



EUROPEAN COMMISSION
EUROSTAT

Directorate C: National and European Accounts
Unit C.4: Statistics for Excessive Deficit Procedure II



Luxembourg, 28 April 2011

FINAL FINDINGS

EDP Dialogue Visit to Belgium

26 November 2010

EXECUTIVE SUMMARY

On 26 November 2011 Eurostat carried out an EDP dialogue visit to Belgium. Belgium was represented by the National Bank of Belgium (NBB) and by the Federal Planning Office, both on behalf of the National Accounts Institute (NAI).

First, Eurostat and the NAI discussed **statistical capacity issues**, where no major changes were reported. Eurostat welcomed the increase in the staffing for government finance statistics from March 2011 onward, though noted that many other Member States allocate more resources to these tasks. The timing of the availability of data for the April notifications remains an issue of concern as well as the lack of source data on local government.

Concerning the **October 2010 notification**, no major issues were identified.

As part of **methodological issues**, Eurostat and the NAI reviewed the delimitation of the General Government sector, notably the sector classification of three regional public holding corporations. Other subjects were discussed such as government interventions in the context of the financial crisis, state guarantees, capital injections, securitisations, swaps and derivatives.

Further discussions focused on **specific transactions** such as public private partnerships. 7 different types of PPPs were discussed. Further analysis is needed concerning the impact of government guarantees on the sector classification of the entities and the assets involved.

Other issues included the ESA 95 transmission programme.

INTRODUCTION

In accordance with Article 11 of Council Regulation (EC) No 479/2009 of 25 May 2009 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 Belgium on 26 November 2010.

Eurostat was represented by Mr John Verrinder, the head of unit C.4 “Statistics for Excessive Deficit Procedure II”, Mr Marcin Woronowicz and Mr Johan Debruyne. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meetings as observers. Belgium was represented by the National Bank of Belgium and by the Federal Planning Office, both on behalf of the National Accounts Institute (NAI).

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

The aims of the dialogue visit were: to review and clarify the institutional arrangements for the compilation of GFS in place; to review the figures of the October 2010 notification; to discuss the sector classification of certain units; to discuss the treatment of different aspects of public private partnerships (PPPs) and to discuss a number of other GFS related issues.

Eurostat explained its strengthened powers on GFS and EDP data, which is leading to an increase in staffing within its units (C3, C4 and C6) dedicated to the issue.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, as amended, indicating that the main conclusions and action points would be sent for comments to the Belgian statistical authorities. Subsequent to this, the draft provisional findings will be sent for review. After adjustments, final findings will be sent to the Economic and Financial Committee (EFC) and published on Eurostat's website.

Eurostat thanked the Belgian authorities for the documents provided before the dialogue visit. The discussions were open and constructive, and Eurostat appreciated the explanations provided by the NAI.

1. STATISTICAL CAPACITY ISSUES

1.1. Staffing

Introduction

The Belgian NAI stated that no structural changes to institutional arrangements for the compilation of EDP and other government finance statistics (GFS) had occurred since the last EDP visit in June 2008.

Discussion

Staff working on GFS issues will be increased from 3 to 4 people from March/April 2011 onwards.

Findings and conclusions

Eurostat welcomed this development, but underlined that the level of staffing should allow all relevant tasks to be undertaken in good time and to a high quality, and it appeared that many other EU Member States assign more staff to GFS work.

1.2. Source data characteristics and revision policy

Introduction

Eurostat enquired about the characteristics of source data (in particular the continuing issue of lack of local government data) and on revision policy.

Discussion

The NAI recalled that, for central (S.1311) and state (S.1312) government sub-sectors, budgetary revenue is recorded on a cash basis and budgetary expenditure is recorded as the payment order is authorised. Thus, the NAI introduces corrections to the non-accrual source data for the purpose of respecting the accruals basis of ESA95. As far as central government is concerned, a gradual change (over a period of 3 to 4 years) to accrual source data is to be expected as public accounting reforms are implemented.

Interest expenditure is already recorded on an accruals basis in the source data for central government and social security funds (S.1314). Consequently, no accrual adjustment is necessary in the corresponding EDP tables. The NAI receives some source data from the federated states (for compilation of EDP table 2B for state government) for interest already on an accrual basis, but these are not exhaustive and have to be corrected. The state government units have been putting more emphasis on accrual reporting in conformity with ESA95, thus the amounts of the accrual adjustment for interest in EDP table 2B are not significant.

Reporting of EDP data for local government (S.1313) remains problematic as only very summarised data are being reported and alternative sources need to be used by the NAI. The issue is further discussed below.

It was underlined that more than 90% of debt is attributable to central (federal) government.

Source data from social security funds (accounts for salaries and for self employed remunerations) arrive at the NAI compiled according to Belgian GAAP.

Concerning auditing practices, data arriving from different sources (federal, state, social security funds) are audited as far as their composing elements are concerned. However, working balances as reported in EDP tables are unaudited.

15 April of year n remains the deadline for the first reporting to the NAI of source data relating to the calculation of net lending/net borrowing (B.9) for the year n-1. This seemed to Eurostat to be very late with regard to the first EDP notification deadline, i.e.

before 1 April. In this context, the NAI informed Eurostat that it did not see any immediate room for improvement on this issue, except for the sub-sector central government (S.1311) for which an attempt to obtain the working balance for 2010 and to complete the table 2A will be made for the notification of 1 April 2011. Data for net lending / net borrowing (B.9) for the year n-1 reported in April notifications of the year n are mostly estimated from quarterly accounts. Only a limited amount of source data available at that time is on an annual basis.

In this context, monitoring of revisions of the EDP data of the year n-1 was also discussed. The NAI informed Eurostat that, since the last EDP visit, only informal internal studies on revisions have been carried out. Eurostat emphasised the importance of systematically conducting revision studies.

Detailed data on local government have been missing in all Belgian EDP notification 2C tables to date. The NAI recognised the issue and informed Eurostat that a working group had been created to study ways for improvement. Local government units are under the authority of the regional governments and different accounting rules and IT related issues have up to now made full reporting impossible in the Walloon and Brussels regions. Some progress is expected for these regions, so that detailed EDP data could be reported in 2012 for the years 2008-2009. In Flanders, an ESA95 based accounting plan will be introduced gradually into local government from 2011. A full implementation of source data reporting to the NAI in all local entities is not expected before 2015 or 2016.

Current data for the EDP reporting for local government are partly based on a survey carried out by the NAI in 2009 (including information up to 2007) and Dexia bank.

Findings and conclusions

Eurostat reiterated its concern on the timing of the first reporting, as deficit data for the year n-1 reported in April of the year n would not be based predominantly on annual data sources.

Eurostat reiterated its concern on the local government issue and emphasised the importance of continuing surveys on a more regular basis, as well as looking for alternative (indirect) data sources until new accounting systems for local government are implemented in the medium term.

Action point 1: The NAI will provide to Eurostat a note describing the project of accrual source data reporting for central government units. Deadline: end-February 2011.

Action point 2: The NAI will provide to Eurostat a report of a social security fund used as a source data for the compilation of EDP table 2D. Deadline: end-December 2010.

Action point 3: The NAI will provide Eurostat with the results of the existing revision studies of EDP data. Deadline: end-January 2011.

Action point 4: Eurostat requested the NAI to investigate the possibility to calculate for the local government sub-sector net lending / net borrowing from the financial accounts (B.9F) and report back. Deadline: end-March 2011.

2. ACTUAL DATA – EDP REPORTING

2.1. Examination of the EDP tables: October 2010 notification

Introduction

The Belgian EDP notification of October 2010 was discussed.

Discussion

Concerning the lack of data in EDP tables 3 on a breakdown of total loans into increases and reductions, the NAI explained that the current unavailability of data is linked to difficulties in breaking down short-term loans into increases and reductions.

Eurostat enquired about significant increases of other accounts payable in 2009.

The NAI explained that some part of the amounts in that year related to exceptional events, notably court cases concerning reimbursement by government of some tax receipts relating to court decisions taken in 2009.

Some detailed "other adjustments" items of EDP tables 2 were also considered in the meeting.

Findings and conclusions

It was concluded that the NAI will monitor reimbursements, in particular whether the estimates of the amounts to be effectively reimbursed and recorded in 2009 will differ from the amounts eventually reimbursed in later years.

Action point 5: The NAI will investigate and report to Eurostat about possible improvements in data sources for short-term loans in view of a provision of the amounts of increases and reductions of total loans in EDP tables 3. Deadline: end-February 2011.

Action point 6: The NAI will review those lines of other adjustments in EDP tables 2, which currently report zeros for all years and consider whether their inclusion is still justified. Deadline: April 2011 EDP notification.

Action point 7: The NAI was invited to provide explanations to Eurostat on an apparent discrepancy between the amounts reported in EDP tables 2A and 2D in the item 'adjustments for transfers within general government'. Deadline: April 2011 EDP notification.

3. ACTUAL DATA – METHODOLOGICAL ISSUES

3.1. Delimitation of the general Government sector: classification of institutional units according to ESA95 – application of the 50% rule in national accounts

Introduction

The NAI recalled in the meeting that the General Documentary Base (GDB) expert group is the reference source for the compilation by the NAI of a list of public sector entities, according to ESA95 rules.

Discussion and methodological analysis

The annual list provided by the reference source is however not exhaustive. The NAI currently envisages carrying out work on the identification of sources providing demographic information on units held by units of the public sector with an emphasis on local government.

Eurostat welcomed the NAI's intentions to complete the classification of local government-owned units and encouraged a regular review of sector classification based on the 50% rule of public corporations with the highest levels of debt.

The NAI informed Eurostat that (since the last EDP visit), BAM, Citeo and the Belgian Development Agency (carrying out aid operations in developing countries) were reclassified inside the general government sector.

Concerning the regional participation holding companies PMV (Participatiemaatschappij Vlaanderen), SRIW (Société Régionale d'Investissement de Wallonie), SRIB/GIMB (Société Régionale d'Investissement de Bruxelles/Gewestelijke Investeringsmaatschappij voor Brussel) classified provisionally outside the general government sector (since 2007), the NAI informed Eurostat that the issue has been put on the agenda of the management committee of the NAI. Taking into account the complex structures of these entities, and in order to assure equal treatment, an in-depth analysis would be undertaken by the NAI. Eurostat was informed that the results of this analysis could be expected at the earliest in 2012.

Findings and conclusions

Eurostat noted that in spite of the increased resources at the NAI from March 2011 the time schedule for the results of this analysis was highly unsatisfactory, taking also into account that the issue was raised during the previous EDP dialogue visit in June 2008. Acknowledging the necessity of an equal treatment in ESA95 of these three regional entities, Eurostat indicated that in practice Member States take sectorisation decisions on complex units within a quicker timetable.

Action point 8: The NAI will provide Eurostat with the accounts of the three regional participation holding public corporations. Deadline: end-January 2011.

Action point 9: The NAI will provide to Eurostat a national accounts analysis of sector classification of three regional participation holding public corporations. At least a preliminary analysis should be provided before the second notification of 2011. Deadline: September 2011 EDP notification.

3.2. Review of Eurostat decisions, guidance and other important methodological issues

Introduction

Eurostat enquired about government interventions in the context of the financial crisis, state guarantees, capital injections, securitisations, swaps and derivatives.

Discussion and methodological analysis

3.2.1 Government interventions in the context of the financial crisis

During the meeting, the current status of the government interventions undertaken into financial institutions during the financial crisis was reviewed. Concerning insurance and banking corporation Ethias, the NAI confirmed that no operations on behalf of government had occurred since the end of 2008.

The SPV Royal Park Investments, which was created in the context of the Fortis rescue operation, is now around 40%-owned by the Belgian federal government. Regular profit and loss accounts are in place. The SPV is now reporting holding gains.

As far as KBC is concerned, the NAI had requested an ex-ante opinion from Eurostat on the recording of a potential early redemption of government aid. Eurostat advised to record the initial injection as an equity operation, and consequently any redemption of such an instrument would be recorded as a holding gain / loss in the revaluation accounts. The NAI informed Eurostat that an early redemption had not yet been initiated.

3.2.2. State guarantees, debt assumptions, debt cancellations and debt write-offs – data sources for public corporations; stocks and flows

Eurostat thanked the NAI for the list of largest government guarantees to public corporations for 2007-2009. During the discussion the following elements were noted:

- as there is no full list of public entities (certain local government-owned entities are likely to be missing) the NAI cannot compile a full list of government guarantees for the general government sector;
- apart from the guarantees granted to financial corporations in the context of the financial crisis, the highest levels of guarantees are granted to regional and local social housing corporations, which provide loans on preferential conditions and in some cases manage housing stock;
- the guarantees are provided without availability fees;
- there are almost no cash calls on the guarantees;
- for the export credit insurance the guarantee covers the continuity of the functioning of the Office national du Ducroire/Nationale Delcrederedienst (ONDD);
- there is no central office in Belgium that registers government guarantees.

During the meeting, the lack of data in the relevant EDP questionnaire tables on debt assumptions and stocks of government claims against public corporations was also

considered.

3.2.3. Capital injections, super-dividends, interim dividends

Concerning capital injections, transactions with Société d'acquisition foncière (SAF) were reviewed during the meeting. The NAI informed that three payments over 2007-2009 relate to a single capital injection decided in 2007. In 2010, no further payments to SAF have taken place so far and none are expected in future.

The NAI confirmed that no super-dividends were to be recorded for the Belgian National Bank over 2007-2009.

As for interim dividends, the NAI informed that such payments occur for Belgacom and utility companies. Whereas for Belgacom, the distributions that are usually disbursed in December of the year on which profit they are based, and are analysed by the NAI, for utility companies they are recorded as revenue for the full amount.

3.2.4. Securitisation operations

In relation to the securitisation operation that occurred in 2005, details of a buy-back by government of the remaining fiscal claims portfolio that was undertaken in 2009 were discussed. The NAI explained the recording of this transaction in EDP table 2, with a net impact on government net lending / net borrowing of EUR 4 million.

3.2.5. Swaps and derivatives (swaps: cancellations, off-market swaps, options, etc.)

Eurostat enquired during the meeting about any derivative and swap transactions that have been undertaken in 2010. The NAI explained that in August and October 2010 government cancelled two interest rate swaps, for a total value of around EUR 2.2 billion. Some background documentation of these transactions were provided by the NAI during the meeting.

Findings and conclusions

It was agreed that the situation on government interventions will be reviewed at the next EDP notification of April 2011.

Eurostat encouraged the NAI to make a more exhaustive reporting on guarantees, and on government claims.

Eurostat took note of the other information provided and encouraged the NAI to identify data sources for analysis of the interim dividends following the provisions of the Manual on government deficit and debt (MGDD).

Action point 10: The NAI will provide more complete data on government guarantees in the EDP relating questionnaire. Deadline: the September 2011 EDP notification.

Action point 11: The NAI will undertake an enquiry and report its results to Eurostat concerning a regular collection of information on debt assumptions by government, including data on stocks and flows of government claims. Deadline: September 2011 EDP notification.

4. PLANNED DATA – RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

4.1. Bond collaterals in derivative transactions – follow up

Introduction

In November 2010, Eurostat published the answer to a Belgian question on this issue on its website.

Discussion

The NAI informed Eurostat during the meeting that until end-October 2010, Belgian government bonds had not yet been used by the Belgian Treasury as collateral in derivative and swap transactions.

Findings and conclusions

Action point 12: The NAI will monitor a possible use of Belgian government bonds as collateral in derivative transactions undertaken by the Belgian Treasury and will keep Eurostat informed of potential operations and their contractual arrangements.

4.2. Public - Private Partnerships (PPPs) and concessions

Introduction

Several ongoing and planned PPP projects were discussed during the meeting. It was underlined that, in order to assess the implications of each project as regards classification of entities, projects and/or assets, the NAI should have full access to the contents of the PPP contracts.

Discussion and methodological analysis

4.2.1. Schools in Flanders

Concerning recording of this future project with participation of PMV, Eurostat underlined the fact that the provision by the government of Flanders of a guarantee to the senior debt providers for the full amount of their financing, indicated an insufficient risk transfer to the partner and hence to the classification of the PPP assets and related debt in the government sector balance sheet, following the provisions of the MGDD.

In answer to a NAI question concerning the possible statistical implications of a restructuring of the project, Eurostat underlined that in case of renegotiations and changes to the existing PPP contracts, a re-examination and a new national accounts analysis should be undertaken, following the provisions of the MGDD.

The NAI noted that it had asked for a further month of delay to make its decision on whether or not the Eurostat letter could be published, in order to consult the Flemish authorities, and indicated that it had concerns over the retrospective application of rules

published in the 3rd edition of the MGDD in October 2010.

4.2.2. Schools in the French and German speaking communities

Concerning the PPP project for schools in the German speaking community, the NAI briefly explained that there are no guarantees to be provided by government, so a classification outside the government sector would be, in its view, justifiable. Eurostat noted that the current description of the project indicates a ceiling on the level of penalties relating to availability payments. The NAI explained that the ceiling concerns only one part of the availability payments.

Eurostat was informed by the NAI that the school project in the French-speaking community has recently been put on hold.

4.2.3. Six missing road links

In the context of this project for construction of missing parts of the road network currently ongoing in Flanders with involvement of ViaInvest (a subsidiary of PMV), Eurostat enquired about the scheme for remuneration of the partner. The NAI replied that the PPP partners are receiving so-called "shadow tolls" from government, but in order to be able to provide Eurostat with some details, they would need to undertake an enquiry on this issue.

4.2.4. Prisons

Eurostat enquired about the state of preparations of this project.

The NAI informed that this PPP is in its initial phase of preparations and no details are yet available.

4.2.5. Sports infrastructure in Flanders

Concerning a PPP programme for construction of sports infrastructure in Flanders with participation of PMV, Eurostat sought more information concerning related subsidies from the Flemish government. The NAI explained that these subsidies are to be paid to local governments that will in turn remunerate the SPVs involved in individual projects. Availability payments, for very limited amounts, have started in 2010.

Eurostat enquired further on which basis the NAI took the decision for classification of this PPP programme outside the general government sector, and whether any contracts have been analysed by the NAI. According to explanations received, no contracts have been analysed by the Belgian statistical authorities.

4.2.6. Guarantee in elderly care homes' scheme

An envisaged alternative financing scheme of this PPP, for which the construction has been ongoing since 2008, was previously the subject of a methodological consultation of Eurostat by the NAI. Eurostat sought more explanations about the final design of the project, including the characteristics of government guarantee.

The NAI briefly described that government guarantee in this scheme relates to

conditional subsidy from the Flemish government that can be received by the company constructing and operating the establishments. Reception of this subsidy by a corporation is linked to certain conditions.

Following explanations from the NAI, Eurostat felt that an analysis would need to be undertaken whether the described scheme has indeed the features of a PPP, in the national accounts meaning.

4.2.7. Guarantee in a tramline extension project in Antwerp

In the context of this project, Eurostat enquired about two types of government guarantees in this project with the involvement of the Flemish transportation company De Lijn: (i) a so-called "extension guarantee" (an ex-ante guaranteed availability payment to the SPV, if the Flemish government, following competition rules, decides for another transport company than De Lijn to operate the new tram infrastructure) and (ii) a refinancing guarantee.

The NAI replied that these two guarantees were considered by government when preparing this PPP, but added that they are not aware of the final characteristics of the project.

4.2.8. Future PPP projects

Eurostat enquired about possible future PPP projects in Belgium.

The NAI informed that they are aware of certain projects being considered, including potential new PPPs for the sea locks in the ports of Antwerp, Ghent and Zeebrugge.

Findings and conclusions

Eurostat took note of the information received on the variety of PPPs projects and agreed the following action point with the NAI.

Action point 13: The NAI will provide to Eurostat a note describing the PPP project for the construction of schools in the German community including a comprehensive description of the system of availability payments and the penalties for non-performance of the partner. Deadline: March 2011 EDP notification

Action point 14: The NAI will verify and report to Eurostat information concerning remuneration scheme(s) for each of the six PPPs for building of missing road links in Flanders. Deadline: March 2011 EDP notification.

Action point 15: The NAI will analyse a model contract of a PPP programme for construction of sports infrastructure in the Flemish community and will provide the results of the national accounts analysis to Eurostat. Deadline: March 2011 EDP notification.

Action point 16: The NAI will analyse whether a PPP programme for construction of social housing and establishments in Flanders has indeed features of PPP in the meaning of national accounts and report the findings to Eurostat. Deadline: March 2011 EDP notification.

Action point 17: The NAI will enquire about current developments in the PPP project for tramline extensions in Antwerp and will provide to Eurostat a national accounts analysis, including evaluation of the impact of government guarantees for the statistical recording of the project. Deadline: March 2011 EDP notification.

5. OTHER ISSUES

5.1. ESA 95 Transmission Programme

Introduction

Eurostat noted that reporting to Eurostat of COFOG data from Belgium had not been timely for past transmissions and enquired about timeliness of the forthcoming transmission in 2010.

Discussion

The NAI replied that the delays were due to difficulties encountered in obtaining timely data sources. They added that in 2010, the transmission of COFOG data to Eurostat would also be delayed.

Finding and conclusions

Eurostat took note of this information and explained that delays in the reporting make it difficult for Eurostat to publish aggregates for the EU and euro area. In the event of a delay, it would be important to agree how Belgian data could be estimated for the purposes of constructing European aggregates.

Action point 18: The NAI will discuss with Eurostat how to estimate Belgian data for calculating European aggregates, in the event of a delay in transmission. Deadline: The transmission deadline is end of December 2010 so data should be sent as soon as possible.

ANNEX 1: LIST OF PARTICIPANTS

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