

No 15/2002 - 31 January 2002

New decision of Eurostat on deficit and debt

# Treatment of the transfer of Government real estate to a publicly-owned corporation in Austria

**Eurostat, the Statistical Office of the European Communities in Luxembourg**, has taken a decision on the sectoral classification of a State owned real estate corporation in Austria, the "Bundesimmobiliengesellschaft" (BIG) and on the treatment of the transfer of government real estate to the BIG.

Eurostat has decided to treat this transfer not as a market sale but as a restructuration in the context of improved management of State owned real estate. The transfer has therefore no impact on the general government deficit. Moreover, Eurostat decided that the BIG is an institutional unit and is to be classified within the 'non-financial corporations' sector. This has the effect that the debt of the BIG is not to be included in the debt of the general government sector.

This decision is in conformity with the European System of Accounts (ESA 95) and is consistent with the opinion of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB).

## Background

The Austrian Federal Government has undertaken to reorganise the management of its real estate and has transferred most of government-owned buildings (mainly schools, universities, offices of federal ministries) to a new real estate company (BIG), which is 100% owned by the federal State. The BIG has financed the transfer of the buildings by issuing securities and contracting loans. Most of the buildings transferred to the BIG are subsequently rented back to the government units which previously occupied these buildings, by individual contracts based on market estimates.

The BIG continues to employ all State civil servants who previously managed the maintenance of these buildings. Their civil servant status has been maintained.

The transfer of government real estate to the BIG is organised in 4 tranches, for the following estimated amounts:

2000 – 0.55 billion euro, accounting for 0.26% of GDP

2001 – 0.78 billion euro, accounting for 0.37% of GDP

2002 – 0.75 billion euro

2003 – 0.33 billion euro

This transfer has raised three questions, from the point of view of government accounts: (i) whether the BIG is an institutional unit in its own right or an ancillary unit of general government, (ii) whether the BIG was to be

classified in the sector 'general government' or in the sector 'non-financial corporations', and (iii) whether the transfer of property from the government to the BIG should be considered as a 'sale of property' (improving the deficit) or as 'other volume changes in financial assets / changes in classification and structure' (neutral for the measurement of deficit).

The issue has been discussed with the Austrian authorities during a recent Eurostat debt and deficit mission to Austria. Eurostat requested a formal consultation of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB<sup>1</sup>) on this case. The opinion of the CMFB is annexed to this press release.

## **Eurostat decision**

Eurostat decision is as follows:

### **The BIG is an institutional unit in its own right**

The BIG keeps a complete set of accounts according to normal business rules and legal obligations required for all companies.

Although the BIG is 100% government-owned, the degree of control by government over the BIG does not seem to go beyond what is indicated in ESA95 with respect to institutional units, i.e. fixing the general strategy of the unit without influencing the current management.

### **The BIG should be classified in the non-financial corporations sector**

Although for certain real estate assets no market currently exists in Austria (schools, universities, etc.) the rents seem to have been determined according to market-based valuation methods.

The rents cover considerably more than 50% of the production costs. Therefore the BIG, according to ESA95, can be considered as a market producer for its main activity, which is renting of real estate, and must be classified under the non-financial corporation sector.

The above-mentioned features are clearly expressed in the legal framework of the BIG.

### **The transfer of property from the government to the BIG should be recorded under 'other volume changes in financial assets' / 'changes in classification and structure' (ESA codes K10/K12)**

As mentioned in the law, the purpose of the transfer is to improve public management of real estate by rationalisation of the use of buildings, as well as reduction of management costs. Moreover, because of the size of the transaction, it was not possible to organise a normal market sale of the property on the Austrian market. In addition, the Austrian State wanted to maintain indirectly the ownership of the transferred property via the State owned company. For these reasons, the transfer of property was arranged bilaterally between the Austrian State and the BIG.

Considering these aspects, this transfer should not be treated as a market sale of real estate property in the sense of the ESA95.

## **Consequences of the decision**

The decision taken by Eurostat implies that:

- the debt of the BIG is not to be considered as part of government debt.
- the transfer of assets to the BIG has no impact on net borrowing / net lending of general government.

In this context, the Austrian authorities should not take into account these transactions in the framework of the next official Excessive Deficit Procedure notification (28 February 2002).

1. The CMFB is an advisory committee of senior statisticians from government statistical offices, central banks, the Commission and the European Central Bank (ECB). On cases which raise questions concerning statistical treatment regarding the calculation of government deficit and debt, Eurostat consults the CMFB before taking its final decision.

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## **ANNEX**

### **CMFB Opinion on the case of the "Bundesimmobiliengesellschaft" (BIG) in Austria for the purpose of the excessive deficit procedure.**

Eurostat consulted the CMFB on 21 December 2001 on the above-mentioned subject. The deadline for returning the questionnaire was Friday 18 January 2002. Both the procedure and the content of the consultation were agreed by the CMFB Executive Body. Fifteen (15) national statistical institutes and thirteen (13) national central banks from the Member States returned the questionnaire. A total of twenty-eight (28) national institutions, from all (15) Member States, thus participated in the consultation (of which one abstained). The ECB also provided a reply.

The result of the consultation was as follows:

- On question 1 (*do you consider that the BIG is an institutional unit*), twenty-five (25) national institutions responded that the BIG is to be treated as an institutional unit of its own. Two (2) national institutions did not consider the BIG as a separate institutional unit.
- On question 2 (*if the BIG is an institutional unit, should it be classified within the sector "General Government" or within the sector "Non-financial Corporations"*), fourteen (14) national institutions responded that the BIG should be classified within the sector "Non-financial Corporations", and thirteen (13) that it should be classified within the sector "General Government".
- On question 3 (*if the BIG is an institutional unit to be classified within the sector "Non-financial Corporations", how should the flows of non-financial assets from the government to the BIG be considered*), twenty-three (23) national institutions responded that these flows should be treated as "other volume changes in financial assets n.e.c." or as "changes in classifications and structure" (both without an impact on the level of general government net lending/net borrowing), and four (4) national institutions responded that these flows should be recorded as negative gross fixed capital formation (with an impact on the level of general government net lending/net borrowing). Of the latter four national institutions, one considers that the BIG is not a separate institutional unit, in which case the flows of non-financial assets do not have an impact on the level of general government net lending/net borrowing. Consequently, twenty-four (24) national institutions consider that the flows of non-financial assets from

the government to the BIG should be recorded in such a way that they do not have an impact on general government net lending/net borrowing, while three (3) national institutions consider that these flows do have an impact on general government net lending/net borrowing.

***Accordingly, the CMFB agreed by a very large majority that the BIG should be treated as a separate institutional unit. A very slight majority considered that the BIG should be included within the sector "Non-financial Corporations". Further, a very large majority considered that, in this case, the flows of non-financial assets from the government to the BIG should be considered as "other volume changes" or "changes in classification and structure". In conclusion, the CMFB agreed by a very large majority that the flows of non-financial assets from the government to the BIG should be recorded in such a way that they do not have an impact on general government net lending/net borrowing.***

In addition to this opinion, the following has been transmitted to Eurostat and will be kept in the records of the secretariat of the CMFB: a document putting together the answers of all the institutions; a summary of the vote; and the replies to the questionnaires submitted by the Member States.