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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 2006

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1. BACKGROUND

After its revision in 2005, Article 8a(3) of Council Regulation No 3605/93¹ 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. The report shall address the overall assessment of the actual data reported by Member States as regards to the compliance with accounting rules, completeness, reliability, timeliness, and consistency of the data.

This is the first report to the European Parliament and Council summarising the main findings on the quality of fiscal data based on the EDP (Excessive Deficit Procedure) reporting on deficit and debt figures. It aims to give an overall assessment of the statistical information which Member States are required by law to provide. Eurostat regularly assesses the quality of actual data reported by Member States, as well as the underlying government sector accounts compiled according to 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 made mostly after receiving the EDP notifications. Deficit and debt figures are sent by Member States to Eurostat twice a year, on 1 April and 1 October. The assessment also draws on supplementary information such as the EDP related questionnaires and bilateral clarifications by Member States. Several EDP follow-up missions take place during the year to maintain an ongoing dialogue with Member States.

This report is based on the main findings and results of EDP reporting in 2006 by Member States, focusing on the most up-to-date information, i.e. the last reporting exercise (October 2006), and where appropriate making comparisons with the April 2006 reporting.

The main conclusions of the EDP dialogue and methodological visits carried out by Eurostat during 2006 are set out in an annex.

¹ OJ L 332, 31.12.1993, p. 7; Regulation as last amended by Council Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

² OJ L 310 of 30.11.1996, p. 1; Regulation as last amended by Regulation (EC) No 1267/2003 of the European Parliament and of the Council of 16 June 2003 (OJ L 180, 18.7.2003, p. 1).

2. MAIN FINDINGS OF THE 2006 REPORTING OF GOVERNMENT DEFICIT AND DEBT LEVELS

2.1. Timeliness and completeness

2.1.1. Timeliness

Member States are required to report to the Commission their deficit and debt levels (planned and actual data) before 1 April and 1 October of year n^3 . During 2006, EDP reporting covered the years 2002 to 2006. Figures for 2006 are those planned by the national authorities, while figures from 2002 to 2005 are final, half-finalised, provisional or estimated. Usually there is good compliance with the reporting deadlines. In the 2006 second reporting all Member States, with the exception of Luxembourg, reported their data on, or before, 30 September 2006. Luxembourg reported on 3 October 2006. For the April reporting exercise, Ireland reported its figures after the deadline, on 4 April 2006.

In general, Member States tend to revise their reporting or to finalise their EDP tables after the first submissions. In April 2006, Eurostat received 36 revised submissions from 19 countries, while in October 2006, 28 revised submissions were sent by 16 countries⁴. Most of the revised submissions are sent in response to comments, technical questions or remarks addressed to the Member States by Eurostat.

2.1.2. Completeness of tables and supporting information

Completion of the reporting tables is a legal obligation and is necessary if Eurostat is to monitor the quality of the data properly. Article 8a(2) of Regulation (EC) No 3605/93 specifies that Member States must provide the Commission with the relevant statistical information, which *"in particular (...) means: data from national accounts, inventories, EDP notification tables, and additional questionnaires and clarification related to the notifications"*.

As regards the completeness of reported tables⁵, most of the Member States completed all of the EDP notification tables (although completion of Table 4 remains uneven and the information incomplete). In the most recent October 2006 EDP notification, eight Member States did not provide the link between the working balance and the ESA95 government surplus/deficit for all the sub-sectors or for all years, or reported working balances equal to net lending/net borrowing.

³ Article 4(2) and (3) of Regulation (EC) No 3605/93.

⁴ Compared with 19 revised submissions by 10 countries in September 2005, and 15 new submissions by eight countries in March 2005.

⁵ The EDP notification tables comprise four tables covering main aggregates such as general government deficit/surplus broken down by sub-sector, debt split by financial instruments and GDP (table 1), items explaining the transition from the working balance of each sub-sector to ESA95-based government balances (tables 2) or the link between the government balance and the change in the debt level (tables 3), also by sub-sector. Table 4 covers a number of variables not specifically mentioned in legal acts but which countries undertook to transmit to the Commission ("trade credits and advances", Gross National Income and the difference between the face value and the present value of debt). A description of the content of these tables can be found on Eurostat's dedicated website on government finance: (http://epp.eurostat.ec.europa.eu/portal/page?_pageid=2373,58110711&_dad=portal&_schema=PORTAL)

For EDP Table 3, not all Member States provided the requested breakdowns for the items loans and equity in Table 3A (for general government), which distinguish between acquisitions of assets (generally corresponding to cash outflows) and disposals (cash inflows). Nine Member States did not provide the breakdown for loans and six Member States did not split equity.

Eurostat also asked Member States to reply to a *questionnaire relating to notification tables*⁶. All Member States submitted the questionnaire⁷, usually together with their notifications. The coverage of answers improved between April and October 2006. However, some Member States failed to provide some important information. For example, in October 2006, Greece did not provide the requested detail on privatisations, and Germany did not provide qualitative answers on military expenditure.

2.2. Compliance with accounting rules and consistency of statistical data

2.2.1. Exchange of information and clarifications

During the assessment period (three weeks after the 1 October 2006 reporting deadline), Eurostat contacted the national statistical authorities of all Member States to request further information and to clarify the application of the accounting rules on specific transactions. This process involves several rounds of correspondence between Eurostat and the national authorities within tight deadlines. A first round of requests for clarification was sent by 6 October (with reply deadlines of a few days), and a second round was sent between 10-12 October (with a couple of days to reply). In a few cases, a third or even fourth round of requests for clarification was sent. In some cases, Eurostat asked for revised notification tables⁸.

In April 2006, a similar approach was followed, with a first round of requests sent by 7 April 2006 and a second around 12 April, with a final deadline for answering further rounds set at 18 April 2006.

2.2.2. Dialogue and methodological visits

Regulation (EC) No 3605/93 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 processes described in the inventories, 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 normally undertaken only where the Commission (Eurostat) identifies substantial risks or potential problems with the quality of the data, especially where it relates to the method, concepts and classification applied to data which Member States are obliged to report.

During 2006, Eurostat carried out the following dialogue visits: **Portugal** (23-24 January), **Slovenia** (9-10 February), **Lithuania** (9-10 March), **Malta** (21 March), **France** (5 April),

⁶ This questionnaire comprises seven sections requesting quantitative information in several domains such as transactions with the EU budget, government guarantees, debt cancellations, capital injections made by government into public corporations, etc.

⁷ Cyprus completed the questionnaire for the first time in October 2006.

⁸ See section 2.1.

Belgium (10 April), **Cyprus** (7 June), **Ireland** (4-5 July), **Hungary** (20-21 July), **Denmark** (18 September), **Greece** (29 September), **Luxembourg** (20 November) and **Latvia** (18-19 December). The findings of these visits are sent to the EFC and made public within a few months on Eurostat's website. A methodological visit has been conducted in **Greece** on two occasions (from 29 May to 2 June and from 27 to 29 September 2006). Annex 2 summarises the main conclusions and findings of these visits. In addition, dialogue visits to acceding countries were made on 20-22 June (Romania) and 10-12 July (Bulgaria).

2.2.3. Specific advice, clarifications and decisions by Eurostat

Since April 2006, Eurostat has been consulted by a number of countries on various accounting issues in relation to transactions carried out or still at the planning stage. Eurostat provides **specific advice** on operations or arrangements not yet implemented, i.e. related to planned operations (ex ante advice), rather than only on past cases (clarifications and decisions), in accordance with the published guidelines for such advice⁹. Eurostat is at present consulting the Member States concerned to see whether they would be agreeable to publishing the advice that was provided to them by Eurostat in the course of 2006. Eurostat plans to publish on its dedicated website on government finance the advice given to Member States (i.e. in the form of a letter).

2.2.4. Recent methodological issues

As usual, Eurostat devoted attention in 2006 to the **application of ESA95 rules** which have been the object of its most recent decisions clarifying certain methodological aspects of the rules, with the objective of ensuring their implementation by Member States. The most recent published Eurostat methodological decisions are "Flows from and to the EU budget" and "Military expenditure".

Flows from and to the EU budget. The application of the Eurostat decision clarifying the treatment of transfers from the EU budget to Member States¹⁰ is still under investigation for a number of Member States. Most of the Member States have stated that they fully apply the Eurostat decision, the exceptions being Denmark, Germany, France, Luxembourg and Sweden.

Military expenditure. This Eurostat decision clarifies how to record the acquisition of military expenditure¹¹. 21 Member States seem to do so on a delivery basis (two Member States report no acquisition of military equipment), or to use a proxy such that, given the current situation for military contracts, the difference vis-à-vis cash figures is unlikely to be significant. The Eurostat decision does not seem to have been fully applied by Germany and Greece. Both these countries still record the acquisition of military equipment expenditure on a pure cash basis.

Other **conceptual issues of general interest** were raised by Eurostat in 2006. Eurostat is currently discussing with the relevant technical working groups the accounting treatment of issues that will impact on government finance statistics: **securitisation operations**

⁹ [http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_DS_GFS/PGE_DS_GFS_0/TAB_MET/EUROSTAT%20EX-ANTE%20ADVISE-%2019%20JULY%202006%20-%20FINAL%20\(2\)_1.PDF](http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_DS_GFS/PGE_DS_GFS_0/TAB_MET/EUROSTAT%20EX-ANTE%20ADVISE-%2019%20JULY%202006%20-%20FINAL%20(2)_1.PDF)

¹⁰ "The treatment of transfers from the EU budget to Member States" of 15 February 2005 (Eurostat News Release 22/2005).

¹¹ "The recording of military equipment expenditures" of 9 March 2006 (Eurostat News Release 31/2006).

undertaken by government, payments for the use of roads, impaired government claims, transfer of pension commitments and carbon emission rights. All of them (except the latter) were originally announced in the April 2006 News Release and mentioned as well in the October 2006 News Release.

2.2.5. *Consistency with underlying government accounts*

The new deadlines for notification, set by Regulation (EC) No 3605/93, of 1 April and 1 October of each year, were introduced in order to ensure **consistency with underlying annual and quarterly government sector accounts**, as reported in various ESA95 transmissions to Eurostat. The new deadlines were applied for the first time in 2006. Thus, the assessment exercise carried out by Eurostat in 2006 prior to publication of the EDP reporting included systematically analysing the consistency of the EDP notification with other transmissions on the underlying government sector accounts. For example, totals of expenditure and revenue should be consistent with the reported deficit figures. Wherever there were deviations, or where EDP data were revised, Eurostat asked Member States to send in aligned expenditure and revenue figures. Revenue and expenditure data as a percentage of GDP were also published in the Eurostat News Release on government deficit and debt.

The overall consistency of EDP data with reported ESA95 government accounts is satisfactory. Compared to April 2006, which was the first time this exercise was undertaken, there is evidence that consistency is improving, notably on the financial side.

2.3. **Publication**

2.3.1. *Publication of headline figures and detailed reporting tables*

Article 8g of Regulation (EC) No 3605/93 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 24 April 2006 and 23 October 2006 (excluding the planned data for 2006)¹². Published data are shown in Annex 1. On 23 October 2006, Eurostat put all reporting tables, as notified by countries in their last submission to Eurostat, on the Government Finance section of its website. Eurostat also publishes on its website¹³ the annual government finance statistics that underpin the EDP data, together with information on stock-flow adjustment, for the Member States, the euro area, and EU-25. Quarterly revenue and expenditure, quarterly financial accounts and quarterly debt figures of general government are also published.

According to Regulation (EC) No 3605/93, Member States should make public their actual data on deficit and debt. Only thirteen Member States have reported to Eurostat that they

¹² Eurostat News Releases Nos 48/2006 and 139/2006.

¹³ The *Government Finance* section (opened in April 2006) on Eurostat's website provides public access to information on statistics for the Excessive Deficit Procedure and the underlying government sector accounts, including notified data and underlying accounts, methodological decisions and manuals, and findings of EDP dialogue visits:
(http://epp.eurostat.cec.eu.int/portal/page?_pageid=2373,47631312,2373_58674332&_dad=portal&_schema=PORTAL).

publish or are now starting to publish all reporting tables (Belgium, Denmark, Estonia, Ireland, Cyprus, Latvia, Hungary, the Netherlands, Austria, Portugal, Finland, Sweden and the United Kingdom). While there would still appear to be substantial room for improvement, it is promising to see that six more Member States are now publishing the reporting tables compared with April 2006.

2.3.2. Reservations on the quality of data

In October 2006, Eurostat **withdrew** the reservations on reported data for the April 2006 figures for Belgium and Greece, and no other reservations on the data were made.

In the case of **Belgium**, the reservation was withdrawn following amendment of the data by Eurostat for 2005 (see section 2.3.3). The April 2006 reservation indicated that: *"Eurostat considers that the assumption by government in 2005 of 7400 million euro of the debt of the railway company SNCB must result, according to ESA95 rules, in a capital transfer from government to SNCB, with an impact on the government deficit by the same amount (equal to 2.5% of GDP). However, the Belgian statistical authorities have informed Eurostat of the intention of the Belgian government to introduce legislation to retroactively annul this operation. The accounting consequences of this must be clarified before the next EDP notification in October 2006."*

In the case of **Greece**, the reservations expressed on the reported data in the September 2005 and April 2006 notifications were also withdrawn. This followed the findings of the methodological visits carried out in June 2006 and September 2006 on the recording of transactions with the EU budget, the accounts of social security and extra-budgetary funds, and the amounts of other receivables and payables, which resulted in a noticeable revision of the Greek deficit for 2002-2005. The April 2006 reservation indicated that: *"Despite the recent improvement in the statistical processes and good cooperation between Eurostat and the national statistical authorities of Greece, issues remain related to the Greek government accounts of a structural and systemic nature. Eurostat will undertake a methodological visit in the coming weeks in order to clarify the pending issues"*. In the 26 September 2005 News Release, a reservation on the Greek data was indicated as follows: *"Some pending issues remain for the recording of EU transactions, the accounts of social security and the amounts of other receivables and payables for years 2002-2004"*.

2.3.3. Amendments to the reported data

In 2006, Eurostat amended the fiscal data reported by three Member States (Belgium¹⁴, France and the United Kingdom). In October 2006, amendments were made to data reported by Belgium and the United Kingdom. Eurostat has also decided not to use the GDP data notified by Greece in October 2006, and given the magnitude and complexity of this revision, Eurostat is carrying out a complete verification of GDP data. In April 2006, amendments were made to the data reported by the United Kingdom and to deficit figures reported by France.

¹⁴ Belgium challenged Eurostat amendment of data in the Court of First Instance (Case T-403/06, Belgium/Commission).

The explanations provided by Eurostat in both the April and the October reporting were as follows¹⁵:

October 2006 EDP reporting

Belgium: *"Eurostat has amended the deficit and debt data notified by Belgium for 2005 in relation to the assumption by government (FIF - Fonds de l'Infrastructure Ferroviaire) in 2005 of EUR 7 400 million (2.5% of GDP) of the debt of the railway company SNCB. According to ESA95 rules, the impact on the government deficit is of the same amount; the impact on the government debt at the end of 2005 amounts to EUR 5 200 million (1.7% of GDP)".*

The question relates to the accounting impact of the Belgian railways restructuring, when SNCB was split into several entities, notably: an operator (SNCB), an infrastructure manager (Infrabel), and a specific entity (FIF) that took over a large part of the old SNCB debt towards the market, of EUR 7400 million (2.5% of GDP). Based on an analysis of the details of the operation, Eurostat considers that FIF must be classified inside government, and that the EUR 7400 million debt should therefore count as government debt. Furthermore, Eurostat considers that this debt increase should be reflected in the deficit, as this debt assumption does not qualify for any of the three exceptions provided for in ESA95 paragraph 5.16 (privatisation, quasi-corporation, or disappearance of a unit).

United Kingdom (an identical statement was also published in April 2006): *"Eurostat has amended the data notified by the United Kingdom for years 2002 to 2005 for consistency of recording of UMTS licence proceeds. This leads to an increase in the government deficits for 2002, 2004 and 2005 (as well as for financial years 2002/03, 2004/05 and 2005/06) by GBP 1045 million (0.1% of GDP) and for 2003 (financial year 2003/04) by GBP 1044 million (0.1% of GDP). There is no change in the reported debt figures".* This amendment to the United Kingdom data has been made routinely by Eurostat in previous years, and reflects the fact that the national statistical authorities have continued to notify data without taking into account the 2000 Eurostat decision on the classification of UMTS mobile phone licence proceeds. According to this decision, such proceeds must be recorded as deficit-reducing in the year of allocation of the licences, while the United Kingdom reports such proceeds as accruing during the whole life of the licences.

Greece: *"Eurostat is using for the purpose of this EDP notification the GDP figures notified in April 2006, and not the revised GDP data reported by the Greek authorities on 1 October 2006. Given the magnitude and complexity of the revised GDP data (an increase of 25% compared to the old figures), Eurostat will carry out a complete verification of GDP data once Greece has delivered a full inventory of the sources and methods used for the new calculations".*

April 2006 EDP reporting

France: *"Eurostat has amended the deficit data notified by France for the year 2005, due to a reclassification as a capital transfer of a capital injection in the railway company SNCF, by*

¹⁵ Under Article 8h(2) of Council Regulation (EC) No 3605/93, 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 8a(1).

an amount of 250 million euro (0.01% of GDP). There is no change in the reported debt figures". The French government carried out an injection to SNCF Fret which was considered by the Commission as compatible state aid. Whether such a transaction is classified as a capital transfer or as an acquisition of equity depends on the substance rather than the form of the operation, and notably whether the event covers past losses or whether government acts similarly to a private investor. Eurostat considers that, based on the various elements of the case, notably Commission Decision No C(2004)3955 under State Aid, the operation was not of an investment type and should be booked as a capital transfer.

2.3.4. Transitional period for the classification of defined-contribution funded pension schemes

In an annex to its news releases, Eurostat, as customary, provided information on the estimated effect of its decision on the sectoral classification of defined-contribution funded pension schemes for those Member States that avail themselves of the transitional period until March 2007.

At the end of the transitional period, the deficit and surplus figures for 2005 reported by Member States and published by Eurostat will have to be revised as follows¹⁶: for Denmark, the surplus will be revised downwards by 0.9% of GDP to 4.0% of GDP; for Hungary, the deficit will be revised upwards by 1.3% of GDP to 7.8% of GDP; for Poland, the deficit will be revised upwards by 1.9% of GDP to 4.4% of GDP; and for Sweden, the surplus will be revised downwards by 1.0% of GDP to 2.0% of GDP.

Debt will be revised upwards by 0.3% of GDP for Denmark, by 3.9% of GDP for Hungary, by 5.3% of GDP for Poland and by 0.6% of GDP for Sweden. The variable impact on debt reflects the different strategies governing investment of those funds in government bonds or in other assets, such as bonds issued by non-government entities or shares.

2.3.5. Publication of metadata (inventories¹⁷)

Denmark, France, Austria, Finland and the United Kingdom reported that they had already published their inventories, while Belgium, Estonia, Greece, Ireland, Cyprus, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Slovenia and Sweden reported their intention to publish them soon. Publication of the inventories, which will be made public on Eurostat's website during 2007, is mandatory under the Regulation.

3. CONCLUSIONS

In general, progress on improving the quality of fiscal data was made during 2006, with Member States transmitting more complete information to Eurostat on both EDP notification tables and on the questionnaires relating to notification tables. Overall consistency of EDP data with reported ESA95 government accounts is now satisfactory and is improving, particularly on the financial side, when compared with the situation in April 2006.

¹⁶ The classification of those pension schemes outside general government, for data notified from April 2007 onwards, will lead to an increase in the deficit / a reduction in the surplus, together with an increase in debt levels.

¹⁷ Inventories of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts.

In this context, the number of reservations on reported data decreased during 2006, and those expressed by Eurostat in April 2006 were afterwards withdrawn in October 2006. No new reservations on the data were published in October 2006.

Nonetheless, given such a demanding statistical framework, some problems remain regarding compliance with accounting rules and the quality of some of the statistical information provided. The Commission would therefore urge Member States to continue investing in the quality of government finance statistics with a view to meeting the requirements of the Treaty. This is the only way to achieve the desired level of quality as regards compliance with the accounting rules, completeness, reliability, timeliness and consistency of government data.