




EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS)
Unit D-3: Excessive deficit procedure (EDP) 2

 Ref. Ares(2014)243836 - 03/02/2014

FINAL FINDINGS

EDP dialogue visit to the Netherlands

26 November 2013

Executive summary

An EDP dialogue visit to the Netherlands took place on 26 November 2013.

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to assure that provisions of the ESA95 Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in Dutch EDP and Government Finance Statistics (GFS) data.

Eurostat welcomed the draft form of the EDP process flowchart and encouraged the Dutch authorities to finalize this very useful product. The Dutch authorities were also encouraged to send their EDP inventory in the new format as soon as possible.

Eurostat acknowledged the efforts of the Dutch authorities to use the best source of data for social contributions and noted that under the current arrangements late revisions (as also in years t+2 to t+4) might be possible. Eurostat hoped that with the new developments in the financing of the health care system by government a better estimate can be made for expenditure on an accruals basis.

Eurostat took note of the progress achieved by the Dutch statistical authorities in the implementation of the actions points agreed during the December 2011 EDP dialogue visit. It was agreed that the recording of student loans remains unchanged until the new system is introduced in 2015, recording a loan at inception and recording a grant when the loan is forgiven later.

Eurostat further encouraged a more complete reconciliation of the working balance and EDP deficit, and strongly supported the joint exercise between the MoF and CBS which is expected to yield results by the October 2014 EDP notification.

The Dutch authorities will provide a split of Loans into increase/decrease in EDP table 3D for local government in the April 2014 EDP notification.

Eurostat acknowledged the work undertaken for other accounts receivable/payable, a long term project of the Dutch statistical authorities, to be finalized by the October 2014 EDP notification. Eurostat encouraged the CBS to provide a further breakdown for local governments in the statistical surveys in order to provide more detailed figures in the EDP related questionnaire, and Eurostat will write to the CBS to underline this.

Eurostat welcomed developments on the new register of government controlled entities and further encouraged the CBS to complete the list as much as possible, whilst appreciating the resources needed for this exercise. The new register will be set up by the end of 2014.

Eurostat was informed by the Dutch authorities about upcoming “wet PPP” projects (floodgates and dykes), and it was agreed that the same rules must be applied for these as for the “dry” PPPs, for instance roads. The Dutch authorities will cooperate on this and the CBS will present to Eurostat the results of its analysis of the first such contract.

Eurostat underlined the importance of a reconciliation of the recording of accrued interest in EDP table 2A and 3B, and in order to facilitate this, supported the creation of a dedicated tem-

plate for data exchanges between the CBS and the MoF. The Dutch authorities aim to have a fully reconciled system of recording by the October 2014 EDP notification.

Eurostat thanked for the Dutch authorities for their comprehensive note on the transactions already recorded in the context of the financial crisis. Regarding the winding up of the Illiquid Asset Back-up Facility of ING, the CBS will investigate the value of the guarantee fee asset and will confirm the recording in national accounts once the deal is finalised.

The recording of the transactions related to the nationalisation of SNS Reaal was shortly discussed, especially the recording of the capital injection by the government. Eurostat will reply to the latest letter of the CBS, and a conclusion on the treatment of the injection will be reached before the next EDP notification.

Eurostat took note of the CBS's opinion not to record under ESA10 stocks and flows of (A)F.66 for standardized guarantees, due to lack of detailed information in the State budget and the small amounts related to these standardized guarantees, including export-credit guarantees.

In addition, the following two issues were discussed at the request of the Dutch authorities: the treatment of unwinding swaps and recording of bond strips.

Eurostat took note that the Netherlands is well advanced in the introduction of the ESA10 in Dutch government finance statistics.

Eurostat appreciated the openness and transparency demonstrated by the Dutch authorities during the meeting and the documentation provided before and during the dialogue visit.

Final Findings

1. INTRODUCTION

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to the Netherlands on 26 November 2013.

The delegation of Eurostat was headed by Mr John Verrinder, head of unit D3; Eurostat was also represented by Mr Denis Besnard (unit D1) and Ms Ágota Krénusz (unit D3). Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Statistics Netherlands (CBS), the Ministry of Finance (MoF) and the Dutch National Bank (De Nederlandsche Bank, DNB) represented the Netherlands (see the list of participants in Annex 1).

Eurostat undertook this visit in order to review the implementation of ESA95 and MGDD methodology and to assure that Eurostat decisions are duly implemented. The visit focused on data sources for social contributions, on the reconciliation of the working balance and EDP B.9, on the recording of other accounts payable and interest, on the development of a register of government controlled units, on the recording of PPPs, and on the recording of special government operations in the context of the financial crisis, especially, the nationalisation of SNS Reaal. In the context of the above mentioned subjects, the participants also reviewed issues relating to the forthcoming introduction of ESA10 (the agenda is included in Annex 2).

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation 479/2009, as amended, indicating that the Main conclusions and action points would be sent to the Dutch statistical authorities for review. Then, within weeks, the Provisional findings would be sent for their review. After adjustments, Final Findings will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the documents provided by the CBS before the visit.

2. REVIEW OF INSTITUTIONAL ISSUES

2.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation

Introduction

Eurostat thanked the Dutch authorities for their draft document on EDP processes and flows (EDP flowchart). Eurostat enquired on changes relating to institutional responsibilities.

Discussion

The CBS explained to Eurostat that there are no changes in the institutional responsibilities in the framework of reporting of data under EDP and government finance statistics. They also informed Eurostat that according to the decision of the Director General of the CBS the Ministry of Finance will be provided with the quarterly debt and deficit figures one day before official publication.

Eurostat also mentioned that the Action point from the previous visit on the agreements on co-operation with other government bodies on the source data concerning other government sub-sectors and of the evaluation report of MoU is still outstanding. The Dutch authorities explained that these agreements with the ministries and the social security funds are not yet final and are foreseen to be finalized in 2014. Eurostat asked the Dutch authorities to provide these agreements once they are final.

Eurostat welcomed the work done on the EDP flowcharts, and asked the Dutch authorities to include the audit status of the incoming data in the charts. Several smaller recommendations and clarifications were proposed. It was agreed that the CBS will send the final flowcharts to Eurostat by April 2014.

Eurostat enquired about the status of the EDP inventory in new format, explaining that this should be published on Eurostat's website mid-December and so far only 3 Member States had not provided any document, including the Netherlands. It was also explained that it will be possible to update the inventory whenever the Dutch authorities wish to do so, therefore a first version would naturally be open to revision. The Dutch authorities explained that due to the high workload relating to the adoption of ESA10, they had no time to finalize a document but they will be able to provide it soon.

Findings and conclusions

The CBS will provide Eurostat with copies of the agreements on co-operation with other government bodies on the source data concerning other government sub-sectors and of the evaluation report of MoU. (**Action point 1; deadline: as soon as the revision of the documents is finalised**)

Eurostat appreciated the work done on the flowchart of EDP processes and asked the Dutch authorities to send to Eurostat the final version. (**Action point 2; deadline: April 2014**)

The CBS will send Eurostat the first version of the EDP inventory in new format. (*Action point 3; deadline: 10 December 2013¹*)

2.2. Source data and revision policy

Introduction

Under this point two issues were discussed. First, Eurostat enquired about the possible introduction of revision to the data for educational institutions data. Second, the data sources relating to social contributions were further discussed, as the revisions in the October EDP notifications are considerable.

Discussion

The Dutch authorities explained that as of 2014, Statistics Netherlands will be able to fully employ source data available from Dienst Uitvoering Onderwijs (DUO), an agency of the Ministry of Education, Culture and Science. These source data can be used to estimate the financial flows and stocks of the education sectors for the purpose of the National Accounts and EDP reporting. The initial results of their research indicated that the improved estimates of the education sector would lead to an increased government deficit (as of 2006 the deficit will increase by circa 1 billion euro). The exact value of the revision is still uncertain because the revision of the entire National Accounts is still in progress. They also explained that the revision will be made in the context of the national accounts revision (and implementation of ESA10) in summer 2014. Eurostat took note of these explanations.

Eurostat enquired on the data sources used for the accrual adjustment of social contributions. The Dutch authorities explained that the working balance of table 2D is derived from the accrual based financial reports of social security institutions. The information on social contributions from financial reports of the social security institutions is *not* used by Statistics Netherlands, using the cash data instead from the Tax Authority, which are then transformed into accrual data. The Tax Authority is the institution that collects both taxes and social contributions, and thus is the most direct source for social contributions.

The differences between the source data on social contributions, i.e. data from the Tax Authority (after transformation into accrual data by Statistics Netherlands) compared with data from social security institutions, were discussed during the meeting. There are two sources of differences (1) different ways of registering the same payments (in different years) – this causes the main revisions, and (2) other differences due to direct payment to social security institutions, e.g. voluntary contributions.

Concerning the first cause, it was explained that main difference in recording relates to the registration of post-payments. Post-payments result from the final assessment of the wage tax. As social contributions are distributed by the Tax Authorities to social security funds based on provisional keys first, and these keys are definitive only 2 to 4 years later, this causes a discrepancy between the cash data of the tax authority (basic data for the CBS) and the accrual data of the social security funds. For instance the difference between the recordings caused a gap of 1140mn in 2011 (0.2% of GDP) between the social security fund and the CBS data.

¹ This action point is outstanding.

Concerning the second cause, the CBS promised to examine the causes for the difference of 93mn in 2011 for direct payments to social security funds.

The Dutch authorities also informed Eurostat that since 1 January 2012 new developments in the financing of social expenditures have been in place. These should also help the CBS to better estimate accrual adjustments in the future. The Dutch authorities will provide a note on this to Eurostat.

Findings and conclusions

Eurostat took note of the explanations on source data for social contributions. The CBS will report to Eurostat on the result of its examination of the recording of voluntary contributions and other contributions which may not currently be recorded as revenue. (**Action point 4; deadline: end-March 2014**)

The Dutch authorities will provide Eurostat with a note on the latest developments in the Dutch health care system (notably the system for payments between insurance institutions and government). (**Action point 5; deadline: end-May 2014**)

3. FOLLOW-UP OF THE VISIT OF 12 DECEMBER 2011

Introduction

Eurostat enquired about outstanding issues from the previous dialogue visit of December 2011, such as the recording of the Joint Strike Fighters related expenditures and the recording of student loans.

Discussion

Eurostat asked about any development on the recording of Joint Strike Fighters in national accounts, an issue already discussed during the previous visit. It also came to Eurostat's attention that the Dutch government has come to a decision to buy fewer planes than originally planned.

The Dutch authorities explained that they are still waiting for Eurostat's feedback on the recording in other Member States participating in the programme, and that the recording is not finalized yet. They have been in contact with the Ministry of Defence on this issue and they will send Eurostat a note on the current recording. Under ESA10, the expenditures will be recorded as Research and Development, and will be capitalised.

Concerning student loans, Eurostat asked whether the Dutch authorities have come to a conclusion regarding the recording of student loans in the ESA10 revision. The issue was how to record the loans in the Dutch system, where most of the loans are forgiven at the end of the studies. At the previous visit Eurostat acknowledged that the arrangements of the student loans' system raised some doubts about their economic nature and should be subject to further methodological analysis. The Dutch statistical authorities had considered if these loans have some characteristics of contingent assets from a government perspective, and therefore that a suitable recording could be recording grants at the moment the 'loans' are given to students and then converting them into loans in financial accounts when a decision is taken that they should be paid back.

The Dutch authorities explained that for this ESA10 revision they intend to keep the recording as loans at inception, and only when the loan is forgiven is recorded as a grant. It was also clarified that interest must be accrued over the period of the loan. This accrued interest is then recorded as expenditure when the loan is forgiven.

They also added that from 2015 there will be a new Student Loan Scheme. Under the new scheme, a different recording might be envisaged.

Findings and conclusions

The CBS will provide a note on the recording of transactions related to the Joint Strike Fighters and Eurostat will investigate how these are recorded in other Member States participating in the project. (*Action point 6; deadline: end-February 2014*)

It was agreed that regarding the recording of Student loans, the Dutch authorities will record accrued interest for the whole period, taking into account that if the loan is forgiven, expenditure is to be recorded in government accounts for the interest accrued to date on the loan.

4. FOLLOW-UP OF THE OCTOBER 2013 EDP REPORTING – ANALYSIS OF EDP TABLES

4.1. Reconciliation of the working balance and the EDP B.9

Introduction

Eurostat has strongly encouraged the Dutch authorities' work to identify necessary adjustment figures in EDP table 2A, in order to fully reconcile the working balance and the B.9, as discrepancies are currently shown in the table under "Other adjustments" and in some years these amounts are considerable.

Discussion

The Ministry of Finance presented the two methods for calculating the working balance ("*cash balance to be financed by the state*"), either based on the financing of the Treasury or on the expenditures and revenues in the annual accounts of ministries. In theory these two should be the same, but in practice amounts might differ, because for instance of foreign currency bank accounts. However, the difference is small, and the analysis is not fully completed.

The CBS explained that the main reason for not being able to reconcile the two indicators might be the recording of other State agencies, because the budget is on a cash basis, while agencies keep their books on an accrual basis. The current correction line in EDP table 2A for the State agencies needs further examination.

Findings and conclusions

Eurostat strongly encourages the continuation of the work related to the reconciliation of the working balance and B.9, a joint exercise between the CBS and the MoF. Eurostat would like to receive an update on the project alongside the April and October 2014 EDP notifications. (*Action point 7; deadline: April and October 2014*)

4.2. The gross recording (increase/decrease) of data on loans

Introduction

Eurostat enquired about availability of the split of Loans in EDP table 3D into increase/decrease.

Discussion

The Dutch authorities explained that the questionnaire on local governments now includes this split, therefore in the April 2014 EDP notification, the CBS will include the estimates of these figures in the EDP table 3D.

Concerning schools, it was explained that the Dutch authorities are now able to include figures in the whole table 2C (working balance and adjustments to arrive at EDP B.9).

Findings and conclusions

The Dutch authorities will provide a split of Loans into increase/decrease in EDP table 3D for local government in the April 2014 EDP notification. (**Action point 8; deadline: April 2014**)

The CBS will provide for the October 2014 EDP notification a different presentation of EDP table 2C, including the educational institutions in the working balance. At the same time, they will provide a separate EDP table 2C, for illustration purposes, showing only the amounts related to the educational institutions. (**Action point 9; deadline: end-September 2014**)

4.3. Other accounts receivable/payable (F.7)

Introduction

A long outstanding issue in Dutch government accounts is the exact definition and identification of other accounts receivable/payable. The Dutch authorities started the project after the previous Eurostat dialogue visit and plan to finish by the introduction of ESA10 in June 2014.

Discussion

The Dutch authorities explained that they have itemized all cash/accrual adjustments in table 4 of the EDP related questionnaire, and the table includes no residuals for the years 2010-2012. They mentioned that other accounts payable/receivable of other central government units, local governments and social security funds cannot be fully broken down. During the discussion they explained that for local governments the current survey is not detailed enough. Eurostat emphasized that the Dutch authorities must be at least able to discover what big revisions relate to, so therefore it would be useful to have a more detailed breakdown. It was agreed that the CBS would try to introduce further details in the survey and Eurostat supported this. For other central government bodies, financial reports are used and Eurostat proposed that the CBS looks more into the notes of these reports to see if more detail is available.

Eurostat enquired on the content of the lines “rebalancing” and “consolidation”. It was explained that the major adjustments relate to rebalancing (line 15 of EDP questionnaire table 4), which are amongst others adjustments in the non-financial accounts of local government. The current accounting practice of Statistics Netherlands is to adjust the amounts of current and capital transfers from the State to local governments by the amounts recorded by the State on a cash basis, since the latter data have historically been deemed more reliable. Also rebalancing items from NPIs are accounted for in this line. After implementation of the ESA10, the CBS will change the consolidation procedure: the cash data by the State will be adjusted to the accrual data of local government units and other units that record on an accruals basis. The rebalancing items in questionnaire table 4 of the questionnaire related to these corrections will largely disappear. And in this case, the line “consolidation” will include all and only consolidation effects.

The Dutch authorities also undertook that the hidden *statistical discrepancies* between B.9 and B.9f under other accounts payable will disappear, adopting a new procedure to explicitly show statistical discrepancies. Statistical discrepancies will be shown for those units that do not have integrated accounts for expenditure, revenue and the balance sheet such as the State.

The Dutch authorities also informed Eurostat they do not collect direct data on *trade credits and advances*, however under ESA10 they intend to introduce a better estimation. So far trade credits and advances were calculated by making assumptions about the delay between the date of transaction and date of payment, and the amount obtained was deducted from the total other accounts payable/receivable as obtained from direct data sources. The assumption was that all government units pay on average 25 days after they purchase goods and services (P.2, P.51). Furthermore, it was assumed that the (market) output (P.11) produced by general government is paid for after 42 days. As of 2014, after implementation of the ESA10, trade credits and advances will be estimated by splitting gross fixed capital formation into investments and disinvestments. Late payments related to sales of investment goods will affect other accounts receivable, while those related to investments are part of other accounts payable, imputed transactions such as investments related to own-account capital formation (part of P.51g) or acquisition of services related to the Dutch Health Insurance Scheme should not lead to trade credits and thus will be excluded from the calculation. Figures on the delay in payments by government units will be obtained from an annual report from the collection agency Intrum Justitia.

In all, these improvements will lead to considerably higher stocks of other accounts payable than reported now.

Accrued interest not paid but accrued will be recorded under the relevant instrument with the introduction of ESA10.

The Dutch authorities also informed Eurostat that from 2014, the MoF will not publish a balance sheet of the State, instead the building blocks for this will be provided to CBS, alongside “saldi balansen”, quasi balance sheets of ministries and more information on the financial accounts of State agencies, all these leading to reduced statistical discrepancies, improved estimates of other accounts payable/receivable and transformation of cash data to accrual data. The CBS emphasised that this work depends on the provision of additional resources for government finance statistics in the CBS.

Findings and conclusions

Concerning other accounts receivable/payable, Eurostat welcomed the work undertaken by the Dutch statistical authorities. It was agreed that regarding the other accounts of local governments, a further breakdown is needed in the statistical surveys in order to provide more detailed figures in the EDP related questionnaire, and Eurostat will write to the CBS to underline this.

For the other accounts of other central government bodies, the CBS will check whether a further breakdown is available in the notes to the financial reports and inform Eurostat. (**Action point 10; deadline: 10 December 2013**)²

It was also agreed that once the work on other accounts receivable/payable is done, the rows “Rebalancing” will be minimised and the rows “Consolidation” will include figures relating to only consolidation effects. (**Action point 11; deadline: end-September 2014**)

Eurostat encouraged the aim of the CBS to further improve the data for Trade credits and advances, and acknowledged the provision of further data sources (saldi balansen) to CBS, which could then be analysed to identify issues in statistical discrepancies. Eurostat took note that this important work would require further resources.

5. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

5.1. Delimitation of general government, application of 50% rule in national accounts

Introduction

Eurostat enquired on the state of play of the register of *government-controlled entities*. The idea of this register was shared with Eurostat during the previous dialogue visit and Eurostat strongly supported this idea, asking to be notified on any developments in this respect.

Discussion

The Dutch authorities provided a comprehensive document on the development of the register before the visit to Eurostat and this document was discussed. They explained that the register is supposed to be ready by end-2014 and at this time further progress on the Eurostat Questionnaire on government controlled entities is also foreseen.

The CBS mentioned several practical problems encountered. For foundations, only a limited number (500) have been captured so far, as the business register only includes entities with 100% government ownership. This limited number does not necessarily include the biggest units. It was therefore agreed that the CBS would try several research options (e.g. looking for “museum” in the name of units) in order to capture at least the biggest foundations, and will report back to Eurostat on progress.

² This action point has been completed.

It was agreed that concerning the data on consumption of fixed capital used for the market test, the CBS will use a doubling of business amortizations, however, in individual cases, where the units would have a lot of assets, or where the units are close to a 50% ratio (between 50 and 60%), the amortization has to be examined individually.

A 3 years period (to comply with the market test) is to be taken into account when determining the classification. If the unit has existed for less than three years, prudence must be applied.

For specific types of units that generate income from an asset financed by money borrowed from the government in the Netherlands (e.g. Westerscheldetunnel BV), it was agreed that these are ancillary units, to be classified with the controlling entity (the government). Regarding units using revolving funds, Eurostat recalled the statistical treatment of Jérémie/Jessica arrangements, where, if the unit is classified outside government, the initial contribution of government has to be classified as a capital transfer.

The Dutch authorities raised the issue of classification of the regional development banks in the Netherlands. It was discussed that these might be captive financial institutions under ESA10 but further information is needed on their financing (whether it is only government financing involved or private capital is provided as well). The Dutch authorities will provide information on these banks to Eurostat before the end of February 2014.

Findings and conclusions

Eurostat welcomed the progress made on the register of government controlled entities and encouraged the CBS to enlarge /complete the foundations on the list. The CBS will report to Eurostat on the progress by end 2014. (**Action point 12; deadline: end 2014**)

The Dutch authorities will investigate the classification of the regional development banks under ESA 2010, especially their financing and report back to Eurostat. (**Action point 13; deadline: end-February 2014**)

5.2. Implementation of the accrual principle

5.2.1. Taxes

Introduction

Eurostat enquired about the changes in recording of taxes or any new taxes which have been introduced.

Discussion

The Dutch authorities explained that the recording of the bank levy is under discussion, especially its coding in ESA. The topic is on the agenda of the Task Force on GFS and no conclusion had been drawn during the last meeting. Concerning the time of recording, it was decided that this will be the year t+1, when the information on the exact amounts is available.

The Dutch authorities also mentioned that a new tax, a tax on high income, was introduced, based on 2012 income data but levied only in April 2013. Currently it is recorded as D.29

and spread smoothly over quarters but it is still uncertain whether this will be a permanent tax or not, therefore the recording still might change.

Findings and conclusions

Eurostat took note of these explanations.

5.2.2. Interest

Introduction

The Dutch authorities had provided before the visit a document on the recording of interest in EDP tables, accompanied by an excel file showing the recording in EDP table 2A and 3B.

Discussion

The Dutch authorities explained that the main data source is a file on interest on both cash and accrual bases which is provided to Statistics Netherlands by the Ministry of Finance. The figures in this file are not fully consistent with the data in the State's budget and do not include interest related to treasury banking and interest related to the assumption of the Netherlands Antilles' debt (with the exception of 2012 where it was included). Furthermore, in the Dutch practice of compiling national accounts, interest accrued and not yet paid related to coupons of bonds and other liabilities is recorded under other accounts payable (and not under the instrument). Thus, in table 3B interest accrued and not yet paid related to coupons of bonds and other liabilities is recorded in the line "Net incurrence (-) of other liabilities (F.5, F.6 and F.7)". On the other hand, interest accrued resulting from discounts and premiums are recorded under "Difference between interest (EDP D.41) accrued (-) and paid (+)" in EDP table 3B. Additionally, this line also contains the discounts on Dutch Trade Certificates and European Commercial Papers, most of these discounts will be amortised in the year of issuance.

In the excel file provided alongside the Dutch note, various inconsistencies could be observed, due to incomplete information on the full breakdown of the cash accrual adjustment to interest expenditure/revenues. The CBS explained that a part of this relates to errors in the cash/accrual adjustment made by the Ministry of Finance.

These inconsistencies underline the necessity to improve the cooperation between Statistics Netherlands and the Ministry of Finance regarding this issue.

Eurostat appreciated the explanations and supported a closer coordination between the CBS and MoF in order to eliminate discrepancies in the tables. It emphasized that the CBS should know how the information on interest is compiled in the MoF and it should have an overview of accrual adjustments across all instruments.

Findings and conclusions

Eurostat supported the reconciliation of the recording of interest in EDP table 2A and 3B, and in order to facilitate this supported the creation of a dedicated template between the CBS and the MoF (which will be provided to Eurostat when it is completed). The Dutch authorities aim to have a fully reconciled system of recording by the October 2014 EDP notification, and will report back to Eurostat on this. (**Action point 14; deadline: end-September 2014**)

5.3. Recording of specific government transactions

5.3.1. *Public Private Partnerships*

Introduction

Eurostat acknowledged the work done by Statistics Netherlands since the last dialogue visit, developing a decision tree for the classification of PPP projects, and applying this consistently across different PPP projects. Eurostat enquired about planned new PPPs and the Dutch authorities had sent a note prior to the visit on “wet” PPPs, related to floodgates and dykes, to consult Eurostat on their classification.

Discussion

The Dutch authorities explained that a new version of the pro-forma PPP contract had been released by the Ministry of Infrastructure and the Environment. It was agreed that this will be provided to the CBS for their review (to amend the decision tree if necessary). Also, new PPPs are on the way, mainly road projects and related to lock programmes (locks, dykes, floodgates), foreseen for 2014 and 2015.

In this context, the Dutch authorities wanted to discuss with Eurostat the risk assessment specificities of floodgates and dykes. The Dutch authorities explained that the contractual arrangements and conditions of PPPs on floodgates and dykes are similar to those of the standardized DBFM agreement, stipulating high level safety requirements on the PPPs and the performance of the provider will be accurately monitored. Also, penalties in cases where the provider is defaulting are significant and could be cut down to zero in the event of serious defaults. However, in the case of a serious default, the provider cannot bear all the costs caused by the damage of extreme flooding. The benefits of the insurance are capped to the amounts which are reasonably insurable and will thus not be sufficient to cover all the costs caused by the flooding. As a consequence government has ultimately to pay the costs. In this view it could be argued that government does in specific circumstances bear in part the availability risk instead of the provider of the PPP. As a consequence it could therefore be considered if PPPs for floodgates and dykes would need to be classified on the government balance sheet.

Eurostat explained that “wet” PPPs should be analysed in line with those “dry” PPPs. Beside bearing the construction risk, it must be ensured that the availability and penalty structure is such that penalties are genuine and availability risk is also borne by the private partner. The CBS should analyse the first contract according to its current procedure and then let Eurostat know of its conclusions.

Eurostat enquired on two existing projects that are under discussion with the CBS. It was mentioned that the project *Onderhoud militaire vliegtuigmotoren* is still in the consideration phase. Concerning the *Kormhout Kazerne*, the special issue was that the contract under certain conditions would be immediately terminated before the availability fees are cut down to zero and Eurostat asked the CBS to confirm that in this case this would result in actual losses to the partner. Eurostat took note of explanations provided.

Findings and conclusions

Concerning the evaluation of the “wet” PPP projects (flood gates and dykes) it was agreed that the MoF will present the first contract to the CBS for analysis and CBS will then present to Eurostat its analysis. (**Action point 16; deadline: after the first contract has been signed**)

5.3.2. *Specific government transactions in the context of the financial crisis*

Introduction

Eurostat enquired about developments of ongoing government operations in the context of the financial crisis. Eurostat also pointed out that it found useful the Annexes in the annual Dutch national accounts publication detailing financial crisis operations of the government and their recording in national accounts.

Discussion

The Dutch authorities explained that government operations in the context of the financial crisis are described in the Budget Memorandum Annex 7 each year. This annex plus a note prepared by the CBS on the current state of the interventions was handed over to Eurostat at the beginning of the meeting. Another source of data is the DNB that provides additional information on flows and stocks related to the IABF, or for special operations, the Ministry of Finance. The Annex in the national accounts publication has ceased to exist, as no further interventions took place.

The document provided by the Dutch authorities describes in a clear way how the values in the supplementary table on the financial crisis are calculated, where the Dutch authorities also mention some inconsistencies to be corrected in the April 2014 EDP notification.

Concerning ***ABN AMRO and Fortis*** it was explained that in the spring of 2010 the new ABN AMRO was established as the successor of the former ABN AMRO and Fortis Bank. The State granted new financial aid in two parts, March and June, amounting to 0.9bn euros for recapitalizing ABN AMRO. In national accounts this led to the recording of capital transfers increasing government deficit with 0.9bn euros. The debt grew evenly since these expenses had to be financed.

Since 2008 the State provided 28bn euros financial aid in the form of capital transfers and shares to ABN AMRO and 44bn euros in loans, out of which in 2010 and 2011 ABN AMRO further redeemed 3.25bn euros and 0.75bn euros. An amount of 3.8bn euros in loans still remains outstanding. With this redemption in 2010, the State was able to pay 3bn euros back on the loans that were provided by Fortis Holding (Brussels) in 2008.

The guarantees amounting to 33bn euros that were provided to ABN AMRO in 2009 were discontinued in 2010. The State provided a new guarantee of 0.95bn euros in 2010. In national accounts guarantees are contingent liabilities and hence these are not recorded in the financial accounts and balances. An expense is recorded at the moment that a guarantee is called.

In 2011 and 2012 no new developments occurred. The successors of Fortis paid dividends of 200mn and 121mn euros respectively in 2011 and 2012. The Fortis Rate Notes were further redeemed to an outstanding amount of 3bn euros at the end of 2012.

Concerning the ***ING Illiquid Assets Back-up Facility (IABF)*** it was explained that the Dutch government had agreed with the ING to wind up the facility. This means that in 2013 the ING will pay an amount (around 395mn euros) to the Dutch State. The impact of this transaction depends on the valuation of the “guarantee fee” asset recorded in the Dutch national accounts. The CBS will examine this and report to Eurostat once the deal is finalised. The portfolio currently in the ownership of the government will be sold within a year, and will be recorded in the Dutch accounts as a financial transaction.

For the case of ***Icesave***, the Dutch authorities explained that the Dutch government expects that the money they have paid to the savings accounts’ holders will be paid back either by

the liquidators of the scheme or the Icelandic government, even if the EFTA court had ruled recently that the Icelandic government is not obliged to pay back the payments of the Dutch and British government. So far, two-thirds of the original compensation paid to accounts' holders has been paid back to the Dutch government. Therefore, the original payments of the Dutch government are still recorded as other accounts receivable against Iceland.

The issue of the nationalisation of *SNS Reaal* was discussed. In January 2013 the Dutch State nationalised SNS Bank (public limited company) and its subsidiary SNS Property Finance. The nationalisation involved four main events in Quarter 1 of 2013: (1) Expropriation of shares and subordinated debt by the Dutch State; (2) Conversion of core tier one securities from 2008 into ordinary shares; (3) Capital injections worth 2.2 billion euros into SNS Reaal by the Dutch State; (4) Provision of a loan worth 1.1 billion euros by government to SNS Reaal.

It was stated that Eurostat and the Dutch authorities agree on the recording of points 1, 2 and 4, and only on the recording of the capital injection is there an ongoing discussion.

Eurostat explained that capital injections into SNS Reaal were in the context of its nationalisation and there were no other private investors participating in the capital injection, therefore the MGDD chapter III.2 on the Capital injections into public corporations has to be applied, which involves examining past losses.

The Dutch authorities emphasized the importance of the substantial positive own funds (even before the injection) of SNS Reaal and that government injected in a unit which – excluding write-downs from bad loans – was already profitable. They also explained that they might be able look into the restructuring plan soon.

Eurostat reminded the Dutch authorities that once the “bad bank” taking over the Property fund's assets is established it has to be determined whether this a public defeasance structure and if yes, the appropriate chapter of the MGDD should be applied.

It was agreed that Eurostat will reply to the latest letter of the Dutch authorities by 16 December 2013 and also that by the April 2013 EDP notification the recording should be agreed.

Findings and conclusions

Eurostat took note of the explanations provided on the recording of operations in the context of the financial crisis. Regarding the winding up of the Illiquid Asset Back-up Facility of ING, the CBS will investigate the value of the guarantee fee asset and will confirm the recording in national accounts once the deal is finalised (**Action point 17; deadline: when the deal is finalised**).

The recording of the transactions related to the nationalisation of SNS Reaal was discussed, especially the recording of the capital injection by the government. Eurostat will reply to the latest letter of the CBS. CBS and Eurostat agreed to take a final decision on the recording of the nationalisation of SNS Reaal by beginning March 2014, based on the information available until then, in order to be implemented in the April 2014 EDP notification. (**Action point 18; deadline: 16 December 2013³ and 1 March 2014**)

³ This action point has been completed.

5.3.3. Recording of EU grants

This issue was not discussed.

5.3.4. Capital injections, dividends, superdividends

Introduction

Eurostat enquired in general on the procedures for identifying capital injections and superdividends.

Discussion

Concerning capital injections, the Dutch authorities explained that for central government they identify capital injections directly from the budget, but for local governments they normally see capital injections if they are large and are accompanied by press releases. For small injections they do not have information.

For superdividends, it was explained that not all corporations are checked but only those that normally might pay a superdividend. Especially on a local government level this is likely to be rare. Eurostat explained that at least one big local government should be initially checked to see if the assumptions of the statistical office are correct.

Findings and conclusions

Eurostat took note of the explanation on capital injections and superdividends. The CBS will examine the dividend data of one local government unit, in order to cross-check if possible superdividends are identifiable. (*Action point 19; deadline: end-April 2014*)

5.3.5. Guarantees, debt assumptions, debt cancellations and debt write-offs

Introduction

The recording of guarantees and standardized guarantees was discussed.

Discussion

Under ESA95 government guarantees are classified as contingent liabilities in Dutch national accounts and GFS. Stocks of contingent liabilities are not part of the government balance sheet. As a consequence providing or withdrawing guarantees is not recorded as a financial or non-financial flow in national accounts and GFS.

For State guarantees detailed information is available on the amounts and the transactions involved. The information is presented clearly in the State budget memorandum. Similar information for other general government units is not yet collected by Statistics Netherlands. These guarantees should be published in the annual financial reports of the other general government units. In the case of big cash calls or debt assumptions related to guarantees specific information can be obtained from financial reports of the general government units in question and press releases in order to verify the recording and to adjust if necessary.

Under ESA10, for *standardized guarantees*, due to lack of detailed information in the State budget and the small amounts related to these standardized guarantees, no stocks and flows of (A)F.66 will be recorded in Dutch national accounts/GFS for general government after implementation of ESA2010.

Concerning *export-credit guarantees*, the Dutch authorities explained that these are not standardized in the Netherlands and mainly provide insurance against political risks. Due to this and the consequent unreliable data, it is not possible to make good estimates for provisions; therefore no recording as standardized guarantees is foreseen under ESA10.

Findings and conclusions

Eurostat took note of these explanations.

5.3.6. Others

Introduction

Eurostat enquired on the recording of emission permits auction sales and the Dutch authorities asked two questions relating to changes because of ESA10.

Discussion

The CBS confirmed that it applies the chapter on recording the proceeds of auctioning or selling emission trading permits.

Before the meeting Statistics Netherlands received a request from the Ministry of Finance to discuss two issues relating to the debt. A delegate of the Dutch debt management office presented these items.

The unwinding of swaps

In the context of switching from ESA95 to ESA10, the interest flows from swaps will no longer be included in the EDP deficit, and the Dutch authorities asked how these will be reflected in the case of unwinding swaps. Eurostat explained that flows related to swaps will be recorded as financial transactions in EDP, therefore they will not impact the deficit, however debt effects are possible due to cash-flows for swaps. There is no difference between the treatment of different types of swaps (IRS, FOREX and cross-currency swaps).

Bond strips

Stripping a bond implies separating its principal from its interest coupons, under the form of a series of zero coupon bonds for each payment dates of the bond. Bonds can also be 'reconstituted' by recombining a principal and all its interest coupons. In this context it was confirmed that bond stripping has no implications for government debt, as debt is measured at face value. Accrued interest also stays the same. Stripped bonds do not constitute new debt. However, if a stripped bond coupon or principal is redeemed this information has to be provided to Statistics Netherlands to ensure correct recording.

Findings and conclusions

Eurostat took note of the explanations on emission trading permits.

The MoF will confirm to the CBS that the nominal value in euros of the debt denominated in foreign currency is calculated using the swap rate if the debt is specifically covered by a cross-currency or foreign exchange swap arrangement. (*Action point 15; deadline: 10 December 2013⁴*)

6. OTHER ISSUES

6.1. Implementation of ESA10

Introduction

Eurostat acknowledged the work undertaken by Statistics Netherlands for the preparation of the changeover from ESA95 to ESA10.

Discussion

Eurostat explained that concerning the recording of UMTS licences under ESA10 a document will be discussed at the FAWG.

Findings and conclusions

Eurostat took note that the Netherlands is well advanced in the introduction of the ESA10 in Dutch government finance statistics.

⁴ This action point has been completed.

Annex 1 List of participants

Statistics Netherlands

Department of National Accounts

Gerard Eding *Director of National Accounts*

Department of Government Finance Statistics and Consumer Prices

Bert Kal *Manager Integration, acting head of Government Finance Statistics*

Fred Wentink *Manager Central Government, including (local) Educational Institutions and NPIs*

Hilbert van Dijk *Deputy Manager Local Government*

Léonard Haakman *Project Manager EDP and GFS*

Marga Hüttner *Senior Statistician Non-financial accounts*

Floris Jansen *Senior Statistician Financial accounts*

Rudolf Timmermans *Project Leader General Government Register*

Mirjam Zengers *Statistician Financial accounts*

Linda Peters *Statistician Social Security Funds*

Arjan Neef *Statistician the State*

Central Bank (De Nederlandsche Bank)

Richard Venniker *Economist (Statistics and Information Division)*

Ministry of Finance

Fiscal Policy Unit

Dick Kabel *Head of Fiscal Policy Unit*

Patrick Schuerman *Coordinator fiscal rules and EDP*

Jenny Boelens *Coordinator fiscal data*

Dutch State Treasury Agency

Sylvia Teunissen *Senior policy advisor*

Ministry of Infrastructure and the Environment

Marc Bollen *Strategic advisor Rijkswaterstaat*

Eurostat

John Verrinder, Head of unit D3

Denis Besnard, unit D1

Ágota Krénusz, unit D3

ECB

Robert Gadsby

DG ECFIN

Davide Balestra

Annex 2 Agenda

1. REVIEW OF INSTITUTIONAL ISSUES

- 1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation

- 1.1.1. EDP inventory*

- 1.2. Source data and revision policy

- 1.2.1. Sources for social contributions (cooperation between the tax authorities, the CVS and CBS)*

2. Follow-up of the visit of 12 December 2011

3. Follow-up of the October 2013 EDP reporting – analysis of EDP tables

- 3.1. Reconciliation of the working balance and the EDP B.9
- 3.2. The gross recording (increase/decrease) of data on loans
- 3.3. Other accounts receivable/payable (F.7)

4. Methodological issues and recording of specific government transactions

- 4.1. Delimitation of general government, application of 50% rule in national accounts

- 4.2. Implementation of the accrual principle

- 4.2.1. Taxes*

- 4.2.2. Interest*

- 4.3. Recording of specific government transactions

- 4.3.1. Public Private Partnerships*

- 4.3.2. Specific government transactions in the context of the financial crisis*

- 4.3.3. Recording of EU grants*

- 4.3.4. Capital injections, dividends, superdividends*

- 4.3.5. Guarantees, debt assumptions, debt cancellations and debt write-offs*

- 4.3.6. Others: emission trading permits*

5. Other issues

- 5.1. Implementation of ESA10