

15 February 2005

New decision of Eurostat on deficit and debt

The treatment of transfers from the EU budget to the Member States

Eurostat, the Statistical Office of the European Communities, has taken a decision on the treatment, in national accounts, of transfers from the EU budget to the Member States. The decision specifies the impact of EU transfers on government deficit/surplus. It results from work undertaken in 2004 in cooperation with EU Member States and different international bodies. The decision is in line with the European System of Accounts (ESA95) and is consistent with the opinion of the Committee on Monetary Financial and Balance of Payments Statistics (CMFB) as described in the annex.

Why is Eurostat taking the decision now?

There are significant transfers from the EU budget to the Member States in the context of different common policies, such as for instance the agricultural and regional policies. These transfers can take different forms. The EU payments may be financial advances to a Member State or reimbursements of expenditure incurred by government. The final beneficiaries may be government units or non-government units.

As regards the budgetary surveillance obligations, a crucial issue is the time of recording as government revenue of the payments made by the EU Commission to Member States. In the past, the practices were not fully homogenous and there is a need for precise guidance in order to ensure a full comparability of data. In particular, there is a need to avoid timing differences between the moment of a government payment in the framework of common policies (including the cases where government is only paying an advance on behalf of the Commission) and the moment of effective payment by the Commission. In addition, at the beginning of multi-year programmes the Commission makes a significant initial payment.

The decision

1. The final beneficiary of a transfer from the EU budget is not a government unit

It might happen that the government of the Member State of the beneficiary advances payments to the final beneficiary that is entitled to receive the transfer from the EU. This is mainly the case for agricultural policy but it also concerns some payments from other structural funds (notably the Social Fund and Cohesion Fund).

In this case, government must be considered as acting "on behalf" of the EU. The transfer between government and the final beneficiary must be recorded as an expenditure of the EU budget and as revenue of the final beneficiary, and the general government deficit/surplus will not change.

As a counterpart to the cash transferred, a financial transaction will be recorded as a liability of the EU to general government. This liability will be cancelled once the payment of the EU to government will be done. In this context, the transaction between government and the EU will have no impact on government deficit/surplus.

In case government would have paid to the final beneficiaries in advance more than what the EU will finally reimburse to government, two cases must be distinguished:

- If the over-payment by government is definitively acquired by the final beneficiary, this amount will not be considered as EU expenditure but as government expenditure at the time of the payment by government. This would be the case, for instance, where government is allowed to complete the aid from the EU and where the over-payment is not considered as a distortion in competition.

- If the over-payment by government is not definitively acquired by the final beneficiary, the amount in excess is deducted from the EU expenditure in the year where the payment was recorded. In this case, the amounts in excess may be deducted from future payments from the EU Commission (and the final beneficiaries will receive less in the future) or may be returned to the EU Commission.

2. The final beneficiary of a transfer from the EU budget is a government unit

This would be the case when the aim would be to cover a current expenditure carried out by a government unit (for instance for social assistance, training, education) or the aim would be to increase the stock of fixed assets held by government (generally in the context of a co-financing procedure, the EU supporting an investment effort by government but not substituting it). This would also be the case for Regional Development and Social Fund, where government units would be managing the project under an agreement with the EU Commission. In this context, after having made the expenditure, government would send the relevant documents in order to be reimbursed by the EU. The general policy of the EU Commission is to pay what is effectively declared, as EU payments are based on government "certification" at national level.

As a result, in order to better reflect economic reality, the time of recording of the transfer (when government revenue would be impacted) shall be the time when the government unit which is the final beneficiary makes the expenditure, which should be in practice the moment when government sends the documents to the EU Commission. Therefore, there is no temporary impact on government deficit.

3. A specific case: prepayments by the EU Commission at inception of a multi-year programme

At the inception of a multi-year programme, the Commission pays to Member States 7% or 16% (depending of the programme) of the total amount foreseen for the programme. These prepayments are implemented in the framework of Community Support Programmes (Cohesion and Structural Funds). The initial payments by the EU Budget to the government of a Member State, at the inception of a multi-year programme, are to be treated as financial advances recorded as such until the accumulated payments (including the initial payment) by the EU budget have reached 95% of the total amount. This is because the Commission keeps 5% of the total amount agreed for the multi-year programme. This final amount of the expenditure of the project is to be pre-financed by government, and the amount will be reimbursed by the EU only later, at the end of the programme.

If, at the end of the period, the total government expenditure would not have reached the 95% of the total amount agreed for the period, the part of the advance in excess will be reimbursed to the Commission by government, with no impact on government deficit and with an impact only on government financial accounts.

Eurostat will soon publish on its website a detailed description of the treatment of EU-transfers on national accounts, discussing the accounting treatment of the different cases treated in this document and providing relevant accounting examples. A new chapter on this issue will be included in the new edition of the Manual on Government Deficit and Debt Issues, due to appear in 2005.

CMFB opinion

concerning the treatment in national accounts of transfers from the EU budget to the Member States

1. On Eurostat's request the CMFB Chairman, with the assistance of the CMFB Executive Body, asked the CMFB Members to state their opinions on the treatment in national accounts of transfers from the EU budget to the Member States. Twenty-one (21) national statistical institutes and twenty-three (23) national central banks from the Member States returned the questionnaire. A total of forty-four (44) national institutions, from all twenty-five (25) Member States, responded to the questionnaire. The ECB also provided a reply.
2. The results of the consultation were as follows:
 - 2.1 Based on a very large majority of the replies received, the CMFB considers that:

In the case that the beneficiary of a transfer from the EU budget is an institutional unit classified outside the general government sector and the government of the Member State of the beneficiary advances a payment to the beneficiary, acting on behalf of the EU Commission, the following treatment should be applied:

- a) The transfer is recorded as an expenditure of the EU budget and a revenue of the (non-government) beneficiary. There is no entry in the non-financial accounts of the general government of the Member State of the beneficiary and its general government deficit does not change.
 - b) The counterpart financial transaction to the transfer is a liability of the EU to the general government, to be recorded in other accounts receivable/payable (AF.7). This liability is cancelled once the EU makes the payment to the general government of the Member State of the beneficiary.
- 2.2 Based on a large majority of the replies received, the CMFB considers that:

Given the case in section 2.1 above, but the advance payment from the government to the beneficiary exceeds the payment from the EU budget to government following the checking procedure by the EU Commission, the following treatment of the amount in excess should be applied:

- a) If the amount in excess is definitively acquired by the beneficiary, this amount is reclassified from expenditure by the EU to government expenditure at the time of the payment by the government.
- b) If the amount in excess is not definitively acquired by the beneficiary, this amount is deducted from the government expenditure in the year when the payment by the government took place (or in case of subsidies, in the year when the underlying production or event took place).

2.3 Based on a majority of the replies received, the CMFB considers that:

In the case that the final beneficiary of a transfer (not a subsidy) from the EU budget is a government unit of a Member State, the time of recording as government revenue should be when the government unit that is the final beneficiary made the expenditure.

2.4 Based on a large majority of the replies received, the CMFB considers that:

An initial payment by the EU budget to the government of a Member State, in the framework of multi-year programmes, should be treated as a financial advance (AF.7: government liability, EU asset), recorded as such until the accumulated payments (including the initial payment) by the EU budget have reached 95% of the total amount.

3. Further details on these accounting treatments are provided in the background document prepared by the Task Force in support of this CMFB consultation. The CMFB suggested that the background document should be revised to include the clarifications recommended by CMFB Members, notably concerning revisions to data for earlier years, in so far as they do not change the substance.
4. This opinion has been transmitted to Eurostat and will be kept in the records of the CMFB secretariat.

(Signed)

Jean CORDIER
CMFB Chairman

Paris, 14 December 2004