



EUROPEAN COMMISSION



EUROSTAT

The Director-General

Luxembourg, 14 -03- 2008
ESTAT/DG/HC/C-3/VK/dm D(2008) 30030

Mr Jan Fischer
President
Czech Statistical Office
Na padesátém 81
CZ – 100 82 Praha 10

Subject: Methodological treatment of restitution of confiscated property to churches and religious organizations – ex ante consultation of Eurostat

Ref.: Your letter No 7/2008-42 dated 1 February 2008

Dear Mr. Fischer,

Following your letter of 1 February 2008, on the proposed restitution of confiscated property to churches and religious organizations, I would like to inform you of the preliminary view of Eurostat on the above-mentioned case.

Please find enclosed the methodological analysis prepared by Eurostat on the issue.

Eurostat's provisional position is that the most appropriate treatment of the restitutions through financial compensation to churches and religious organisations is to record the whole amount of the principal (83 bill CZK) as government expenditure in the year when the liability of government is recognised (i.e. when a relevant legal act is approved), instead of recording these when actual cash payments are made. This opinion is based on the understanding that the payments will be irrevocably fixed in the legal act and will not depend on any future decisions, administrative reviews, requests for compensation, or parameters. Eurostat agrees that interest expenditure should be accrued over the 60 following years.

Yours sincerely,

with my best regards

H. Carré

Enclosure

Subject: Methodological treatment of restitution of confiscated property to churches and religious organizations – ex ante consultation of Eurostat

The accounting issue for which a clarification is requested

The issue for which an opinion is required concerns the correct accounting treatment of compensations that is intended to be provided by the state to churches and religious organizations for property confiscated between 1948 and 1990. In particular, there is a question of the appropriate time of recording of the expenditure pertaining to these compensations.

Documentation provided

The Czech statistical authorities provided information on the intention of the Czech government to finalize the settlement between the state and the churches and a short description of the foreseen restitutions, based on a legal act that is being prepared in this respect. The proposal for the accounting treatment of these restitutions via financial compensations, prepared by the Czech statistical institute, the Ministry of finance and the Ministry of culture, was also annexed to the letter.

Description of the case

According to the explanations provided by the Czech authorities, churches and religious organizations' properties were confiscated by the state in the period 1948-1990. At the beginning of the nineties, some of the confiscated properties, such as land and buildings, have been given back to the original owners. Following the Programme Declaration of the Czech Government, a new legal act is being prepared according to which confiscated property of churches and religious organisations will be compensated by the state. Two ways of compensation are foreseen in the proposed legal act: restitution in kind and financial compensation during the next 60 years.

Restitutions in kind concern land, real estate and movable property. According to the available information, recipients might be obliged to pay some amounts corresponding to differences in the prices of the real estate returned.

As far as the financial compensation is concerned, Eurostat understands that the proposed act stipulates that a total amount of 256.5 bill CZK will be paid as a financial compensation for the confiscated property, which for different reasons cannot be returned. This financial compensation is composed of two components: 83.0 bill CZK in principal and 173.5 bill in interest (4.85% interest rate p.a.). The total amount (principal and interest) will be paid in 60 equivalent annual cash payments of 4 274.9 mill CZK. The proportional distribution of these compensatory payments across churches and religious organisations will be fixed in the legal act. The amount that is to be compensated to individual recipients will be set up in bilateral agreements.

According to the information provided by the Czech authorities, the proposed legal act specifies that the budget support regularly provided by the state to churches and religious organisations, in the form of transfers, will be gradually reduced during the following 20 years (annually by 5%, on average) and, in due course, eliminated.

Methodological analysis and clarification by Eurostat

Applicable accounting rules

Council Regulation 2223/96 incorporates the national accounts concepts and definitions of the European System of Accounts (ESA95) in Community Legislation. The ESA95 Manual on

government deficit and debt (MGDD) published by Eurostat provides further elements for interpreting the accounting rules of ESA95. Of particular relevance in this case is the MGDD Part II.2.3 on privatisation in transition countries and §§ 1.57, 4.146 and 4.164 of ESA95.

Availability of national accounting analysis

The Czech authorities provided two proposals for the recording of compensation in cash (variant A and variant B). The difference between variant A and variant B is the time of recording of the principal (83 bill CZK). Both variants assume recording of financial compensation as expenditure of general government by way of recording of capital transfers payable D.9 and/or interest accrued D.41. The variant A implies an annual negative impact on the deficit of 4274.9 mill CZK during 60 years. Variant B records the whole amount of the principal as expenditure in the year when the legal act will come into force and, in subsequent years, accrued interest on the liability recognized. Variant B implies a negative impact on the deficit of 83 bill in the year of decision and 173.5 billion in interest in following years. The Czech authorities have indicated a preference for variant A.

Analysis

After an examination of the available information and of the analysis provided by the Czech authorities, Eurostat has reached the following views.

Restitutions in kind

Eurostat reminds that as far as the recording of restitutions in kind are concerned, two cases should be distinguished according to the MGDD. When the returned asset is roughly the same as the one confiscated in the past (e.g. land), a flow is to be recorded in the other changes in volume account of general government (K.8) without impact on the deficit. In case the returned asset is different (in terms of appearance and value), such flow is to be recorded as a transaction, a negative capital formation (P.511) of general government counterbalanced by a capital transfer in kind (D.9), also without impact on the deficit. The second case refers to such assets like dwellings and other tangible assets.

According to the explanation provided by the Czech authorities, in some circumstances, recipients may be obliged to pay amounts corresponding to some price differences. In such cases, the negative capital formation (P.5) of general government will be counterbalanced by a capital transfer in kind (D.9) reflecting the restitution value and by a transaction in currency and deposits (F.2) reflecting the difference between the current price of restituted assets and the restitution value. This treatment will entail a positive impact on the government deficit by the amount of the cash repayment.

Financial compensation

Eurostat agrees that the payments made relating to financial compensation should be recorded as government expenditure, i.e. with an impact on the government deficit. However, the time of recording is subject to discussion.

Eurostat agrees that the principal of the compensation (83 bill CZK) should be recorded as a government expenditure, capital transfer (D.9). However, the whole amount is to be recorded in the year when the government liability is recognised, in application of the accrual principle, instead of when actual cash payments are made. According to ESA95 §1.57, the "*system records flows ... when ... obligations arise, ...*", that is at the time when an obligation for payments to be

made is incurred. ESA95 §4.166 indicates that "*capital transfers in cash are recorded when the payment is due to be made*". The obligations arises at time of decision, i.e. when the legal act is approved, assuming that the amount of the lump sum will be irrevocably fixed in the relevant legislation, and will not depend on future decisions, administrative reviews, parameters, or requests for compensation. It means that a liability is incurred, and therefore a capital transfer expenditure would be recorded, at time of decision, when the legal act is approved, for the present value (discounted value) of the amounts due to be made.

The recording of the capital transfer expenditure will be counterbalanced by an incurrence in liabilities in the financial accounts (e.g. other accounts payable F.7) of general government. This treatment would imply a negative impact on the deficit (83 bill CZK) in the year of the liability recognition. Subsequent actual cash payments (F.2) will be recorded as financial transactions, redemption of liabilities (e.g. other accounts payable F.7) of general government, without impact on the deficit.

Eurostat agrees that the associated interest payments relating to the principal amount of the compensation, as fixed in the proposed legal act, should be accrued over 60 following years.

As regards envisaged reductions of financial support provided by government to churches and other religious organisations in the form of transfers, Eurostat believes that the issue does not yield specific difficulties and does not call for a specific treatment.

Conclusion

Based on the information provided by the Czech authorities and on the above considerations, Eurostat's provisional position is that the most appropriate treatment of the restitutions through financial compensation to churches and religious organisations is to record the whole amount of the principal (83 bill CZK) as capital transfer expenditure in the year when the liability of government is recognised (i.e. when a relevant legal act is approved), instead of recording these when actual cash payments are made. This opinion is based on the understanding that the payments will be irrevocably fixed in the legal act and will not depend on any future decisions, administrative reviews, requests for compensation, or parameters. Eurostat agrees that interest expenditure should be accrued over the 60 following years.

Procedure

There is no explicit Community legislation which governs a procedure by which Eurostat gives its views on operations which have not yet been enforced. Nevertheless, Eurostat is prepared to give a preliminary view on the statistical classification of such operations provided that it is in possession of all of the necessary background information. The preliminary view is given in accordance with the guidelines for ex-ante advice published on the Eurostat web-site.

This preliminary view of Eurostat is based on the information provided by the country authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view. To this end Eurostat would request to be informed of the final details of the operation (contract and accompanying papers where relevant) when they are available, or (should this be the case) information that the planned operation has been abandoned.

In this context, we would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with the amended Council Regulation 3605/93 and the note on ex-ante advice, which has been presented to the

CMFB and cleared by the Commission and the EFC. Eurostat intends, therefore, to publish all future official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat web site. In case you have objections concerning this specific case, we would appreciate if you let us know. In any case (regardless of whether you have objections or not) we would like to receive an answer from you on the issue no later than 26 March 2008.

Eurostat
Directorate C: National and European Accounts
Luxembourg, 12 March 2008