ESA 2010 and the EDP Procedure

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What is Eurostat?

Part of the European Commission – Commissioner Marianne Thyssen

The statistical office of the European Union

The central institution of the European Statistical System (ESS)

The European Statistical System (ESS)

Partnership between

Eurostat

All MS National Statistical Institutes

EFTA countries NSIs

and other national authorities of the EU

How does this partnership work?

ESS	• Harmonisation of methodologies, concepts and classifications
National statistical offices:	• Collection of data
Eurostat	• Consolidation of the data • Production of European aggregates • Publication • Decision on methodological issues

National accounts

Macroeconomic accounts produced by statisticians !

Designed in the 1950s-60s

Draw from both economic theory and business accounting

Improved and expanded over time, adapting to changing economic reality

>> Worldwide System of National Accounts (SNA)

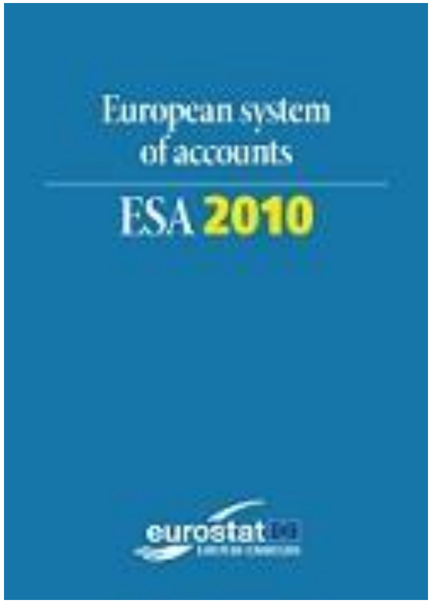
The European System of Accounts (ESA 2010)

The European version of the worldwide standards

EU Regulation

= directly applicable in the Member States

+ specific guidance for government (Manual on Government Deficit and Debt



Covers the whole economy…

Government Finance Statistics

"General Government Sector" in national accounts – grouping of units

Expenditure

- Revenue

=Deficit

Financing transactions

Balance sheets (assets, liabilities/debt)

ESA vs IFRS/IPSAS?

Substantial areas of similarity, but also fundamental differences to be managed

Areas of similarity

Integrated system of stocks and flows

Balance sheets

Double/Quadruple entry accounting

Accruals basis

…when economic value is created, transformed or extinguished

Concepts of control

Main areas of difference (except jargon…)

Valuation - ESA general preference for market value

Treatment of holding gains and losses - Not income/expense!

Investment is expenditure (not depreciation)

Provisions/guarantees

Overview of the ESA 2010

Two parts

- ESA 2010 provides for:
  - **a methodology (Annex A) on common standards, definitions, classifications and accounting rules that shall be used for compiling accounts and tables on comparable bases for the purposes of the Union, together with results;**
  - **a programme (Annex B) setting forth the time limits by which Member States shall transmit to the Commission (Eurostat) the accounts and tables to be compiled according to the methodology referred to in Annex A.**

General features (1)

- The European System of Accounts (the ESA 2010) is an internationally compatible accounting framework for a systematic and detailed description of a total economy (that is, a region, country or group of countries), its components and its relations with other total economies.
- The structure of the ESA 2010 is consistent with the worldwide guidelines on national accounting set out in the 2008 System of National Accounts apart from certain differences in presentation and the higher degree of precision of some of the ESA 2010 concepts which are used for specific EU purposes.

General features (2)

- The ESA 2010 is harmonised with the concepts and classifications used in many other social and economic statistics (for example, statistics on employment, statistics on manufacturing and statistics on external trade).
- The ESA 2010 therefore serves as the central framework of reference for the social and economic statistics of the EU and its Member States.

General features (3)

- The concepts in the ESA 2010 are:
  - **(a) internationally compatible;**
  - **(b) harmonised with other social and economic statistical systems;**
  - **(c) consistent;**
  - **(d) operational, meaning that they can be measured in practice;**
  - **(e) different from most administrative concepts;**
  - **(f) well-established and fixed over a long period;**
  - **(g) focused on describing the economic process in monetary and readily observable terms;**
  - **(h) capable of applying in different situations and for different purposes.**

Protocol 12 of TFEU gives details on EDP

- Defined EDP reference values: 3% for deficit and 60% for debt.
- Defined what 'deficit' and 'debt' mean.
- MSs should report their actual and planned deficits and debt levels promptly and regularly to the Commission (Eurostat).
- Statistical data to be used for the application of the Protocol should be provided by the Commission (Eurostat).

Council regulation 479/2009

- References to ESA 2010.
- Definition of debt – ESA 2010 categories.
- The quality of data: EDP Inventories, EDP visits.
- Commission (Eurostat) power to express a reservation or amend actual data.
- MSs shall ensure that the NSIs are provided with access to all relevant information to perform their tasks.

COUNCIL REGULATION (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on EDP, amended by Council Regulations (EU) No 679/2010 and 220/2014

European Commission

The main role of Eurostat in the context of the EDP

- Check and **validate** actual data reported by Member States.
- Publish validated data in bi-annual press releases.
- **Clarify application of accounting rules.**
- Organisation of task forces.
- EDP dialogue and methodological visits.

EDP methodological governance

- The compilation of EDP data is based on ESA 2010, an EU regulation.
- The Commission (Eurostat) is responsible for its interpretation, when necessary.
- The Commission (Eurostat) conducts this task with the assistance of the European Statistical System (ESS) statistical groups or committees, such as:
  - MGDD Task-Force on methodological issues;
  - EDPS Working Group.
- Questionnaires sent to MS for consulting and fact-finding purposes – increasingly used.

Methodological issues under discussion

- Rerouting issues: the case of development banks.
  - Discussed in the May and Dec 2017 TF, March 2018 TF, June 2018 EDPS WG.
  - State of play: updated guidance being drafted – new MGDD due in 2019.
- Borderline government vs financial corporations: entities specifically designed for lending to local governments.
  - Discussed July and Dec 2017 EDPS WG, March 2018 TF.
  - State of play: results of the Questionnaire scheduled for the TF of September 2018.

Development banks: why now?

- New wave of development banks
- Since 2008, mostly to mitigate the consequences of the financial crisis
  - New development banks created (e.g. PT, UK, IE)
  - Existing development banks were reorganized
  - Increased cooperation between development banks
  - Juncker Plan promotes the creation of development banks
    - Provision of financial means for co-financing
    - Identifying or preparing suitable project for EFSI support

Statistical issues in EDP

- In which sector should a development bank be classified?
    - General government sector
    - Financial corporations sector
- Are some activities of a development bank to be rearranged?
    - Acting as an agent of government
    - Exposure to risks and rewards
    - Non-market activity

When do we rearrange?

When a development bank is:

A. Acting as a **'government agent'** or at **government request** with regard to a specific transaction/program

B. Sharing with government **'exposure to risk and rewards**' with regard to a specific transaction/program

C. Carrying out a **non-market transaction/program**

Bank acts as a 'government agent' or at government request (A)

What is considered as a government request?

- **Government request** is an instruction that results in limiting the operational autonomy of the bank with regard to the specific transaction/program or government influences the day-to-day management of a transaction/program

- General mandate given by government to the entity in its role as an owner (on general policy and/or strategy) **is not** considered as a request

What is meant by acting as 'government agent'?

- Following the request, government takes all the risks and rewards from the specific transaction/program: a bank acts as 'accounting tool' for government, which is often reflected in its annual report (through separated accounts)

What indicates government request?

a) There is evidence that **government has requested** the bank to carry out the specific transactions through instruction (decree, formal letter, official statement, decree) or any other evidence – statements in annual reports (of units concerned, of supervisory authorities, of auditors)

b) Government predetermines **most of terms of a transaction or a program** (e.g. interest rate, individual beneficiaries, loan amounts, etc.) such that the bank's ability to effectively influence the contracts becomes negligible

c) Government representatives constitute **the majority of members in investment committees of the bank** deciding on the specific transaction (persons representing the executive, legislative or judicial government powers)

Bank shares with government 'exposure to risk and rewards' (B)

- A development bank acts for government taking **no or minor risks but it is interested in getting the rewards**

- Government provides **the general framework** of a transaction/program and it does not impact the day-to-day management of a transaction (e.g. by a specific request as it was in case A)

- Bank shows high **involvement in implementation of a transaction** and it has incentives to perform at best (to get rewards in form of a larger operating margin)

- Usually, government takes over risks through the existence of dedicated **guarantees**

What indicates 'sharing risk and rewards'?

When government imposes the general framework of a transaction/program and if:

a) Government assumes substantially **most of the risks and rewards related to a transaction/program**, despite a development bank has legal ownership.

b) A bank is compensated for **at least half of the losses** arising from the transaction. This is a case when transaction is accompanied by dedicated government guarantees.

Bank carries out non-market transactions (C)

- Government influence does not always have to be demonstrated by the existence of the legal instructions to undertake a specific transaction/program

- In some cases, government influence is recognised **through the mere (non-market/non-commercial) characteristics of the transaction/program** (in form of subsidies or transfers)

What indicates non-market transaction?

- The conditions used in the contract between the business partner and the bank are set below the terms usually applied by the entity, **in particular not covering the administration and borrowing cost incurred**

- The contract is fundamentally associated with losses

- The bank enters into rescue operations linked to financial and non-financial institutions with burden is out of proportion to the possible benefits resulting from such operation

Impact on government accounts

- Various statistical impacts possible both on deficit and debt
- Actual impact depends on a specific rearrangement issue as well as on the original recognition in the government source data

Some examples:

- **Impact on debt:** rearrangement/re-routing of loans granted by a development bank at the specific request of government
- **Impact on deficit:** re-routing of investment grants to beneficiaries provided at the specific request of government (if not already recognised as government expense in source data); *possible impact on debt depends on the specific case*

Main issues in nutshell

- Sector-classification of development banks
  - ✓ **Governance**
  - ✓ **Captive financial institution**
  - ✓ **Rearrangement of majority of transactions**
- Rearrangement of particular transactions of development bank via government accounts

European Commission

Conclusions

- *Activities of development banks are challenging area for government statistics as they are strongly oriented towards the interests of government*
- *On-going methodological work to harmonise accounting practices in the Member States*
- *Case-by-case analysis*

Thank you for your attention!