

CMFB opinion

concerning the treatment of military equipment expenditure in national accounts

1. On Eurostat's request the CMFB Chairman, with the assistance of the CMFB Executive Body, asked the CMFB Members to state their opinion on the treatment in national accounts of government military expenditure. Twenty-two (22) national statistical institutes and twenty-three (23) national central banks from the EU Member States returned the questionnaire. A total of forty-five (45) national institutions responded to the questionnaire. The ECB also provided its opinion.
2. In the following, military equipment will mean military weapons of destruction and the equipment needed to deliver them.

The CMFB recalls that government expenditure must be recorded on an accrual basis according to ESA 1995. Military equipment must therefore be recorded at the time of delivery, irrespective of the cash payments. "Delivery" must however be defined for some types of contracts, taking into account the specific nature of military equipment. In addition, lack of direct source data may require that the data according to the time of delivery is calculated.

3. The results of the consultation were as follows:
 - 3.1 Based on a very large majority of the replies received, the CMFB considers that leased military equipment should be treated as a financial lease in the European System of Accounts (ESA 1995).
 - 3.2 Based on a very large majority of the replies received, the CMFB considers that the time of recording of military equipment expenditure should follow the actual delivery of the independent parts of that equipment on the one hand, and the provision of services on the other hand in the following cases:
 - where deliveries of identical items are staged over a long period of time
 - where payments comprise provision of both goods and services

A majority is of the opinion that the same rules should apply in the case of complex systems, where final completion may take time.

- 3.3 A majority is of the opinion that, for military equipment produced over many years (e.g. aircraft carrier), the time of recording should be the time of the actual physical delivery of the final product.
- 3.4 Based on a very large majority of the replies received, the CMFB considers that, in some specific circumstances, cash source data can be acceptable for long-term contracts pending improvement of accrual based source data, provided that any of the three following circumstances apply:

A very large majority is of the opinion that cash source data would be acceptable as proxies of deliveries for military equipment expenditure if these data are corrected for reliable data on payables and receivables.

A large majority is of the opinion that cash source data would be acceptable as proxies of deliveries for military equipment expenditure if cash recording concerns small deliveries only.

A majority is of the opinion that cash source data would be acceptable as proxies of deliveries for military equipment expenditure if these data are corrected for large deliveries.

- 3.5 Taking into account the replies received and the associated comments, there is no majority of the opinion that a time lag of less than one year between the cash payment and the delivery is a sufficient condition for cash source data to be acceptable as proxies for deliveries, unless the cash payment and the delivery take place in the same budgetary year.

4. Further details on these accounting treatments are provided in the background document prepared by the Task Force in support of this CMFB consultation.
5. This opinion has been transmitted to Eurostat and will be kept in the records of the CMFB secretariat.

(Signed)

Bill KEATING
CMFB Chairman

Dublin, 30 January 2006