ESA2010 Government Finance Statistics Booklet

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FOREWORD

This booklet has been produced as a result from activity 3.2 "**Workshops on preparing fiscal reports in accordance of the EU standards**" within the Twinning Project "**Strengthening the medium term budgeting for effective public financial management"**.

The overall objective of the Twinning Project is to ensure and maintain sustainable and sound public finances by improving public finance management. The activities of the Project are aimed at improving the effectiveness of medium-term budget planning, program budgeting and budget classification, as well as fiscal reporting in line with ESA standards. The Project was launched Dec 2015 and it will end Nov 2017 and the main beneficiary is the Ministry of Finance (MoF), Department of Budget and Funds.

Activity 3.2 is part of Component 3 that aims to develop the capacity of the Ministry of Finance for fiscal reporting in accordance with EU standards and requirements in the area of public finance.

The booklet was compiled by: Jonna Berghäll (RTA), Anniina Autero and Niina Suutarinen, but within the booklet has also been used training materials produced by Mika Sainio, Matti Okko, Veliarvo Tamminen, Marja Paavonen, Timo Ristimäki and Lasse Oulasvirta.

The booklet was produced in summer 2017. It should be pointed out that this booklet is not a full and extensive description of ESA 2010 GFS reporting and some issues also might change. So for the most up-to-date information it is better to get to know the materials produced e.g. by Eurostat. This booklet should therefore be regarded mainly as an introduction to the topic.

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1 Introduction

This training booklet guides Ministry of Finance and other stakeholders briefly to the European System of National and Regional Accounts 2010 (ESA 2010) methodology and especially to the area of Government Finance Statistics (GFS). The European System of National and Regional Accounts (ESA 2010) is the newest internationally compatible EU accounting framework for a systematic and detailed description of an economy.

To achieve the objectives set by the Treaty on the Functioning of the European Union, and on economic and monetary union, high-quality statistics are needed. They provide the EU institutions, governments, economic and social operators and analysts a set of harmonized and reliable data on which to base decisions and policy advise.

ESA 2010 was published in the Official Journal on 26 June 2013 and implemented as from September 2014. The data transmissions from Member States to Eurostat have to follow ESA 2010 rules. The impact of the implementation of ESA 2010 on key indicators of the national accounts in Europe differs from country to country.

Purpose of this booklet is to provide information that was collected during the ESA-trainings of the Ministry of Finance Twinning Project “Strengthening the medium term budgeting for effective public financial management” in 2016-2017. This booklet can be used as a self-study tool or just to freshen up memory on these issues. Booklet is written for an audience that already is somewhat familiar with ESA 2010 methodology and has participated the trainings in 2016-2017. This booklet includes also some examples of the implementation in Finland.

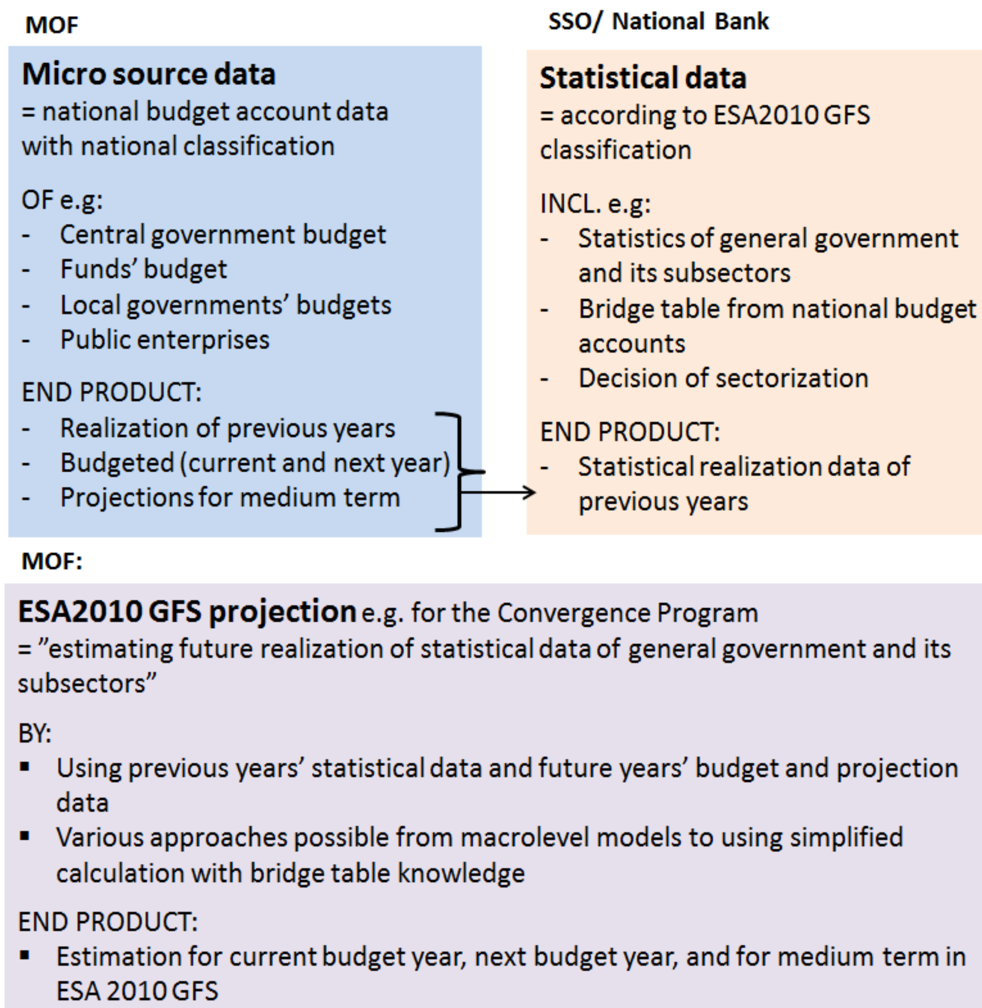
Booklet begins with a short introduction to public accounting systems in chapter two. Better public financial management requires accounting regimes and accounting systems with standards that are explained in chapter two. Chapter three provides information on ESA 2010 Government Finance Statistics. They form the data basis for macroeconomic analysis of the public sector. Chapter four includes some aspects of fiscal forecasting. And in chapter five EU economic governance is explained in short including EU surveillance of fiscal policies, Ministry of Finance reporting requirements for EU economic governance and Excessive Deficit Procedure (EDP) statistical reporting. The booklet includes the basic information and many power point slides that were used during the trainings of the Twinning Project. It also includes links to different websites with Eurostat manuals and other more detailed information. Within the booklet are presented some key tables and samples of public finance reporting in accordance with the EU standards and requirements.

But we could start by introducing different aspects and stakeholders involved. The picture below tries to explain this on general level. Typically the key stakeholders are statistical authority, National Bank and Ministry of Finance. There is country-by-country variation in the responsibilities of each stakeholder in EU reporting or in financial / non-financial statistics, but some general rules apply.

First of all is needed the “micro source data” meaning the data from budget accounting or other accounting including the realization data of final accounts and the planned budget data. This can be quite simple as it comes to the central government, but it is good to understand that a lot of data is needed also for the local governments and public enterprises etc. Typically major part of this source data is with the Ministry of Finance. This data is rarely reported to the EU as such, but is important information for producing statistical and projection data according to ESA 2010.

Then we have the statistical data for which the statistical authorities are fully responsible. The statistical data means for example the national accounts, of which Government Finance Statistics (GFS) is one part. EDP data and EDP reporting to Eurostat is normally under the responsibility of the statistical office.

In EU reporting there is also the need to make projections for the public finances / general government following the ESA 2010 methodology while projections for the current year and for the medium term are needed in a lot of reporting (Stability / Convergence Programme, EDP reporting). Most typically it is in the responsibility of the Ministry of Finance, but some EU member states also have more independent other institutions for these projections.



2 Public sector accounting

Accounting is a logical system of recording financial information. The process of identifying, measuring and communicating economic information about an organization or other entity, in order to permit informed judgements by users of the information can be called as accounting (Black & Al-Kilani, 2013, 2-3). Public accounting data for Government Finance Statistics (GFS) and Excessive Deficit Procedure (EDP) is based on exhaustive data from central government, regional government and local government accounting information. Public sector accounting is the system producing this data.

Public sector accounting can be defined through three systems with different purposes and accounting approaches. These systems have different purposes and accounting approaches.

Financial accounting (commercial accounting)

With financial accounting general purpose is to produce financial statements for decision-making and accountability (income statement, balance sheet and cash flow statement). Accounting approach is accrual-based.

Budgetary accounting

With budgetary accounting purpose is the budgetary follow-up and budget outturn calculations for accountability and decision-making. Accounting approach is budget-based. Budget outturn calculations with budgetary accounting are typically modified cash-based or modified accrual-based (current and investments budgets separately or combined under functional sections). In Macedonia the system is totally cash-based.

System of national accounts

With system of national accounts, public sector financial statistics formes a basis for macroeconomic analysis and policy formulation. And the accounting purpose is more for statistical principles and internationally comparable data.

2.1 Cash accounting and budgetary accounting

It is important to identify cash accounting (cash basis) and budgetary accounting (budgetary basis). Cash basis records inflows and outflows of cash and cash equivalents. Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Budgetary basis follows the accrual, cash or other basis of accounting adopted in the budget that has been approved by the legislative body. A common misunderstanding is that budgeting and budgetary accounting are kept as a synonym to cash accounting. When, in practice, it may be anything between pure cash-based, modified cash-based, modified accrual-based or full accrual-based.

2.2 Cash based and accruals-based accounting

Cash based accounting has been traditionally used in the public sector. Cash accounting records transactions when the amount is received or paid. Development of accrual accounting as part of a broader framework of the New Public Management, has been observed in various EU member countries and accrual accounting has become the reference of accounting systems for public sector entities (Bellanca, Cultrera & Vermeylen 2015).

Accruals-based accounting entails the recording of entries, not when cash payments are made, but when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or extinguished. Transactions and events are recorded in the accounting records and recognized in the financial statements of the period to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

Accruals accounting can be seen as complementary, rather than as an alternative, to pure cash accounting. In providing the full picture of the economic and financial position and performance of the entities, it puts cash accounting in its overall context (European Commission, 2013).

Results of the Eurostat survey of used accounting models shows that there are several accounting models used in the Member States varying from accruals to modified accruals and a combination of accruals and cash accounting models and there is a variation of used models throughout the member states (see table below).

Table 3.1: Summary of the accounting model applied by sub-sectors of government in the Member States

	Central	**State**	**Local**	**Social funds**
Accruals	12	2	14	13
Modified accruals	5	-	4	4
Combination of accruals and cash	5	1	7	4
Cash	4	-	-	1
Not applicable	-	23	-	1
No answer or pending reply	1	1	2	4
Total	27	27	27	27

2.3 IPSAS and EPSAS standards

In order to provide comprehensive information on public entity's financial situation uniform budgeting and accounting standards are discussed on EU level with the development accrual-based European Public Sector Accounting Standards (EPSAS). Also the sovereign debt crisis has underlined the need for governments to clearly demonstrate their financial stability and for more rigorous and more transparent reporting of fiscal data (European Commission 2013, 2). This international harmonization of public sector accounting and the International Public Sector Accounting Standards (IPSAS) can be kept as a starting point for EU public sector accounting standardization and the EPSAS development.

IPSAS is set of accrual-based accounting standards for public sector entities used to improve the quality and transparency of public sector financial reporting. IPSAS is currently the only internationally recognized set of public sector accounting standards. It stems from the idea that modern public sector management, in line with the principles of economy, effectiveness and efficiency, depends on management information systems that provide timely, accurate and reliable information on the financial and economic position and performance of a government (European Commission 2013, 7).

However, results of the Eurostat survey of used accounting models shows that 15 EU Member States make some link to IPSAS (see table 3.2 below). Nine have national standards based on or in line with IPSAS, five make some references to it and one uses it for some parts of local government. Despite recognition of the high value of IPSAS, no Member State has implemented it in full. 44 % of the member states do not have a relationship with IPSAS and the national public sector accounting systems. (European Commission 2013, 7.)

Table 3.2: Relationship with IPSAS of the national public sector accounting systems of Member States

IPSAS relation	Total	Percentage
National standard based on or orientated by IPSAS	9	33%
Some IPSAS references	5	19%
IPSAS for some Local Government entities	1	4%
None	12	44%
Grand Total	27	100%

On the other hand, most stakeholders agree that IPSAS would be suitable as a reference framework for the future development of a set of European Public Sector Accounting Standards EPSAS. There are Member States that think that the IPSAS is not a good reference for the EPSAS development (for example Germany and Finland). EPSAS-project and the development of EPSAS standards and what will happen with the harmonized standards, will be seen in the future.

See more about EPSAS: http://www.epsas.eu/en/

Report of the suitability of IPSAS for the Member States:
http://ec.europa.eu/transparency/regdoc/rep/1/2013/EN/1-2013-114-EN-F1-1.Pdf

3 Government Finance Statistics

Government Finance Statistics (GFS) shows the economic activities of the government including government total revenue, government total expenditure, government balance (surplus or deficit, referred to in national accounts terminology as net lending or net borrowing), transactions in financial assets and liabilities, other changes in assets and liabilities (other changes in volume and revaluation) and balance sheets. (Eurostat 2017.)

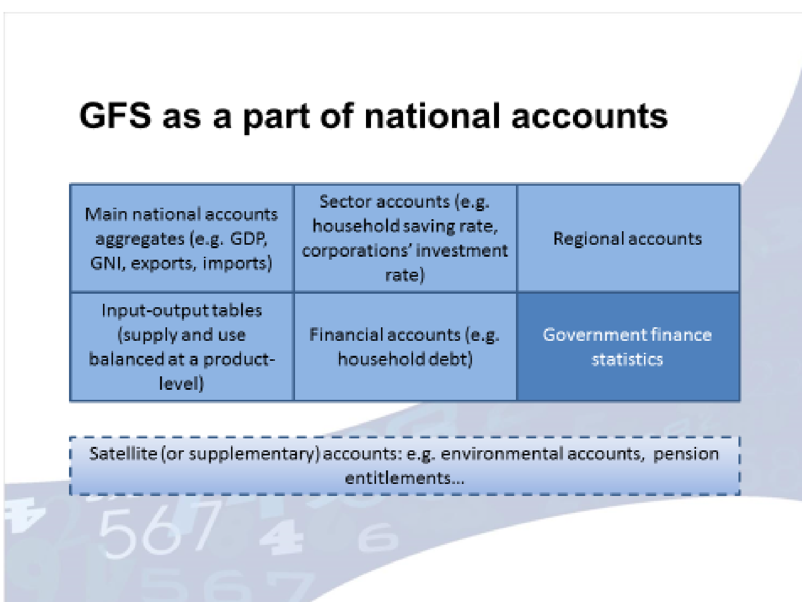
These statistics are crucial indicators for determining the health of the economies of the EU Member States. Under the terms of the EU's Stability and Growth Pact (SGP), Member States are pledged to keep their deficits and debt below certain limits. If a Member State does not respect these limits, the so-called Excessive Deficit Procedure (EDP) is triggered. (Eurostat 2017.) Statistical EDP reporting is explained more detailed in chapter five.

3.1 Government Finance Statistics as part of national accounts

Government Finance Statistics (GFS) form the basis for fiscal monitoring in Europe, together with the statistics related to the Excessive Deficit Procedure (EDP). Together with national accounts Government Finance Statistics form the basis for macroeconomic analysis and policy formulation.

Main users of GFS data are the EU administration, Ministry of Finance and ministries overall, business life actors (also sub-contractors for ministries), research institutes, banks and other forecasters, international organisations, media and civil society. The increasing use of GFS data in EU administration has also increased the interest of other national users in many EU countries.

In the picture below GFS is presented with the other areas of national accounts: main national accounts aggregates, sector accounts, regional accounts, input-output tables, financial accounts and satellite (or supplementary) accounts.



GFS is an integral part of national accounts and they have mostly the same methodology, mostly the same classifications and in principle the same data. For example in GFS data there should be the same figures for tax revenue that is included in other national accounts data. However, in practice, there can be some inconsistencies between data included in different parts of national accounts system. Essential is that GFS is an approach to represent government sector data included in national accounts, and to provide information that is specific to government sector.

The most important classifications for GFS are:

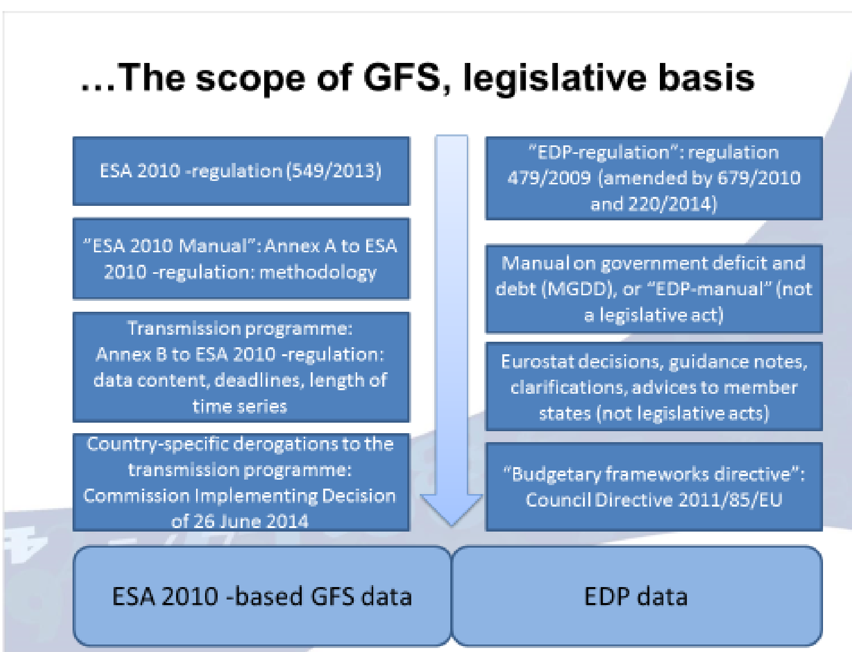
- Sector classification (e.g. sub-sectoring of government; borderline between government sector and corporations sector)
- Transaction classification: non-financial transactions (revenue and expenditure items) vs. financial transactions
- Asset categories (especially for financial accounts)
- Functional classification of expenditure (COFOG): expenditure broken down for health care/general administration/education/social protection etc.

3.2 The scope of GFS and data content

The European GFS framework can be separated into two components:

- Data compiled on the basis of ESA 2010 data transmission programme and
- Data compiled on the basis of Excessive Deficit Procedure (EDP) regulations: government deficit and debt data, and associated additional data.

However, this division is somewhat misleading since both sets of data are methodologically consistent, data sets are partly overlapping, and both data sets are partly produced in an integrated compilation process. The legislative basis of these two components is presented in the picture below.



3.3 Quality control

Quality control of GFS data

Typically, member states put a lot of effort to ensure the quality of GFS data. However, there are no uniform quality control models followed, but the Member States have national solutions. More general European principles that also apply to GFS can be found from the ”European Statistical Law” (EC regulation 223/2009). At the level of Eurostat, the quality control mechanisms are highly developed and the quality assurance has increased over the past years. Some developments are possible and the European Court of Auditors (ECA) report from 4/2016 recommends improvements to quality assurance procedures.

Elements of Eurostat quality control of GFS data

Verification of all data transmitted to Eurostat goes in a way that each data set is checked both for technical errors and, to a large extent, also substantially. Verification includes various cross-checks between different data sets. There may be feedback after transmissions, correction or changes and then again re-transmissions. Eurostat is in the process of developing a comprehensive quality reporting framework, covering the whole of national accounts. For EDP data, there are various additional quality assurance procedures.

Eurostat quality control of EDP data: EDP missions

Eurostat makes regular visits to member states, at least every 24 months, covering institutional arrangements, source data situation, analysis of reporting tables and supplementary tables, delimitation of government sector (borderline between government sector and private sector), other challenging methodological issues and sometimes, a special emphasis is put on source data issues, and in those cases also source data providers, and possibly audit authorities may attend the visit. The preparation and follow-up tasks require a lot of work, and additional data collection and analysis. Special methodological visits only if exceptional problems have been identified.

Eurostat quality control of EDP data: EDP reporting

Questionnaire related to EDP tables is information provided by member states to ”justify” their deficit and debt data. The data shows for example whether various methodological rules have actually been followed. Dialogue with Eurostat after the reporting is intensive. Member states should be ready to provide additional information on any issue that may have affected its deficit and debt figures. On the basis of EDP regulation, Eurostat is granted an extensive access to relevant background information. In many cases, the dialogue leads to changes of EDP deficit and debt figures. If there is uncertainty about the quality of data, Eurostat can express a public quality reservation on the data provided by a member state. In some cases (for example disagreement about correct recording), Eurostat can also make changes to the EDP data reported by a member state.

Quality control of EDP data: a legal measure

In 2012, the commission decision on ”investigations and fines related to the manipulation” of EDP statistics entered into force and this applies to the Euro-area countries. The measure aims at preventing the reporting of incorrect data due to intent or serious negligence. The decision grants commission exceptional powers to conduct investigations in member states. One fine has already been imposed, and one investigation is starting.

3.4 Institutional arrangements and co-operation

There is variation between EU member states concerning the division of responsibilities in the area of GFS. Especially the responsibilities of the national banks, varies. Ministry of Finance is usually responsible for estimates for current year which are included in the EDP report. Formal MoUs (Memorandum of Understanding) are recommended. However, NSI/NCB/MOF –co-operation is crucial in every country and the flow of information must be ensured, otherwise there will be discrepancies between sets of statistical data compiled by different statistical authorities and statistical data and forecasts. The co-operation may encompass many areas, such as discussion of for example methodological issues, development of source data, shortcomings of source data, data revision analysis, forecasting issues. Final responsibilities should be clear, but this does not prevent useful discussion between authorities. In chapter five institutional arrangements related to EDP reporting are explained in more detail.

3.5 GFS tables in ESA 2010 transmission programme

Based on ESA 2010 -regulation (549/2013) and its annexes, ESA 2010 GFS data is compiled and transmitted by national statistical authority. Data on general government is included in following ESA tables:

Main aggregates of general government

- annual data, compiled and transmitted twice per year – end-March and end-September
- total revenue and expenditure of general government and its sub-sectors
- breakdown by revenue and expenditure components
- breakdown by sub-sectors

Taxes and social contributions

- annual data, compiled and transmitted once a year – end-September
- total tax and social contributions revenue at a detailed level
- breakdown by different categories of taxes and social contributions, and by sub-sectors
- supplementary but compulsory information at even more detailed level: separate table including all individual, country-specific taxes

Government expenditure by function

- annual data, compiled and transmitted once a year – end-December
- government expenditure by functional categories (COFOG)

- breakdowns by expenditure category (transaction), and by sub-sectors
- breakdown by COFOG 2-digit -level for general government total, and by COFOG 1-digit -level for sub-sectors

Sector accounts

- quarterly data transmitted at ca. t+3 months and annual data in end-September
- revenue and expenditure items and balancing items, by sub-sectors
- data transmitted to Eurostat as part of sector accounts of the whole economy (with voluntary supplementary details for government sector)

Financial accounts (incl. government debt) of general government

- quarterly data to be transmitted at ca. t+3 months
- financial transactions and balance sheets, broken down by asset/liability categories and by sub-sectors

3.6 National accounts classifications: sectors, revenue and expenditure

National accounts is based on many classifications: institutional sectors, non-financial transactions, financial transactions, classification of the functions of the government (COFOG), assets... Concerning government non-financial accounts, two classifications are perhaps the most essential: sector classification and non-financial transactions classification.

EU fiscal policy rules (e.g. general government deficit and debt) concerns units that are classified in government sector, and that's why defining government sector by the sectorisation rules is so important. And when it comes to revenue and expenditure, defining for example which revenue is considered as taxes is important because it allows international comparisons.

3.6.1 Sector classification – how to define general government sector

National Accounts

- Comprehensive macro-economic analysis framework
- Sector perspective:
  - S11 -non-financial corp. ("market-producers of goods and services")
  - S12 -financial corporations ("providers of financial intermediation and services")
    - MFIs, OFIs, ICPFs
  - **S13 -general government ("non-market producers of public services")**
  - S14/S15 -households/NPISH ("final consumers")
  - S2 -rest of the world (a "quasi-sector", counterparts of cross-border transactions and postions)

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Sector classification rules and decisions

- Legal basis: ESA2010 Institutional sector classification
- Eurostat Manual on government deficit and debt (MGDD)- further guidance for determining general government units (mainly concerning certain types of public corporations and other bodies)
- Eurostat's advice
- However, still room left for different interpretations, especially within the borderline between government and public corporations
- National statistical authorities are responsible for the decisions, acting independently from other institutions
- Statistics Finland: decisions are prepared by national accounts experts, confirmed by a sector classification group
- http://tilastokeskus.fi/meta/luokitukset/_linkki/soveltamisp.html

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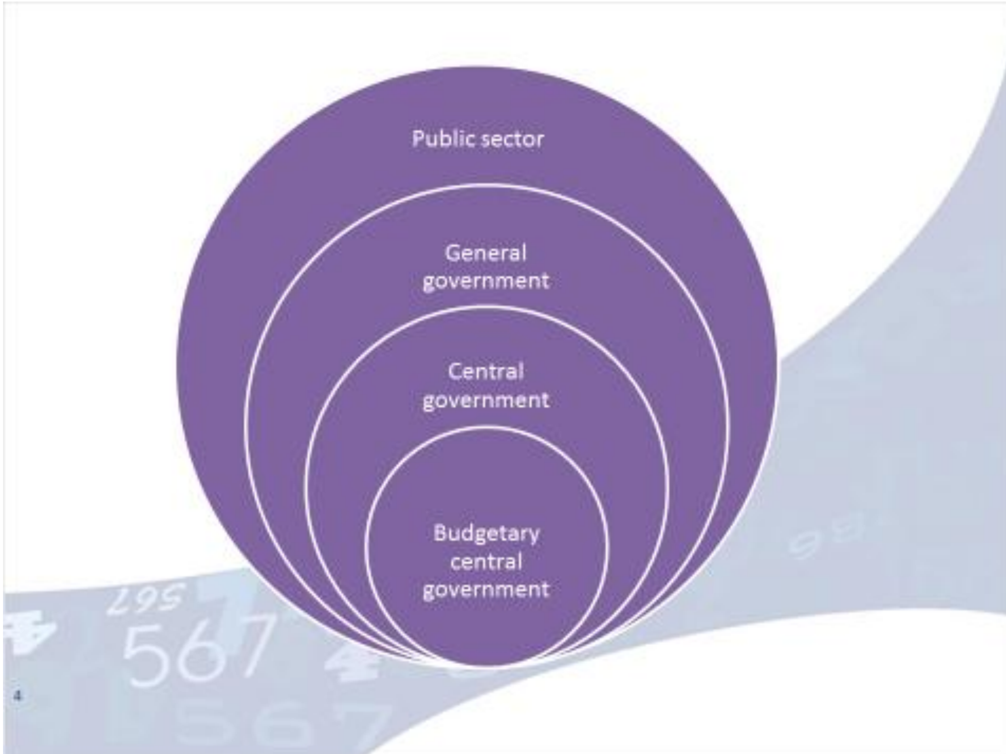

General government and public sector

- Public sector = general government + public corporations + central bank
  - Public corporations = government ownership exceeds 50%
- ESA2010 transmission programme does not require reporting of public sector data
- IMF promotes the compilation and publishing of public sector data for transparency reasons
- **EU's fiscal policy rules concern general government**

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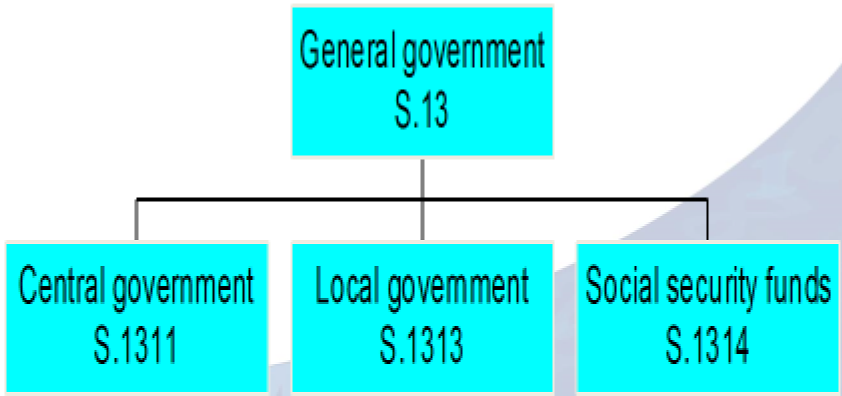

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Levels of government

- **Central**: government units having a national sphere of competence and political authority extending over the whole territory of a country

- **State**: government units in a federal system of government having a state or local sphere of competence and a state is the largest geographical area into which the country is divided for political or administrative purposes

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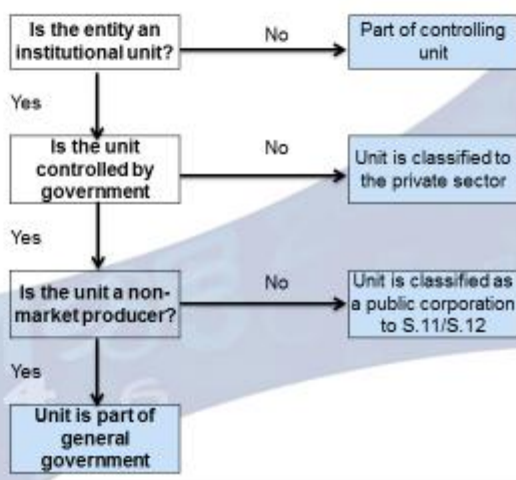
Levels of government

- **Local**: government units having a local sphere of competence, covering a variety of government units such as counties, municipalities, cities, towns, etc.
- **Social security**: all social security schemes regardless of the level of government operating or managing them

Government sector boundary

ESA 2010, Chapter 20 (The Government accounts): Decision tree



Institutional units

- A legal or administrative unit is not necessarily an institutional unit!
- An institutional unit is an economic entity characterised by decision-making autonomy in the exercise of its principal function:
  - "entitled to own goods or assets on its own right; it will be able to exchange the ownership of goods or assets in transactions with other institutional units"
  - "able to take economic decisions and engage in economic activities for which it is responsible and accountable at law"
  - "able to incur liabilities on its own behalf, to take on other obligations or further commitments and to enter into contracts"
  - "able to draw up a complete set of accounts, comprised of accounting records of covering all its transactions carried out during the accounting period, as well as balance sheet of assets and liabilities
- Autonomy of decision is not automatically evidenced by legal status of a unit

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Government control

- An institutional unit which is directly or indirectly controlled by resident general government units or other public producers
- Control: *the ability to determine the general policy or programme of the entity*
- Each of the following 3 criteria is sufficient:
  1) Rights to appoint, remove, approve or veto a majority of officers, board of directors, etc.
  2) Rights to appoint, veto or remove a majority of appointments for key committees (or sub-committees) of the entity having a decisive role on key factors of its general policy
  3) Ownership of the majority of the voting interest - normally aggregate government units' ownership exceeding 50% is enough
- if inconclusive, MGDD includes also further criteria

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Market / non-market delimitation

Is the price of goods and services sold *economically significant*?

Non-market producers are typically providing their output free of charge or at prices that are not economically significant, thus having only minor influence on supply and demand of their output

1. Qualitative criterion (new in ESA 2010)
   - Who is buying (client) – government units, private sector, both?
   - Is there competition?

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Market / non-market delimitation

2. Quantitative criterion, the "50 % criterion"
   - Ratio of income from sales to production costs
     - to be a market producer, the unit shall cover at least 50% of its costs by its sales over a sustained multi-year period.
   - Sales and production costs are defined in ESA (ch 20).
   - New in ESA 2010: net interest charge is added to production costs.
   - Usually not applied to public financial corporations

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The qualitative criterion

Is the public producer ”by its nature” a market producer?

Output is sold primarily to corporations and households

- Unit is a market producer
  - ”Incentive to adjust supply…”
  - Consumers are free to choose on the basis of the prices
- Examples in Finland
  - municipal energy supply companies
  - harbours
  - Finnair (airline), Posti (the post), VR (railway company)
  - municipal rental housing companies
  - etc.

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The qualitative criterion

Output is sold only to government

- An ancillary unit is classified with parent unit
  - cleaning, building maintenance…
- Other units
  - if it competes with private producers -> market producer
  - if it does not compete -> non-market producer
- Typical examples in Finland
  - Real estate holding companies
    - incorporated buildings (no employees etc.)
    - companies providing office space for municipalities/state

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The qualitative criterion

Output is sold to government and others

- If only supplier of its service
  - market producer, if
    - sales to non-government units > 50%, or
    - there is competition
- If several suppliers
  - market producer if there is competition
- Examples in Finland
  - very common that public producers sell both to government and to others
  - usually about 95-99% to government, 1-5% to others
  - laundry companies, IT services, catering, financial administration…

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The qualitative criterion

How to know who are the customers of a unit?

- Common knowledge
- Internet
- Annual reports
- Inquiries

How to know if the unit is competing with private producers?

- Is it defined as an in-house unit?
- Share of sales to others than government (owner)
  - Regulation of public procurement: if sales to others than owner exceeds ~ 5% -> government needs to invite to tender
- Often you have to make assumptions

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Specific guidance for public financial corporations

- ESA2010/MGDD I.5: Financial intermediaries (S.12) must place themselves at risk
  - if government bears directly most of the risks and rewards on a part of the activity of a public financial corporation, this activity (i.e. related stock and flows) should be rerouted through the government sector
  - implications: guarantees, loss compensation mechanisms -government is committed to other than “last resort “ obligations
  - however, the existence of a guarantee alone is not a criterion to reroute transactions, or to reclassify a unit

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Specific guidance for public financial corporations -Captives

- MGDD I.6.6: Public entities having features of captive financial institutions (new since ESA2010!)
- Features:
  - are institutional units, but have a limited capacity of decision as regards their current management and are very much dependent on their controlling government unit as regards the conduct of their activity
  - if:

a) limited range of activities in narrow conditions, set by government

b) and no market return on investment to government is required

c) and government sets constraints on both liability and asset side

➢ classified to government sector

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Here you will find Manual on Government Deficit and Debt (MGDD):
http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-16-001

Specific guidance for public financial corporations -Captives

- Constraints on asset side
  - government imposes the conditions for investments with no, or only little room for manouvre
  - ex-ante authorization needed for certain operations
  - public policy defines very precise tasks

- Constraints on liability side, examples
  - authorization needed for borrowing
  - mainly financed by government
  - government guarantee for borrowing from the market

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Specific guidance for other entities - MGDD

- Public head offices
- Public holding companies (holding assets without managing aspect, acting as government agents or "shells")
- Public TV and radio broadcasting
- Pension schemes
- Public hospitals
- Rectucturing and privatisation agencies
- Debt management offices
- Protection funds
- Market regulatory bodies
- Public units in liquidation
- Concessions -infra-assets

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Public broadcasting companies (MGDD I.2.4.7)

- Key issue: how is the payment (fee, licence) classified in national accounts - a tax or sale of services?
  - is it possible to opt out from making the payment, if service is not needed?
    - if not, the payment is regarded as unrequited and treated as a tax
    - ➢ either rerouting via government accounts (if the unit is classified outside government)
    - ➢ or the unit is reclassified to government sector, depending on qualitative and quantitative criteria
    - if yes, a sale of services

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3.6.2 Revenue and expenditure items in ESA GFS

Revenue items: Market output (a part of "sales")

- Market output (ESA 2010: P.11. IMF-GFS: 1421): "Market output consists of output that is disposed of on the market or intended to be disposed of on the market."
- Products sold at economically significant prices ("prices that have a substantial effect on the amounts of products that producers are willing to supply and on the amounts of products that purchasers wish to acquire")
- Includes usually e.g. payments to the government that cover full production costs of the goods/services

Revenue items: Payments for non-market output (a part of "sales")

- Payments for non-market output (ESA 2010: P.131. IMF-GFS: 1422, 1423): "Non-market output is output that is provided to other units for free, or at prices that are not economically significant."
- Includes e.g. payments that are clearly below the production costs of the services

Distinguishing between market output and payments for non-market output

- Example in ESA 2010: a museum
  - charges small visitors fees: payments for non-market output
  - sells postcards at market prices: market ouput
- Impossible to make this distinction based on public accounts?

→ determine which is more important (market or non-market payments), and classify the whole thing to that category

Revenue items: output for own final use (a part of "sales")

- Output for own final use (ESA 2010: P12, IMF-GFS: -)
- In practice, consists of government expenditures on own-account production of R&D and software
- Imputed/estimated value
- The same amount is added to the value of investments (fixed capital formation), so no impact on the balance

Revenue items: Taxes on production and imports (="indirect taxes")

- Taxes on production and imports (ESA 2010: D.2. IMF-GFS: mostly in 114):
  - "Consist of compulsory, unrequited payments, in cash or in kind [… …] in respect of the production and importation of goods and services, the employment of labour, the ownership or use of land, buildings or other assets used in production. Such taxes are payable irrespective of profits made."
- Comprises taxes on products (D.21) and other taxes on production (D.29)
  - Difference is that the taxes on products are linked to the units of products produced or transacted, whereas other taxes on production are linked to the mere existence of certain production
- Examples: VAT, car sales taxes, import duties, transfer tax on property or financial assets…

Revenue items: Current taxes on income, wealth, etc. (="direct taxes")

- Current taxes on income, wealth, etc. (ESA 2010: D.5. IMF-GFS: 111 & other categories)
  - "cover all compulsory, unrequited payments levied periodically by general government on the income and wealth of institutional units, and some periodic taxes which are assessed neither on that income nor that wealth."
- Comprises taxes on income (D.51) and other current taxes (D.59)
- Examples of other current taxes: households' car ownership taxes, real estate taxes (on ownership)

Revenue items: Capital taxes

- Capital taxes (ESA 2010: D.91. IMF-GFS:1133, 1135) ”consist of taxes levied at irregular and very infrequent intervals on the values of the assets or net worth owned by institutional units or on the values of assets transferred between institutional units as a result of legacies, gifts between persons, or other transfers.”

- Examples of capital taxes: inheritance tax, gift tax

Accrual tax data?

- ESA 2010 provides for three options to calculate ”accrual” taxes
  - 1) Time-adjusted cash: cash amounts are moved backwards based on the average time lag between the taxable event and the received cash amounts,
    - for example: in country X, VAT is received – on average – within 2 months after the taxable event, so we make a time-adjustment as follows to obtain the tax revenue for 2015:

	month													
	1/2015	2/2015	3/2015	4/2015	5/2015	6/2015	7/2015	8/2015	9/2015	10/2015	11/2015	12/2015	1/2016	2/2016
cash	56	85	74	25	96	74	35	45	65	88	45	56	67	41

Accrual tax data?

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cash	56	85	74	25	96	74	35	45	65	88	45	56	67	41

tax revenue for year 2015

…Accrual tax data?

- Option 2: to use assessments or declarations approach. In this case, the tax revenue includes also amounts that are not actually collected due to various reasons. Therefore, a correction is needed:
  - Option 2a: To apply a coefficient to the assessed/declared amount. The coefficient should be based on historical data on the amounts never collected
  - Option 2b: To record a capital transfer (expenditure), for the amount of taxes never collected
- The choice between the three options (1, 2a, 2b) depend also on the source data availability.
- Time-adjustment method has some clear practical advantages - simple to implement, and avoids data revisions - while it is not theorethically or analytically superior.

Distinguishing between taxes and sales

- Sometimes it is difficult to make the difference between taxes and sales (P.11 or P.131)
  - Taxes: compulsory, nonrequited
  - Sales: something received in return
- The case of different licences/fees: if granted automatically with little work → tax; if related to the organisation of a ”proper regulatory function” → sales (unless the price is out of proportion when compared to the costs)
- Car registration fees and taxes in the EU?

Revenue items: social contributions

- Social contributions (ESA 2010: D.61. IMF-GFS: 121)
- ”the actual or imputed contributions made by households to social insurance schemes to make provision for social benefits to be paid.”
- Examples of social contributions:
  - pension contributions,
  - sickness insurance contributions

Revenue items: property income (a part of "other current revenue")

- Property income (ESA 2010: D.4. IMF-GFS: 141): "Accrues when the owners of financial assets and natural resources put them at the disposal of other institutional units. The income payable for the use of financial assets is called investment income, while that payable for the use of a natural resource is called rent. Property income is the sum of investment income and rent."
- Property income is broken down by:
  - **(a) interest (D.41);**
  - **(b) distributed income of corporations (D.42):**
    - (1) dividends
    - (2) withdrawals from income of quasi-corporations
  - **(c) reinvested earnings on foreign direct investment (D.43);**
  - **(d) other investment income (D.44):**
    - (1) investment income attributable to insurance policy holders
    - (2) investment income payable on pension entitlements
    - (3) investment income attributable to collective investment fund shareholders
  - **(e) rents (D.45).**

Revenue items: other current transfers (a part of "other current revenue")

- Other current transfers (ESA 2010: D.7. IMF-GFS: e.g. in 143, 144, 145)
- Covers wide range of different current transfers, such as Current transfers within general government (D.73), Current international cooperation (D.74), Miscellaneous current transfers (D.75)
- For example: current grants between different levels of government, penalties, certain EU funds

Revenue items: investment grants and other capital transfers (="capital revenue")

- Investment grants (ESA 2010: D.92. IMF-GFS: e.g. in 1322.1 and 1332.1); other capital transfers (ESA 2010: D.99. IMF-GFS: e.g. in 1322.2 and 1332.2)
- Distinction between investment grants and other capital transfers available in the public accounts?
- More generally, distinction between current transfers and capital transfers available in the public accounts?

Expenditure items: intermediate consumption

- Intermediate consumption (ESA 2010: P.2. IMF-GFS: 22): "intermediate consumption consists of goods and services consumed as inputs by a process of production"
- Quite straightforward, but some recording issues, such as:
  - distinction between intermediate consumption and investments (gross fixed capital formation)

Expenditure items: compensation of employees

- Compensation of employees (ESA 2010: D.1, IMF-GFS: 21): ”defined as the total remuneration, **in cash or in kind**, payable by an employer to an employee in return for work done by the latter during an accounting period.”
- Broken down to wages and salaries (D.11) and employers' social contributions (D.12)
- No major recording difficulties in the case of government sector?

Expenditure items: property income, payable

- See notes from revenue side
- In practice, in the case of government, consists of interest expenditure
  - should be consolidated between government sub-sectors → data availability?
  - should be accrual → sometimes complicated

Expenditure items: subsidies

- Subisidies (ESA 2010: D.3, IMF-GFS: 25): ”current unrequited payments which general government or the institutions of the European Union make to resident producers.”
- Divided further into
  - subsidies on products (paid per unit of a good or service produced or imported)
  - other subsidies on production (other than subsidies on products that producer units receive for engaging in production)
- Accrual recording can be challenging (source data?)

Expenditure items: social benefits

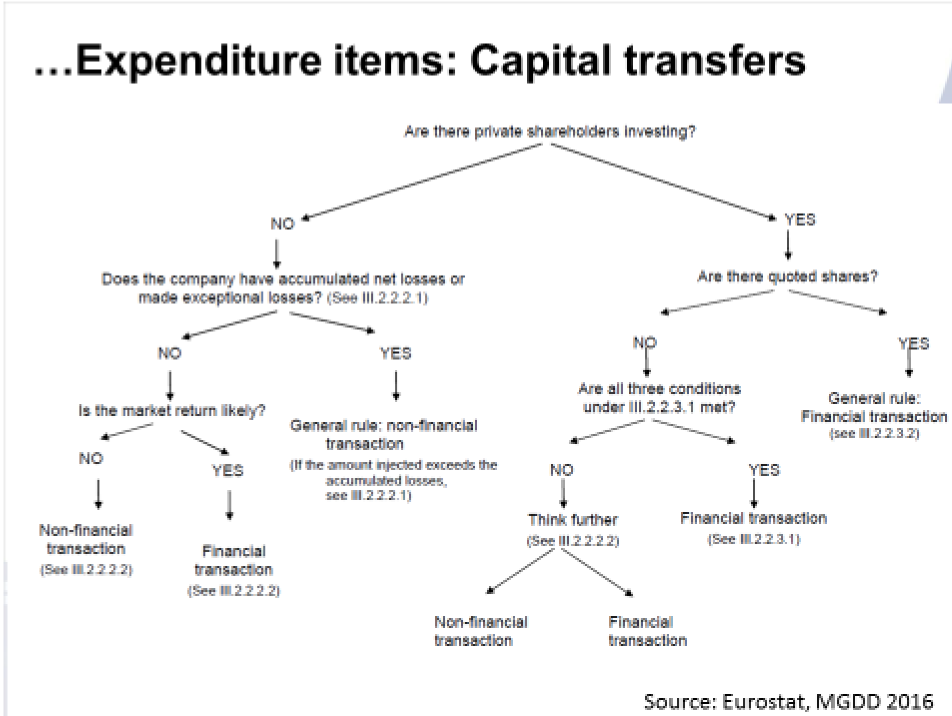
- Social benefits (ESA 2010: D.62 and D.632, IMF-GFS: 27) consist of:
  - Social benefits (“in cash”): social security benefits, other social insurance benefits, social assistance benefits.
    - E.g. unemployment benefits, pension benefits etc.
  - Social transfers in kind: benefits purchased by the government and transferred to the beneficiaries
    - E.g. reimbursements of medical expenses

Expenditure items: Gross capital formation and Acquisitions less disposals of non-financial non-produced assets (="capital investments")

- Consists of:
  - gross fixed capital formation (P.51g) (acquisition minus sales): e.g. buildings, machinery etc.
  - changes in inventories (P.52)
  - acquisitions less disposals of valuables (P.53)
  - acquisitions less disposals of non-financial non-produced assets (NP): land, emission allowances (in some cases)

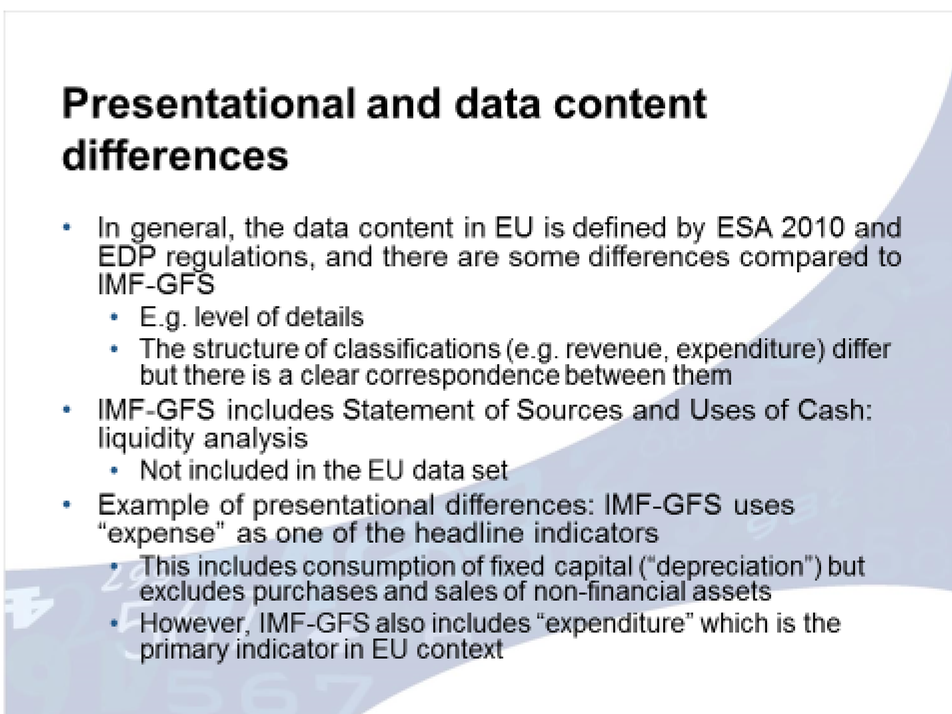
Expenditure items: Other current transfers, and capital transfers

- See also notes from revenue side
- In the case of government, a major recording issue between other capital transfers (D.99) and financial transactions (acquisition of financial assets)
  - The treatment of government capital injections into corporations
- Basic rule: if a capital injection by the government is done on a commercial/market terms, the injection is a financial transaction (not a capital transfer expenditure)
- MGDD lays down rules and a decision tree for deciding whether a capital injections is a capital transfers (a expenditure) or not



3.7 Main differences between IMF GFS and ESA GFS methodology

The differences between IMF GFS and ESA GFS methodology are quite small. The main differences are presentational differences, data content differences and methodological differences.



Methodological differences

- In principle, the methodologies ESA 2010 and GFSM2014 are aligned
- Exception 1): consolidation is required for all intra-government items in GFSM2014, whereas in SNA2008 and ESA2010 this is not true
  - In ESA 2010, only selected items are consolidated (property income, current and capital transfers)
  - For example, a local government provides some market-priced services for another government unit: in ESA2010 this could be recorded on a gross basis (sama amount recorded as government revenue and expenditure)
  - However, in practice many EU countries seem to consolidate almost all flows

Methodological differences

- Exception 2): own-account production (e.g. software, R&D)
  - In ESA 2010, the costs of producing e.g. software for own use are included in
    - Current cost components (mostly wages); expenditure
    - Investments; expenditure
    - Output for own final use; revenue
  - In GSM2014, the costs are included only once, in investments
    - Related costs are deducted from current costs (mostly wages)

Methodological differences

- Exception 3): FISIM (Financial intermediation services indirectly measured)
  - In ESA 2010, service component (”interest margin”) related to interest of government debt is deducted from interest expenditure, and added to the intermediate consumption (purchases of services)
    - Same treatment for interest revenue
  - In GFSM2014, these flows are recorded ”as they are”
- Exception 4): unfunded government-sponsored pension schems are always recorded in the core accounts (pension liability is shown) in GFSM2014
  - In ESA 2010, flexibility is allowed

Methodological differences

- These differences are very small
  - They are not necessarily fully reflected in the figures reported to IMF by EU member states

Eurostat-GFS methodology

- EU-GFS methodology = ESA 2010 methdology
  - general chapters, and a dedicated chapter 20 for government sector
- However, there are constant clarifications to the methdological guidance
  - new versions of EDP-manual (MGDD)
  - new guidance notes, Eurostat decisions, advices to member states etc.
  - even if these are "clarifications", they often have noticeable impact on GFS figures

→ when different borderline cases are analysed, it is important to note that - in some cases - the classication decisions can be different in the near future

→ Even though EU-GFS is consistent with IMF-GFS, in practice the guidance is, for some issues, more detailed and up-to-date in EU-GFS

Focus of GFS methodology

- Naturally, the most important methodological issues are those which have an impact on government deficit and debt
  - both Eurostat and member state have this as a priority
- But also some other issues are discussed quite intensively
  - e.g. the application of COFOG-classification, in order to ensure the reliability of cross-country comparisons
  - A lot of interest in quarterly data

Some examples of common methodological issues

- Borderline between financial and non-financial transactions:
  - equity injections to corporations: recorded as a financial transaction (with no impact on deficit) only under very restrictive conditions: expectation of a ”market”/”sufficient” rate of return
  - dividends received from corporations: recorded as revenue only if paid out from the operational profit (excluding holding gains) of the company

  → a lot of case-by-case analysis, which is resource-intensive

…Some examples of common methodological issues

- Sector classification of public financial corporations - the application of the concept of a ”captive financial institution”, whether
  - a unit has limited tasks, and performs those under narrow conditions set by government
  - there are government influence or constraints on assets side and liabilities side of a unit, and
  - the unit would not behave like a "normal" commercial entity (e.g. no expectation of a market rate of return on equity)

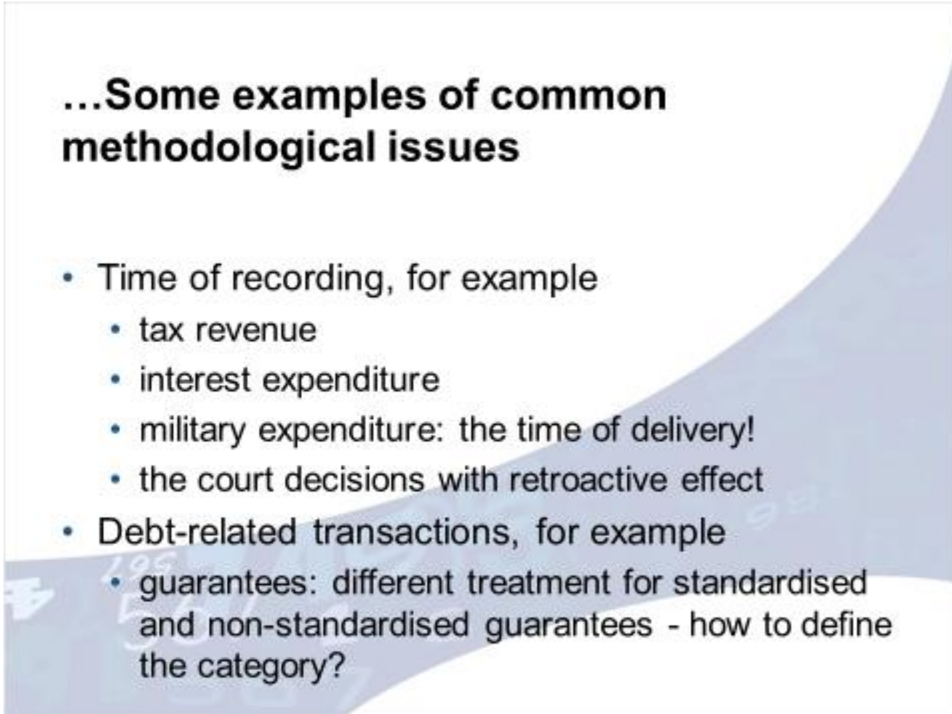
  → if yes to all, the unit is a government unit. In practice the analysis is not straightforward

…Some examples of common methodological issues

- Sector classification of public non-financial corporations
  - in a way, more straightforward than financial corporations
    - quantitative criteria (whether the unit covers over 50% of its costs by its sales)
    - additional qualitative criteria are also quite operational
  - however, difficult borderline cases appear also in this area; open questions concern often
    - the autonomy of the decision-making of the unit
    - the nature of the ”sales” of the unit

…Some examples of common methodological issues

- Sector classification of various infrastructure arrangements (roads, railways etc.)
  - there has been constant updates of guidance for many years, and the latest developments mean that increasing number of arrangements will be classified into government sector
  - Example: public-private partnerships (PPPs): analysis of risk distribution + various additional criteria
  - Example: concessions: in case of government-owned units, very strict rules (most cases will be classified into government)



3.8 Government debt

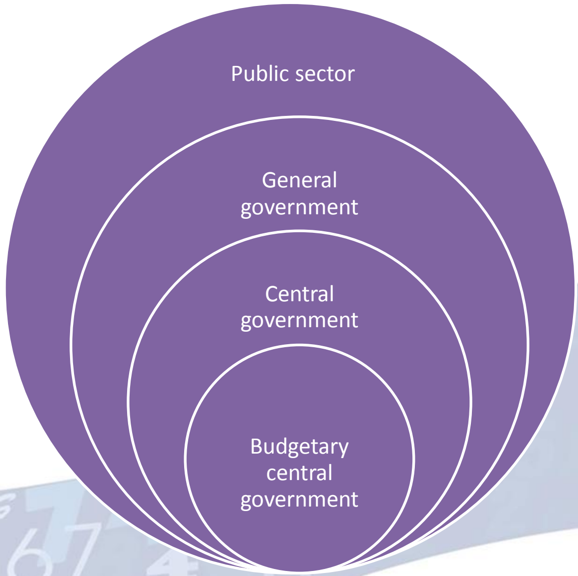
General government debt (EDP debt) is the general government sector consolidated gross debt valued at nominal value. It includes debt securities (AF.3), loans (AF.4) and currency and deposits (AF.2) received by general government from other sectors of the national economy or from the rest of the world.

The EDP debt concept differs from that of ESA 2010 with regard to valuation and coverage. Financial assets and liabilities are valued at market value in ESA 2010 compliant financial accounts, whereas general government EDP debt is valued at nominal value. Of the financial claims in ESA 2010, for example, derivatives, trade credits and advances are not included in EDP debt.

Valuation of government debt at nominal value is broadly equivalent to face value. The face value is equal to the amount, contractually agreed, that the government will have to refund to creditors at maturity. It is also on this amount (the principal) that the interest is calculated.

Some key issues of EFDP debt:

- Whose debt?
- What are debts?
- Valuation
- Consolidation



3

Macedonia - Government and Public debt
(MOF Public debt report 2014)

- Public debt 3,921 Meur / 46% of GDP
- General Government debt 3,262 Meur / 38,2% of GDP
  - difference: debts of public corporations guaranteed by government
- But, how to end up in ESA/EDP-based government debt?

4

Whose debts?

- Of all units classified to general government sector
- Macedonian GG debt - debt of budgetary entities and municipalities?
- Coverage issues
  - debts of other central and local government units like public corporations and other entities (to be) classified to GG
  - all municipalities or regional governments included? (the amounts in the report are very small)

5

EDP Debt instruments

- Included are ESA2010 liability categories (ESA2010 Ch 5):
  - AF.2 Currency and deposits
    - coins as a liability for Central government
  - AF.3 Debt securities
    - repayble, negotiable financial instruments
    - the most important source of financing for governments
    - bonds, T-bills, etc. (incl. private placements)
  - AF.4 Loans
    - creditors lend funds to debtors
    - typical case: bank loans, other credits
    - but also trade credits with orginal maturity over 1 year
    - cash collaterals payable on derivative contracts

6

EDP Debt valuation

- ESA2010 liabilities are valued to market value, when applicable (debt securities)
  - deposits and loans to nominal value, incl. interest accrued not yet paid
- However, EDP debt is measured <u>at face value - "at par" (EDP regulation 479/2009, MGDD VIII)</u>
  - <u>contractually agreed amount (principal) that the government has to refund to creditors at maturity</u>
  - *nominal value is the issue value (above or below par, premium or discount being spread over the duration of instrument)*
  - <u>accrued interest is not included</u>
  - <u>zero-coupon bonds: redemption value</u>
  - <u>bonds with capitalised interest: issue value</u>

7

EDP Debt valuation

- Debt denominated in foreign currency
  - ESA2010: liabilities denominated in foreign currencies are converted into the national currency at the representative spot market exchange rate prevailing on the last working day of each year.
- Use of currency/fx swaps?
  - ESA2010: Positions and transactions resulting from derivative contracts are recorded separately from the underlying instrument (AF.8)
  - EDP regulation: when a debt instrument denominated in foreign currency is swapped into national currency, the conversion into the latter must be based on the rate agreed upon in those contracts
    - ➢An "after-swap" concept is used for EDP debt

8

EDP Debt consolidation

- EDP Debt - General government consolidated gross debt
- Gross: no netting with assets
- Consolidation:
  - all debt positions between units classified to general government are eliminated
  - within government subsectors and between subsectors
  - ➢ must be able to identify those positions -data source availability?

9

Finally, calculation of EDP debt for Macedonia

General Government debt 3,262 Meur

+/- valuation adjustment, if needed

+ debts guaranteed by government, if issuers are classified to GG X

+ debts (with no guarantee?) of other PCs/units classified to GG X

+ debts not incl. in GG debt (long trade credits)

- debts held by other GG units (cons.) X

= EDP debt of Macedonia X Meur

10

4 Fiscal forecasting

Within this booklet under “fiscal forecasting” we try to explain some principles, methods and ideas to make public finance forecasting. Typically the aim is to produce projections for the general government (S13) in ESA 2010 compatible way.

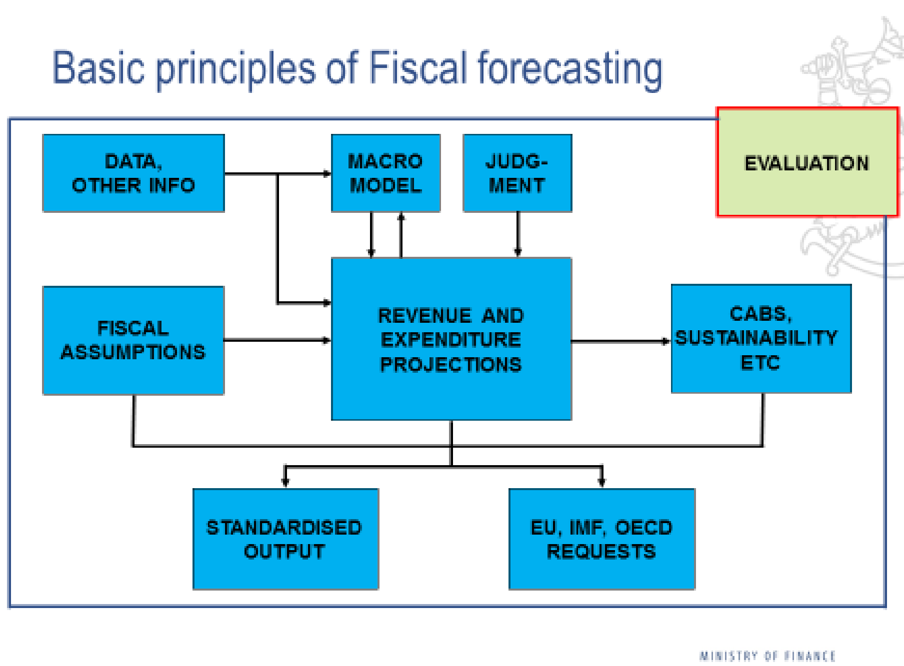
ESA 2010 public finance forecasting is required in the EU member states because of the need for a common framework to evaluate the member states. The common framework helps to provide equal treatment for the member states.

Typically fiscal forecasting is done by the Ministry of Finance, but in some cases EU member states have also independent institutions in place.

Within this chapter four, we try to explain some general principles for fiscal forecasting, who should do the projections, and what kind of data is typically needed. There are many ways to do the fiscal projections, although this chapter is based on quite a “Finnish way of thinking”. In Finland it is the Ministry of Finance Economics Department which is responsible for the fiscal forecasting. Within the Department various data is used (statistical, budget and other data), and expert work and analysis plays a significant role.

In chapter 4.2 some ideas are presented for expenditure and revenue projections. In chapter 4.3, it is highlighted that one should also focus into having standardized output from the projections and annual plan/timetable for the publication of the projections. And after that in chapter 4.4 we try to explain two possible approaches of fiscal forecasting: a) using more macro-approach and statistical GFS data (more “Finnish way”) and b) using more micro-approach and existing budget and execution data (e.g. in case statistical data is not available).

4.1 Principles of fiscal forecasting



Who should do fiscal forecasting?

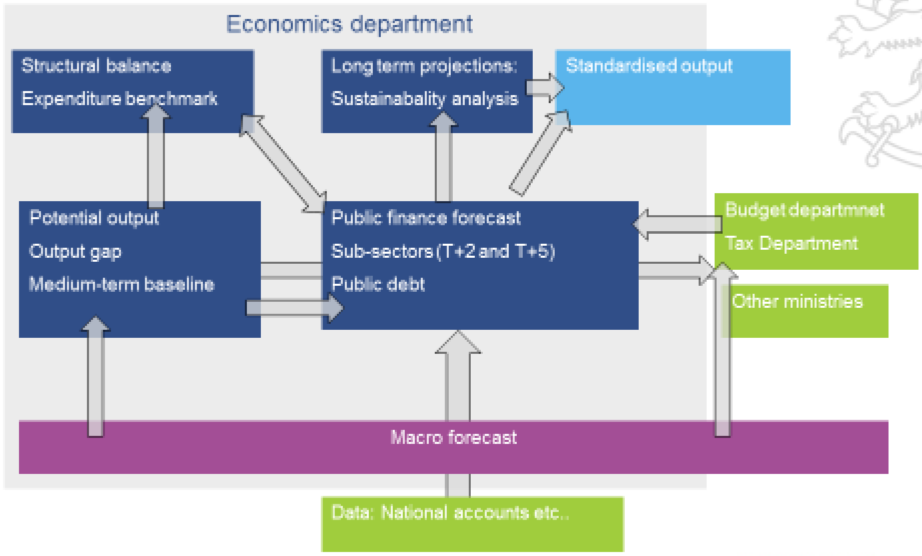
- Based on Budget Framework directive:
  - ”the fiscal planning should be based on realistic macroeconomic and budgetary forecasts using the most up-to-date information”
  - ”member state shall specify which institution is responsible for producing macroeconomic and budgetary forecasts”
  - ”shall make public the official macroeconomic and budgetary forecasts prepared for fiscal planning, including the methodologies, assumptions and relevant parameters”
  - ”forecasts for fiscal planning shall be subject to regular, unbiased and comprehensive evaluation…”

Who should do fiscal forecasting?

- In many EU countries the MoF economics department in responsible for macroeconomic forecasting, and sometimes also for compiling the fiscal forecast
- Some MoF also have separate departments for fiscal forecasting
- However, the independency of the forecasting work should be safeguarded – and the forecast is monitored or endorsed by an independent institution
- In many EU countries separate independent institutions are responsible for the forecasting work

Example of fiscal forecasting in the MoF, Finland

(where National Audit Office does monitoring of the forecasting)



Data

- Reliable data is necessary precondition for effective forecasting
- Primary data, e.g.:
  - Annual and quarterly national accounts from statistical authority
  - Monthly general government revenue data of e.g. income taxes and social security contributions (e.g. on a cash basis) from the national tax authority
  - Monthly central government revenue, expenditure and balance (e.g. on a cash basis) from the treasury
  - Data available of local government revenue, expenditure and balance
  - Monthly general and central government debt data

Other information

- Close contact with internal and external sources of information necessary
- Different departments in the Ministry of Finance e.g. for information concerning:
  - State budgets and supplementary budgets
  - Legislative changes
  - Realization data
  - Debt management operations
  - Data on public enterprises
  - Etc.
- Funds, tax authority, customs authority, …

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4.2 Revenue and expenditure projections

Revenue and expenditure projections

- Requires a method with qualitative and quantitative elements.
- Behavioral relationships and identities of the model rests on economic theory.
- Expert judgment plays a key role.
- One approach can be based on the sector approach and the corresponding tables of the National Accounts.
- Forecasting institute can e.g. combine top-down (more macro level statisctical data and model-based estimation) and bottom-up (more detailed source data or information of new policies) methods.

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Revenue and expenditure projections

$$TREV_t = TRATE^* \cdot TBASE_t = \frac{\sum_{t-n}^{t-1} TREV_t}{\sum_{t-n}^{t-1} TBASE_t} \cdot TBASE_t$$

$TREV_t$	*= Tax revenue in year t*
$TBASE_t$	*= Value of an asset, income or transaction in year t subject taxation*
$TRATE^*$	*= Percentage rate applied to the pre-tax value of an asset, income or transaction subject to taxation*

Revenue and expenditure projections

$$ITEM_t = (1 + e_x^{ITEM} g_t^X)\left(ITEM_{t-1} - ITEM_{t-1}^{ONEOFF}\right) + ITEM_t^L + ITEM_t^{ONEOFF}$$

$ITEM_t$	*= Value of general government revenue or expenditure item in year t*
e_x^{ITEM}	*= Elasticity of the revenue or expenditure item with respect to the annual growth of the driving macro variable*
g_t^X	*= Annual growth of the driving macro variable for the revenue or expenditure item*
$ITEM_t^L$	*= Fiscal impact of the legislative changes in year t*
$ITEM_t^{ONEOFF}$	*= Fiscal impact of one-off factors in year t*

Revenue projections

- Direct taxes
  - Income taxes paid by households and corporations
- Indirect taxes
  - Value added tax
  - Excise taxes
- Social security contributions
- Property income
  - Interest income
  - dividends
- Other non-tax revenues
  - Fees etc

Revenue projections

- Revenue from various taxes

  = f(growth of tax base, elasticity of tax revenue with respect to growth of tax base, legislative changes, other factors incl. structural changes)
- Interest received

  = f(effective yield, amount of funds)

Revenue projections: tax bases

- Income: average wages times employment
- Profits: nominal gross operating surplus
- Nominal private consumption
- Nominal GDP

- Value of the revenue item in the previous year

Revenue projections: tax elasticities

- >1 for direct taxes paid by households and received by central government
- >1 for direct taxes paid by households and received by municipalities, ie local government
- 1 for direct taxes paid by corporations
- 1 for indirect taxes
- 1 for social security contributions
- **NEW TAX AND EXPENDITURE ELASTICITY ESTIMATES FOR EU BUDGET SURVEILLANCE ECONOMICS DEPARTMENT WORKING PAPERS No. 1174**

Expenditure projections

- Understanding the cost of government policies over time:
  - budget year, medium-term, long-term
- Understanding the baseline:
  - No policy change basis
  - Impact of new policies
- Understanding the role of estimates:
  - In principle, expenditure can be entirely under the government's control.
  - In practice, an automatic impact due to cycle needs to be taken into account.
  - Static elements become more and more variable in the longer run.

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Expenditure projections

- Current expenditure i.e. compensation of employees, transfers, consumption

  = f(price, volume, legislative changes, other factors incl. structural changes)

- Interest paid

  = f(effective interest rate, amount of debt)

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Expenditure projections: expenditure bases

- Consumption: public sector average wages times number of employed
- Benefits: price/cost index times number of beneficiary
  - Pensions, unemployment benefits, other social benefits
- Nominal GDP

- Value of the expenditure item in the previous year

NOTE: ESA2010 classification typically differ from e.g. accounting and budget classifications

- The public finance forecasting institution should be aware of the main differences of the country concerned
- There might be some difficulties in interpretation of e.g. different new policy measures and how to calculate them in the forecast
  - Transaction classifications
    - Financial accounts vs. national accounts
  - Sector classifications
    - Government vs. private sector
- One should understand the ESA-manual and to "guess" what statistical authority will decide later while making classification and statistics

4.3 Standardised output

Standardised output

- It is good to develop a template for fiscal forecast tables where data is gathered and which leads to "result tables" that will be published
  - Data tables can be e.g. based on the ESA2010 sectoral tables
  - There can be data tables for public investments and public consumption
- There can be sheets for "result tables" in standardized format
- Separate sheets can be prepared for ESA2010 result tables and IMF results tables, while there are small differences

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Standardised output

- There should be annual plan of publication of fiscal forecast
  - Standard timetable of publications
  - Connection to budget planning (e.g. timetable of Budget, timetable of medium term planning)
  - Connection to Economic Reform Programme
- … and standard form of publication
  - Tables, figures, time series,…

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4.4 "Statistical data" and "budget source data" thinking in fiscal forecasting

There are various ways to make the fiscal forecasting. One can use more macro-level approach with statistical GFS data or more micro-level approach with existing budget and budget execution data (for example in case the statistical data is not available). Of course, it is also possible to combine these approaches in multiple ways.

The "Finnish way" starts with the statistical GFS history data. Basically in the general government forecasting table is used the statistical sectoral accounts as a starting point. Ministry of Finance analyses also all the other available data, and then makes expert estimation for the future years for each general government sub-sector. When the starting point for the forecast is ESA 2010 GFS data, also the forecast "imitates" the ESA 2010 GFS. See the example print screen capture below.

million EUR, nominal prices	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	201
Production															
1 Output at basic prices	28 648	29 583	30 426	32 029	33 908	36 136	37 814	39 662	41 655	43 560	45 970	49 643	51 876	53 630	55 81
of which other non-market output	22 106	22 981	23 789	24 845	26 469	28 043	29 154	30 507	31 920	33 281	35 061	37 659	39 244	39 931	41 43
2 Intermediate consumption ("purchaser" price)	9 073	9 193	9 638	10 204	11 078	12 143	12 824	13 654	14 406	15 350	16 523	18 263	19 562	20 540	21 41
3 Value added, gross at basic prices (1 - 2)	19 575	20 390	20 788	21 825	22 830	23 993	24 990	26 008	27 249	28 210	29 447	31 380	32 314	33 090	34 40
4 Consumption of fixed capital	3 523	3 740	3 846	4 130	4 316	4 418	4 526	4 691	4 988	5 246	5 553	5 942	6 039	6 172	6 53
5 Value added, net at basic prices (3 - 4)	16 052	16 650	16 942	17 695	18 514	19 575	20 464	21 317	22 261	22 964	23 894	25 438	26 275	26 918	27 86
Generation of income															2 74
5 Value added, net at basic prices	16 052	16 650	16 942	17 695	18 514	19 575	20 464	21 317	22 261	22 964	23 894	25 438	26 275	26 918	27 86
6 Compensation of employees	15 708	16 225	16 623	17 378	18 190	19 202	20 056	20 896	21 846	22 543	23 455	24 942	25 800	26 433	27 44
7 Other taxes on production	17	22	23	22	20	14	19	15	20	18	17	16	13	5	
8 Other subsidies on production	0	0	0	0	0	0	0	0	0	0	0	0	1	2	
9 Operating surplus (5 - 6 - 7 + 8)	327	403	296	295	304	359	389	406	395	403	422	480	462	480	41
Distribution of primary income															
9 Operating surplus	327	403	296	295	304	359	389	406	395	403	422	480	462	480	41
10 Taxes on production and import	15 835	16 826	17 622	18 285	18 615	19 608	20 693	20 987	21 886	22 840	23 625	24 061	23 378	24 226	27 18
11 Subsidies	1 979	1 974	1 955	2 001	1 995	2 005	2 016	2 017	2 075	2 256	2 319	2 463	2 477	2 650	2 72
12 Property income	4 700	4 926	4 412	5 415	5 688	5 160	5 092	5 639	5 780	6 682	7 994	9 210	7 079	6 591	7 08
of which interest receivable	3 748	3 629	3 181	3 447	3 594	3 317	3 068	2 901	2 945	3 156	3 472	3 948	3 228	2 499	2 83
from GG	1 159	1 370	1 249	971	639	365	278	224	219	235	189	208	145	122	14
of which divident income	476	796	721	1 479	1 514	1 209	1 171	1 713	1 668	2 184	2 943	3 038	2 002	2 182	2 30
of which entrepreneurial income	320	283	286	281	277	291	347	412	426	418	541	723	678	616	48
13 Property expenditure	5 648	5 483	4 932	4 673	4 338	3 385	3 044	2 918	2 880	2 824	2 847	2 929	2 568	2 628	2 89
rents payable	6	6	5	4	6	7	11	8	8	8	9	7	8	9	

investments | Sector-tables -> | **General governmet** | CG | LG | SSF | Empl.pens.Schm. | other ssf | Results | bn. euro | % of GDP | Comparing previous forecast | COM table 10

The other way to make ESA 2010 "imitating" general government forecast was tested during the Twinning Project training workshop. During the workshop it was recognized, what are the differences between the existing budget and final accounts data and the ESA 2010. It was also identified, what are the main data needs for filling the required reporting tables (e.g. in Economic Reform Programme; see also chapter 5.2.2 of this booklet).

Here the starting point was to take the existing budget and final accounts and other data and try to classify it according to ESA 2010 sub-sectors and revenue / expenditure classification. As was noticed during the training workshops, this method has several problems and is quite time consuming:

- the Macedonian budget classification is not always supporting the ESA 2010 classification: more specific budget data than 3 digit level economic classification is often needed
- some of the expenditure and revenue items need be broken down into sub-categories at 6 digit level in order to enable ESA classification

- for example ESA 2010 classified tax revenue differs from the current Macedonian budget definition of tax revenue - it was recognized that some of the revenue items classified as tax revenue would be in ESA 2010 classification under non-tax revenue (and vice versa).
- it would require a lot of detailed work to search for the needed data for the extra-budgetary units that are not recorded in the Budget
- there is also lack of some local government data details (e.g. on expenditure side), and on the whole more detailed budget forecast for local government sector for the next year and for the medium term would be needed
- the micro-source data is in cash basis, so time adjustments should be considered (e.g. to use "time adjustment method" and calculate the average time lag between the taxable event and the received cash amounts taking into account also arrears).

Below is a print screen capture from the excel-table that was used during the training workshop.

	A	B	C	D	E	F	G	H
1								
2		**S1311 = Central Governmnet**						
3		**S1313 = Local Governmnet**						
4		**S1314 = Social security funds**						Accrual correction
5				2015	2016	2017		(YES/NO) Notes:
6		**Tax revenue**						
7								
8		**D2R Taxes on production and imports**	sector					
9		VAT	S1311	42663	48414	51817		issue with arrears?
10		Excise duties	S1311	20383	21031	23483		
11		Import duties	S1311	4330	4918	5043		
12		Other tax revenue	S1311	616	1118	1587		
13			S1311					
14			S1311					
15			S1311					
16			S1311					
17			S1311					
18			S1311					
19			S1311					
20			S1311					
21			S1311					
22			S1311					
23								
24		Company tax	S1313	3071	5504			
25			S1313					
26			S1313					
27								
28			S1314					

revenue estimation CG | revenue estimation LG | revenue estimation SSF | **ESA2010 tax revenue**

Valmis

5 EU economic governance

5.1 EU surveillance of Fiscal Policies

The Stability and Growth Pact (SGP) is an agreement, among the member states of the European Union, to facilitate and maintain the stability of the Economic and Monetary Union (EMU). It is based primarily on Articles 121 (preventive arm) and 126 (corrective arm and Excessive Deficit Procedure EDP) of the Treaty on the functioning of the European Union (TFEU). It consists of fiscal monitoring of members by the European Commission and the Council of Ministers, and the issuing of a yearly recommendation for policy actions to ensure a full compliance with the SGP in the medium-term. The purpose of the pact is to ensure that fiscal discipline is maintained and enforced in the EMU. SGP requires that each member state implements a fiscal policy that aims for the country to stay within the limits on general government deficit (3% of GDP) and debt (60% of GDP).

Council Regulation (EC) No 1466/97 - the preventive arm of the SGP aims to monitor and coordinate economic policies and to strengthen the surveillance of budgetary positions, thus ensuring budgetary discipline within the European Union: at the beginning of the European Semester for economic policy coordination, member states receive from the Council strategic policy guidelines to be followed to ensure healthy budgetary policies. Following these Guidelines, member states are obliged to submit to the Commission on an annual base during April Stability Programmes (euro area) and Convergence Programmes (member states outside the euro area) in which they adopt medium-term budgetary objectives (MTO).

Due to lack of flexibility and lack of national ownership of the Stability and Convergence Programmes, the SGP was a subject to reforms in 2005 and again in 2011. In 2005 e.g. structural medium term objective (MTO) was introduced.

“Six-pack” (5 Regulations and 1 Directive) was adopted in 2011 with the aim to strengthen SGP. Directive 2011/85/EU on requirements for budgetary frameworks of the member states lays down detailed rules for national budgeting to ensure that EU member state governments respect the requirements of economic and monetary union and do not run excessive deficits. The Directive covers, among others, the following issues:

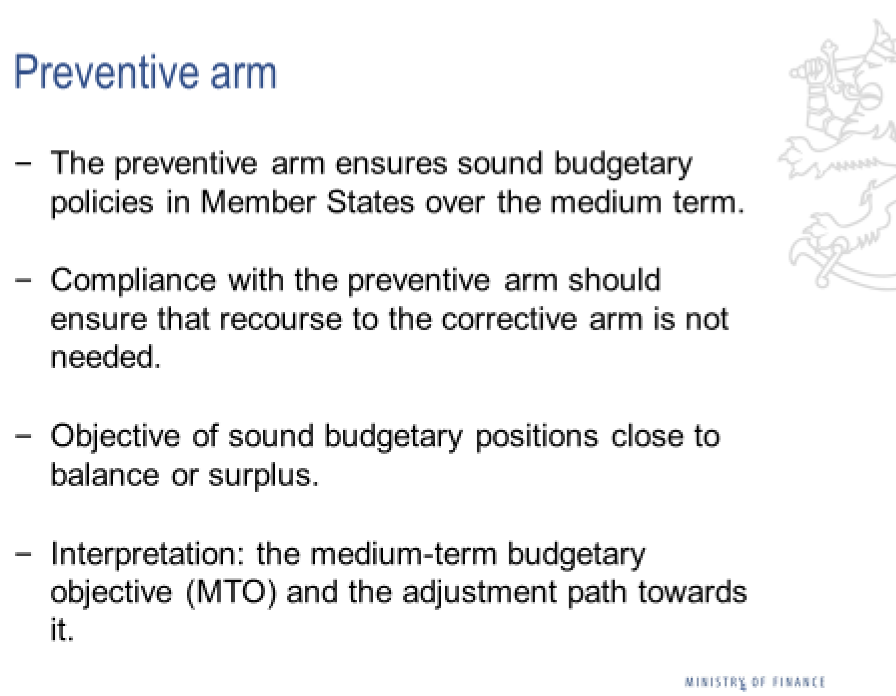
- general government accounting and its surveillance (Article 3.1);
- availability and publication of fiscal data for all subsectors of general government (Article 3.2);
- preparation of macroeconomic forecasts and publication of related methodologies (Article 4);
- fiscal policy rules (Articles 5–7);
- multiannual budgetary frameworks (Articles 9–11, Article 13);
- transparency of general government finances and comprehensive scope of above-mentioned frameworks (Articles 12 and 14).

Fiscal coordination of EU member states was also increased through two regulations ("Two-pack"), which introduced additional coordination and surveillance of budgetary processes for all euro-area members. Regulation 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the member states in the euro area aims at further strengthening the surveillance mechanisms. It introduces common budgetary timeline and budgetary rules, covering both the preparation of the national medium-term fiscal plans (NMTFP) and the annual budgets. In addition, the base for the NMTFP and annual budgets should be independent macroeconomic forecasts produced or endorsed by an independent body. The Regulation also introduces a system of enhanced surveillance for member states experiencing serious difficulties with financial stability, receiving financial assistance or emerging from adjustments programmes. It also introduces stronger monitoring / assessments of budgetary policies.

In addition, in 2012, 25 European Union Member States agreed a Fiscal Compact, which concerns, among other things, the setting of a medium-term objective for the structural budgetary position and an automatic correction mechanism for achieving the objective.

In the following slides, some aspects of the above mentioned regulations are highlighted, however, on very general level. After this in chapter 5.2 we will take closer look at the Ministry of Finance reporting requirements for EU economic policy coordination. In the main focus we have the Stability / Convergence Programme and its requirements. In the end (in chapter 5.3) are presented the EDP reporting requirements.

Already at this point it is good to highlight that common methodology of ESA 2010 is important in all the member state reporting while it brings a common framework to evaluate the member states. And that is why this joint methodology is in use e.g. in the Stability / Convergence Programmes and in EDP reporting.



Medium term objective

- Country specific, but within limits.
- Set in structural terms: budget balance adjusted for the impact of the cycle, net of one-off and temporary measures.

- MTO should ensure that Member States
  - have a safety margin against breaching the 3% deficit limit,
  - are on course to a sustainable debt position, taking into account the economic and budgetary impact of ageing populations and
  - have adequate room for budgetary manoeuvre, in particular taking into account the needs for public investment.

Compliance with the MTO

Structural fiscal position either at their MTO or on the adjustment path towards it

- 0.5% of GDP per year
- More in good times and less in bad, more if debt above 60%
- exceptional circumstances, overall downturn and structural reforms, especially pension reform, taken into account

Compliance with the expenditure benchmark

- Expenditure net of discretionary revenue measures constrained to a country-specific level
- Medium-term potential GDP growth for countries at MTO, less for countries on adjustment path

Surveillance under the preventive arm

- Annual cycle of surveillance – European Semester
  - A yearly cycle for economic policy coordination
  - Spring: Stability and Convergence Programmes (SCPs) and National Reform Programmes
- For euro area countries common budgetary time line
  - Spring: National medium-term fiscal plans published with Stability Programmes
  - Autumn: Draft Budgetary Plans (DBP) for commission checks that the plans are consistent with the Member State's fiscal and macroeconomic commitments
  - By year-end: Budget laws for central government
- Assessment of compliance with the preventive arm
  - Two pillar approach: 1) structural balance and 2) expenditure benchmark)
  - Significant deviation: 0.5% of GDP
  - If the two pillars give diverging answers -> overall assessment

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Surveillance under the preventive arm

- Assessment in three time dimensions
  - Ex post: the year that has just ended (observed data)
    - If significant deviation: significant deviation procedure launched in the spring
  - In year: the year under way
  - Ex ante: the coming years (SCPs next 3 years, DBPs the coming year)
- SCPs:
  - Commission analysis and Council recommendations
- DBPs:
  - Commission may give a negative opinion and request changes to the Member State's budget for the following year
  - Eurogroup discussion

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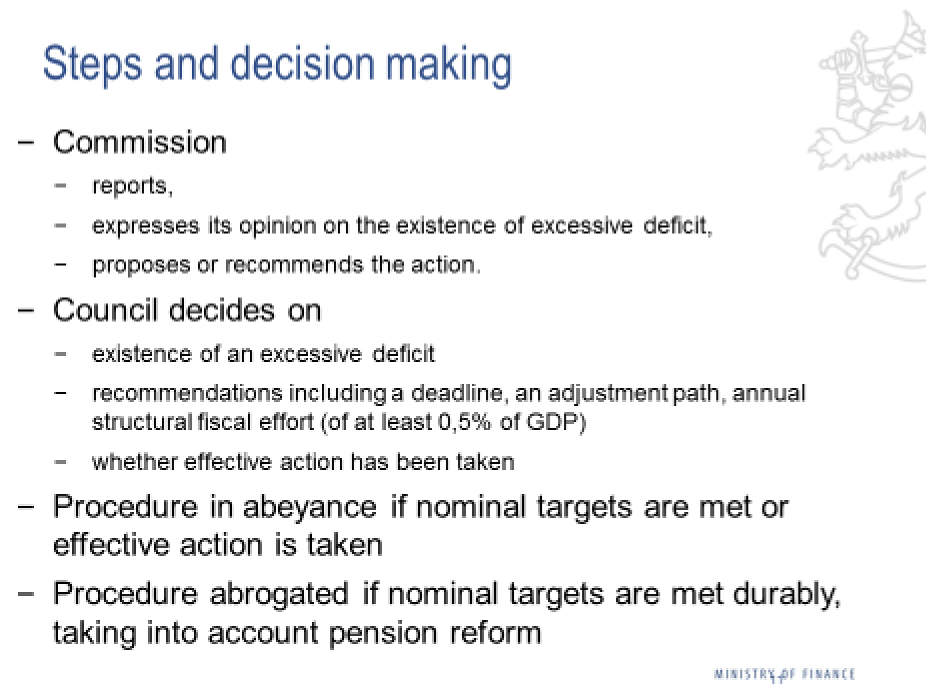
Corrective arm

- The corrective arm ensures that Member States adopt appropriate policy responses to correct gross policy errors resulting in excessive deficits.
- Also known as Excessive Deficit Procedure (EDP).

Indicators triggering the procedure

- Deficit in excess of 3 % of GDP is excessive unless
  - deficit has declined and reached a level close to the reference value
  - excess temporary and exceptional and remains close to the reference value
- Debt in excess of 60 % of GDP is excessive unless
  - It is diminishing sufficiently and approaching the limit at a satisfactory pace
- Sufficiently at satisfactory pace means
  - Reduction of the gap to 60 % by 1/20 every year
  - Backward-looking, forward-looking and cyclically adjusted debt benchmark
  - Transition period for 3 years after the correction of EDP (minimum less square adjustment MLSA)



5.2 MoF reporting requirements for EU economic governance

Stability and Convergence Programmes form the basis for the Council's surveillance of budgetary positions and coordination of economic policies. The Programme includes information on fiscal policy for the short and medium term including a fully-fledged multi-annual macroeconomic scenario, projections for the main government finance variables, and description and quantification of the envisaged budgetary strategy. Because the information content must allow for comparison across the member states, there are very detailed requirements for the content. For many parts, the same or slightly modified reporting tables also exists for the candidate countries in Economic Reform Programmes.

Member states also prepare National Reform Programmes for monitoring progress towards the European 2020 national targets for smart, sustainable and inclusive growth. These include the structural reforms which member states are planning to boost growth and employment.

The Commission analyses these two programmes and makes specific policy recommendations. Member states discuss the recommendations with the Commission and with each other, and the recommendations should be integrated into national policies. The Council adopts an opinion on the programmes. If it considers that the objectives and contents should be strengthened, it will invite the member state concerned to adjust its Stability / Convergence Programme.

5.2.1 Stability / Convergence Programme and Economic Reform Programme

These tables include data for the past years (statistics), and for current and future years (forecasts). Cooperation is needed between statistical authority and Ministry of Finance in producing these tables.

It should be noted that below are discussed only public finance tables starting from table 2a General Government budgetary prospects. However, also real economy tables starting from 1a Macroeconomic prospects are important for public finances calculations, e.g. as comes to GDP-ratios, calculation of structural balance etc.

Economic Reform Programme (ERP)

The document was renewed and new kind of Economic Reform Programmes was submitted to the Commission by 31 January 2016. Economic Reform Programme contains on the one hand a medium-term macro-economic and fiscal policy framework including supporting fiscal measures, and on the other hand a comprehensive structural reform agenda. We focus here into the first area. The Guidance on the Economic Reform Programmes is updated on an annual basis.

Guidance for January 2016 submission:
http://www.dep.gov.ba/analizeiprojekcije/ekonfiskprog/3.%20ERP_2016_Guidance%20note_engl.pdf

Some public finances tables required by the Guidance of expected structure and content are listed below.

a) Table 2a: General government budgetary prospects (% of GDP)
b) Table 2b: General government budgetary prospects (Bn NCU)
c) Table 3: General government expenditure by function
d) Table 4: General government debt developments
e) Table 5: Cyclical developments

Convergence / Stability Programme

Every April, EU Member States are required to lay out their fiscal plans for the next three years. This exercise is based on economic governance rules in the Stability and Growth Pact, which aim to prevent the emergence or exacerbation of fiscal difficulties. Member States sharing the euro currency do this in documents known as ‘Stability Programmes,’ while Member States that have not adopted the euro submit ‘Convergence Programmes,’ which include additional information about monetary policies. Guidelines on the content and format of the programmes are covered by a code of conduct. It is written that in order to facilitate the assessment, the concepts used shall be in line with the standards established at European level, notably in the context of the European system of accounts (ESA). This information may be complemented by a presentation of specific accounting concepts that are of particular importance to the country concerned.

The reporting tables of Stability and Convergence Programmes are listed below (basically same tables as ERP):

1a. **Macroeconomic Prospects**
1b. **Price Developments**
1c. **Labour Market Developments**
1d. **Sectoral Balances**
2a. **General Government Budgetary Prospects**
2b. **No-Policy Change Projections**
2c. **Amounts to be excluded from the Expenditure Benchmark**
3. General Government Expenditure by Function (COFOG)
4. **General Government Debt Developments**
5. **Cyclical Developments**
6. **Divergence from Previous Update**
7. **Long-term Sustainability of Public Finances**
7a. **Contingent Liabilities**
8. **Basic Assumptions**

Link to the code of conduct:

http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

It should be noted that within euro area there is also set of tables that need to be reported in connection to October 15 Draft Budgetary Plan, but we will not discuss those within the Project ESA-trainings. However, more information can be found from here:

http://ec.europa.eu/economy_finance/economic_governance/sgp/budgetary_plans/index_en.htm

5.2.2 How to fill in SGP tables

3. General government balance and debt

On the basis of Tables 2, 3, 4 and 5

- *Policy strategy*
- *Medium-term objectives*
- *Actual balances and updated budgetary plans for the current year*
- *Medium-term budgetary outlook, including description and quantification of fiscal strategy*
- *Structural balance (cyclical component of the balance, one-off and temporary measures), fiscal stance, including in terms of expenditure benchmark*
- *Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments*
- *Budgetary implications of "major structural reforms"*

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Table 2a (General Government Budgetary Prospects)

	ESA	2014	2014	2015	2016	2017	2018
		Level (bn denars)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-22,2	-4.2	-3.6	-3.2	-2.9	-2.6
2. Central government	S1311	-22,1	-4.2	-3.6	-3.2	-2.9	-2.6
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	0,0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	-0,2	0.0	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	156,7	29.8	32.2	32.3	32.0	31.2
7. Total expenditure	TE	178,9	34.0	35.8	35.6	34.9	33.8
8. Net borrowing/lending	EDP.B9	-22,2	-4.2	-3.6	-3.2	-2.9	-2.6
9. Interest expenditure	EDP.D41	5,1	1.0	1.2	1.0	1.2	1.2
10. Primary balance		-17,1	-3.3	-2.5	-2.2	-1.7	-1.4
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (11 = 11a+11b+11c)		92,0	17.5	18.6	18.7	18.5	18.3
12a. Taxes on production and imports	D2	72,1	13.7	13.8	13.9	13.7	13.6
12b. Current taxes on income and wealth	D5	17,5	3.3	4.3	4.3	4.3	4.3
12c. Capital taxes	D91	2,4	0.5	0.5	0.5	0.5	0.4
13. Social contributions	D61	44,2	8.4	8.5	8.4	8.3	8.2
14. Property income	D4	3,8	0.7	1.0	1.1	0.9	0.8
15. Other (15 = 16-(12+13+14))		16,7	3.2	4.0	4.2	4.3	3.9
16 = 6. Total revenue	TR	156,7	29.8	32.2	32.3	32.0	31.2
p.m.: Tax burden (D2+D5+D61+D91-D995)		136,2	25.9	27.1	27.1	26.8	26.5
Selected components of expenditures							
17. Collective consumption	P32	59,4	11.3	11.9	11.5	11.0	10.6
18. Total social transfers	D62 + D63	78,4	14.9	15.1	15.0	14.9	14.6
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	78,4	14.9	15.1	15.0	14.9	14.6
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41	5,1	1.0	1.2	1.0	1.2	1.2
20. Subsidies	D3	13,6	2.6	2.7	2.7	2.6	2.4
21. Gross fixed capital formation	P51	22,4	4.3	4.9	5.4	5.2	5.0
22. Other (22 = 23-(17+18+19+20+21)		:	:	:	:	:	:
23. Total expenditures	TE	178,9	34.0	35.8	35.6	34.9	33.8
p.m. compensation of public sector employees	D1	36,8	7.0	7.1	6.9	6.7	6.5

Table 2a (SGP)

Table 2a. General government budgetary prospects

	ESA-tunnus	2015 milj. eur	2008	2009	2010	2011	2012 % BKT:sta
Net lending by sub-sector (EDP B.9)		huom: edp-korot					
1. General government	S.13	-5 746	4,2	-2,5	-2,6	-1,0	-2,2
2. Central government	S.1311	-6310	0,5	-4,6	-5,3	-3,3	-3,7
3. -							
4. Local government	S.1313	-1 326	-0,4	-0,6	-0,2	-0,5	-1,1
5. Social security funds	S.1314	1883	4,1	2,7	2,9	2,7	2,6
General Government (S13)							
6. Total revenue	TR	114910	52,4	52,2	52,1	53,3	54,0
7. Total expenditure	TE	120656	48,3	54,8	54,8	54,4	56,2
8. Net lending/borrowing	EDP B.9	-5746	4,2	-2,5	-2,6	-1,0	-2,2
9. Interest expenditure	EDP D.41	2430	1,4	1,3	1,3	1,4	1,4
10. Primary balance	EDP B.9 + EDP D.41	-3316	5,6	-1,2	-1,3	0,3	-0,8
11. One-off and other temporary measures		0	0,0	0,0	-0,2	0,0	0,0
Selected components of revenue							
12. Tax revenue (12=12a+12b+12c)		65 195	29,6	28,7	28,6	29,9	29,9
12a. Taxes on production and imports	D.2	29 744	12,4	12,9	12,9	13,8	14,1
12b. Taxes on income	D.5	34 820	16,8	15,5	15,4	15,9	15,6
12c. Capital taxes	D.91	631	0,3	0,2	0,2	0,2	0,3
13. Social security contributions	D.61	26942	11,6	12,3	12,2	12,2	12,8
14. Property income	D.4	6 401	4,8	3,9	3,5	3,6	3,4
15. Other income (15=16-12-13-14)		16 372	6,5	7,3	7,8	7,7	7,9
16 = 6. Total revenue	TR	114910	52,4	52,2	52,1	53,3	54,0
of which: Tax burden (D2+D.5+D.61+D.91-D.995)		92 308	41,3	41,1	40,9	42,2	42,7
Selected components of expenditure							
17. Compensation of employees + intermediat	D.1+P.2	52964	22,3	25,1	25,1	24,8	25,5
17a. Compensation of employees	D.1	29006	12,9	14,3	14,1	13,9	14,3
17b. Intermediate consumption	P.2	23958	9,4	10,8	11,0	10,9	11,3
18. Social transfers (18=18a+18b)	D.62+D.63	47 429	16,9	19,8	20,0	19,8	20,7
of which: Unemployment benefits	D62+D624	5 202	1,9	2,4	2,4	2,0	2,1
18a. Social transfers in kind	D.631	5 847	2,2	2,5	2,5	2,6	2,6
18b. Social transfers other than in kind	D.62	41 582	14,7	17,3	17,5	17,2	18,1
19 = 9. Interest expenditure	EDP D.41	2430	1,4	1,3	1,3	1,4	1,4
20. Subsidies	D.3	2 839	1,3	1,4	1,4	1,4	1,4
21. Gross fixed capital formation	P.51	8 156	3,6	4,0	3,7	3,8	4,0
22. Capital transfers	D.9	974	0,4	0,4	0,4	0,3	0,3
23. Other expenditure (23 = 24 -17-18-19-20-21)		5864	2,4	2,8	2,9	2,9	2,8
24 = 7. Total expenditure	TE	120656	48,3	54,8	54,8	54,4	56,2
of which: Government consumption	P.3	51022	21,7	24,2	23,9	23,6	24,4

Selected components of revenue

- Tax revenue
  - Taxes on production and import
  - Taxes on income
  - Capital taxes
- Social security contributions
- Property income
- Other income

Selected components of expenditure

- Compensation of employees
- Intermediate consumption
- Social transfers
  - Unemployment benefits
- Interest expenditure
- Subsidies
- Gross fixed capital formation
- Capital transfers

Table 3. General government expenditures by function

- Year t-2 from statistical authority
- Year t+4 from MoF estimation

Table 9. General government expenditure by function

	COFOG-code	2014 % of GDP	2020
1. General public services	1	8,3	7,4
2. Defence	2	1,4	1,4
3. Public order and safety	3	1,3	1,3
4. Economic affairs	4	4,8	4,4
5. Environmental protection	5	0,3	0,2
6. Housing and community amenities	6	0,4	0,4
7. Health	7	8,3	8,2
8. Recreation, culture and religion	8	1,4	1,3
9. Education	9	6,4	6,0
10. Social protection	10	25,4	25,9
11. Total expenditure (=item 7=24 in Table 2)	TE	58,1	56,4

Table 4. General government debt developments

Table 4. General government debt developments

% of GDP	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
1. Gross debt[1]						
2. Change in gross debt ratio						
Contributions to changes in gross debt						
3. Primary balance[2]						
4. Interest expenditure[3]	EDP D.41					
5. Stock-flow adjustment						
of which:						
- Differences between cash and accruals[4]						
- Net accumulation of financial assets[5]						
of which:						
- privatisation proceeds						
- Valuation effects and other[6]						
p.m.: Implicit interest rate on debt[7]						
Other relevant variables						
6. Liquid financial assets[8]						
7. Net financial debt (7=1-6)						
8. Debt amortization (existing bonds) since the end of the previous year						
9. Percentage of debt denominated in foreign currency						
10. Average maturity				-	-	-

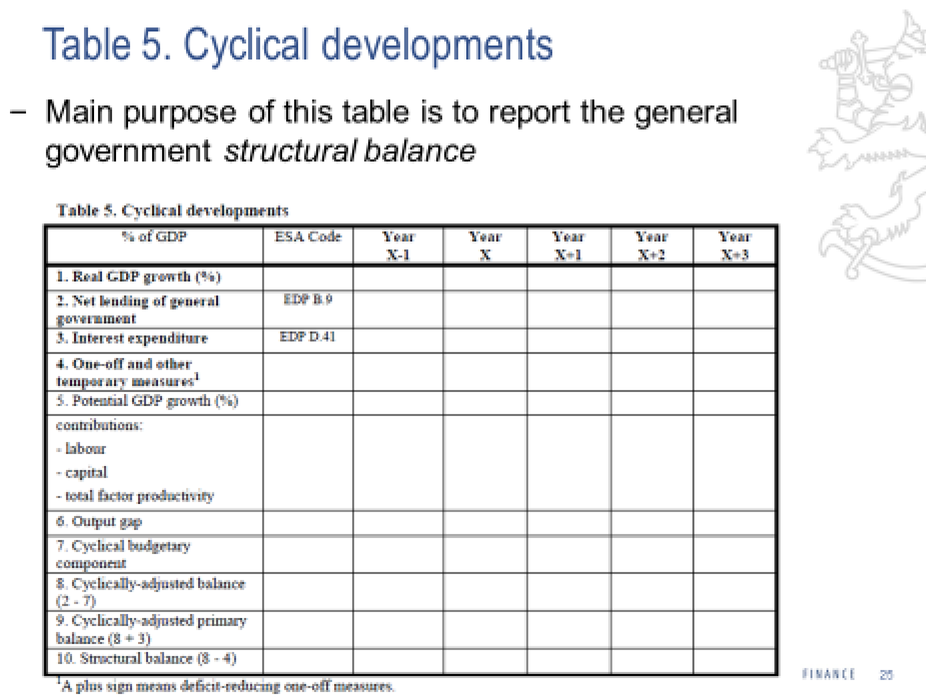

Table 5. Cyclical developments

– Main purpose of this table is to report the general government *structural balance*

Table 5. Cyclical developments

% of GDP	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
1. Real GDP growth (%)						
2. Net lending of general government	EDP B.9					
3. Interest expenditure	EDP D.41					
4. One-off and other temporary measures[1]						
5. Potential GDP growth (%)						
contributions: - labour - capital - total factor productivity						
6. Output gap						
7. Cyclical budgetary component						
8. Cyclically-adjusted balance (2 - 7)						
9. Cyclically-adjusted primary balance (8 + 3)						
10. Structural balance (8 - 4)						

[1]A plus sign means deficit-reducing one-off measures.

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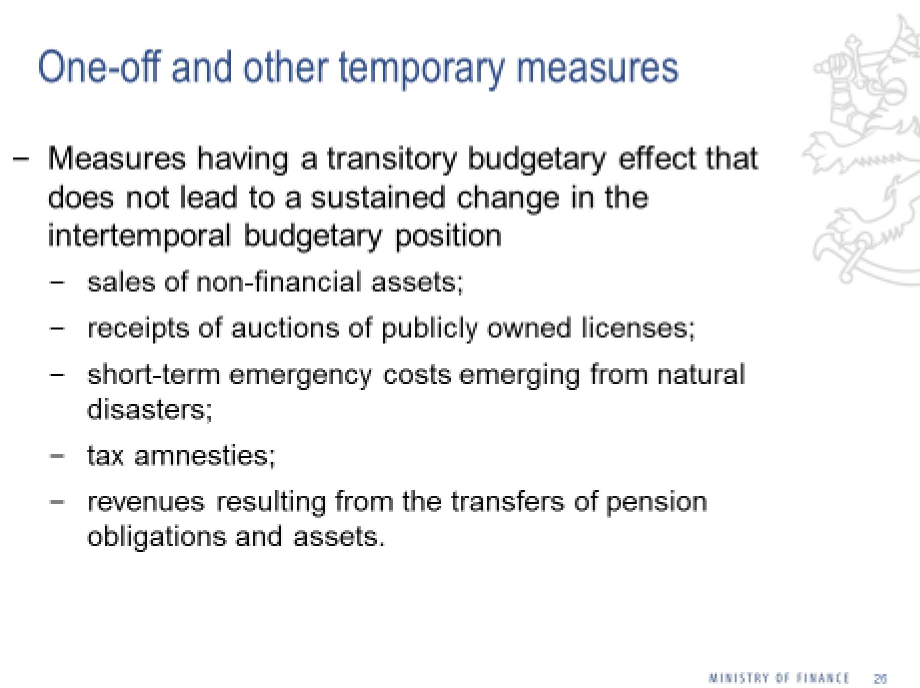

One-off and other temporary measures

– Measures having a transitory budgetary effect that does not lead to a sustained change in the intertemporal budgetary position
  – sales of non-financial assets;
  – receipts of auctions of publicly owned licenses;
  – short-term emergency costs emerging from natural disasters;
  – tax amnesties;
  – revenues resulting from the transfers of pension obligations and assets.

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5.3 EDP reporting

Council Regulation 479/2009, as amended by Council Regulation (EU) No 679/2010 and by Commission Regulation (EU) No 220/2014, requires that EU Member States report EDP-related data to Eurostat twice per year – at end-March (April notification) and end-September (October notification). This data is used by Commission for the fiscal surveillance in the European Union.

The data are reported in harmonised tables. These tables are designed specifically to provide a consistent framework, with a link to national budgetary aggregates and between the deficit and changes in the debt. They should be fully consistent with the GFS data. These tables include data for 4 past years, but also for the current year (forecasts and not statistics). Cooperation is needed between statistical authority and Ministry of Finance in producing these tables.

EDP reporting in the April and October notifications consists of three set of tables:

- EDP notification tables (see chapter 5.3.1)
- Questionnaire related to the EDP notification tables (see chapter 5.3.2)
- Supplementary table on government interventions to support financial institutions (see chapter 5.3.2)

The whole EDP reporting includes also the Questionnaire on government controlled units classified outside general government, and, since year 2014, the questionnaire on contingent liabilities and potential obligations. Both are submitted at the end of December. The chapter 5.3.3 deals with the questionnaire on contingent liabilities and potential obligations.

See also:
http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/
http://ec.europa.eu/eurostat/web/government-finance-statistics/contingent-liabilities

First, here are some slides about the institutional arrangements concerning EDP reporting, including an example of Finland.

EDP notification tables

- Typically statistical authority compiles years up to t-1 (history), MoF for the year t (forecast).
- Also EDP Working Group can be considered
  - Sector experts from statistical authority and MoF and national bank
  - Meets twice a year (Spring and Autumn before notification dead lines)
  - Statistical authority presents to MoF the statistics that will be included in the notification tables
  - MoF and statistical authority to agree on the transmission date for the forecast (year t) and its publication date
- EDP supplementary tables compiled by the statistical authority

MINISTRY OF FINANCE 2

EU Economic Policy Coordination

- Based on statistics (actual data) and forecasts & national governments' plans.
- Statistical authority produces Government Finance Statistics (GFS) according to ESA 2010
- MoF forecasts GFS items for years t – (t+4)
- EDP notification tables: Statistical authority compiles years up to t-1 (history), MoF for the year t (forecast).

MINISTRY OF FINANCE 3

The Independence of Statistical Authorities

- Treaty on the functioning of the EU ensures high professional independence to the statistical authorities:

  *" The production of Union statistics shall conform to **impartiality**, **reliability, objectivity, scientific independence**, cost-effectiveness and statistical confidentiality"*

- These principles are confirmed in the regulation on European Statistics (Reg. No 223/2009):

  "The national statistical authorities should in each Member State --- enjoy professional independence and ensure impartiality and high quality in the production of European statistics.

  *'**professional independence**', meaning that statistics must be developed, produced and disseminated in an independent manner, particularly as regards the selection of techniques, definitions, methodologies and sources to be used, and the timing and content of all forms of dissemination, and that the performance of those tasks is free from any pressures from political or interest groups or from Union or national authorities"*

MINISTRY OF FINANCE 4

Sectoral classification

- Independent statistical authorities are responsible for the compilation of statistics, including the decisions on sectoral classification
- MoF forecasts public finances taking as a starting point the statistics published by the statistical authority
  - MoF has to consider sectoral classification only if a new entity is established in the forecasting period (i.e. there are no statistics available including the new entity)
  - The sectoral classification of new entities is decided by the statistical authorities when compiling statistics.

    => MoF revises forecasts according to new classification decisions.

MINISTRY OF FINANCE

5.3.1 EDP notification tables

There are four tables in the notification tables, and tables 2 and 3 consist of multiple sub-tables. The tables are here first described briefly. More detailed descriptions of especially tables 2 and 3 can be found in the slides following.

EDP Table 1 provides a summary view showing the net lending (+) / net borrowing (-) (ESA surplus/deficit) for the general government sector and its sub-sectors, the general government debt by instrument, interest payable by general government gross fixed capital formation of general government, as well as the GDP of the reference year.

The general government sector (S.13) consists of four subsectors: central government (S.1311), state government (S.1312), local government (S.1313) and social security funds (S.1314).

EDP Tables 2 (broken down into 4 tables: 2A, 2B, 2C and 2D) provide the link between the so-called working balances (i.e., the public surplus (+)/deficit (-) as reported nationally to the Parliament) and the net lending (+)/ net borrowing (-) in for each general government subsector. The working balances often correspond to the traditional budget deficit or a public accounting balance. Working balances need to be completed by operations that are extra-budgetary, but that are considered in national accounts as part of government operations. Working balances need to be also corrected for operations that impact them whilst are considered as financial transactions in national accounts without impact on the ESA surplus/deficit (e.g. loans granted by government), or alternatively the reverse: for operations that did not impact the working balances whilst are considered as expenditure in national accounts with impact on the ESA surplus/deficit (e.g. many cases of capital injections).

EDP Tables 3 (broken down into 5 tables 3A, 3B, 3C, 3D, 3E) make the link between the government net lending /net borrowing (ESA surplus/deficit) and the change in government debt. Whereas the change in debt over one period reflects largely the deficit of the period, it is by no way equal. As an example, for a given deficit (i.e. an excess of expenditure over revenue), higher net acquisitions of financial assets lead to higher borrowing needs and therefore, likely, a higher change in debt.

EDP Table 4 shows supplementary information: the stock in trade credit payable by government; the amount outstanding in the government debt from the financing of public undertakings; the extent and the reasons in case of substantial differences between the face value and the market value of government debt; and the Gross National Income (GNI).

More detailed description of the tables:

http://ec.europa.eu/eurostat/documents/1015035/2022681/More-detailed-description-of-EDP-notification-tables.pdf

EDP notification tables = EDP notification = EDP tables

"Reporting of Government Deficits and Debt Levels in accordance with Council Regulation (EC) N° 479/2009, as amended by Commission Regulation (EU) No 220/2014 and the Statements contained in the Council minutes of 22/11/1993"

- Annual government data
  - net lending/borrowing (B.9) and EDP debt
  - additional data: e.g. government investment, government interest, GDP
  - transition of a country's own published budget data ('working balance') to the sub-sector B.9
- Timely coverage
  - statistical data for past years t-1, t-2, t-3, t-4
  - planned data for current year t

EDP table 1

- B.9 for general government and each **sub-sector**
- EDP debt (stock end year) for general government **by instrument**
- Gross fixed capital formation
- Interest
- GDP

EDP Table 1

Net lending (+) / net borrowing (-) B.9

- General government
- Sub-sectors

General government consolidated gross debt

- At nominal value
- For liabilities
  - Currency and deposits (AF.2)
  - Debt securities (AF.3)
  - Loans (AF.4)

EDP Table 2 (A-D)

Shows the data explaining the transition from

the *working balance* = the public accounts ‘budget deficit’= the starting line

through adjustments to

the e.g. *central government surplus/deficit (B.9)*

These tables are important for understanding the calculation of B.9 for sub-sectors and for quality control – also for the compiling expert!

No single combined table for the government sector

EDP Table 2 (A-D)

Three broad main types of adjustments from working balance to B.9:

- reclassification of transactions
- time of recording
- sub-sector delimitation

+ other adjustments

EDP Tables 2A-D can be adapted to national specificity (by adding rows/items) while keeping the basic structure.

EDP Table 2 (A-D)

The working balance

- starting line of a table 2
- public accounts ‘budget surplus/deficit’
- the most used concept and measure of country’s public account’s surplus/deficit
- published
- maybe voted in the parliament

EDP Table 2 (A-D)

Examples of a working balance

- the state's budgetary surplus/deficit
- annual margin of municipalities
- bottom line of profit and loss account

If there are many options, choose the one most similar to definition of net lending

Cash, mixed cash/accrual , accrual

- for example if tax revenue is recorded on cash basis, but other items accrual

  -> mixed

EDP Table 2 (A-D), adjustments

1. Financial transactions included in the working balance

- Need to be removed if in working balance
- Sometimes WB doesn't include financial transactions at all
- Loans, granted (+) and Loans, repayments (-)
  - Loans as **assets**. No borrowing!
  - Loans granted (+)
    - Paid out to debtors
  - Loans, repayments (-)
    - Repayments by debtors of loans granted by government

Equities, acquisition (+) and Equities, sales (-)

- Acquisition and disposal of shares and other equities.
- Note: In some cases capital injections are recorded as expenditure in B.9.

  For example: capital injection into loss making public corporation.

  No adjustment needed in table 2.
- Includes withdrawals of equity.

- Other financial transactions (+/-)
  - Any other financial transactions included in WB and not already eliminated.
  - Receipts from the issue of Treasury coins (seigniorage)
    - Any transaction in coins is a financial transaction in ESA
    - Remove from revenue
  - Transfers from the central bank
    - Other than dividends
    - Should be treated as a financial transaction

- Issues and redemptions of debt securities (+/-)
  - Should be reported under ”of which: transactions in debt liabilities (+/-)”
  - Any transactions related to debt **liabilities** included in WB
  - Usually the ”normal” borrowing isn't included in the WB, but some liabilities can be included

Interest relating to swaps and FRAs

- Reported under item ”of which: net settlements under swap contracts (+/-)”
- Should be recorded as financial transactions in ESA, and not as revenue/expenditure
- If interest is recorded in WB including interest relating to swaps and FRAs, adjustment is needed here
- For example in Finland, The State Treasury does swapping quite succesfully

  → revenue from swapping

  → interest expenditure of the state is much larger in national accounts than in public accounts

  → increases deficit, e.g. 0,4 % of GDP in 2015

2. Non-financial transactions not included in the working balance

- Depends on the basis of the working balance
- Potential adjustments
  - Expenditure on investment (GFCF)
  - Unique national accounts items: e.g. Reinvested earnings on mutual funds

3. Difference between interest paid (+) and interest accrued (-) (D.41)

- Shows the difference between interest recorded in public accounts (+) and interest accrued (-) (D.41)
- Interest is often recoded on cash basis in the WB → adjustment needed
- Adjustments related to certain debt instruments are also included here:
  - zero-coupon bonds and treasury bills
  - bonds issued at a discount / premium
  - instruments with capitalised interest
  - repurchase of debt

4.&5. Other accounts receivable (+) and Other accounts payable (-)

- This relates to cases when time of recording is different in public accounts and in national accounts
- Public accounts are often cash based (at least partually), and national accounts is based on accruals
- Usual adjustments here
  - Taxes
  - Subsidies
  - EU-grants
  - Contributions to the EU budget
  - Holiday pay

6. Adjustments for the sector delimitation

- Working balance (+/-) of entities not part of central government but included in starting working balance
  - WB can sometimes include entities that should not be classified in S.13, but e.g. in corporations sector (S.11)
  - They need to be eliminated from the WB
  - For example: quasi-corporations acting on markets

Net lending (+) or net borrowing (-) of other central government bodies

- This adjustment is needed when the WB doesn't include all units of the sub-sector.
- Other units' net lendings needs to be calculated separately.
- Item can be divided to several sub-items, e.g.:
  - Net lending/borrowing of universities
  - Net lending/borrowing of the state holding company

7. Other adjustments (+/-)

- All other differencies between the WB and net lending / borrowing.
- For example adjustments that don't give rise to recording flows in public accounts. e.g.
  - Debt cancellation
  - Debt assumption

Things that are treated differently on WB and net lending/borrowing

- PPPs (Public-Private-Partnerships) classified ”on balance sheet”
  - The non-financial asset recorded as government GFCF
- Financial leasing
  - Government GFCF, rentals
- Sales of mobile phone licences
- Superdividends
- Etc, etc.

- Some countries compile the net lending/borrowing through the working balance

→ no need for residual in table 2

- Some countries compile the net lending/borrowing ”independently” from the source data, so not using the WB

→ residual item in table 2

– There is residual, because it can be quite impossible to catch all differencies between the WB and B.9

- The table 2 residual is one of the quality checks when compiling EDP tables / national accounts
- It is useful to compile table 2 during any NA compilation round
- If the residual remains unusually large, something is not right

  → Check the figures and calculations
- The better / more detailed the source data, the smaller the residual

EDP Table 3

- Explains how change in gross debt is linked to deficit
- For both general government sector and sub-sectors debt
- Shows contribution of each sub-sector to the sector (GG) total and consolidation
- Most information for EDP Table 3 comes from: financial accounts and balance sheets

EDP Table 3: Aims

Consistency check of data for:

- Non-financial account
- Financial account
- Other flows
- Balance sheets
- Market value and nominal value
- For both total (GG) and by sub-sector (SS)

EDP Table 3

Basic presentation:

1. Net lending/borrowing (B.9 non-financial)
2. + Net increase in financial assets
3. + Adjustments
4. + Statistical discrepancies

= Change (+) in consolidated gross debt

EDP Table 3

1. Net lending/net borrowing - B.9 (non-financial)

Same as in EDP Table 2 (but reverse sign as we consider net borrowing in Table 3)

EDP Table 3

2. Net acquisition of financial assets:

- currency and deposits (F.2)
- debt securities (F.3)
- loans (F.4)
- equity and investment fund shares/units (F.5)
- financial derivatives (F.71)
- other accounts receivable (F.8)
- other financial assets (F.1, F.6)
  - monetary gold / special drawing rights (F.1)
  - insurance technical reserves (F.6)

EDP Table 3

3. Adjustment lines:

- Net incurrence of non-EDP financial liabilities
- Issuance of debt above/below par (nominal value)
- Difference in the treatment of interest
- Redemption/repurchase of debt above/below par
- Appreciation/depreciation of foreign currency debt
- Changes in sector classification
- Other volume changes

EDP Table 3

4. Statistical discrepancies

- B.9 – B.9f, difference between non-financial and financial accounts
- Other discrepancies

EDP Table 4:
The submission of memorandum items

Provision of other data in accordance with the statements contained in the Council minutes of 23/11/1993:

1. Trade credits and advances

2. Amount outstanding in the government debt from the financing of public undertakings

3. Differences between the face value and the present value of government debt

4. Gross National Income at current market prices

5.3.2 Questionnaires related to EDP tables

Questionnaire related to the EDP notification tables

This is a group of EDP related questionnaires, which are legally based on Article 8.2d of Council Regulation 479/2009, as amended. The data included in the questionnaires are mostly non-public. The questionnaire related to EDP notification is reported twice a year. It includes both aggregate and also unit-level information on:

- Table 1: Revision of general government net lending (+)/ net borrowing (-) and revision of general government consolidated gross debt
- Table 2: Breakdown of financial transactions included in the working balance
- Table 3: Adjustments for sector delimitation in EDP tables
- Table 4: Breakdown of other accounts receivable/payable (F.8) reported in EDP tables
- Table 5: Taxes and social contributions: other accounts receivable/payable (F.8) of general government
- Table 6: Recording of EU flows in EDP tables
- Table 7: Military equipment expenditure (weapons and supporting equipment)
- Table 8: Central government claims, debt cancellation
- Table 9: Guarantees recording (several sub-tables)
- Table 10: Capital injections, super dividends and privatisations
- Table 11: Public-Private Partnerships (PPPs)
- Table 12: Sale and leaseback operations
- Table 13: Re-routing of transactions and assets/liabilities through government accounts impacting B.9 and debt

Supplementary table on government interventions to support financial institutions

Since 2009 Eurostat has regularly collected and published data on government interventions to support financial institutions. The data are presented in two parts of the supplementary tables. Part 1 shows the actual impact of interventions on government deficit. Part 2 shows the actual and potential impact on government debt. Eurostat publishes individual tables for EU Member States.

See also: http://ec.europa.eu/eurostat/documents/1015035/2022710/Background-note-on-gov-interventions-APR-2016-final.pdf

Here is first a short overview of all tables in the Questionnaire related to the EDP notification tables. Then, tables concerning government guarantees (table 9) and PPPs (table 11) are explained in more detail.

The questionnaire

- Additional information for Eurostat to assess EDP tables and deficit and debt compilation
- First introduced in 2005, and amended in 2009 and 2014
- 13 main tables, but altogether about 20 tables
- Coverage 4 years
- Some details are voluntary in April reporting

- Several consistency checks between
  - different questionnaire tables
  - questionnaire tables and notification tables

    → important to check tables carefully when compiling
- Many tables include breakdowns of notification tables items, e.g.
  - Financial transactions included in working balance (questionnaire table 2)
  - Net lending of other government bodies (questionnaire table 3)
- Normal, that all data to fill in tables perfectly is **not** available!

The questionnaire tables

Table 1: Revision of general government net lending (+) / net borrowing (-) and revision of general government consolidated gross debt

- Revisions compared to previous reporting, by sub-sectors and divided to different categories (updated data sources, methodological changes, elimination of errors etc.)

Table 2: Breakdown of financial transactions included in the working balance

- For example loans granted and equity acquisitions by transactions ("400 meur loan to Skopje Energy Ltd")

Table 3: Adjustments for sector delimitation in EDP tables

- Net lending of general government units not included in working balance, by units or groups of units ("extra-budgetary fund Z", "units in NACE group L, real estate activities")

Table 4: Breakdown of other accounts receivable/payable (F.8) reported in EDP tables

- Breakdowns include receivables/payables related to taxes, EU flows, trade credits etc.
- Very large table with many consistency checks

Table 5: Taxes and social contributions: other accounts receivable/payable (F.8) of general government

- Relates to accrual (in practise, e.g. time-adjusted cash) recording of taxes in national accounts
- Breakdowns by different tax types (taxes on income, taxes on products etc.)

Table 6: Recording of EU flows in EDP tables

- Special rules in national accounts how to record grants **from** EU and contributions **to** EU
- In table, data related to this

Table 7: Military equipment expenditure (weapons and supporting equipment)

- There are also special rules how to record military expenditure
- Not only numbers, but also qualitative information, for example "Is it current practice for military equipment contracts to include noticeable prepayments or late payments?"

Table 8: Central government claims, debt cancellation

- Stocks and flows of central government loan (AF.4) receivables and receivables related to guarantees (AF.8)
- Debt cancellations recorded in notification table 2A

Table 9: Guarantees recording (several sub-tables)

- More about guarantees later

Government guarantees, Table 9

Questionnaire table 9: Government guarantees

- Data on guarantees granted by government units, consolidated within general government
- Different kinds of guarantees in countries
  - Governments have many kinds of commitments- > not always easy to identify a guarantee
  - Only formal guarantees included
- **Not** included in the table
  - Guarantees to EFSF (already in government debt)
  - Derivative types of guarantees
  - Deposit insurance schemes
  - Guarantees to earth quakes, large floods etc.

- Table may also include guarantees provided by non-government units, but on behalf of government
  - For example, Finland includes guarantees provided by Finnvera, the export insurance company
  - Without Finnvera, the table wouldn't give the right picture

- Three sub-tables
  - Government guarantees in public accounts (9.1)
    - Mixes data from public accounts and national accounts
    - ”Debt guaranteed by government”, but also guarantees on **assets** should be included!
    - Stocks of guarantees (of which: to public corporations, to financial corporations)
    - New guarantees (flows)
    - Cash calls
    - Repayments by the original debtor
    - Etc

- Guaranteed debt assumed by government (9.2)
  - MGDD: After three cash calls, guaranteed debt need to be recoded as government debt
- Guarantees as reported in EDP table 2 (9.3)
  - Here are reported all guarantees related transactions, that affect the net lending
  - For example: debt assumptions = capital transfer expenditure, fees from guarantees = revenue
- Standardised guarantees (9.4)
  - Standardised guarantees is a new thing in ESA 2010, treated similar way to non-life insurance
  - Large numbers of small individual guarantees
  - Typical standardised guarantees are student loan guarantees, maybe also some export insurance

- Typical problems with guarantees reporting
  - Lack of data for local government
  - Data from a separate source data inquiry isn't compatible with government book-keeping data
    - Some kind of inquiry is likely to be needed, because guarantees are contingent liabilities (i.e. not in book-keeping)
  - Problems with consolidating
  - No data on individual cash calls

- Eurostat asks guarantees data also in the supplementary EDP questionnaire on contingent liabilities and potential obligations

A real life example on guarantees

- Central government
  - Data source: Statistics Finland's inquiry
  - Inquiry is for units that grant or administrate guarantees: State Treasury, Finnvera, Social insurance istitution (student loan guarantees) etc.
  - Data on new and expired guarantees, fees, indemnities (cash calls), revenue from recovery claims etc.
  - This data is used in table 9, but when compiling national accounts, the transactions are (assumed to be) already included in state book-keeping data
  - Not possible to follow individual guarantees

- Local government
  - No separate inquiry
  - Data source is the municipal statistics of Statistics Finland
  - Only data on stock of guaranteed debt
  - Consolidation within government cannot be fully done
  - Hopefully in near future we'll have better source data
  - Expenditure and revenue related to guarantees is included in municipal statistics, but not available in detailed way

Public private partnerships (PPP), Table 11

Introduction

- Table requests data on PPPs, according to PPP definition in ESA/MGDD
- Not all long term contracts and projects are PPPs
- Main features of PPPs
  - Government (a grantor) signs with commercial partner(s) (an operator) a contract for the delivery of services derived from a specific asset
  - Significant initial capital expenditure
  - Government is the main purchaser of the services from the partner

Introduction

- Operator can be either private or public corporation
- Usual PPP-assets: motorways, schools, office buildings
- Decision based on analysis of the project contract:
  on or **off** government balance sheet?
- Off balance sheet: only purchase of services is recorded
- On balance sheet: investment expenditure for government, effect to debt, smaller service component

Contents of the table 11

Table 11.1 Financial data and national accounts information on PPPs

- Both on and off balance sheet projects
- Data on total amounts
- Individual data on 10 largest PPP projects
  - Project name and type, information on grantor and operator
  - Contract signed/amended during 6 months?
  - Numeric data on investments and yearly payments
  - Information on risks (who bears the risks), relates to classification of project to on or off balance sheet

Contents of the table 11

Table 11.1(m) Memo items: Types of guarantees for largest PPPs recorded off government balance sheet

- Are there guarantees in projects? What kind of?

Table 11.2 Financial data on government payments in PPPs, other than unitary charge payments

- Here reported, if government, for example, participates in financing the PPP asset or provides a loan

Source data for PPPs

- For classifying PPPs, information is needed

  First: New projects

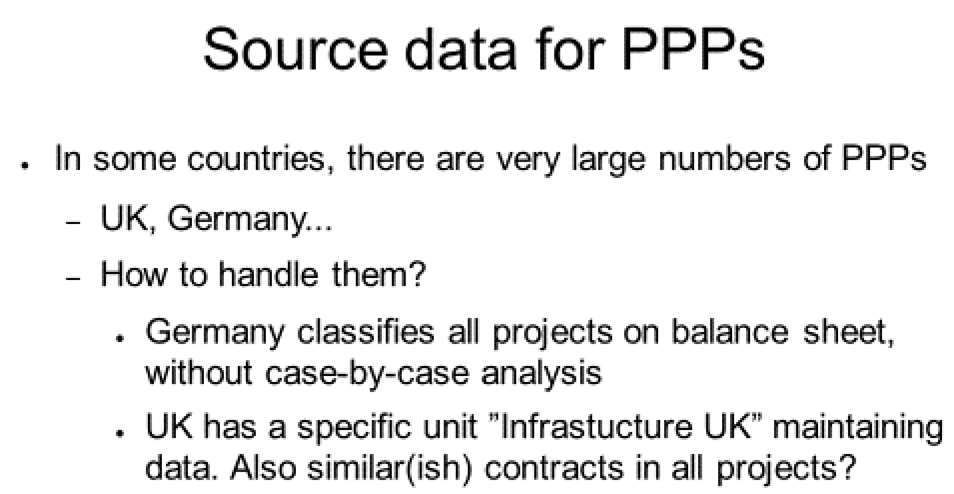
  Then: Contracts of projects

- In some countries, there is information in a ”national PPP center”

- In Finland, information on
  - central government projects (motorways) is available from the Transport Agency
  - local government projects are not available in one place

Source data for PPPs

- Finnish local government projects are schools etc.
  - Information from internet, newspapers...
  - When a new project is found
    - Is it a *real* PPP project? (many times not)
    - If yes, we ask for a contract and make a classification analysis



5.3.3 Contingent liabilities and potential obligations

The budget framework directive article 14.3 (Council Directive 2011/85/EU) lead into a Eurostat questionnaire including tables on guarantees, off-balance sheet public private partnerships (PPPs) and non-performing loans. The name of the questionnaire is Supplement on contingent liabilities and potential obligations to the EDP related questionnaire. Data for the questionnaire will be transmitted annually before 31 December (T+12 months) by the national statistical authority, alongside the Questionnaire on government controlled units classified outside general government (includes company data on e.g. debt and 50% market test results).

Table 1 Government guarantees

Table 2 Total outstanding liabilities related to PPPs recorded off-balance sheet of government

Table 3 Non-performing loans of General Government

Background

Council Directive 2011/85/EU on budgetary frameworks of the Member States:

"For all sub-sectors of general government, Member States shall publish relevant information on contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof."

→ Eurostat Task Force on the implications of the Directive on the collection and dissemination of fiscal data

Background

The Task Force agreed that the Member States should publish regularly the following indicators:

- government guarantees
- liabilities of government controlled entities classified outside general government (public corporations)
- off-balance sheet PPPs
- non-performing loans (government assets)
- data on participation of government in the capital of corporations

Background

The Task Force also agreed that

- the same indicators (except participation of government in the capital of corporations) would be published by Eurostat (to achieve comparability of data between Member States and to build up time series)
- there would be Eurostat data collection ”Supplement on contingent liabilities and potential obligations to the EDP related questionnaire”
- data on liabilities of public corporations would be based on the ”Questionnaire on government controlled units classified outside general government”

Eurostat reporting

- First data collection in year 2014
- Deadline t+12 months
- Same deadline as for public corporations questionnaire

Eurostat reporting

Government guarantees

- Same coverage/definitions than in EDP Questionnaire, but different breakdowns
- By subsectors
  - On-off guarantees
    - Of which: to public corporations
    - Of which: to financial corporations
  - Standardised guarantees

Eurostat reporting

Off-balance sheet PPPs

- Total outstanding liabilities related to PPPs recorded off-balance sheet of government
- New information
- Adjusted capital value
- In Finland: Statistics Finland's own estimation and calculation

  → Contractual capital value of the asset

  reduced by depreciation of 30 years

Eurostat reporting

Non-performing loans of general government

- New information
- Government assets
- Rough definition: Debtor's payments of interest or principal are past due by 90 days
- (more precise definition: ESA 2010 ch 7.101)

National publication

- Same data what Eurostat publishes
  plus
  data on participation of government in the capital of corporations
- Responsibilities of publication can be decised nationally
- In many countries publisher is the Ministry of Finance
- In Finland
  - Data (ready for publication) from Statistics Finland
  - Publication on MoF web page http://vm.fi/en/monthly-data-on-on-public-finances

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