COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Quality report pursuant to Regulation (EC) No 501/2004 of the European Parliament and of the Council of 10 March 2004 on quarterly financial accounts for general government

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Article 9 of Regulation (EC) No 501/2004 of the European Parliament and of the Council of 10 March 2004[1] requires the Commission (Eurostat) to submit to the European Parliament and the Council a report containing an assessment of the reliability of quarterly data delivered by Member States.

The report by the Monetary Committee on information requirements, endorsed by the Council (Ecofin) at its meeting of 18 January 1999, underlined the need for a comprehensive statistical information system to support policy-makers' decisions, including quarterly government finance statistics.

To this end, Commission Regulation (EC) No 264/2000 of 3 February 2000 and Regulation (EC) No 1221/2002 of the European Parliament and of the Council required Member States to send Eurostat quarterly non-financial accounts for general government, i.e. revenue and expenditure, according to ESA95. Regulation No 501/2004 complements these Regulations by defining the government financing activities and balance sheets to be reported according to ESA95. Council Regulation (EC) No 1222/2004 of 28 June 2004 completes the coverage of this quarterly fiscal reporting by providing for reporting on quarterly government debt.

The quarterly financial accounts for general government to be provided to Eurostat comprise a dataset encompassing up to 300 time series per country, on transactions and stocks of financial assets and liabilities of general government and its subsectors: central government, state government[2], local government and social security funds, and on information by counterpart sector.

While data transmission started on a regular basis in June 2004, the Commission granted numerous derogations to 17 countries, including the entire scope of the Regulation for the Czech Republic, Estonia, Greece, Cyprus, Malta, Poland, Slovenia and Slovakia. These derogations expired on December 2005. December 2005 was therefore the first date at which complete delivery to Eurostat took place.

The Quality Report aims at capturing the multiple dimensions of quality, following criteria commonly used to assess the quality of statistics[3]. The Report was broadly agreed with the members of the Joint Eurostat/European Central Bank *Task Force on Quarterly Financial Accounts for General Government*.

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1 OJ L 81, 19.3.2004, p.1

2 Only applicable in Belgium, Germany, Spain, and Austria.

3 See Eurostat CIRCA Interest Group "Quality in Statistics", http://forum.europa.eu.int/Public/irc/dsis/Home/main.

This Report comprises general sections, which explain the underlying concepts, technical issues, and main country findings, and a final section with a summary of conclusions and recommendations by country. More extensive documentation underpinning those findings has been available on the Eurostat website since 2006.

This report is based on the Eurostat database and metadata available as of 15 March 2006. Further progress achieved since then by many Member States is reflected in this Quality Report only for coverage.

The SPC and the CMFB were consulted on the report, as required by Article 9 of Regulation (EC) No 501/2004 of the European Parliament and of the Council of 10 March 2004.

Structure of the Quality Report

1. Institutional arrangements

2. Accessibility and clarity

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Quality Report on QFAGG

As of 15 March 2006

1. INSTITUTIONAL ARRANGEMENTS

Quarterly financial accounts for general government (QFAGG) are compiled by National Statistical Institutes (NSI) in a majority of Member States, and by National Central Banks (NCB) in Belgium, Germany, Greece, Spain, Italy, Hungary, Austria, and Portugal. In France, QFAGG are compiled jointly by the Ministry of Finance and the NCB, and in Cyprus by the Ministry of Finance.

In a number of Member States, working groups or informal working teams, notably made up of representatives of the NSI, the NCB and the Ministry of Finance, deal with both methodological and source data issues, notably with the aim of improving consistency between quarterly non-financial and financial accounts[4]. Active coordination is found useful to meet and sustain high quality objectives. Eurostat encourages the establishment of more formal and routine working groups in Member States.

2. ACCESSIBILITY AND CLARITY

Twelve Member States publish either QFAGG (Spain, Hungary, Finland, Sweden, the United Kingdom), or a subset (Belgium, Denmark, Italy, the Netherlands, Austria), or data that is broadly aligned with them (France, Portugal). Lithuania and Luxembourg plan to publish them soon.

Published statistics are usually available on the website of the compiling institution, and are sometimes accompanied by brief methodological notes or explanatory analysis to guide users (Denmark, Spain, France, Italy, the Netherlands, Austria, and the United Kingdom).

In spring 2006, Eurostat released on its website QFAGG statistics as EU aggregates and some national data, along with country descriptions of compilation practices (e.g. the *Manual on QFAGG*).

All Member States supplied Eurostat with a description of sources and methods as required by Article 8 of Regulation (EC) No 501/2004. Shortcomings in country descriptions are noted in particular for Germany, Cyprus, Italy, and Hungary.

3. TIMELINESS AND COVERAGE OF DATA TRANSMISSION

Under the Regulation, data must be delivered to Eurostat not later than three months after the end of the quarter to which the data relate.

Examining the four last quarterly transmissions, most Member States reported to Eurostat within the prescribed deadlines, and late deliveries were within days. Ireland and the United Kingdom were late twice. One Member State was late with the last delivery, but none with the

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4 In many Member States the same institution compiles both accounts.

previous one. Eurostat and the Member States have established an efficient transmission and checking system which allows fast processing of the data and retransmission if necessary.

Regarding coverage, Member States are required to deliver quarterly data starting from the first quarter of 1999. Only 13 countries provided the full coverage of statistics required by the Regulation as of the end of 2005.

Malta and Slovenia have provided Eurostat with no data, and Cyprus very few.

Germany, Luxembourg, and to a lesser extent Estonia, Latvia and Sweden did not provide complete information on general government and subsectors, often preventing calculation of their net lending / net borrowing (i.e. their deficit) or their net financial worth (financial assets minus liabilities). The Czech Republic, France, Slovakia and the United Kingdom did not provide some counterpart information.

The Czech Republic did not cover the whole time period. In contrast, some other countries have volunteered to provide longer time series than required: the United Kingdom, Hungary, Spain, Italy, Sweden, Greece, Luxembourg, and Ireland.

It should be noted that since 15 March 2006 the coverage of the data provided has improved for the following countries: the Czech Republic, Germany, Estonia, Latvia, Slovenia and Sweden.

4. COHERENCE

4.1. Coherence between quarterly and annual data

Article 2 of Regulation 501/2004 states that quarterly data and the corresponding annual data reported under Regulation (EC) No 2223/96 (i.e. annual financial accounts) must be mutually consistent. In theory those statistics are identical, and the data reported should be the same. In practice, differences in compiling institutions, the impact of "rebalancing" mechanisms used for compiling financial accounts and differences in "vintages" create scope for discrepancies. Owing to these factors, divergences may be observable during the course of the year. They are expected to disappear at least once a year, when both datasets align perfectly.

Analysing the consistency between quarterly and annual figures, Belgium, Denmark, Spain, Greece, Italy, Lithuania, the Netherlands, Austria, Poland, Portugal, Finland and the United Kingdom achieve perfect or nearly perfect matches, whereas Germany and Latvia exhibit noticeable differences. The Czech Republic, Estonia and Slovakia reported considerable differences, beyond what is acceptable or explainable.

4.2. Coherence between financial and non-financial accounts

From December 2005 onwards, all Member States had to deliver to Eurostat a complete general government dataset, comprising expenditure, revenue and deficit on the one hand, and transactions in financial assets and liabilities on the other. The deficit is in theory equal to net financial transactions (i.e., the "above the line" is equal to the "below the line"). In practice, source data issues, compilation difficulties and institutional arrangements lead to differences, often called "statistical discrepancy" (the discrepancy between the non-financial and the financial accounts). Whilst the discrepancy is generally noticeably lower for the general government sector than for other sectors of the economy, so far different statistical approaches exist in Europe: some fiscal compilers show the discrepancy to its full extent, while others eliminate it during the statistical process. Eurostat has initiated work in 2005 on this topic in order to assess national practices and to propose best practice.

At this early stage, it can be noted that the observed discrepancy is noticeable. Although 12 of the 20 countries for which the discrepancy could be calculated exhibit an average quarterly discrepancy within a range of +/-0.05% of annual GDP, half of the countries also show a standard deviation of the quarterly discrepancy of 0.5% of annual GDP. Two countries exhibit implausible discrepancies that point at significant data weaknesses: Greece and the Czech Republic. High standard deviations in discrepancies may point at seasonality patterns issues (Spain and Estonia) or at large recordings for specific quarters (Ireland, France and Sweden). This will be further analysed.

4.3. Coherence between stocks and financial transactions

Because balance sheets are to be reported at market value, the change in stocks in a given instrument over an accounting period does not need to be equal to the transactions in that instrument. Revaluations and other events, such as reclassifications, impact balance sheets without being recorded as transactions. The monitoring of all those events, also called "other economic flows", is another crucial quality issue for financial accounts.

Eurostat, with the active support of the Task Force on QFAGG, has introduced systematic reporting of the major events that underpin large other economic flows. A threshold of 0.5% of annual GDP (or higher for some specific instruments) has been agreed to identify them.

Spain, Latvia, the Netherlands, Austria and Poland have documented all such major events. In contrast, the Czech Republic, Denmark, Hungary, and the United Kingdom have not reported to Eurostat any major events.

4.4. Coherence of consolidation

All reported data, except for Ireland and Slovakia, meet the internal consolidation coherence criteria, i.e. consolidating (defined as non-consolidated values minus consolidated values) transactions and stocks observed on the asset side are identical to those observed on the liability side.

5. COMPARABILITY

5.1. Comparability over time

Article 7 of Regulation (EC) No 501/2004 allows back data to be compiled based on "best estimates". It should be noted that reclassifications of units, often perceived as breaks in the time series, are instead routinely viewed here as "other economic flows".

Most Member States reported no breaks in their time series. Seven Member States reported identified breaks: Czech Republic, Spain, France, Italy, the Netherlands, Austria and Poland.

5.2. Comparability with MUFA

Eurostat does not verify the consistency of QFAGG data with the quarterly financial accounts reported by NCBs to the European Central Bank in the context of the *ECB Guidelines on*

Monetary Union Financial Accounts (MUFA) (which also includes quarterly financial accounts for government from April 2006). Nonetheless, such consistency has been documented by way of a country questionnaire, given that the involvement of different institutions and the impact of the "rebalancing" used to compile a full set of quarterly MUFA create potential for differences. Due to its timeliness and coverage, QFAGG can usefully be used as a quality source for the purpose of compiling MUFA.

A majority of countries declare that the two datasets are or will be identical. Four countries report marginal differences (Germany, Spain due to vintages, France, and Portugal).

5.3. Comparability with government debt

Quarterly Government debt reported by Member States to Eurostat under Council Regulation (EC) No 1222/2004 must be consistent with reported government liabilities in the QFAGG, in so far as the definitions of government and of financial instruments are the same. They must, however, deviate because the valuation rule differs: government liabilities are reported at market value, whereas government debt is reported at nominal value (it excludes accrued interest and is defined, for "securities", as the face value).

On the basis of quantitative analysis, government debt and government liabilities were found consistent for all five categories of instruments examined (short- and long-term loans, short- and long-term securities, and currency and deposits[5]) in only four countries: Greece, Spain, Luxembourg and Finland, whereas three countries exhibit inconsistencies for three categories: Ireland, Austria and Sweden.

6. ACCURACY AND RELIABILITY

6.1. Coverage of data sources

Regarding the use of data sources, Article 2 of Regulation (EC) No 501/2004 states that quarterly data must be based on information directly available within government, such as from public accounts or administrative sources. Flexibility is granted for the compilation of equity positions, except for quoted shares and mutual fund components.

Most Member States report complete or nearly complete coverage of data sources with respect to government units and instruments. This is achieved in several ways, primarily through access to direct sources, such as to own accounts of each unit, to central databases, or to surveys. Greece, Sweden, and the United Kingdom (for local authorities) rely extensively on surveys. Indirect information collected from money and banking statistics, balance of payments, or general securities databases are used to compile counterpart information, but sometimes also to estimate instruments: notably for Estonia, Greece, Italy, Luxembourg and Austria (extensive use of security by security databases), and Portugal, and also, but to a lesser extent, for Germany, the Netherlands, Poland, Slovenia, and Finland. Compilers commonly report difficulties in estimating financial derivatives positions (stocks or transactions) and use indirect source data for insurance technical reserves.

[5] Coins are often liabilities of central government, and government can accept deposits, in some rare instances included in monetary aggregates.

Transactions are commonly derived from stock information, in general a second-best situation. However, Spain, the Netherlands, Portugal, Slovakia, and the United Kingdom, and to a lesser extent Ireland, Germany, Austria, Finland and Sweden have access to flow information, which is superior.

6.2. Internal consistency and plausibility checks, and major events monitoring

Most Member States conduct consistency as well as plausibility checks as part of their compilation routines. Consistency checks are made with Excessive Deficit Procedure Table 3, with annual financial accounts, or on consolidation. Plausibility checks are made on the discrepancy, the growth rates of stocks, or the other economic flows. The Czech Republic and Hungary have not documented their practices.

Member States monitor and report to Eurostat major events that underpin large transactions or large other economic flows. Belgium, Estonia, Ireland, Spain, France, Latvia, the Netherlands, Austria, Poland, and Portugal document most of their large transactions. In contrast, the Czech Republic, Greece and the United Kingdom have not documented major transactions. Monitoring of major other economic flows is also conducted by many Member States (see section 4.4 above).

6.3. Methodologies and assumptions used in the estimation of statistics

Article 2 of Regulation 501/2004 explicitly allows the use of interpolation and extrapolation techniques for some specific instruments. While a number of Member States do not rely on such techniques (Greece, Lithuania, Malta, Austria, Slovenia, and the United Kingdom), many others use them occasionally in order to estimate equity positions, other receivables/payables, or information available only on an annual basis, as is sometimes the case for local government.

6.4. ESA95 conceptual adjustments

Conceptual adjustments are to be made in order to bring quarterly data in line with ESA95 concepts. These adjustments are similar to those made in annual accounts.

Categorisation

Most Members States (except the Czech Republic, France and Slovakia) report source data to broadly align on ESA95 categorisation of instruments, with no need for adjustments. For France, the maturity of short-term securities instruments noticeably exceeds one year.

Valuation

Under ESA95, the balance sheet must be valued at market value, for equity and other securities. Member States apply a market valuation for long-term securities liabilities, except in Belgium, the Czech Republic, Estonia, Latvia, Lithuania and Slovakia. Many Member States value their short-term liabilities at face value, which is also incorrect although with more limited quantitative consequences (Belgium, the Czech Republic, Germany, Latvia, Lithuania, Slovakia and the United Kingdom).

Member States must value equity at its market value or equivalent, using proxies for unquoted shares. Ireland values unquoted equity at net assets at market value, Hungary at adjusted book value. The Czech Republic, Estonia, Greece, Italy, Latvia, Luxembourg, Malta, the

Netherlands, Austria, Poland, Finland, Sweden and the United Kingdom value unquoted equity at net assets at book value, and Slovakia at acquisition value, which are not best practice.

Time of recording

ESA 95 prescribes recording transactions on an accrual basis, and recording the difference with cash payments in other accounts payable/receivable. ESA95 best practice is to record accrued interest on the underlying instrument, which is a requirement in the *Manual on Government Deficit and Debt*[6]. But only a minority of countries follows these recommendations for all liabilities, the majority opting to record accrued interest under payables for some debt instruments.

6.5. Revisions of statistics

Member States report metadata on large revisions to Eurostat, and their causes. The extent of revision is an essential element of quality assessment, from the perspective of both the user and the compiler. Revisions from one data delivery to the next (notably from the first estimate to the second) are analysed here, as they point to source data issues. Calculations of revisions between the first estimate and the final data, in practice measured over eight quarters, could not be carried out at this stage, since QFAGG regular data deliveries started less than two years ago.

A preliminary analysis over the past seven regular transmissions suggests that the median revision, across Member States and across transmissions, is close to 0.2% of annual GDP for general government net financial worth for both the first estimate and the most recent four quarters, and to 0.1% of annual GDP for general government net lending / net borrowing. The first estimate is thus not abnormally more revised than subsequent quarters. There is little evidence of biases notably in net lending / net borrowing. Revisions to central government data often dominate, owing to the size and complexity of its financial transactions.

There is significant diversity across countries, some exhibiting higher revisions: France, Italy, Hungary and Portugal (plus Denmark and Luxembourg for net financial worth), others significantly lower: the Netherlands, Sweden, and the United Kingdom. Owing to limited experience, with many countries benefiting until recently from derogations or being in the development phase, revision analyses need to be interpreted with caution. It is premature to draw strong conclusions.

7. CONCLUSIONS AND RECOMMENDATIONS[7]

Significant progress has been achieved regarding the compilation of the QFAGG. Data for most countries are of appropriate quality, useful for analytical purposes, and suitable for

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6 The Manual can be found under the section Government Finance Statistics (sub-section II.3) of Eurostat website: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=2373,47631312,2373_58674363&_dad=portal&_schema=PORTAL#II.2.

7 The further developments that have been achieved in the meanwhile by many Member States after 15 March 2006 are not reflected in this Quality Report.

meaningful Euro area and EU aggregate compilation. They should accordingly be disseminated.

Some Member States must implement specific measures to improve the quality of the reported data. In some cases, improvement could be achieved by complying with the Community obligation of reporting time series to Eurostat. This would prevent the Commission from initiating an infringement procedure under the Treaty in order to fully enforce Community regulations.

The publication of QFAGG should be promoted, with appropriate guidance to users: providing metadata to reflect national practices, warning users of the volatility of these quarterly figures, and helping to interpret discrepancies. Publication would foster quality.

This assessment is to be repeated in future, to monitor progress by Member States. Some specific assessments and recommendations by Member State are set out in the table below.

Member State	The data and the metadata are of:	An effort should be made on:
Belgium	good overall quality	• valuation of debt securities
Czech Republic	insufficient overall quality	• provision of whole time series • coherence with annual financial accounts, and with non-financial accounts • reporting major events • valuation of debt securities and unquoted equity
Denmark	good overall quality	• reporting major events
Germany	satisfactory overall quality; insufficient coverage	• coverage • country descriptions • consistency with annual financial accounts, and with debt
Estonia	insufficient overall quality; major weaknesses are observed with quarterly data often not genuine quarterly statistics	• coverage • coherence with annual financial accounts, and with non-financial accounts • valuation of debt securities and unquoted equity • reliance on direct source data
Greece	insufficient overall quality	• coherence with non-financial accounts • reporting major events • valuation of unquoted equity
Ireland	reasonable overall quality	• consistency of consolidation, with non-financial accounts, and with debt • reporting major events consistently
Spain	very good overall quality	• coherence with non-financial accounts
France	good overall quality	• enforcing a proper maturity criterion • limiting revisions of 1st estimates

		• coherence with non-financial accounts
Italy	good overall quality	• country descriptions • consistency with debt • valuation of unquoted equity • reliance on direct source data
Cyprus	**Limited data and documentation has been received by Eurostat.**	• **An immediate effort is necessary to comply with the EU Regulation.**
Latvia	good overall quality; incomplete coverage	• coverage • valuation of debt securities and of unquoted equity • coherence with annual financial accounts
Lithuania	good overall quality	• valuation of debt securities
Luxembourg	good overall quality; insufficient coverage	• coverage • country descriptions • reliance on direct source data
Hungary	good overall quality, though metadata are insufficient	• country descriptions • reporting major events
Malta	**No data have been reported to Eurostat.**	• **An immediate effort is necessary to comply with the EU Regulation**
Netherlands	good overall quality	• coherence with non-financial accounts • valuation of unquoted equity • reliance on direct source data
Austria	good overall quality	• consistency with debt • valuation of unquoted equity • reliance on direct source data
Poland	good overall quality	• consistency with debt • valuation of unquoted equity • reliance on direct source data
Portugal	good overall quality	• consistency with non-financial accounts, and with debt • reliance on direct source data
Slovenia	**No data have been reported to Eurostat.**	• **An immediate effort is necessary to comply with the EU Regulation.**
Slovakia	insufficient overall quality; major weaknesses for compiling transactions are observed	• consistency of consolidation, with non-financial accounts, and with annual financial accounts • valuation of debt securities and equity • reporting major events
Finland	good overall quality	• valuation of unquoted equity • reliance on direct source data

Sweden	good overall quality; incomplete coverage	• coverage • consistency with non-financial accounts, and with debt • valuation of unquoted equity
United Kingdom	good overall quality	• transmission procedures • reporting major events • valuation of unquoted equity • consistency with debt