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Unit C-3: Public finance



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- FINAL FINDINGS -

EDP dialogue visit to Belgium

19 June 2008

Executive Summary

A regular EDP dialogue visit to Belgium took place on 19 June 2008 with the aim to review institutional responsibilities in the field of government finance statistics, including EDP statistics, to analyse the EDP tables and to ensure that the provisions from the European system of accounts (ESA95), ESA95 Manual on Government Deficit and Debt (MGDD) and the Eurostat decisions are implemented, as well as to confirm that specific government transactions are appropriately recorded in the Belgian national accounts and EDP notification.

First, Eurostat enquired about the institutional arrangements and division of responsibilities in the framework of the compilation and reporting of data under the ESA95 Transmission Programme, EDP notifications and other government statistics transmissions. In Belgium, compilation of all government finance statistics is under the responsibility of the National Accounts Institute (Institut des comptes nationaux / Instituut voor de nationale rekeningen - ICN/INR) and involves in practice one of its constituent institutions, the Belgian National Bank (BNB). In the context of government finance statistics (GFS) compilation in Belgium, Eurostat noted the very limited number of staff at the BNB responsible for EDP and GFS methodology and reporting, in comparison to other similar Member States.

Next, the characteristics of the data sources for government statistics reporting were discussed. Concerning the missing detailed data in the April EDP notifications (tables 2A/B/D) for the previous year (n-1), it was concluded that a study on the extent of historical revisions between provisional and final data will be undertaken by the ICN/INR. As far as the lack of local government source data is concerned, Eurostat noted that Belgium has still made no progress in improving coverage of the EDP table 2C, what is extremely preoccupying.

Particular attention was focused during the meeting on the issue of capital injections and acquisitions of equity by government. Firstly, the operations in local social housing corporations were discussed (follow-up from the previous EDP dialogue visit). It was agreed that the recording in place until the April 2008 EDP notification as acquisition of equity will be revised in the October 2008 EDP notification into a capital transfer expenditure of government. Secondly, detailed data on equity injections by all subsectors of general government were analysed. In this context, Eurostat recalled that an observed pattern of repetitive capital injections to the same entity would indicate a capital transfer character of such payments. Moreover, generally, Eurostat advises a prudent approach, i.e. recording of capital injections as capital transfer expenditure of government, in cases when compilers do not have detailed information available to analyse the operations.

Further, compliance with the rules established by the MGDD was examined, e.g. delimitation of general government, EU flows, military expenditure and recording of other specific government transactions, e.g. derivatives.

Concerning the national accounts sectorisation of units, the Belgian authorities will provide to Eurostat methodological notes explaining the current classification of BAM, PMV and ViaInvest outside general government (with a provisional status).

Finally, the accounting treatment of Public-Private Partnerships (PPP) and concessions was discussed. Eurostat noted that there were at present uncertainties whether the national accounts treatment of certain projects is fully in line with the existing rules. In view of complex arrangements in place for certain projects, as well as the important government involvement (e.g. ownership of the project partner, guarantee for borrowing granted to the partner), the Belgian statistical authorities need to investigate accounting treatment of PPP projects in more detail.

Final findings

Introduction

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005 amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure (hereinafter the Regulation) the European Commission (Eurostat) carried out an EDP dialogue visit in Belgium on 19 June 2008.

The delegation of Eurostat was headed by Mr. Luca Ascoli Head of Unit Public Finance, in the Directorate National and European Accounts. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Belgian Statistical Authorities were represented by the National Accounts Institute (Institut des comptes nationaux / Instituut voor de nationale rekeningen - ICN/INR), relying for the compilation of the government finance statistics on human resources of the National Central Bank (Banque nationale de Belgique / Nationale Bank van België), and the Federal Planning Office (Bureau fédéral du Plan / Federaal Planbureau).

The *Main conclusions and action points* from the meeting will be sent within days after the mission to the statistical authorities for comments. This document includes the most important issues discussed and the conclusions and agreed actions. Member States will be given around two weeks to comment on these concise minutes.

Within weeks, the *Provisional findings* will be sent to the Member State in draft form for review. These findings build on the main conclusions and action points and provide an extensive report of the meeting including the background, methodological references and discussion and conclusions for each of the agenda points. As for the main conclusions and action points, Member States are invited to comment with two weeks.

Finally, the *Findings*, including possible comments on the provisional findings from the Member State in question, will be sent to the Member State, the Economic and Financial Committee (EFC) and published on the Eurostat web site.

1. Review of statistical capacity issues

1.1. Institutional responsibilities for the reporting of data under the ESA95, EDP and other government statistics

Eurostat took note of the existing institutional arrangement in place in Belgium for the compilation and transmissions of the government finance statistics. Compilation of EDP, government finance statistics (GFS) (ESA95 tables 2, 9, 11, 25, 27 and 28), as well as annual financial accounts tables (ESA95 tables 6 and 7) are under the responsibility of the National Accounts Institute (Institut des comptes nationaux / Instituut voor de nationale rekeningen - ICN/INR). The Ministry of Finance (MoF) and the Belgian National Bank (BNB) provide in the EDP notification, respectively, planned data on deficit and debt of general government.

The ICN/INR was created on 21 December 1994 by a federal parliamentary act and works under the authority of the Belgian Ministry of Economy. The activities of the ICN/INR involve in practice three member institutions: The National Statistical Institute (NSI), the Belgian National Bank (BNB) and the Federal Planning Office (Bureau fédéral du Plan / Federaal Planbureau).

For the purpose of the EDP and GFS compilation and reporting, the ICN/INR relies on the human resources of the Statistical Department of the BNB. Currently, at the BNB three persons are involved for the compilation and for all national accounts methodological aspects of the government accounts and EDP notification. This staff of three persons addresses methodological and data requests from the European Commission (Eurostat), as well as data transmissions to the European Central Bank (ECB).

In Belgium, there is no working group for the development of government finance statistics and for national accounts methodological discussions. The Belgian authorities explained that complex methodological issues and transactions are discussed within the ICN/INR (BNB), in the meetings of the Assistance Committee (Comité d'accompagnement). In the context of the national accounts treatment of operations planned by government, the ICN/INR took an initiative to inform the state government about the possibility of consultations at the ICN/INR, with a request of provision of relevant background documentation enough in advance.

Concerning provisions for data sharing between the three ICN/INR member institutions and government, the ICN/INR law stipulates only that the government accounts are established by the BNB in close co-operation with the Federal Planning Office. The data from federal and regional governments are to be transmitted to the ICN/INR via the General Documentary Base (GDB) (see also below item 1.2), following a national economic nomenclature, as well as following the EU harmonised COFOG classification (government expenditure by function).

Eurostat took note of the existing institutional arrangements for the compilation of the government finance statistics in Belgium, noting, in comparison to most other Member States, the very limited number in staff of the unit responsible for EDP and GFS compilation.

1.2. Source data characteristics and revision policy

The Belgian statistical authorities explained that the main data sources for the final EDP data for central and state governments are budgetary reports on revenue and expenditure received by the ICN/INR from the GDB. This body was created by a formal co-operation agreement between various levels of government. The purpose of the GDB is to collect public finance revenue and expenditure statistics, and transmit these to the ICN/INR. The GDB is also a source of information for the ICN/INR on the existence and disappearance of the government units or public corporations (see also item 3.1 below).

Eurostat in particular enquired about the timeliness, content and degree of detail of information received by the ICN/INR from the GDB.

Data made available by the GDB cover revenue and expenditure of central and state governments mainly on an annual basis, with a deadline of reception of 15 April

(economic classification) or 15 June (functional classification) of the following year to which the data refer. Additionally, some information on expenditure is also available on quarterly basis.

Concerning the time of recording of the GDB data sources, the revenue data are on a cash basis, whereas the expenditure data are recorded when the payment order is authorised. Information received by the ICN/INR covers budgetary items aggregated according to budgetary and economic classification (so called economic groupings). In addition, before the provision of data on economic groupings to the ICN/INR, the GDB consolidates flows between general government and certain government bodies. At the same time, the ICN/INR also receives information on the main budgetary items for such bodies. When necessary for the compilation of the EDP tables, the ICN/INR requests from the GDB more detailed information at the level of budgetary classification (e.g. on capital injections, one-off transactions, etc).

The working balance presented in the EDP tables 2A and 2B is based on economic grouping data received by the ICN/INR from the GDB for the relevant sub-sector of general government.

The ICN/INR provided during the meeting an electronic copy of the Annual Report of the GDB for the year 2006.

The compilation of local government EDP data was discussed as a separate item (see item 1.2.2 below).

The most important data source for the compilation of social security funds EDP tables comes from the social security consolidated accounts. The consolidated social security accounts consist of the consolidated expenditure and revenue accounts of the various social security funds. Data are available on an accrual basis.

Concerning the timeliness of source information, a provisional version is produced on the 15 April of year $n+1$, whereas the final version, including balance-sheet data, is only available with a four- or five-year delay.

Eurostat took note of the information provided by the Belgian statistical authorities. In view of the late availability (15 April) of the annual source data for compilation of the first EDP notification of the year (by end-March) for central, state government and social security funds, Eurostat enquired how the EDP tables 2 are prepared for the first EDP notification of the year.

1.2.1. Lack of annual source data for the years $n-1$ in the first notifications of the year n in EDP tables 2A-D

It was explained by the ICN/INR that the April notifications are based for central and state government, as well as for social security funds mainly on annualised quarterly information for four quarters of the previous year. Available data sources enable provision for these three sub-sectors only of the net lending / net borrowing in the EDP tables 2.

For central and state government, the ICN/INR uses quarterly data on fiscal revenue and budgetary units' expenditure. In addition, the ICN/INR receives from the Ministry of Finance some more detailed information on interest expenditure and particularly on one-off transactions. For the other government bodies, for which revenue consists mainly of

transfers from the government, the main information is taken from the quarterly data of the sub-sector making such transfers. Some extrapolations are also used. Due to legal provisions, not allowing such bodies to borrow, they would in general, according to the ICN/INR, need to maintain balanced accounts.

Social security funds source data used for the first notification of the year consist of the provisional quarterly accounts available in March.

The ICN/INR considered that quarterly and provisional annual budgetary data, as well as social security data sources used for the first EDP notification of the year, allow a solid calculation of the net lending / net borrowing of the three concerned sub-sectors of general government. In all cases, the annual information, likewise provisional, is integrated in the calculations.

Eurostat took note of these explanations and enquired if the ICN/INR monitored revisions between EDP data provided in the first notification of the year compiled on the basis of provisional sources and the final EDP outcome based on annual data sources.

According to the explanations provided, the ICN/INR observes that their approach taken for the compilation of the net lending / net borrowing for the previous year in the first notification of the year is prudent, as the second notification based on annual data shows in general a better outcome. An internal note is prepared before each October EDP notification transmission to Eurostat, describing the reasons for the revisions in comparison to the April notification.

Action point 1: It was concluded that a study on historical revisions between the net lending / net borrowing of the first notification of the year compiled on the basis of provisional data, and the final EDP data based on annual information would need to be conducted by the ICN/INR in order to assess the reliability of the current compilation approach for the first EDP notification of the year.

1.2.2. Difficulties with the local government data

For the local government sub-sector, the Belgian EDP notifications show only information on the net lending / net borrowing for all years. Eurostat enquired about the current data sources for the compilation of the deficit of local government.

The ICN/INR explained that, due to a lack of IT systems for collection of local government data in the Walloon and Brussels regions, the ICN/INR compiles the net lending / net borrowing of local government using only indirect information. On the revenue side, these are data on taxes collected by federal government and attributed to local government, as well as on transfers from federal government to local government. On the expenditure side, information is collected on the basis of non-regular surveys (the last survey was undertaken in 2004 relative to years 2001-2003), other sources (Dexia Bank surveys), as well as estimations.

This issue was discussed during the previous EDP dialogue visit in April 2006, and Eurostat concluded at that time that the Belgian statistical authorities needed to continue their efforts to make progress in this field. The ICN/INR explained during the meeting, that in the last few years they have undertaken several initiatives to inform the authorities about the lack of solid data sources for the compilation of local government net lending / net borrowing for the purposes of EDP. As a result, in 2007 a dedicated working group with

representatives of different levels of government was created. There are currently plans, at the level of the regional governments, for establishing IT systems which might enable collection of communal data by 2010. However, as explained by the ICN/INR, the timeliness of this information will be only n+2 years, thus not for an immediate use for the EDP notifications. In addition, data sources on provinces, public social welfare centres (CPASs/OCMWs) and police zones will still not be regularly collected under the envisaged scheme.

Although acknowledging the specificity of a federal structure of the Belgian state, Eurostat noted no progress in availability of reliable local government EDP data over many years. Eurostat also considered that the current situation of lack of detailed EDP data for the local government is extremely preoccupying. As regards planned future developments, the availability of non-exhaustive data sources only two years after the reference year could not be considered by Eurostat as satisfactory for the purposes of the EDP notification

Action point 2: The Belgian statistical authorities are requested to implement the reporting of detailed local government data in the EDP table 2C as soon as possible.

2. Actual data – EDP reporting

2.1. Examination of the EDP tables: April 2008 notification

Concerning the EDP table 2C (local government), Eurostat enquired about the significant improvement in the result of this sub-sector: from a deficit of -717 million euro in 2006 to a surplus of +15 million euro in 2007.

The ICN/INR explained that this development reflects the investment cycle of local governments due to the electoral cycle.

Concerning the EDP table 3D (local government), Eurostat asked for explanations concerning the large acquisitions of shares and other equity in 2007 for an amount of 1154 million euro (0.3 % of GDP).

It was explained that these transactions concern mostly arbitrage operations by local governments between acquisitions of mutual funds shares and sales of securities other than shares (Treasury certificates) – a decrease by -826 million euro in 2007.

Eurostat took note of these explanations.

2.1.1. Revisions relative to the SNCB debt assumption

Eurostat noted that the main reason for the revisions between October 2007 and April 2008 EDP notifications is the reclassification since 2005 of the Fonds de l'infrastructure ferroviaire (FIF) inside the general government sector and the recording of the capital transfer expenditure by government towards the SNCB for the assumption of its debt by government.

This operation was subject to several rounds of methodological consultations of Eurostat by the ICN/INR since 2003. The Belgian authorities disagreed with the Eurostat advice for recording in 2005, as a counterpart of the SNCB debt assumption transaction, of a capital transfer expenditure of government for the amount of the debt assumption equal to 7.4

billion euro (2.4% of GDP). In 2006 and 2007 Eurostat was thus publishing the Belgian EDP deficit and debt data with amendments. The Belgian authorities introduced in 2006 at the Court of First Instance of the European Communities a motion for the annulment of the Eurostat decision for this EDP data amendment. In March 2008 the Belgian authorities withdrew their motion from the Court.

Eurostat noted that the ICN/INR follows since the April 2008 EDP notification the Eurostat advice on the national accounts recording of the SNCB debt assumption by government in 2005.

3. Actual data – methodological issues

3.1. Delimitation of the general government sector (S.13): classification of institutional units according to ESA95 - application of the 50% rule in national accounts

Eurostat enquired about the institutional arrangements for methodological decisions on national accounts sectorisation of units. According to the information obtained during the meeting, the ICN/INR is responsible for sector classification of units in national accounts. On the ICN/INR requests, the GDB expert group, as the main source of information, provides information on creation and disappearance of units, as well as additional documentation, e.g. financial statements, statutes, etc., necessary for the national accounts sectorisation decision by the ICN/INR.

Further, an annex to the Belgian EDP inventory listing units of the public sector as of September 2007, was discussed. Eurostat in particular, asked about a meaning of a provisional sectorisation outside the general government sector of NV Beheersmaatschappij Antwerpen Mobiel (BAM) and ViaInvest. The ICN/INR explained that a provisional status is given to recently created entities (ViaInvest) or in case of more complex structures (BAM).

Eurostat was also interested in the reasons for classification outside S.13 of some other entities: SOFICO (Société wallonne de financement complémentaire des infrastructures), SOWALFIN (Société wallonne de financement et de garantie des petites et moyennes entreprises), SRIW (Société régionale d'investissement de Wallonie), PMV (EVA Participatiemaatschappij Vlaanderen), VPM (EVA Vlaamse Participatiemaatschappij), Régies communales agissant en qualité d'entreprises publiques, Services des CPAS agissant en qualité d'entreprises publiques: hôpitaux and maisons de repos, and Agences locales pour l'emploi.

The Belgian statistical authorities provided some information on the relevant characteristics of those entities during the meeting, and explained that according to the ICN/INR knowledge and results of their analysis, all these units fulfil national accounts criteria for classification outside S.13 (PMV and ViaInvest on a provisional basis). It was also explained that the activities of BAM, PMV and ViaInvest include participation in Public-Private Partnerships (PPP) projects. The Belgian statistical authorities noted in this

context that the activities of ViaInvest were subject of an ex-ante methodological consultation of Eurostat by the ICN/INR in 2005¹ (see also item 3.2.6 below).

Eurostat took note of preliminary explanations provided during the meeting by the ICN/INR and indicated that it would seek confirmation for the current classification of certain units outside the general government sector.

Action point 3: The Belgian statistical authorities will provide to Eurostat methodological notes explaining current classification in national accounts of BAM, PMV and ViaInvest outside the general government sector².

3.2. Review of Eurostat decisions and other important methodological issues

3.2.1. EU flows

The Belgian authorities explained that the flows pertaining to the EU structural funds, transit through the federal and regional government entities classified inside S.13: Bureau d'intervention et de restitution belge (BIRB) and Treasuries of regional governments. The amounts of EU transfers received, for which the final beneficiaries are non-government units, are not included in the revenue and expenditure of the federal budget, thus not included in the working balance of EDP tables.

Other accounts receivable / payable reported in the EDP tables include currently only the adjustment for the time of recording of the Belgian contribution paid to the EU budget as the fourth resource, VAT and sugar levies.

In this context Eurostat enquired about the time of recording of the EU flows for which the final beneficiaries are government units.

The ICN/INR could not confirm whether the amounts received are excluded from the working balances of EDP tables 2. At the same time, the ICN/INR underlined that data available from the ESA95 table 2 on government revenue show that the amounts of current transfers and investment grants from the EU received by the Belgian government in the last few years level off at approx. 105 million euro (0.03% of GDP) annually.

Concerning the exact national accounts treatment of the EU flows in the framework of the Common Agricultural Policy (CAP), taking into account that the final beneficiaries of these flows are not government units, these funds are not included in the working balances of EDP tables 2.

Eurostat concluded that according to the currently available information, it is not fully clear whether Belgium follows the Eurostat decision on the time of recording of the EU flows in national accounts³ for the funds for which final beneficiaries are government

¹ Eurostat advice provided to the ICN/INR is available from the Eurostat website: <http://ec.europa.eu/eurostat> Government Finance / Methodology / II.6 Eurostat advice to Member States / Advice provided in 2006 / Belgium - Classification of a road SPV owned by government

² The relevant documentation was provided to Eurostat on 5 September 2008.

³ See: Eurostat News Release 22/2005 of 15 February 2005.

units. In view of the small amounts concerned, the possible scope of impact on deficit of S.13 is however very limited.

Action point 4: The statistical authorities will enquire at the relevant federal and regional bodies about the details of flows of the EU funds received, for which government units are final beneficiaries, as well as of funds relative to the CAP. Following the enquiry, if applicable, the ICN/INR will revise the recording in the EDP and ESA95 government finance tables⁴.

3.2.2. State guarantees

Eurostat enquired about the public corporations which are benefiting from the government guarantees for borrowing. The Belgian authorities replied that the main beneficiaries of such guarantees are the railway company SNCB/NMBS and the regional housing corporations (Vlaamse Huisvestingsmaatschappij replaced recently by the Maatschappij voor Sociaal Wonen, Société du logement de la région bruxelloise, Société wallonne du logement and the Société wallonne de crédit social).

According to comments provided by the ICN/INR in the EDP related questionnaire, data reported on guarantees cover only central government level. Eurostat asked about the reasons for the non-availability of the data on government guarantees for other S.13 sub-sectors in this questionnaire and whether the ICN/INR monitors them in any way. The Belgian statistical authorities explained that this problem has not been yet investigated and that the enquiry is planned to be undertaken in the near future. They indicated that in case of bigger calls of regional or local government guarantees, this information would be known to the ICN/INR.

Eurostat took note of these explanations, noting that the flows related to guarantees for borrowing granted by state and local government are currently not fully reflected in the EDP tables.

Action point 5: The Belgian statistical authorities will enquire before the October 2008 EDP notification about the amounts of government guarantees granted by state and local governments, as well as about calls or repayments by the beneficiary entities, in order to reflect them in the EDP notification.

In the context of guarantees, Eurostat further asked about activities of the Office National du Ducroire (ONDD). The Belgian authorities explained that this autonomous public entity classified in the sub-sector insurance corporations and pension funds (S.125) undertakes three main types of operations of export insurance: (i) on its own account, (ii) on behalf of government, and (iii) commercial-type activities through the company Ducroire/Delcredere.

Eurostat noted that the second type of activities of ONDD would need to be reflected in the EDP and in the EDP related questionnaire tables on guarantees, and asked the ICN/INR if this is currently the case. The Belgian statistical authorities replied that the amounts resulting from ONDD activities on behalf of government have not been yet reported in the EDP related questionnaire.

⁴ The relevant documentation was provided to Eurostat on 5 September 2008.

It was concluded that the ICN/INR will revise the EDP related questionnaire to this effect.

Action point 6: The Belgian statistical authorities will provide in the EDP related questionnaire, starting from the October 2008 EDP notification, data on the export insurance / guarantees activities of the Office National du Ducroire undertaken on behalf of government.

3.2.3. Debt assumptions, debt cancellations, and debt write-offs

Eurostat asked about the activities of ONDD in the context of cancellations of the claims of the Belgian government on foreign governments or on the debt of public corporations. In particular, it was enquired how debt cancellations of the Belgian government made via ONDD are accounted in EDP.

The Belgian statistical authorities explained that the debt cancellations realised in the framework of the Paris Club are transactions of ONDD on behalf of the State. Such transactions are recorded as non-financial transactions, having an immediate impact on the general government balance. The balance of the ONDD transactions on behalf of the State is included in the adjustment line Net borrowing or net lending of other central government bodies of the EDP table 2A.

3.2.4. Capital injections, super-dividends, interim dividends

Several operations of capital injections treated as transactions in equity were discussed with the ICN/INR. At the Eurostat's request, the Belgian statistical authorities provided before the dialogue visit an exhaustive list of acquisitions of equity by all sub-sectors of S.13 for the years 2004-2007.

EDP related questionnaire:

Eurostat enquired about the status of the data for capital injections in hospitals (quasi-corporations) over 2005-2007, when the same amount of 100 million euro was reported by the ICN/INR. It was explained that these amounts are estimated by the ICN/INR due to the non-availability of source data.

Société Wallonne du Logement and Société du Logement de la région de Bruxelles-Capitale (follow-up from the EDP dialogue visit of 2006):

During the previous EDP dialogue visit to Belgium it was agreed that, in order to establish the national accounts treatment of the capital injections undertaken in 2004, the ICN/INR would investigate whether those entities distributed dividends to their shareholders in previous years and had established appropriate business plans in support of the injections, evidencing a positive return on investment. The ICN/INR currently treats the whole amount of a capital injection into a Walloon entity as an acquisition of equity (234 million euro), whereas a capital injection into a Brussels entity is split between 22 million euro treated as a capital transfer (expenditure) and 220 million euro treated as acquisition of equity.

Eurostat enquired about the results of the follow-up analysis and the reasons for splitting the capital injection to the Brussels entity into expenditure and equity acquisitions.

It was explained that 22 million euro of the total capital injection into the Brussels entity is treated as expenditure due to the fact that the accumulated loss in 2004 reached that amount. Both entities, whose main activity consists in granting reduced interest rates on loans to social housing entities and on mortgage loans to households, showed slightly

positive financial results for the years after the capital injection, with the Brussels entity distributing very small amounts of profit in the year 2006. An important revenue source comes from regional governments: subventions and interest rate subsidies.

Eurostat concluded that the total amounts of capital injections to these two entities would need to be treated as capital transfer expenditure due to several reasons: (i) the activity of two entities is a distribution of government funds in the form of subsidies to households directly or indirectly via local social housing entities; (ii) the profit recorded in the years following the capital injection is negligible in comparison to the amounts of the injection provided by government; (iii) a large part of the revenue consists of transfers from government (subventions); (iv) the entities are benefiting from a government guarantee for borrowing (see item 3.2.2 above); (v) the Brussels entity accumulated losses prior to the capital injection.

Action point 7: The Belgian statistical authorities will revise in the October 2008 EDP notification the treatment of capital injections in 2004 into the Walloon and Brussels Housing Corporations and treat the whole amounts as capital transfer expenditure of government.

Data on acquisitions of equity provided before the dialogue visit:

On the basis of the list of equity acquisitions by sub-sectors of S.13, Eurostat enquired about the reasons for their current treatment in EDP and national accounts as financial transactions. In particular, bigger and repetitive injections were examined.

With reference to the capital injections to BAM over 2004-2007, the ICN/INR explained that the current treatment as financial transactions is based on the business plan of this entity. Eurostat noted that it asked the ICN/INR some questions concerning these injections in the context of an ex-ante consultation by the Belgian statistical authorities on some of the Antwerp Masterplan infrastructure projects (see item 4.2). In this context, Eurostat advised the ICN/INR to analyse the purpose of the capital injections and recalled that the Eurostat ESA95 Manual on government deficit and debt (MGDD) foresees the following: "*A capital injection that is conditional on the public corporation spending the funds on fixed capital formation, but does not commit the recipient any further, such as in making future payments, should be recorded as a capital transfer – in this case an investment grant (D.92)*".

As far as entities to which repetitive capital injections were undertaken by government, Eurostat enquired about some of those, notably: Société publique de gestion de l'eau, Organismes ayant pour but la consolidation et le développement des PME wallonnes, Entreprises dans le cadre de leur développement et de leur restructuration (via SOGEP), Entreprises dans le cadre de leur développement économique, Entreprises dans le cadre de leur développement et de leur restructuration (via les "invests"), Prises de participations dans le cadre du contract "Economie-Tewerstelling". The ICN/INR explained that some of these entities have features of public venture capital undertakings for small and medium enterprises, and some are holdings. For the purpose of the national treatment of capital injections, data are analysed on a case-by-case basis, however, lack of additional human resources at the ICN/INR (BNB) make it impossible to cover all entities.

Eurostat expressed concern about the lack of resources at the ICN/INR (BNB) for undertaking detailed national accounts analysis of government transactions.

It was recalled by Eurostat that the MGDD stipulates that a pattern of repetitive payments would be a sign of unrequited transfers from government to the benefiting entity, thus indicating a capital transfer character of injections. In addition, in cases when compilers do not have detailed information available to analyse the capital injection in view of the national accounts rules and to justify their treatment as financial transactions, Eurostat advises a prudent approach and the recording of such transactions as capital transfer expenditure of government.

Action point 8: The ICN/INR will provide well in advance of the October 2008 EDP notification, a detailed methodological note justifying the treatment as financial transactions of large (> 10 million euro) and also of repetitive capital injections in the years 2004-2007.

Concerning super-dividends, Eurostat sought information on the application of a super-dividend test (amounts of distributions from public corporations not exceeding the profits from which they were paid).

The ICN/INR explained that the test is done on main distributions, i.e. from the BNB, Belgacom and Intercommunales (local corporations involved in distribution of electricity, water, gas, etc). As source data, the financial statements and balance sheets of these entities are used.

Eurostat took note of these explanations.

As far as interim dividends are concerned, i.e. distributions that are paid during the year to which the profit relates and are based on the interim results (e.g. quarterly or semi-annual), Eurostat enquired if such payments took place in Belgium.

It was explained during the meeting that there were cases of interim dividends in recent years from Belgacom and Intercommunales; the latter paying distributions two times a year. Such interim dividends are treated by the ICN/INR as government revenue in the year in which they were paid.

Eurostat took note of these explanations, adding that the issue of interim dividends is currently being discussed at the level of the Financial Accounts Working Group.

3.2.5. Military equipment expenditure

Concerning military equipment expenditure, Eurostat noted that following the conclusions of the previous EDP dialogue visit in 2006, Belgium is recording them on a delivery basis starting from 2006, since the April 2007 EDP notification reporting. Starting in 2006, data provided by the ICN/ INR in the EDP related questionnaire relevant table is exhaustive and consistent, with voluntary items also reported.

However, Eurostat noted that data prior to 2006 have not been revised to reflect the values of deliveries in the net lending / net borrowing (instead of cash, as recorded currently). In this context, Eurostat enquired to what extent trade credits or prepayments before the year 2006 were sufficiently small to justify no retropolation of data for the years before 2006. According to the ICN/INR, revisions of data prior to the year 2006 are not feasible due to the lack of suitable source data at the Ministry of Defence covering that period. It was acknowledged by the Belgian statistical authorities that certain amounts might have been thus double-counted or not included in the expenditure measure. At the same time, the

amounts that were either paid ex-ante or ex-post to the delivery prior to 2006, according to the knowledge of the ICN/INR, are small.

Eurostat took note of the information provided and concluded that Belgium is thus following in the main the relevant Eurostat decision of 9 March 2006⁵.

3.2.6. *Private Public Partnerships (PPP) and concessions*

The Belgian authorities presented the institutional arrangements in place for the PPP contracts, whereby only the Flemish region has created a dedicated PPP unit for development of such types of contracts. The Walloon and Brussels regions, with respectively one project planned in each region, are believed to be currently initiating their work on PPPs and concessions.

Eurostat thanked the ICN/INR for the provision, together with the April 2008 EDP notification, of a detailed list of PPPs and so called "alternative financing" projects envisaged and/or initiated by the Flemish region. The estimated value of investments of these projects amounts to approx. 7.6 billion euro (2.5% of GDP), to be realised in the forthcoming years.

The discussion during the meeting focused on the features relevant for the national accounts analysis of thirteen projects listed, as of autumn 2007, among others on: social housing, elderly care homes, school buildings, sport infrastructure and six missing roads with ViaInvest participation. Eurostat confirmed that investments in the social sector and in missing links of roads were the subject of a methodological ex-ante consultation by the ICN/INR of Eurostat in 2005⁶. Separately, on a national level, the ICN/INR was consulted by the regional government on the national accounts treatment of most of the projects listed.

Following the explanations of the ICN/INR on the individual projects, Eurostat noted that there were currently uncertainties whether the accounting treatment of some projects already started and those envisaged is fully in line with the national accounts rules. In this context, Eurostat acknowledged the lack of human resources at the ICN/INR (BNB) for detailed analysis of the PPP accounting treatment. However, due to significant amounts of the envisaged investments, as well as increasing interest of all Belgian regions in this type of projects, the issue needs to be regularly monitored.

It was concluded that there is a need for a detailed analysis of PPP and alternative financing projects by the ICN/INR, in view of the establishment of the sector classification of the projects' assets. Eurostat noted that certain projects are / will be managed by the SPVs with participation of public entities (e.g. BAM, ViaInvest) currently classified outside S.13. Such cases need to be carefully analysed by the ICN/INR. It was also noted that in case of government guarantees (e.g. elderly care homes), features of such guarantees need to be investigated in detail by the Belgian statistical authorities.

Eurostat noted that certain projects of the Antwerp Masterplan, to be developed as PPP or concessions, are currently subject to a methodological ex-ante consultation (see item 4.2).

⁵ Eurostat News Release 31/2006.

⁶ See footnote 1.

Action point 9: Enough in advance of the October 2008 EDP notification, the ICN/INR will provide to Eurostat, information relevant for the national accounts classification of PPP assets on the biggest contracts with the participation of an SPV, others than Antwerp Masterplan (subject to a separate consultation): school buildings, sports infrastructure and six missing road links.

Action point 10: The Belgian authorities will provide a national accounts analysis of the government guarantee features in the project of elderly care homes, and its impact on the sectorisation decision of the assets of the whole project⁷.

3.2.7. Swaps and derivatives

Following the publication in March 2008 of the new Eurostat guidance on recording in national accounts of some specific financial derivatives transactions (swap cancellations, off-market swaps and interest rate based options)⁸, Eurostat enquired about the revisions envisaged by the ICN/INR for the October 2008 EDP notification for the implementation of the new accounting treatment. The detailed data on the planned revisions were provided by the ICN/INR on Eurostat request prior to the meeting.

The ICN/INR explained, that following the new guidance, two types of revisions will be undertaken: (1) lump sums paid or received by government from the non-hedging swap cancellations will be spread over the maturity of such swaps (currently such treatment was applied only to hedging swaps); and (2) lump sums exchanged at inception on off-market swaps will increase debt when the lump sum was received by government; interest payments on off-market swaps corrected for the amortization of the lump sum will be spread over the life of the contract, with the effect of revisions in deficit.

Eurostat took note of these explanations and intentions of the ICN/INR concerning revisions for the October 2008 EDP notification relative to derivatives.

Action point 11: In the October 2008 EDP notification, the Belgian statistical authorities will revise the treatment of derivatives following the Eurostat guidance of March 2008 and based on the data discussed during the dialogue visit.

3.2.8. Others: securitisation

Following the Eurostat decision of 25 June 2007 on securitisation operations by government⁹, the national accounting treatment as government borrowing of the securitisation operation undertaken by the Belgian government in 2007 was confirmed. The ICN/INR recorded that operation as financial transaction (government borrowing), as stipulated in the revised rules on securitisation operations of 2007. There are currently no plans for securitisation operations in the coming years.

Eurostat took note of these explanations.

⁷ The relevant documentation was provided to Eurostat on 5 September 2008.

⁸ Eurostat guidance notes are available from the Eurostat website: <http://ec.europa.eu/eurostat> Government Finance / Methodology / II.5 Eurostat guidance on accounting rules for EDP and GFS

⁹ Eurostat News Release 88/2007.

4. Planned data – recording of specific government transactions

4.1. Infrastructure projects of Antwerp Masterplan and BAM

Following an ex-ante consultation of Eurostat by the ICN/INR on national accounts treatment of certain Antwerp Masterplan infrastructure PPP projects, with the participation of BAM, Eurostat enquired about some details of these operations.

The ICN/INR explained that, concerning the Oosterweel Link, a silent partnership contract will be signed between BAM and the Flemish government. However, some detailed financial arrangements of different projects within the Antwerp Masterplan were currently not known to the ICN/INR.

Eurostat noted that in order to establish a sectorisation of assets of each of the Antwerp Masterplan projects, a final sector classification decision on BAM needs to be taken by the ICN/INR (see item 3.1 above). In addition, it was noted that certain relevant details on complex financial arrangements between BAM and other parties (e.g. existence of guarantee on BAM borrowing) would also need to be analysed by the ICN/INR.

It was concluded that the ICN/INR will continue a methodological analysis of the Antwerp Masterplan and present to Eurostat their own proposal for sector classification of Oosterweel and non-Oosterweel projects.

Action point 12: The Belgian authorities will provide an answer to the Eurostat correspondence of June 2008 on national accounts treatment of Antwerp Masterplan infrastructure projects, together with their proposal of the sectorisation of assets, by the beginning of September 2008.

4.2. Citeo project follow-up

Eurostat enquired about the follow-up of the project for a creation of a new entity Citeo, initially envisaged by the Brussels region, on which Eurostat was consulted in 2007 by the ICN/INR. The project envisaged the reorganisation of public transportation in Brussels region currently operated mainly by STIB, and the creation of a new infrastructure entity to be called Citeo. The ICN/INR enquired in 2007 on the sector classification of Citeo, as well as whether the whole operation could be considered as a PPP. In its letter of March 2008 Eurostat considered that Citeo has the nature of an ancillary unit to the state government and is to be classified inside the state government sector¹⁰.

The ICN/INR indicated that the regional government abandoned the project. At the same time, they indicated that the corporation currently providing public transport services in Brussels STIB might be reclassified in the future outside S.13, following the national accounts rules, due to an increasing share of sales in comparison to production costs.

¹⁰ Eurostat advice provided to the ICN/INR is available from the Eurostat website: <http://ec.europa.eu/eurostat>

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Eurostat took note of these explanations and advised the ICN/INR to closely monitor the issue of application of 50%-rule on STIB. In this context, Eurostat recalled that for the application of this rule, costs need to include a national accounts measure of fixed capital consumption, and not an accounting measure of amortisation.

Annex I

List of participants of the EDP dialogue visit to Belgium 19 June 2008

Name	Institution	Department
Luca Ascoli	European Commission (DG Eurostat)	Public Finance Unit, National and European Accounts Directorate
Philippe de Rougemont	European Commission (DG Eurostat)	
Marcin Woronowicz	European Commission (DG Eurostat)	
Pim Lescrauwaet	European Commission (DG ECFIN)	
Henri Maurer	European Central Bank	
Didier Gossset	National Bank of Belgium	Statistical Department
Claude Modart	National Bank of Belgium	
Joseph Libens	National Bank of Belgium	
Hervé Sauvenière	National Bank of Belgium	
Anne Mulkay	National Bank of Belgium	
Luc Van Meensel	National Bank of Belgium	Research Department
Thérèse Debois	Federal Planning Office	