

NSCASE(23)17

Introduction to Amendments made by Eurostat to the Manual on Government Deficit and Debt (MGDD), 2022 Edition

April 2023

1. Purpose

1.1. This paper is an introduction to the updates and new information contained in the MGDD 2022. The MGDD is a manual of similar length to the European System of Accounts, ESA 2010, and provides supplementary guidance specifically to define the boundary of Government and also to define the scope of the associated Deficit (also known as borrowing) and Debt.

1.2. The new edition focuses on some methodological aspects considered since 2019 by relevant statistical experts from Eurostat, EU Member States, and other institutions, at Eurostat Task Force and Working Group meetings.

1.3. The [MGDD 2022](#) has been amended from the previously published 2019 Edition. It is updated approximately every 2 years, with its motivation being to help address the consistent and comparable statistical recording of newly emerging events and developments, including in the latest edition, innovative measures implemented in response to the COVID-19 pandemic. It reflects the latest thinking across Europe, and wider, to support their core conceptual framework established in the European System of Accounts, ESA 2010, which is also compatible with the System of National Accounts (SNA 2008).

1.4. There are several updates and additions to the guidance, which include as examples, the measurement of tax refunds amnesties and credits; also, a broader scope for defeasance structures and bailout interventions, using fifteen years of practical experience in the context of the latter (see Table 1 below).

Members of NSCASE are invited to:

1.5. Note that the 2022 edition was published on 1 February 2023, updating the 2019 edition.

- 1.6. Note that the implications for the UK of all the updates and new information are not fully known at this stage, nor has their potential impact on fiscal statistics yet been estimated.
- 1.7. Consider the information provided in Annex 1.
- 1.8. Support the proposal to review the low-complexity topics first (listed in section 15a of this paper), followed by the more complex topics listed in section 15b. It is proposed that all these topic areas will be addressed in more detail at the next NSCASE meeting in July 2023. The exception being the transfer of pension obligations, which will need more intensive work

2. Background

- 2.1. The MGDD was first published in 1999 and provides guidance on the latest thinking to assist with the implementation of ESA 2010.
- 2.2. When the UK was part of the EU and the accompanying European Statistical System, new or updated parts of guidance provided under European Council legislation, were adopted from the time they were published, unless certain statistics requested and obtained a derogation. Eurostat would undertake Dialogue Visits every 2 years to ensure Member State's statistical authorities were complying with, or putting plans in place to follow, the updated guidance to ensure international comparability in the reporting of their government finance statistics.
- 2.3. The MGDD changes are the result of several years of collective work undertaken by Eurostat in co-operation with experts representing EU Member States and other international institutions. The work began in June 2019, and the UK has had limited input into this process since December 2020. The changes reflect the result of several written consultations and questionnaires alongside discussions at Eurostat Task Force and Working Group meetings.

3. Issues

- 3.1. The changes between the 2019 and the 2022 MGDD editions are more substantial than the updates between the 2016 and 2019 editions. This is due to the impact of the creation of novel and innovative schemes across Europe and

indeed the world, in response to meeting the needs of the economies which were severely impacted by the COVID-19 pandemic. The latest edition also addresses some aspects outstanding from the financial crisis in 2008.

- 3.2. This is the first substantial change in international statistical guidance since the UK left the EU. Therefore, it is important to ensure that the MGDD 2022 updates, where they currently impact the UK, are considered thoroughly and carefully, with an analysis of the potential impact on the UK's deficit and debt statistics, and other key statistics. This will include comparing with other international statistical guidance, and wider ongoing developments, including the new edition of the System of National Accounts, where applicable. This will enable NSCASE members to have the information needed to inform the recommended approach.
- 3.3. It is important to recognise that more time is needed for some of the topic changes to be adequately assessed, and also that some topics are not currently applicable to the UK.
- 3.4. Allowing for this period of research necessarily delays the time at which NSCASE will reach a recommendation on whether to adopt the MGDD 2022 edition, and consequently delays the time when the National Statistician reaches his decision. The drawback of this delay is the potential short-term impact of continued uncertainty, both for the measurement of deficit and debt statistics in the Public Sector Finances, other key economic statistics, and also for reaching classification decisions. However, the short-term impact is expected to be small. We have provision to revise the data, which can be undertaken if needed, and the classifications casework planned for the intervening period is not expected to include any of the topic areas that have been updated in the MGDD 2022 edition. Nevertheless, we acknowledge the impact of the uncertainty could be greater for those presently preparing new government policies.

4. **Summary of Changes in MGDD 2022**

- 4.1. Summary information is provided in Annex 1 to inform members of NSCASE of the updates and new topics included in the updated MGDD 2022. It also includes the motivation for the updates, and the recommended next steps. A high-level overview is presented in Table 1 below.
- 4.2. We look forward to the discussion on some of these topic updates during the April 2023 meeting, but members are requested to note that detailed information on some of these updates may not yet be available.

5. Recommendation

5.1. It is therefore recommended that NSCASE support the request for the section changes indicated in Annex 1, to be further researched, starting with the low complexity changes, as early evidence is expected to be available to support further discussions. The more complex topics will need more in-depth research and wider discussion. These are summarised as follows:

a). Updated topics of low complexity:

- i) It is proposed that these are researched first:
- ii) Special Purpose Entities (SPEs)
- iii) Military expenditure
- iv) Capital increases in Multi Development Banks
- v) Energy Performance Contracts
- vi) EU ETS (EU Emissions Trading System) – UK has its own version (UK ETS, but the economic principle is upheld
- vii) Government guarantees

b). Further research and evidence are required on these more complex and/or new guidance topics:

- i) Recording of Taxes
- ii) Capital Injections into Foreign Direct Investments
- iii) Transfer of Pension Obligations – high complexity – propose to bring to a future NSCASE for discussion separately, with possibly other pension-related items.
- iv) Government interventions in bailouts and defeasance
- v) Securitisation of non-performing loans
- vi) Recording of loans not expected to be repaid
- vii) Concessions
- viii) Recording of interest and coverage of Government debt for Excessive Deficit Procedure (EDP) purposes. Changes related to new guidance on on-lending from supranational entities will need discussion, but from the example provided in MGDD 2022, it may not impact the UK.

c). Not currently applicable to the UK:

- a) If the relevant guidance does become applicable to the UK in the future, the circumstances and supporting information can be brought to NSCASE for specific consideration:

- b) EU Recovery and Resilience Facility
- c) Government debt for EDP purposes – Euro coin guidance

5.2. Our expectation is that further research will provide early information to fully support the adoption of the topics listed in sections 15 a). and 15 b)., with the exception of 15 b). iii – transfer of pension obligations - as this is a more complex topic.

5.3. It has not been possible to complete the research and analysis in time for this April 2023 NSCASE meeting. We, therefore, recommend that the topics indicated above in sections 15 a). and 15 b). are considered for investigation during May and June 2023, with the aim of bringing them to the July NSCASE meeting for adoption consideration.

5.4. However, based on initial analysis so far, we have not identified something of a similar nature to the Treatment of Package Holidays in Consumer Prices paper considered at the January NSCASE meeting. Therefore, at this time, there is nothing in the MGDD 2022 updates, that we would consider should not be adopted. We will look carefully to determine if there are any clear outlier situations which might merit an exception, and report back on that in the next paper planned for the July 2023 meeting.

5.5. It is therefore highly likely that our recommendation in July 2023, will be to adopt the MGDD 2022 in its entirety, with any exception being where there is evidence of a clear diversion from UK methodology and international best practice, which is not currently envisaged.

Table 1

Revision of existing texts	New texts
Special purpose entities (SPE)	Statistical recording of the EU Recovery and Resilience Facility (RRF) associated flows
Recording of taxes and social contributions (for tax credits and tax deferrals)	Capital injections into foreign direct investment

Recording of interest and Coverage of government debt for EDP purposes (changes related to the new chapter: On-lending from supranational entities)	Securitisation of non-performing loans with government guarantees
Military expenditure	Recording of loans not expected to be fully repaid
Impact on government accounts of transfer of pension obligations	Energy Performance Contracts
Government interventions to support financial institutions, financial bailouts, and defeasance	On-lending from supranational entities
Capital Increases in multilateral development banks	
Concessions	
Recording of EU Emission Trading System (ETS) allowances / permits	
Government guarantees	
Valuation of government debt for EDP purposes	

Annex 1

Part Number and Title	Chapter and Title	Section and Title	Sub section and title	Motivation for change	Summary of topic change	Impact of MGDD 2022 Changes, Indicative level of complexity, with next steps
1. Delimitation of the general government sector	1.6 Specific public entities	1.6.2 Specific purpose entities (SPE)		<ul style="list-style-type: none"> Under ESA 2010 SPE registered abroad are institutional units by convention and SPE created by government, for fiscal purposes, should have its transactions/activities “reflected” in government accounts. How it should be reflected was not further specified and guidance on SPEs abroad was not defined in previous iteration of MGDD. 	<ul style="list-style-type: none"> Dedicated section on non-resident SPEs. Indicates how transactions/activities of SPEs registered abroad should be “reflected” in government accounts. Provides additional indicators to help determine whether SPE has independence of action. 	<ul style="list-style-type: none"> Additional helpful guidance on SPEs registered abroad. Considered to be low complexity

2. Times of recording	2.2 Recording of taxes and social contributions	2.2.2 Treatment in National Accounts	<p>2.2.2.2 Recording of Tax Refunds</p> <p>2.2.2.3 Recording of Tax Amnesties</p> <p>2.2.2.4 Recording of Tax Credits</p> <p>2.2.2.5 Recording of changes in Tax Obligations</p>	<ul style="list-style-type: none"> • In the context of Covid-19, majority of Member States introduced fiscal measures to alleviate the economic and social impact of the pandemic. • The amended/new subsections cover the recording method of taxation. 	<ul style="list-style-type: none"> • Updated recording method because of the fiscal measures put in place to alleviate the economic and social impact of the pandemic, notably, tax deferrals, reductions in pre-payments, postponement of tax declarations, tax waivers, tax amnesties, payable and non-payable tax credits. 	<ul style="list-style-type: none"> • Tax recording changes need further detailed analysis to identify the impacts of the changes, and the measurements used by the UK for different schemes during the pandemic. • Low complexity
	2.5 Military Expenditure			<ul style="list-style-type: none"> • Eurostat observed cases of joint acquisition of military aircrafts involving six European Economic Area (EEA) countries (Belgium, Czechia, Germany, Luxembourg, the Netherlands and Norway). • Amended section now includes recording method for collectively owned military assets. 	<ul style="list-style-type: none"> • The value of such a collectively owned military asset should be split among owners in proportion to their ownership rights, with gross fix capital formation (a non-financial asset) recorded by each country upon actual delivery of the asset. 	<ul style="list-style-type: none"> • Military Expenditure guidance is specific to physical shared non-financial assets such as aircraft. No immediate impact to the UK. • Low complexity

		2.6.4 Statistical Recording of EU Recovery and Resilience Facility (RRF)		<ul style="list-style-type: none"> The current chapter dealt with the statistical recording of grants from the European Structural and Investment funds. Amended chapter now includes the provisions of the RRF guidance on associated flows. 	<ul style="list-style-type: none"> Aligned MGDD with RRF guidance to ensure the correct statistical recording during the pandemic. 	<ul style="list-style-type: none"> As the UK has left the EU, the recording of EU RRF shouldn't have an impact. No impact currently for the UK.
3. General Government and entities controlled by government	3.5 Capital Injections into a foreign direct investment (FDI)			<ul style="list-style-type: none"> The new MGDD section (3.5) was created in response to cases where governments carried out capital injections in corporations that meet the ESA 2010 definition of FDIs. Although there was a chapter already on capital injections into public corporations, it does not elaborate on capital injections into FDIs. 	<ul style="list-style-type: none"> Clarifies the rules of recording capital injections into FDI and how it should be treated in the financial accounts. 	<ul style="list-style-type: none"> Capital injections into FDI enterprises should be recorded as financial transactions. New guidance, further review needed.
	3.7 Impact on government accounts of transfer of			<ul style="list-style-type: none"> Current MGDD chapter required further specifications, corrections, changes and additions in 	<ul style="list-style-type: none"> Clarified pension recording method and how it should be represented in the 	<ul style="list-style-type: none"> As Pensions is a complex area, this will need further discussion.

	pension obligations			order to bring clarity on the application of the ESA 2010 rules related to pensions.	government balance sheet.	<ul style="list-style-type: none"> • Proposed as a standalone topic at a future NSCASE meeting.
4. Relations between government and financial sector	4.5 Government interventions to support financial institutions: financial bailouts and defeasance			<ul style="list-style-type: none"> • The previous chapter provided principles on what to do at inception but lacked details on what to do afterwards. It now provides practical and harmonised guidance based on the experience of the past 15 years in the context of bailouts. 	<ul style="list-style-type: none"> • Broadens guidance scope from financial defeasance to bailout interventions. Updated recording method at its inception and particularly during the defeasance process 	<ul style="list-style-type: none"> • Wider discussion with relevant business areas to understand the impacts of the recording method. More complex topic.
	4.6 Securitisation of non-performing loans (NPLs) with government guarantees			<ul style="list-style-type: none"> • The transfer of NPLs to an SPV via a guaranteed securitisation is a case not explicitly addressed in Chapter 4.5 on government interventions to support financial institutions. 	<ul style="list-style-type: none"> • Now covers more complex government arrangements since the revival for NPL securitisation through government backed schemes in the European Market. • Also clarifies the cases where senior debt guaranteed by government should be recorded as private debt and in what (rather exceptional) 	<ul style="list-style-type: none"> • There was a rise in NPLs with government guarantees in the European market during 2017/18. • More complex topic and needs further review.

					<p>cases it should be recorded as government debt.</p> <ul style="list-style-type: none"> Clarifies time of recording of transfers to multilateral development banks that provide mostly concessional loans and now correctly identifies the impact on government debt. 	
	4.7 Capital increases in multilateral development banks (MDB)			<ul style="list-style-type: none"> Time of recording of transfers to MDBs that provide most concessional loans is heterogeneous across Member States, some follow the signature of the replenishment agree, some follow the signature of instruments of commitment, some follow cash. 		<ul style="list-style-type: none"> Clarifies time of recording for transfers to MDBs that provide mostly concessional loans. Low complexity
	4.9 Recording of loans not expected to be fully repaid			<ul style="list-style-type: none"> During the Covid-19 pandemic, cases were observed of loans granted in such conditions that significant net losses were expected at 	<ul style="list-style-type: none"> Addresses the accounting problems raised by so-called 'loans' (e.g., as reported in the public accounts) granted by government, often 	<ul style="list-style-type: none"> New guidance covers loans issued during Covid-19. Should already be in effect with UK

				<p>inception (including for large amounts).</p> <ul style="list-style-type: none"> • MGDD already foresees partitioning income contingent loans, but in this scenario the expected losses are not due to contingency. 	<p>under an emergency situation, that are not expected at inception to be fully repaid (for significant amounts), being extended to units on a non-commercial basis.</p>	<p>classified schemes but need more detailed checks on specific applications.</p> <ul style="list-style-type: none"> • More complex and needs further review.
6. Leases, Concessions and PPPs	6.3 Contracts with non-government units related to fixed assets	6.3.1 Background	6.3.1.5 Concessions	<ul style="list-style-type: none"> • Existing guidance on concessions in ESA 2010 and MGDD 2019 is very limited and less detailed than the guidance for PPPs. • Concession agreements are also more common in Member states and involve significant capital expenditure and a number of existing concession arrangements expire and are up for renewal. 	<ul style="list-style-type: none"> • Updated definition of concessions and the eight existing criteria to determine the existence of decision-making autonomy. 	<ul style="list-style-type: none"> • Provides clearer definition and criteria for Concessions. • More complex. • Needs further review of potential impacts, and clarity needed from Eurostat as to whether there is to be a separate manual on Concessions as there is for PPPs and EPCs.

			6.3.1.6 Energy Performance Contracts (EPC)	<ul style="list-style-type: none"> Eurostat published “A Guide to Statistical Treatment of EPCs” and “The Statistical Treatment of Energy Performance Contracts”. New EPC subsection ensures Eurostat decision on EPCs is reflected in MGDD 2022. 	<ul style="list-style-type: none"> Clarifies where EPC assets should be recorded and references the Eurostat EPC guidance for coverage of the distribution of risks and rewards. 	<ul style="list-style-type: none"> New section in MGDD 2022 on EPCs is consistent with the separate Eurostat EPC guidance, which the UK has adopted for previous policy proposals. Low complexity
	6.5 EU Emissions Trading System (ETS)			<ul style="list-style-type: none"> ETS revenue methods introduced in 2016 and 2019 editions of the MGDD led to a high degree of heterogeneity among the 30 ETS member countries, which hampered comparability of the ETS to EDP/GFS statistics. 	<ul style="list-style-type: none"> Removed recording methods in MGDD2014/16 and now proposes a new simplified recording, i.e., time adjusted cash. 	<ul style="list-style-type: none"> UK ETS already applying the time adjusted cash method as a principle. Low complexity and is a sound economic principle.
7. Debt related transactions and guarantees	7.4 Government Guarantees	7.4.1 Background 7.4.3 Standardised Guarantees		<ul style="list-style-type: none"> Guarantee schemes recognised by member states as standardised but was classified as one-off due to absence of 	<ul style="list-style-type: none"> Updated the main features of standardised guarantees and clarified the recording method to increase 	<ul style="list-style-type: none"> Clearer guidance on recording standardised guarantees.

				<p>provisions or the provisions was not considered as reliable.</p> <ul style="list-style-type: none"> Amended chapter now provides additional features to identify standardised guarantees. 	<p>harmonisation across countries.</p>	<ul style="list-style-type: none"> Consistent with the UKs application during the pandemic. Low complexity
8. Measurement of general government debt	8.2 The calculation of general government debt	8.2.2 Government debt for EDP purposes	8.2.2.1 Coverage of government debt for EDP purposes, as regards Euro Coin	<ul style="list-style-type: none"> Main objective of the revision is to ensure that the Eurostat decision on “The statistical recording of euro coin” is reflected in MGDD 2022. 	<ul style="list-style-type: none"> Updated the method of recording for euro coin when the central government is not the actual issuer of coin in that Member State. 	<ul style="list-style-type: none"> Additional MGDD guidance on Euro Coin not currently applicable to the UK.
	8.5 On-lending from supranational entities			<ul style="list-style-type: none"> Member States started to receive finance from the temporary Support to mitigate Unemployment Risks in an Emergency (SURE) established by European Commission in 2020 following Covid-19 pandemic. Therefore, it now proposes a recording method to any on-lending scheme from 	<ul style="list-style-type: none"> Addresses appropriate recording of on-lending schemes from supranational entities as well as within general government unit/sectors. 	<ul style="list-style-type: none"> May need further discussion on the impacts of on-lending from supranational entities. Based on the example provided in MGDD 2022₁, it may not currently impact the UK.

				supranational entities.		
--	--	--	--	-------------------------	--	--