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EUROSTAT

Directorate C: National and European Accounts

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Mr Gosse van der Veen,
Director General
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**Subject: Follow-up of the Eurostat dialogue visit
Dividend paid by the Dutch Central Bank**

Dear Mr van der Veen,

During the EDP dialogue visit to the Netherlands on 13 December 2007, the issue of dividends paid by the Dutch Central Bank (DNB) to government was discussed. After receiving additional information from the CBS, we would like to express our views.

The accounting issue

Following up on the EDP dialogue visit and the additional information provided by the CBS in an email of 14 December 2007, Eurostat believes that the issue relating to the classification of dividends distributed, i.e. the application of the so called super-dividend test in NL, needs further clarification.

Documentation provided

An e-mail from the CBS dated 14 December 2007 provided information on the profits of the DNB, on the amounts of dividends paid to government, and on the CBS national accounts recording of the latter (table covering 2001-2006). In addition, a note on the monitoring of dividends paid by public corporations and on the application of the super-dividend test was provided by CBS prior to the EDP dialogue visit.

Description of the case

Following the provided information, although the distributed dividends attributable to a given year exceeded the operational profit of that year (the years 2001, 2002, 2004 and 2005), the CBS recorded the full amounts as government revenue (generally the following year, in line with rules), with no entries under financial transactions as would have been required in application of the super-dividend ruling.

Methodological analysis and clarification by Eurostat

Applicable accounting rules

The *ESA95 Manual on Government Deficit and Debt (MGDD)* part II., II.5.1.2., page 101.

Analysis

The ESA95 MGDD part II "*Relations between government and public sector*", II.5.1.2. p. 101 unequivocally indicates that "*in national accounts, capital gains have to be excluded from the distributed profits of central bank, at least for the part distributed to general government, when the bookkeeping of central bank allows for such capital gains to be included in the trading profits.*" and that

"...the sum of interest received – minus interest paid – by central bank and of other flows of income, from which are deducted operating costs and any capital gains realised by central bank in its intervention activity; let us call the resulting amount net revenue;"

Thus the term "*net revenue*" used in the last two paragraphs of the MGDD on p. 101 excludes capital gains. Using the CBS terminology used in the table provided, this would pertain to "*(a) Operating Surplus/Losses*".

From the data provided by the CBS, distributions from the DNB to government exceed the operational profit of the relevant year for the years 2001 (by 527 millions), 2002 (27 millions), 2004 (39 millions) and 2005 (305 millions). Therefore a correction to the notified deficit must be carried out (for the years 2002, 2003, 2005 and 2006) so that, in the accounts of government, an amount equal to the DNB operational profit is recorded as property income, the excess being recorded as equity withdrawal by government (within transaction in *shares and other equity* F.5) and not as government revenue.

Conclusion

On the basis of the above considerations, it is Eurostat's view that the distributions from DNB exceeding its "*net revenue*" (excluding capital gains/losses) should not be recorded as government revenue but as equity withdrawal by government (F.5).

This implies modifying the notified deficit/surplus by the Netherlands for 2002-2006. Eurostat invites CBS to introduce the aforementioned revisions to the data for the April 2008 notification at the latest.

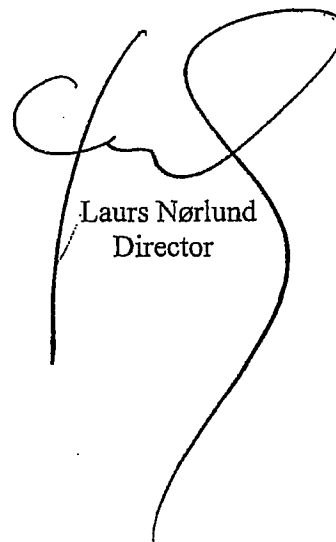
Open issues

Eurostat would appreciate to receive additional information on whether the "*net revenue*" concept used when applying the super-dividend test to other companies corresponds to a similar definition to that used by the CBS for the DNB (i.e. including capital gains/losses). We would also like to receive this information before the next EDP notification.

Procedure

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 is therefore publishing all 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.

Yours sincerely,



Lours Nørlund
Director