



COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

**REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE  
COUNCIL**

**on quarterly financial accounts for general government**

(presented by the Commission)

## **EXPLANATORY MEMORANDUM**

The objective of this Regulation is to make available, from 2005 onwards, a full set of quarterly financial accounts for general government.

The structure of the attached Regulation follows the existing Regulation (EC) No 1221/2002 of the European Parliament and of the Council of 10 June 2002 on quarterly non-financial accounts of government to some extent. This specifically refers to the time pattern that national data for all Member States will be available with sufficient quality in the course of 2005. Furthermore, for almost all definitions reference is made to the Council Regulation (EC) No 2223/96 of 25 June 1996 on the European System of National and Regional Accounts in the Community (ESA 95) and stock should be taken on the sources and methods used to compile the quarterly data.

The Recitals 1, 3 and 4 cover points especially relevant to financial accounts of government: the appropriateness of using ESA 95 definitions, the general need of data on government financial transactions and balance sheets to support monetary policy and the specific need of from-whom-to-whom data to allow a detailed analysis of government financing and financial investment by counterpart sector and instrument. These Recitals refer to the view that Member States have always indicated to compile and disseminate quarterly public financial accounts for the purpose to present a complete set of sectoral accounts for the government and to strengthen the statistical basis of an integrated system of financial accounts, preferably on the European level for monetary and for fiscal policy purposes.

As a reminder, the special Economic and Financial Committee report, endorsed by the Council (Ecofin) on 18 January 1999, stressed the importance of quarterly data for the surveillance and co-ordination of economic policies in the context of the third phase of European monetary union and completing the single market. In the report, short-term financial statistics were seen as a priority, since they are crucial for the accurate definition and monitoring of economic policy, and notably as a key factor in the EMU policy mix. It also clearly stated that the final aim was the provision of complete quarterly accounts within a reasonable period (later agreed as three months), but following a step-by-step approach.

The Articles cover the framework of data supply (Articles 1, 3 to 7) including readily available information on sources and methods used to compile the quarterly data (Article 8) and specific quality aspects (Articles 2 and 9). The series to be reported are described in Articles 3 to 5. Article 3 lists the various categories of financial instruments as defined and codified in ESA 95, while Article 4 specifies the government sector and its sub-sectors for which quarterly data are to be provided. Article 5 indicates that only consolidated data shall be transmitted for all government sub-sectors, but consolidated and non-consolidated data for the sector as a whole. Finally, this article also refers to the quarterly data, which should be provided as from-whom-to-whom information. A detailed list of this specific data set is described in the Annex to the Regulation. These data would enable a comprehensive analysis of who is financing whom, to which amount and with which instruments.

The Regulation specifies that data must be based as far as possible on information provided directly by sources within general government. Thus, it does not rule out the use of estimates, but these should be exceptional and have a limited impact on the figures. However, an exception is made for data on unquoted shares and other equity where there are major difficulties in some countries, and interpolation or extrapolation are considered acceptable alternatives to direct quarterly data.

According to Article 6.3 the Regulation foresees that the Commission (Eurostat) may grant derogations for the starting date of the data transmitted for the state and local government sub-sectors, not exceeding two years (between mid-2003 and mid-2005). Moreover, the quarterly data to be transmitted shall cover back data from the first quarter of 1999 for transactions and from the fourth quarter of 1998 for balance sheet items, as outlined in Article 7. Back data can be based on "best estimates" if necessary.

As indicated in Article 8 Member States have to provide the Commission (Eurostat) with a description of the sources and methods used to compile the quarterly data starting mid-2003. In parallel, the Commission (Eurostat) shall, by end-2005 at the latest, submit to the European Parliament and Council a report containing an assessment of the reliability of the quarterly data delivered by the Member States.

The proposal of Regulation is the result of work carried out jointly by Eurostat and the European Central Bank with national experts. Since February 2000, a Joint Eurostat/ECB Task Force on Quarterly Financial Accounts for the Government Sector has held regular meetings. The Task Force was mandated by the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) to develop quarterly financial accounts for the government sector and its sub-sectors of EU Member States. In addition the Task Force has conducted various test data transmissions of quarterly national financial accounts from the EU Member States to Eurostat and to the ECB

Based on a sufficient coverage of the data regularly transmitted by Member States from mid-2003 onwards it might be feasible to compile euro area and EU financial transaction accounts and balance sheets, first, for central government and social security funds and, later, for other government sub-sectors. These data on specific sub-sector accounts for the euro area might be used to integrate them into the ECB's quarterly Monetary Union financial accounts (MUFA).

Linking the two Regulations, the Regulation on non-financial accounts and the Regulation on financial accounts for the government sector will allow incorporating saving and non-financial investment, but also other real variables like the various components of government revenue and expenditure. At the end, it will lead to a much-enriched analysis linking financial and non-financial developments, which enables for the government sector a detailed assessment of fiscal policy impulses, of specific traces of the ECB monetary policy transmission process related to government, and of related income and wealth effects. A full integration of the real and financial variables also of other sectors, however, would require more complete financial and non-financial accounts by sector. This extension is part of the ECB/European Commission (Eurostat) Action Plan on EMU statistical requirements.

Proposal for a

**REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**on quarterly financial accounts for general government**

**(Text with EEA relevance)**

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 285 thereof,

Having regard to the proposal from the Commission,<sup>1</sup>

Having regard to the opinion of the European Central Bank,<sup>2</sup>

Acting in accordance with the procedure laid down in Article 251 of the Treaty,<sup>3</sup>

Whereas:

- (1) Council Regulation (EC) N° 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community<sup>4</sup> (ESA 95) contains the reference framework of common standards, definitions, classifications and accounting rules for drawing up the accounts of the Member States for the statistical requirements of the Community, in order to obtain comparable results between Member States.
- (2) The report by the Monetary Committee on information requirements, endorsed by the ECOFIN Council on 18 January 1999, underlined that, for the proper functioning of economic and Monetary Union and the single market, effective surveillance and co-ordination of economic policies are of major importance and that this requires a comprehensive statistical information system providing policy-makers with the necessary data on which to base their decisions. That report also stated that high priority should be given to short-term public finance statistics for Member States, in particular those participating in economic and Monetary Union, and that the objective was the compilation of quarterly government financial accounts following a step-by-step approach.
- (3) Quarterly national data of financial accounts (transactions and balance sheets) for the government sector make up a large proportion of all financial transactions and financial balance sheets in the euro area and provide important information to support the conduct of monetary policy. In this respect and for its own purpose the Governing Council of the European Central Bank has adopted regulations and guidelines to

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<sup>1</sup> OJ C , , p. .

<sup>2</sup> OJ C , , p. .

<sup>3</sup> OJ C , , p. .

<sup>4</sup> OJ N°L310, of 30.11.96, p.1.

safeguard the transmission of infra-annual data on financial statistics and national financial accounts to the European Central Bank.

- (4) Counterpart sector information on government financial transactions and balance sheets is required to enable comprehensive analysis of government financing and financial investment by counterpart sector and by instrument.
- (5) The Commission Regulation 264/2000 of 3 February 2000 and the Regulation (EC) No 1221/2002 of the European parliament and of the Council, of 10 June 2002, specify the non-financial quarterly data for general government that shall be transmitted to the Commission (Eurostat) by Member States.
- (6) Articles 2 and 3 of Regulation (EC) N° 2223/96 of 25 June 1996 lay down the conditions under which the Commission may adopt amendments to the ESA 95 methodology in order to clarify and improve its contents. The compilation of government quarterly financial accounts will require additional resources in Member States, and cannot therefore be dealt with by a Commission Decision but should rather be adopted by a specific Regulation of the European Parliament and of the Council.
- (7) The Statistical Programme Committee (SPC) set up by Council Decision 89/382/EEC, Euratom,<sup>5</sup> and the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) set up by Council Decision 91/115/EEC,<sup>6</sup> have declared themselves in favour of the draft of this Regulation.

HAVE ADOPTED THIS REGULATION:

#### *Article 1*

##### **Purpose**

The purpose of this Regulation is to list and define the main characteristics of the European System of Accounts (ESA 95) categories of financial transactions and of financial assets and liabilities for the general government sector and for each of the sub-sectors within general government, to be transmitted to the Commission (Eurostat) quarterly following a step-by-step approach.

#### *Article 2*

##### **Compilation of quarterly data: sources and methods**

1. With a view to achieving high-quality statistics, quarterly data for financial transactions and for financial assets and liabilities shall be based as far as possible on information directly available within general government. However, quarterly data on unquoted shares (AF.512) and other equity (AF.513), as defined and codified in ESA 95 and held by general government units, may be estimated by interpolating and extrapolating information on the respective annual data.

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<sup>5</sup> OJ, N°L181, of 28.6.89, p.47.

<sup>6</sup> OJ, N°L59, of 6.3.91, p.19.

2. The compilation of quarterly data for financial transactions and for financial assets and liabilities shall comply with the ESA 95 rules, especially concerning the sectoral classification of institutional units, consolidation rules, the classification of financial transactions and financial assets and liabilities, the time of recording, and valuation rules.
3. The quarterly data and the corresponding annual data transmitted to the Commission in accordance with Regulations 2223/96 shall be mutually consistent.
4. The quarterly data on financial assets and liabilities are the outstanding amounts of financial assets and liabilities at the end of each quarter.

### *Article 3*

#### **Transmission of quarterly data on financial transactions, financial assets and liabilities**

1. Member States shall transmit to the Commission (Eurostat) quarterly data on financial transactions (F.) and on financial assets and liabilities (AF.) for the following list of instruments as defined and codified in ESA 95:
  - a) monetary gold and special drawing rights (SDRs) (F.1 and AF.1)
  - b) currency and deposits (F.2 and AF.2)
  - c) short-term securities other than shares, excluding financial derivatives (F.331 and AF.331)
  - d) long-term securities other than shares, excluding financial derivatives (F.332 and AF.332)
  - e) financial derivatives (F.34 and AF.34)
  - f) short-term loans (F.41 and AF.41)
  - g) long-term loans (F.42 and AF.42)
  - h) shares and other equity (F.5 and AF.5)
  - i) net equity of households in life insurance reserves and in pension funds reserves (F.61 and AF.61)
  - j) prepayments of insurance premiums and reserves for outstanding claims (F.62 and AF.62)
  - k) other accounts receivable / payable (F.7 and AF.7).
2. Member States shall also transmit to the Commission (Eurostat) quarterly data for the central government sub-sector S.1311 as referred to in Article 4 as follows:
  - a) quoted shares (F.511 and AF.511), in respect of financial asset transactions and financial assets
  - b) currency (F.21 and AF.21), in respect of liability transactions and liabilities.

#### *Article 4*

##### **Coverage of the general government sector and sub-sectors**

Member States shall transmit quarterly data for the general government sector and its sub-sectors as defined and codified in ESA 95, as General government (S.13), comprising:

- central government (S.1311)
- state government (S.1312)
- local government (S.1313)
- social security funds (S.1314).

#### *Article 5*

##### **Nature of the quarterly data covered by the transmission**

1. Quarterly data referred to in Article 3 shall be transmitted on a consolidated basis for the general government sub-sectors as referred to in Article 4.
2. Quarterly data referred to in Article 3 shall be transmitted on both a consolidated and a non-consolidated basis for the general government sector (S.13) as referred to in Article 4.
3. Quarterly data with breakdown by counterpart sector shall be provided for the sub-sectors central government (S.1311) and social security funds (S.1314) as referred to in Article 4 and described in the Annex to this Regulation.

#### *Article 6*

##### **Timetable for the transmission of quarterly data**

1. Quarterly data as referred to in Articles 3, 4 and 5 shall be transmitted to the Commission (Eurostat) at the latest by three months after the end of the quarter to which the data relate.
2. Any revision of quarterly data for previous quarters shall be transmitted at the same time.
3. The first transmission of quarterly data referred to in Articles 3, with the exception of other accounts receivable/payable (F.7 and AF.7), 4 and 5 shall be according to the following timetable:
  - a) for the central government sub-sector (S.1311) and for the social security funds sub-sector (S.1314), no later than 30 June 2003;
  - b) for the state government (S.1312) and local government (S.1313) sub-sectors:
    - i) no later than 30 June 2003 for the transactions in liabilities and liabilities as detailed under Article 3 (paragraph 1); the Commission may grant a

derogation, not exceeding two years, for the starting date of transmission of these data, in so far as the national statistical systems require major adaptations;

-ii) no later than 30 June 2005 for the transactions in financial assets and assets as detailed under Article 3 (paragraph 1).

c) for the general government sector (S.13), no later than 30 June 2005.

4. The first transmission to the Commission (Eurostat) of quarterly data for other accounts receivable/payable (F.7 and AF.7) for the general government sector (S.13) and its sub-sectors as referred to in Article 4 shall be no later than 30 June 2005.

#### *Article 7*

##### **Provisions relating to back data**

1. Quarterly data referred to in Article 6 shall cover back data for financial transactions from the first quarter of 1999 and financial balance sheets from the fourth quarter of 1998 according to the timetable specified in Article 6 (paragraphs 3 and 4) for the first transmission of data.
2. Where necessary, back data may be based on "best estimates", respecting in particular the provisions of Article 2 (paragraphs 2 and 3).

#### *Article 8*

##### **Implementation**

1. Member States shall provide the Commission (Eurostat) with a description of the sources and methods used to compile the quarterly data referred to in Article 3 (initial description), when they first start to transmit quarterly data according to the timetable referred to in Article 6 (paragraphs 3 and 4) .
2. Member States shall inform the Commission (Eurostat) of any changes to this initial description when they communicate the revised data.
3. The Commission (Eurostat) shall keep the Statistical Programme Committee (SPC) and the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) informed of the sources and methods used by each Member State.

#### *Article 9*

##### **Report**

On the basis of the results referred to in Articles 3, 4, and 5, and after consulting the SPC and the CMFB, the Commission shall, by 31 December 2005 at the latest, submit to the European Parliament and the Council a report containing an assessment of the reliability of the quarterly data delivered by Member States.

*Article 10*

**Entry in force**

This Regulation shall enter into force on the 20<sup>th</sup> day following its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

*For the European Parliament*  
*The President*

*For the Council*  
*The President*

**ANNEX**  
**Breakdown by counterpart sector**<sup>7</sup>

**Central government (S.1311) and social security funds (S.1314)**  
**financial transactions and financial balance sheets**<sup>8</sup>

Counterpart sector / sub-sector  Category / sub-category	Non-financial corporations (S.11)	Financial corporations (S.12)		Households including non-profit institutions serving households (S.14+S.15)	Rest of the world (S.2)
		Total	Insurance corporations and pension funds (S.125)		
<b>Financial assets</b>					
Short-term securities other than shares, excluding financial derivatives (F.331 and AF.331)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Long-term securities other than shares, excluding financial derivatives (F.332 and AF.332)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Short-term loans (F.41 and AF.41)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Long-term loans (F.42 and AF.42)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Shares and other equity (F.5 and AF.5)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<b>Liabilities</b>					
Short-term loans (F.41 and AF.41)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Long-term loans (F.42 and AF.42)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

<sup>7</sup> Framed boxes indicate the reporting requirements

<sup>8</sup> The codes, taken from ESA 95, indicate: S: sectors/sub-sectors; F: financial transactions; and AF: financial balance sheet items.