP dialogue visits in each Member State to maintain a continuous dialogue with Member States.

This report is based on the main findings and results of the EDP reporting in 2011, focusing on the latest (October 2011) reporting exercise. Where appropriate, comparisons are made with the April 2011 reporting, as well as with the 2010 reporting.

2. MAIN FINDINGS ON THE 2011 REPORTING OF GOVERNMENT DEFICIT AND DEBT LEVELS

2.1. Timeliness, reliability and completeness

2.1.1. *Timeliness*

Member States are required to report their planned and actual budget and balance sheet data to the Commission twice per year, before 1 April and 1 October³. During 2011, the EDP reporting covered the years 2007 to 2011. The figures for 2011 are those planned by the national authorities, while the 2007 to 2010 figures are actual data (this means final, semi-finalised, provisional or estimated figures).

Compliance with the reporting deadlines is usually very good. In the second reporting in 2011, 26 Member States reported their data before the legal deadline of 1

¹ OJ L 145, 10.6.2009, p. 1.

² OJ L 310, 30.11.1996, p. 1.

³ Article 3 (1) and (3) of Regulation (EC) No 479/2009, as amended.

October. The Greek authorities sent their notification on 7 October. In the April reporting exercise, all Member States reported their figures before 1 April 2011, except Greece (on 1 April) and France which sent the planned data for the year 2011 on 7 April.

2.1.2. *Reliability*

Many Member States revised their reporting after the first submission. In October 2011, 29 revised submissions were sent by 18 countries, compared to April 2011 when 36 revised submissions were sent by 20 countries. Member States sent most of the revised submissions in response to comments, technical questions or remarks by Eurostat, and they concerned corrections of minor errors, internal inconsistencies or inappropriate recording within tables.

The data were revised by more than 0.1 percentage points (pp) of GDP during the assessment periods for Greece, Portugal, Slovenia and Slovakia in April and for Germany⁴, Austria, Romania and Slovakia in October.

The Irish statistical authorities provided an updated set of EDP notification tables on 24 November 2011, in order to correct an identified error in the consolidation of general government debt (there was no impact on the recorded government deficit). Eurostat clarified the revisions and published the new data.

2.1.3. *Completeness of tables and supporting information*

The submission of the reporting tables is a legal obligation and is essential if Eurostat is to monitor the quality of the data properly. Article 8(2) of Regulation (EC) No 479/2009 as amended, specifies that Member States must provide Eurostat with 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.”*

The EDP notification tables consist of four main (sets of) tables. The submission of EDP tables 1 to 3 is a legal obligation, whereas reporting of EDP table 4 was agreed

⁴ The revisions to the German EDP data concerned year 2010 and were caused by the amendments to the source data for FMS Wertmanagement -a defeasance structure of Hypo Real Estate (HRE); classified inside the general government sector- for deficit: up by 0.9 pp of GDP mainly due to the revaluation of the bad assets transferred to it by HRE; and for debt: down by 1 pp of GDP due to the correction of the presentation of cash collaterals in its balance sheet.

by Member States⁵. Tables 1 and 2A (central government) cover the years 2007 to 2011, whilst the other tables cover the years 2007 to 2010⁶.

Most Member States complete all EDP notification tables⁷. Some Member States however could improve on completeness. In the October 2011 reporting for example, for EDP Tables 2, five Member States either did not provide full details on the link between the working balance and the EDP surplus/deficit for all the sub-sectors or for all the years, or reported working balances equal to the EDP surplus/deficit.

For EDP Table 3, not all Member States provided all the breakdowns. In particular the details requested for the items 'loans' and 'equity' were not always reported.

The fact that in EDP tables 2 and 3 certain data are missing for a number of Member States reduces the possibility for Eurostat for checking the reliability of the bottom line figures on government deficit and debt. This in turn leads to a greater need for checking such details in the course of visits to the Member States.

All Member States submitted replies to the “Questionnaire relating to the notification tables”⁸. Although the coverage and quality of answers improved compared to past years, some countries did not report all the details requested in the questionnaire.

2.1.4. *Supplementary tables relating to the financial crisis*

Eurostat has been collecting a set of data on the financial crisis in a supplementary table since 15 July 2009. Part 1 of the supplementary table relates to data on transactions which are recorded in the revenue/expenditure account of government and have an actual impact on the EDP deficit/surplus. Part 2 of the supplementary table relates to data on stocks of financial assets and liabilities arising from the support for financial institutions. It distinguishes between activities which have actually contributed to government liabilities (included in government debt) and activities which may potentially contribute to government liabilities in the future, but are for now considered as contingent on future events (not included in government debt). These tables show government interventions directly related to the support of financial institutions. Support measures for non-financial institutions or general economic support measures are not included.

The data collected in 2011 referred to the period 2007 to 2010. 20 Member States report various interventions undertaken by government in the context of the financial

⁵ See the statements to the Council minutes of 22 November 1993.

⁶ Provision of planned data in EDP tables other than table 1 and 2A is not explicitly requested in Council Regulation (EC) No 479/2009, as amended.

⁷ A detailed description of the content of these tables can be found on Eurostat's website. See: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=2373,58110711&_dad=portal&_schema=PORTAL.

⁸ This questionnaire comprises thirteen 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, etc.

crisis. Eurostat published a note alongside its EDP Press Releases analysing these data⁹

2.1.5. *Questionnaire on intergovernmental lending*

Starting from the April 2011 notification, the Member States also provide data on intergovernmental lending. The EDP News Release includes this information, which allows the analysis of loans Member States grant for support operations to other Member States (in 2010, mainly to Greece).

Such intergovernmental lending increased substantially in the context of the financial crisis and has to be subtracted from the EU27 and euro area aggregates of the Maastricht debt, both of which are calculated on a consolidated basis. Due to this consolidation, the EU27 and euro area aggregates are not equal to the arithmetical sum of Member States' debt (i.e. the lending between governments is not included, to avoid double-counting).

The figures reported in the questionnaire do not yet include any amounts in relation to the European Financial Stability Facility (EFSF) as they refer to the period 2007-2010. For 2011, these figures will be collected from the EFSF.

2.2. **Compliance with accounting rules and consistency of statistical data**

2.2.1. *Exchange of information and clarifications*

During the assessment period between the reporting deadline of 1 October and the publication of the data on 21 October 2011, Eurostat contacted the national statistical authorities in every Member State to request further information and to clarify the application of the accounting rules on specific transactions. This process involved several rounds of correspondence between Eurostat and the national authorities. A first round of requests for clarification was sent to all countries before 9 October. A second round of requests was sent to 14 countries and a third round to one country. For some countries, Eurostat asked for revised notification tables¹⁰.

2.2.2. *Dialogue and methodological visits*

Regulation (EC) No 479/2009 as amended, makes provision for dialogue and methodological visits. Dialogue visits to Member States are conducted regularly with the aim of reviewing reported data, examining methodological issues, discussing statistical sources and assessing 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.

Methodological visits are undertaken only where Eurostat has identified significant risks or problems with respect to the quality of the data, especially relating to the methods, concepts or classifications used. In 2011 no methodological visits were carried out.

⁹ See:
http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/Background_note_fin.crisis_Oct.2011_final.pdf

¹⁰ See section 2.1.

During the year 2011, Eurostat carried out the following EDP visits: Portugal (17-18 January, 14-15 April and 19-20 September), United Kingdom (26-28 January), Denmark (31 January – 1 February), Latvia (15-17 February 2011), Spain (17-18 February), Slovakia (28 February–1 March), Greece (21-23 March, 26-27 September and 10-11 November), Germany (5-6 May), Czech Republic (16-17 May), Luxembourg (19 May), Slovenia (23-24 May), Romania (8-10 June, 20-22 June, 11-13 July and 26-27 September), Italy (27-28 June), Estonia (4-5 July), Poland (5-6 September), Finland (21-22 November), Bulgaria (28-30 November), Sweden (12-13 December) and the Netherlands (12 December).

Recurring issues discussed during the visits included the classification of units within or outside the general government sector (e.g. concerning public transport, television and radio, hospitals and universities), capital injections, Public-Private Partnerships, EU flows and the recording of guarantees. Every visit leads to a number of action points for the Member State visited. The implementation of these action points leads to improvements in data quality over time.

Eurostat has also started to implement a programme of "upstream" EDP dialogue visits to Member States, with a view to examining the quality and completeness of the source data used by statistical authorities in compiling EDP data, and to discussing the quality management arrangements for the compilation of the data. This is a major element of Eurostat's work in implementing the strengthened verification powers granted in Regulation (EC) No 479/2009 as amended, according to a preventative risk-based approach described in the Communication to the European Parliament and Council entitled "Towards robust quality management for European Statistics".¹¹ Already in 2011, upstream dialogue visits took place in Germany, Romania and Bulgaria. A specialised working group on "quality management of Government Finance Statistics" is being put in place.

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 guidelines. To comply with the transparency provision in Regulation (EC) No 479/2009, as amended, Eurostat publishes its advice¹², unless the Member State concerned raises an objection. Eurostat published the following advice in 2011: the treatment of debt of the Austrian railway company (Austria), changes in the pension system (Poland), the classification of a road network project run by the Autonomous Community of Aragon (Spain), the classification of an irrigation network in Public Private Partnership run by the Autonomous Community of Navarra (Spain), the classification of a motorway in Public Private Partnership run by the Autonomous Community of Navarra (Spain), the treatment of infrastructure projects (Romania) and the recording of restructuring schemes for public corporations with accumulated arrears (Romania), the methodological treatment of foreign exchange derivatives linked to the EDP debt (Latvia), an ex-ante advice on

¹¹ See: http://epp.eurostat.ec.europa.eu/portal/page/portal/quality/documents/COM-2011-211_Communication_Quality_Management_EN.pdf

¹² See: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/methodology/advice_member_states.

the statistical recording of the project of construction and operation of the A1 motorway Tuszyn-Pryzowice stretch (Poland), the recording of EU transfers and national co-financing Jeremie (Bulgaria), two pieces of advice on the recording of the repayment scheme of the Bulgarian Development Bank (Bulgaria) and an advice on a preliminary opinion of the Portuguese statistical office on the possible transfer of some assets and responsibilities of the banking sector's pension funds to General Government (Portugal).

2.2.4. *Recent methodological issues*

As usual, Eurostat paid close attention to the application of the ESA95 rules and, in particular, to its latest decisions. These decisions are included in the Manual on Government Deficit and Debt, the latest version of which was published in October 2010, and which is now subject to a regular update process.

Eurostat has also been consulted on the statistical recording of the measures taken at European level to address difficulties in the sovereign debt markets. In 2011 Eurostat has published its statistical view on the EFSF¹³ and also a preliminary view on the planned European Stabilisation Mechanism¹⁴. Eurostat has also published a guidance note on publicly owned "defeasance structures".¹⁵

2.2.5. *Consistency with underlying government accounts*

The notification deadlines of 1 April and 1 October set by Regulation (EC) No 479/2009 as amended, were introduced in order to ensure consistency with the underlying annual and quarterly government sector accounts, as reported to Eurostat in various ESA95 transmission tables. Eurostat systematically analyses the consistency of the EDP notifications with the underlying government sector accounts. For example, total government expenditure and revenue should be consistent with the reported deficit figure.

The overall consistency of EDP data with the reported ESA95 government accounts has become increasingly complete in recent years, though it is still better for non-financial than for financial data. In October 2011, GDP and debt figures were consistent for all Member States. With regard to the figures for net borrowing/net lending, there were minor differences for 6 Member States. Minor inconsistencies between the EDP data and the quarterly financial accounts appeared in the notifications of 14 Member States.

¹³ See: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-27012011-AP/EN/2-27012011-AP-EN.PDF

¹⁴ See: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/Eurostat's%20preliminary%20view%20on%20the%20recording%20of%20the%20futu.pdf

¹⁵ See: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/Eurostat%20Guidance%20on%20accounting%20rules%20for%20EDP%20-%20Financia.pdf

2.3. Publication

2.3.1. Publication of headline figures and detailed reporting tables

Article 14 of Regulation (EC) No 479/2009 as amended, 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 (...). This provision of data shall be effected through publication.*”

The government deficit and debt data were published on 26 April and 21 October 2011 together with all the reporting tables, as notified by the Member States.

Eurostat also publishes on its website the annual and quarterly government finance statistics that underpin the EDP data, together with information on the stock-flow adjustments¹⁶. Eurostat also publishes the information provided by Member States concerning government interventions in the context of the financial crisis¹⁷ and the data on intergovernmental lending.

In accordance with Regulation (EC) No 479/2009 as amended, Member States shall make public their actual data on deficit and debt. Most Member States have reported to Eurostat that they publish all their reporting tables.

2.3.2. Reservations on the quality of data

Eurostat expressed a reservation on the quality of the data notified by Romania and the UK in the April 2011 notification. These reservations were withdrawn in the November news release.

Romania: Eurostat has withdrawn the reservation expressed on the data reported by Romania in the April 2011 notification due to uncertainties on the impact of some public corporations on the government deficit, on the reporting of ESA95 categories "other accounts receivable and payable", on the nature and impact of some financial transactions and on the consolidation of intra-governmental flows. Eurostat has confirmed that in the October 2011 notification the above mentioned items have been recorded according to ESA95 methodology and the related manuals.

United Kingdom: Eurostat has withdrawn the reservation expressed on the data reported by the United Kingdom in the April 2011 notification due to uncertainties on the time of recording of military expenditure. Eurostat has confirmed that in the October 2011 notification the United Kingdom included the necessary adjustment and is now recording military equipment expenditure on a delivery basis, as required by the relevant Eurostat decision of 9 March 2006.

¹⁶ The Government Finance section on Eurostat’s website provides public access to information on statistics for the excessive deficit procedure and the underlying government sector accounts, including data, methodological decisions and manuals, together with findings of EDP dialogue visits: (http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/introduction).

¹⁷ See: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/Background_note_fin.crisis_Oct.2011_final.pdf

2.3.3. *Amendments to the reported data*

Eurostat's EDP News Releases provide explanations concerning the amendments of notification data of the United Kingdom¹⁸.

"Eurostat has amended the deficit and debt data notified by the United Kingdom for the years 2008 to 2010 (as well as for financial years 2008/2009 to 2010/2011). This has been done to ensure compliance with the Eurostat guidance note of 16 March 2011 on financial defeasance structures, with respect to Bradford & Bingley (B&B) and Northern Rock Asset Management (NRAM). The reported deficit figures have been increased by 360 mn GBP (0.03% of GDP) in 2008 (as well as in financial year 2008/2009), by 571 mn GBP (0.04% of GDP) in 2009 (as well as in financial year 2009/2010) and by 1 023 mn GBP (0.07% of GDP) in 2010 (as well as in financial year 2010/2011). The reported debt figures are increased by 32 374 mn GBP (2.26% of GDP) in 2008 (as well as in financial year 2008/2009), by 19 969 mn GBP (1.43% of GDP) in 2009 (as well as in financial year 2009/2010) and by 56 821 mn GBP (3.90% of GDP) in 2010 (as well as in financial year 2010/2011)".

2.3.4. *Publication of metadata (inventories¹⁹)*

Regulation (EC) No 479/2009 as amended, specifies that the EDP inventories are among the statistical information to be provided by Member States to allow Eurostat to check compliance with ESA95 rules. Furthermore, it stipulates that national publication of these inventories is mandatory. Eurostat has published the inventories of all Member States. Except for Luxembourg and the Netherlands, all Member States reported that they have published their EDP inventories nationally.

Eurostat is in the process of introducing a new EDP inventory format which would involve structural changes and require more detailed information (for example, with respect to compilation procedures, delimitation of the general government sector, specific transactions, quality management, and upstream data sources etc.).

3. CONCLUSIONS

Eurostat concludes that progress on the quality of fiscal data continued in 2011. In general, Member States have provided better information, both in EDP notification tables and in other relevant statistical returns. Overall consistency of EDP data with the reported ESA95 government accounts is satisfactory, and there are improvements on the financial side.

Reservations on the quality of the reported data were expressed in 2011 for Romania and the United Kingdom in the April 2011 notification. These reservations were lifted in November 2011. However, an amendment has remained necessary for the UK.

¹⁸ Under Article 15 (2) of Council Regulation (EC) No 479/2009 as amended, the Commission (Eurostat) may amend actual data reported by Member States and provide the amended data and a justification of the amendment where there is evidence that the actual data reported by Member States do not comply with the requirements of Article 8 (1).

¹⁹ Inventories of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts.

In spite of the recognised improvements, some issues nevertheless persist linked to the compliance with accounting rules and the completeness and consistency of some of the statistical information provided. For example, some Member States need to improve the completeness of data on the sub-national government levels whilst others could improve the monitoring of the public financial defeasance structures which were established in the wake of the financial crisis.

Eurostat therefore invites Member States to continue investing in the quality of government finance statistics with a view to achieving further the desired level of quality as regards the compliance with the relevant accounting rules, completeness, reliability, timeliness and consistency of government data, including better quality management of the upstream data flows that are the input to the EDP deficit and debt figures.