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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the quality of fiscal data reported by Member States in 2014

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1. BACKGROUND

Article 8(3) of Council Regulation (EC) No 479/2009 on the application of the Protocol on the excessive deficit procedure (EDP) annexed to the Treaty establishing the European Community[1], as amended, requires the Commission (Eurostat) (hereinafter referred to as "Eurostat") to report regularly to the European Parliament and to the Council on the quality of the actual data reported by Member States. This annual report provides an overall assessment of timeliness, reliability, completeness, compliance with accounting rules and consistency of the data. The previous report (on the 2013 notifications) was adopted by the Commission on 7 March 2014[2].

Eurostat regularly assesses the quality of the actual data reported by Member States and of the underlying general government sector accounts which were compiled for the first time in October 2014 in accordance with Council Regulation (EC) No 549/2013 of 21 May 2013 on the European system of national and regional accounts in the European Union (ESA 2010)[3]. This work concentrates on the factors that explain the general government deficit/surplus and the change in the general government debt. Member States send this information to Eurostat twice per year as part of the "EDP notification tables" and of the supplementary information included in the "Questionnaire related to the EDP notification tables", in the "Supplementary table for the financial crisis" and also via bilateral clarifications provided by Member States. Eurostat also maintains a permanent dialogue with Member States by undertaking regular EDP dialogue visits.

This report is based on the main findings and results of the EDP reporting in 2014, focusing on the latest exercise of October 2014. Where appropriate, comparisons are made with the April 2014 reporting, as well as with the reporting in 2013.

2. MAIN FINDINGS ON THE 2014 REPORTING OF GOVERNMENT DEFICIT AND DEBT LEVELS

2.1. Timeliness, reliability and completeness

2.1.1. Timeliness

Member States are required to report their actual and planned EDP data to Eurostat twice per year, before 1 April and 1 October[4]. During 2014, the EDP reporting covered the years 2010 to 2014. The figures for 2014 are those planned by the national authorities, while the 2010 to 2013 figures are actual data[5]. In accordance with Article 8(1) of Regulation (EC) No 479/2009, Eurostat assesses the actual data reported by Member States, but not the planned data.

Compliance with the reporting deadlines is very good. In 2014, all Member States reported their actual data respecting the legal deadline in both EDP notifications. As

1 OJ L 145, 10.6.2009, p. 1.
2 COM(2014)122 final.
3 OJ L 174, 26.6.2013, p.1-727.
4 Articles 3(1) and (3) of Regulation (EC) No 479/2009, as amended.
5 Actual data can be final, half-finalised or estimated figures.

concerns planned data, some countries delivered planned data for the year 2014 later than the actual data.

2.1.2. Reliability

Revisions between the April 2014 and the October 2014 notifications were mainly due to the introduction of the new ESA 2010 and other statistical changes. Contrary to past years, the debt ratio was revised more than the deficit ratio, notably due to reclassifications of public units into the general government sector and due to significant increases in GDP.

The new ESA 2010 introduced three main methodological changes:

- A change in the criteria used to determine the scope of the general government sector, which may lead to the reclassification of entities into or outside the general government sector.
- A change in the recording of lump sums paid to government in relation to transfer of pension funds.
- The removal of an adjustment made for net interest flows associated with swaps and forward rate agreements.

A detailed table was provided accompanying the October press release with information on the main changes by Member State and year[6].

The largest positive revisions[7] in the 2013 deficit as percentage of GDP took place in Ireland (+1.5 pp), Luxembourg (+0.6 pp), Cyprus (+0.5 pp) and Greece (+0.5 pp). The largest negative revision[8] in the deficit took place in Lithuania (-0.5 pp) and for five Member States it was -0.3 pp. Usually revisions to GDP do not impact government deficit ratios significantly but, as a result of ESA 2010 and other (in some cases benchmark) changes, several Member States have significantly revised their GDP (generally upwards). The upward revisions of GDP have significantly improved the 2013 deficit ratios of Cyprus (+0.5 pp), Ireland (by +0.4 pp), Slovenia (+0.4 pp) and the UK (+0.3 pp).

As regards the revisions to the 2013 deficit due to introduction of ESA 2010, the largest positive revision is noted in Ireland (+0.9 pp) and Greece (+0.3 pp) while the largest negative revisions were recorded in Lithuania (-0.5 pp) and the United Kingdom (-0.4 pp).

Other large revisions to the 2013 deficit (not related to the introduction of ESA 2010 in government accounts or changes in GDP) were observed for Luxembourg (+0.5 pp), Slovakia (+0.3 pp), Estonia (-0.3 pp) and Belgium (-0.4 pp).

A number of Member States have revised their 2013 debt ratios significantly. The denominator effect of revisions to GDP is usually larger on government debt ratios

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6 See http://ec.europa.eu/eurostat/documents/1015035/2022675/Revisions-gov-deficit-debt-2010-2013.pdf/e1fb4083-c18a-4f69-9dbc-138fb73ad9a5

7 Decrease in deficit.

8 Increase in deficit.

than on government deficit ratios. An upward revision of GDP has a significant debt ratio lowering effect (in particular when the debt level is high).

Nine Member States revised their 2013 debt ratios by 2 percentage points of GDP or more: Cyprus (-9.5 pp), the Netherlands (-4.9 pp), Italy (-4.8 pp), the UK (-3.3 pp), Malta (-3.2 pp), Sweden (-2.0 pp), Belgium (+3.0 pp), Austria (+6.7 pp) and Croatia (+8.6 pp).

The impact of changes to GDP on the debt ratio was particularly noticeable in Ireland and Cyprus, though in Ireland this was largely offset by the impact of ESA 2010 (this was also the case in Portugal).

The revision to the debt (numerator) due the introduction of ESA 2010 was clearly more prominent than the revisions related to other reasons for all EU countries except for Denmark. Nevertheless these other revisions had a relatively large impact in Belgium (+1.7 pp), Denmark (+1.1 pp) and France (+0.9 pp).

2.1.3. Completeness of tables and supporting information

Completion of the reporting tables is a legal obligation and is essential for a proper assessment by Eurostat of the quality of the data. Article 8(2) of Regulation (EC) No 479/2009 as amended, specifies that Member States must provide Eurostat with the relevant statistical information, which *"(…) in particular (…) means:*

(a) data from national accounts;

(b) inventories;

(c) EDP notification tables;

(d) additional questionnaires and clarification related to the notifications."

There are four main EDP notification tables. Table 1 covers the reporting of government deficit/surplus and debt levels, tables 2A to 2D provides the data which explain the transition between the national definitions of government balance and the deficit/surplus of each government sub-sector, tables 3A to 3D provides the data which explains the contributions of the government deficit/surplus and the other relevant factors to the variation in the government debt level and the consolidation of debt. Table 4 includes data mainly on Trade credits and advances[9]. The completion of EDP tables 1 to 3 is a legal obligation. Tables 1 and 2A (central government) cover the years 2010 to 2014, whilst the other tables cover the years 2010 to 2013[10].

Most Member States completed all EDP notification tables[11]. In the October 2014 reporting, for EDP tables 2, all Member States provided details on the link between the working balance and the EDP surplus/deficit for all the sub-sectors. In the United Kingdom, the working balance is judged to be on an ESA 2010 basis. Accordingly,

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

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

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

very few adjustments to transform the working balance into the deficit/surplus according to the ESA are reported. Some other countries also report only a limited number of transition items.

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

Despite improvements achieved in some Member States, the overall coverage of the EDP table 4 remains inadequate in many cases. In particular, several countries are not providing complete data for the stock of liabilities of trade credits and advances which contributes to give a more complete picture of government liabilities.

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

All Member States submitted replies to the "Questionnaire relating to the notification tables"[12]. Although the coverage and quality of answers continued to improve compared to past years, progress is still necessary, as some countries did not report all the details requested in the questionnaire. This applies notably to data on central government claims and debt cancellations, the breakdown of other accounts receivable/payable, the recording of government guarantees (mainly the coverage of the local government subsector) and the data on capital injections.

2.1.4. Supplementary tables relating to the financial crisis

Eurostat has been collecting a set of data on the financial crisis in a supplementary table since 15 July 2009. The data collected in 2014 referred to the period 2007 to 2013. All but eight Member States (Bulgaria, the Czech Republic, Estonia, Croatia, Malta, Poland, Romania and Slovakia) reported various interventions undertaken by government in the context of the financial crisis during the 2007-2013 period. Eurostat published a note alongside its EDP Press Releases analysing these data[13].

2.1.5. Questionnaire on intergovernmental lending

Member States also provide data on bilateral intergovernmental lending, which usually takes place in the context of financial assistance programmes. The EDP News Release includes this information as well as information on intergovernmental lending in the context of the European Financial Stability Facility (EFSF). For 2013 the data mainly relate to lending to Greece, Ireland and Portugal.

Such bilateral intergovernmental lending and intergovernmental lending in the context of the EFSF increased substantially in the context of the financial crisis. It is subtracted when calculating the EU28 and euro area aggregates for the Maastricht government debt[14], since both are shown on a consolidated basis. Due to this

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[12] This questionnaire comprises thirteen sections requesting quantitative and sometimes qualitative information in several areas, such as transactions in taxes and social contributions and with the EU, acquisition of military equipment, government guarantees, debt cancellations, capital injections made by government into public corporations, Public-Private Partnerships, etc.

[13] See: http://ec.europa.eu/eurostat/documents/1015035/2022675/Background-note-fin-crisis-Oct-2014-final.pdf

[14] According to the Protocol on the excessive deficit procedure annexed to the Treaties, government debt is the consolidated gross debt of the whole general government sector outstanding at the end of the year (at nominal value). According to Regulation 479/2009, as amended by Commission Regulation (EU) No 220/2014,

consolidation, the EU28 and euro area aggregates are not equal to the arithmetical sum of Member States' debt (i.e. the above mentioned intergovernmental lending between governments is not included, to avoid double-counting).

The figures reported for the years 2011, 2012 and 2013 for Member States thus include the amounts in relation to the EFSF.

2.2. Compliance with accounting rules and consistency of statistical data

2.2.1. Exchange of information and clarifications

During the notification period between the reporting deadline of 1 October and the publication of the data on 21 October 2014, Eurostat contacted the national statistical authorities in every Member State to request further information and to clarify the application of the accounting rules on specific transactions. This process involved several rounds of correspondence between Eurostat and the national authorities. A first round of requests for clarification was sent to all countries before 4 October. A second round of requests was sent to 21 countries and a third round to five countries. A fourth and a fifth round of clarification was sent to one Member State. For some countries, Eurostat asked for revised notification tables.

2.2.2. Dialogue and methodological visits

Regulation (EC) No 479/2009, as amended, makes provision for dialogue and methodological visits. Dialogue visits to Member States are conducted regularly with the aim of reviewing reported data, examining methodological issues, discussing statistical sources and assessing compliance with the relevant accounting rules, for example on the delimitation of general government, the time of recording and the classification of government transactions and liabilities. The frequency of the regular EDP dialogue visits has increased in the last years and is decided on the basis of a country risk assessment procedure developed by Eurostat.

In case a specific important issue is raised with the Member State, which cannot be resolved otherwise than by a physical meeting with the concerned authorities, an ad-hoc visit in the Member State is organized in a shortened procedure.

Until November of the year 2014, Eurostat carried out the following EDP dialogue visits: Bulgaria (22-23 January), Belgium (3-5 February), Germany (26-27 February), Greece (20-21 March), Malta (20-21 May), Hungary (10-11 June), France (25-26 June), Austria (7-8 July), Greece (22-23 September), Cyprus (24-25 September), Denmark (24-25 September), Portugal (10-11 November), Czech Republic (19-20 November) and Ireland (26-28 November). Furthermore, ad-hoc visits were undertaken to Belgium (13-14 February), Poland (2 September), Romania (8 September) and Luxembourg (18 September). Eurostat carried out a technical visit to Croatia on 2-4 June, a pre-euro accession visit to Lithuania on 5-6 March and a training visit to Croatia (8-9 September).

The final findings of each dialogue visit, including a description of the action points agreed, and its state of play, are sent to the Economic and Financial Committee and published on the website of Eurostat. The implementation of these action points leads to improvements in data quality over time.

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it includes the following categories: currency and deposits (AF.2), debt securities (AF.3) and loans (AF.4) as defined in ESA 2010.

Methodological visits are undertaken only where Eurostat has identified significant risks or problems with respect to the quality of the data, especially relating to the methods, concepts or classifications used. No methodological visits were carried out during 2014.

2.2.3. Specific advice by Eurostat

Member States regularly consult Eurostat to clarify various national accounting issues in relation to future or past operations. Eurostat provides advice in accordance with the existing guidelines. To comply with the transparency provision in Regulation (EC) No 479/2009, as amended, Eurostat publishes its advice[15], unless the Member State concerned raises an objection. Eurostat published sixteen ex-ante advices in 2014.

2.2.4. Launching of an investigation as referred to in Regulation (EU) No 1173/2011 of the European Parliament and of the Council on the effective enforcement of budgetary surveillance in the euro area

Regulation (EU) No 1173/2011 of the European Parliament and of the Council empowers the Commission to launch an investigation if there are suspicions of manipulation of statistics due to "deliberate misreporting" or "serious negligence". Regulation (EU) No 1173/2011 puts in place investigation procedures and allows financial sanctions (up to 0.2% of GDP) in the case of manipulation of statistics.

On 11 July 2014, the European Commission decided to launch a formal investigation into the possible manipulation of statistics in the region of Valencia (Comunidad Valenciana), Spain[16].

The investigation will examine whether deliberate or seriously negligent misreporting of expenditure in the region caused Spain's national debt and deficit data to be misrepresented during the period 1988-2011.

This is the first time that the Commission draws on its new powers under the "Six Pack" economic governance legislation to investigate suspected manipulation of a Member State's debt and deficit data. If the Commission considers that the investigation confirms the existence of a misrepresentation, it may recommend that the Council imposes a fine on the Member State. The investigation is still on-going. The Commission is not calling into question the current accuracy of EDP statistics in Spain.

2.2.5. Recent methodological issues

As usual, Eurostat assessed the proper application of the ESA2010 rules, in particular in view of its latest decisions in accordance with Article 10(2) of Regulation (EC) No 479/2009. These decisions are included in the Manual on Government Deficit and Debt (MGDD), the latest version of which was published in August 2014[17]. The new version consists of eight parts but only some chapters needed to be updated to be brought in line with ESA 2010.

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[15] See: http://ec.europa.eu/eurostat/web/government-finance-statistics/methodology/advice-to-member-states

[16] C(2014) 4856 final.

[17] See: http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-14-010

Eurostat provides additional methodological guidance documentation on the accounting rules for EDP and GFS complementing the general rules of ESA 2010. Guidance notes are released under the responsibility of Eurostat, after consulting Member States. In 2014 Eurostat published three guidance notes:

- The classification of Central Stockholding Entities (CSEs) in ESA 2010

- Deferred Tax Assets (DTAs) and recording of tax credits related to DTAs in ESA 2010.

- Treatment of Claw-back clauses in the sales of assets by government in national accounts.

Since January 2013, Eurostat has posted on its website the *"Inventory of EDP processes"*. The aim of the document is to describe the procedures and principles applied in the process of verification of the EDP data by Eurostat.

2.2.6. Consistency with underlying government accounts

The notification deadlines of 1 April and 1 October set by Regulation (EC) No 479/2009, as amended, were introduced in order to ensure consistency with the underlying annual and quarterly government sector accounts, as reported to Eurostat in various ESA transmission tables. Eurostat systematically analyses the consistency of the EDP notifications with the underlying government sector accounts. For example, total government expenditure and revenue should be consistent with the reported deficit figure. However, for quarterly financial accounts of general government, the deadline for euro area countries to report provisional data is set before the EDP notification at t+85 days.

The overall consistency of EDP data with the reported ESA2010 government accounts has improved in recent years and is generally better for non-financial than for financial data. In the October 2014 reporting, consistency between EDP figures and annual and quarterly main aggregates of general government (ESA tables 2 and 25) was complete for the non-financial data and quarterly government debt. However, efforts by Member States are still needed in order to ensure the consistency between EDP and ESA tables as regards financial data. Noticeable discrepancies between the EDP data and the quarterly financial accounts appeared in the October 2014 reporting for five Member States (Belgium, Germany, Greece, Luxembourg and Austria). Smaller differences were observed for four countries.

2.3. Publication

2.3.1. Publication of headline figures and detailed reporting tables

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

The government deficit and debt data were published on 23 April[18] and 21 October[19] 2014 together with all the reporting tables, as notified by the Member States. Since

[18] See: http://ec.europa.eu/eurostat/documents/2995521/5178982/2-23042014-AP-EN.PDF/83e13609-68f7-4cac-9dd7-0ccf92663564?version=1.0

February 2012, Eurostat regularly publishes a press release on quarterly Maastricht debt, at approximately T+115 days. Since February 2014, Eurostat also publishes a press release on quarterly general government deficit.

In accordance with Regulation (EC) No 479/2009 as amended, Member States shall make public their actual data on deficit and debt. All Member States publish deficit and debt figures at national level. Most Member States have reported to Eurostat a practice of publishing all their EDP tables. Six Member States (Bulgaria, Italy, Luxembourg, Malta, Poland and Slovakia) publish only some of the reporting tables and one Member State, France, does not publish any of the EDP tables at national level.

2.3.2. Reservations on the quality of data

Eurostat expressed a reservation on the data reported in the April 2014 EDP notification by the Netherlands due to uncertainties on the statistical impact of the government interventions relating to the nationalisation and restructuring of SNS Reaal in 2013. The issue was clarified with the Dutch statistical authorities and Eurostat withdrew the reservation in the October 2014 EDP notification.

Eurostat also withdrew in April 2014 a reservation on the data reported by Austria in the October 2013 EDP notification due to uncertainties on the statistical impact of the conclusions of the Federal Audit Office's report on the Land Salzburg. Following investigations by the Austrian statistical authorities, the necessary revisions were introduced in the reported deficit and debt figures.

2.3.3. Amendments to the reported data

Eurostat did not amend the data reported by Member States in the April and October 2014 EDP notifications.

2.3.4. Publication of metadata (inventories20)

Regulation (EC) No 479/2009, as amended, specifies that the EDP inventories are among the statistical information to be provided by Member States to allow Eurostat to check compliance with ESA rules. Furthermore, it stipulates that national publication of these inventories is mandatory. Eurostat has introduced an updated format for the EDP inventories which involved structural changes and required more detailed information. The updated EDP inventories were published on 12 December 2013[21].

The new EDP inventories for twenty Member States are available on Eurostat's website. For the remaining Member States: Belgium, Croatia, Ireland, Luxembourg, the Netherlands, Austria and the United Kingdom, the work on the new inventories is still in progress. Eurostat is in constant dialogue with Member States on their implementation plans. The delays are explained by the priority given to the

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[19] See: http://ec.europa.eu/eurostat/documents/2995521/5182258/2-21102014-AP-EN.PDF/497e3b55-dca0-482f-93e0-d82f81bc92d7?version=1.0

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

[21] http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-inventories

implementation of ESA 2010. A new inventory template adapted to ESA 2010 has been agreed and its publication is foreseen towards the end of 2015.

3. CONCLUSIONS

Eurostat acknowledges overall improvements in the consistency and completeness of the reported data. Nevertheless, some issues persist, and Member States should step up efforts in order to improve the coverage and quality of the trade credits reported and reach the same quality levels obtained when calculating other government liabilities. In particular, this is the case of Belgium, Denmark, Germany, Ireland, Greece, France, Croatia, Italy, Cyprus, Malta, the Netherlands, and the United Kingdom.

In 2014, Eurostat expressed a reservation on the data reported in the April 2014 EDP notification for the Netherlands. The reservation was withdrawn in October 2014. There were no other reservations or amendments to the reported data in the EDP press release of October 2014, which was the first EDP notification in accordance to ESA 2010. The revisions to past data on deficit and debt were fully justified by the implementation of ESA 2010. Overall, Eurostat concludes that the progress on the quality of the reporting of fiscal data continued in 2014. In general, Member States have provided better information, both in EDP notification tables and in other relevant statistical returns.