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- FINAL FINDINGS -

EDP dialogue visit to Belgium

10 April 2006

Executive Summary

An EDP dialogue visit to Belgium took place on 10 April 2006 with the aim to analyse the Belgian April 2006 EDP notification and the questionnaire related to the notification tables. In addition, Eurostat intended to discuss the accounting treatment of several transactions impacting the EDP notification data for 2005, as well as to gather more information and analyse operations planned for 2006.

As far as the analysis of the EDP April 2006 notification is concerned, Eurostat enquired in particular on the recording of government guarantees, capital injections and the application by the Belgian statistical authorities of the Eurostat decisions of 9 March 2006 *Recording of military equipment expenditure*¹.

Concerning the recording of specific government transactions, the issue of the transfer of pension liabilities to government by The Port of Antwerp and the SNCB relative to year 2005 was discussed. In the case of the SNCB, the actual lump sum received by government exceeded the rights accrued to-date by an amount of 30 mn €. This difference was treated as a financial transaction. It was agreed that the Belgian statistical authorities would reflect on the appropriate financial transaction category applicable for this amount.

Secondly, the sale and leaseback operations undertaken by government for lands and buildings in 2005 and 2006 were discussed. As far as 2006 is concerned, Eurostat noted the conceptual questions arising from the proposed operation regarding the Belgian embassy in Tokyo. It was agreed, that the Belgian statistical authorities will provide more details on this operation, while Eurostat will reflect on the underlying conceptual issues.

Thirdly, Eurostat enquired about the Private-Public Partnership projects concluded in 2005 and planned for 2006. The Belgian statistical authorities indicated that, to their knowledge, no PPP projects had been established in 2005. In relation to the PPP road project in Flanders on which the Belgian authorities had sought formal advice by Eurostat in November 2005, it is expected that the project will still be carried out in 2006, however within a likely different arrangement than previously envisaged.

Alternative financing schemes in the social sector were analysed, for which the Belgian statistical authorities had sought formal advice of Eurostat in November 2005. The new scheme was adopted on 8 March 2006 and will soon be published. It was concluded that in view of the specific conceptual difficulties, the Belgian statistical authorities will inform Eurostat when they have prepared a final advice.

Concerning the privatisation operation of the mail company La Poste planned for 2006, a first exchange of views took place. It was agreed to continue the discussion on the recording of this operation in national accounts.

As for the operation of renovation of Résidence Palace, It was agreed that the Belgian statistical authorities would send to Eurostat their draft opinion on the statistical treatment of the operation.

¹ See: *Eurostat news release*, 31/2006 of 9 March 2006.

Among the other issues concerning the year 2005 two more items were discussed: 1) the application of the accrual principle in the context of postponed government payments and 2) the treatment of the pre-financing payment by enterprises in the context of the reduction of petrol price for households.

Furthermore, the possible enhancements of the consistency of the April 2006 EDP notification data with the ESA95 transmission program data were investigated. In the broader context of the ESA95 transmission programme, the issue of the missing data for Table 11 was discussed. Eurostat also enquired about the measures for improvement of the source data in relation to the local government sub-sector and asked the Belgian statistical authorities to exploit all possible means to incite local authorities and their supervisors to provide the statistical authorities with timely and high quality data.

Finally, in relation to the restructuring of SNCB, Eurostat noted that the EDP April 2006 notification does not include a capital transfer for the year 2005.

The Belgian statistical authorities indicated that the EDP tables notified, as modified for technical adjustments in tables 3A-E and provided during the meeting, were final from their side.

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) Eurostat carried out an EDP dialogue visit in Belgium on 10 April 2006.

The delegation of Eurostat was headed by Mr. Nørlund, director of 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 Central Bank (Banque nationale de Belgique / Nationale Bank van België).

Eurostat carried out this EDP dialogue visit with the aim of analysing the Belgian April 2006 EDP notification, as well as to discuss the accounting treatment of several transactions applicable for 2005 and planned for 2006.

1 Procedural arrangements

In relation to the procedural arrangements, in accordance with article 8 of the Regulation, Eurostat explained the new procedure, indicating that *Main conclusions and action points* would be sent within days to the Belgian statistical authorities, who may provide comments. Within the coming weeks *Provisional findings* would be sent to the Belgian authorities in draft form for their review. After corrections, a final version of the *findings* would be sent to the EFC and published on the website of Eurostat.

2 Analysis of EDP April 2006 notification and questionnaire related to the notification tables

Concerning the analysis of the EDP April 2006 notification tables, the Belgian authorities provided before the meeting their answer to the *EDP request for clarification* sent on 6 April 2006 by Eurostat, as well as amended EDP tables 3A and 3B corrected for small technical adjustments.

Government guarantees

Introduction

Eurostat enquired about the amounts of the guarantees provided by government during the last five years.

Discussion

The Belgian authorities provided a breakdown of guarantees by borrower, clarifying that the main beneficiaries are the Belgian railway company SNCB (for a part of its debt) and the regional housing societies (previously directly financed by FADELS).

Findings and conclusions

Eurostat took note of these explanations.

Capital injections

Introduction

Eurostat asked about the accounting treatment of capital injections in 2004 of 234 and 264 mn € into Société Wallone du Logement and Société du Logement de la region de Bruxelles-Capitale, respectively. Those two entities owned by the Walloon Region and the Brussels Region are financial intermediaries that lend at preferential rates to building corporations and receive interest subsidies from government.

Discussion

Eurostat enquired whether those operations might be recorded as capital transfers, and in this context whether there had been changes in the subsidy scheme arrangement and whether there was evidence that government was acting similarly to a private investor, or for public policy purposes. In the April 2006 EDP notification, those amounts are recorded as financial transactions, except for 22 mn € that correspond to the accumulated losses of the entity owned by the Brussels Region.

It is recalled, that according to the *ESA95 manual on government deficit and debt*², "When the government, acting in the same capacity as a private shareholder, provides funds while receiving financial assets in return and expects to earn a future return on its investment (in the form of dividends or a higher value of the financial instrument which represents government's property rights on the corporation), the capital injection is to be recorded as a financial transaction in shares and other equity. When, on the other hand, the government, acting for public policy purposes, provides funds to a corporation without receiving financial assets and without expecting a future return on the investment, the capital injection is to be recorded as a capital transfer".

Findings and conclusions

Eurostat considered appropriate and it was agreed that the Belgian statistical authorities will investigate whether those entities distributed dividends to their shareholders in previous years and had established appropriate business plans in support of these injections evidencing a positive return on investment.

Military equipment expenditure

Introduction

² Part II.3 Capital injections (new chapter).

Eurostat asked the Belgian statistical authorities about the application of its decision of 9 March 2006 *Recording of military equipment expenditure*³.

Discussion

Government expenditure for military expenditure are currently recorded in Belgium on a cash basis. According to the Belgian statistical authorities, precise data on deliveries would only be available from 2006 onwards. Considering that payments for military equipment are less than 0.05 % of GDP, the Belgian statistical authorities agreed to enquire whether it could safely report to Eurostat that, to its knowledge, any deviation between cash recording and deliveries could not exceed 0.05 % of GDP in 2005 (as well as if possible in 2004).

Findings and conclusions

The Belgian authorities stated that they are not aware of large deliveries in the recent past. Eurostat took note of these explanations.

3 Actual data – Recording of specific government transactions

3.1 Transfer of pension liabilities to government in 2005

Introduction

In the documentation provided prior to this EDP dialogue visit, the Belgian statistical authorities confirmed that in 2005, government received 481 mn € as lump sum by the government-owned enterprises the Port of Antwerp and the SNCB.

Discussion and methodological analysis

According to the information provided during the discussion by the Belgian statistical authorities, the Port of Antwerp pension scheme is fully funded. On the contrary, the pension scheme of the SNCB that was transferred relates to a specific early retirement pension scheme managed by the SNCB and is unfunded.

In line with the Eurostat press release of 25 February 2004 *Payments to government by corporations in the context of the transfer to government of their pension obligations*⁴, the lump sum actually paid in 2005 would be considered as government revenue for 2005: "*According to the accrual principle, the capital transfer should be recorded at the time pension obligations are effectively transferred and not at the time of payments*".

The Belgian statistical authorities indicated, that in the case of SNCB, the actual lump sum exceeded the rights accrued to-date by an amount of 30 mn €. This amount had been recorded as a financial transaction.

Findings and conclusions

³ See: *Eurostat news release*, 31/2006 of 9 March 2006.

⁴ See: *Eurostat news release*, 26/2004 of 25 February 2004.

The Belgian statistical authorities would reflect on the appropriate financial transaction category applicable for this latter amount, probably a transaction in equity (withdrawal of equity).

Eurostat took note of the recording as capital transfer (government revenue) of lump sums received in 2005 by government related to the transfer of pension obligations from government owned Port of Antwerp (214 mn €) and SNCB (267 mn €).

3.2 Major real estate operations undertaken by government in 2005 and in 2006

Introduction

Information shown below on the major real estate operations in 2005 and planned for 2006 was provided prior to the meeting:

Années	Administrations publiques	Montants des ventes exceptionnelles de bâtiments et terrains (en millions d'euros)	
Bâtiments			
2005	Pouvoir fédéral	91	
	Vlaamse Gemeenschap	4	
2006	Pouvoir fédéral	140	Tokyo
		565	SICAFI
	Vlaamse Gemeenschap	27	
Terrains			
2005	Vlaamse Gemeenschap	80	
	Pouvoir fédéral	86	(*)

(*) Terrains vendus par le Fonds de l'Infrastructure ferroviaire (FIF) du sous-secteur Pouvoir fédéral (S.1311) à la Société d'acquisition foncière (SAF) du sous-secteur Communautés et régions (S.1312).

Discussion and methodological analysis

During the meeting the Belgian statistical authorities provided explanations on the nature of the transactions listed in the table above. They encompass operations in lands and buildings in 2005 and 2006 arranged either in the form of "sale and leaseback" or in other forms.

Findings and conclusions

Eurostat took note that the four operations listed for 2005 had been recorded as disposal of a non-financial asset, with an improvement in the net lending/net borrowing of general government in three instances only, as a fourth operation involved land sold by Fonds de l'infrastructure ferroviaire (FIF) to another entity that is classified in general government.

As far as 2006 is concerned, Eurostat noted the conceptual questions raised by the proposed operation of the Belgian embassy in Tokyo listed in the above-mentioned table, noting that no export/import of land was possible in the national accounts.

The Belgian statistical authorities will provide more details on the operation in Tokyo once the transaction will become more concrete, while Eurostat will reflect on the basic underlying conceptual issues.

Eurostat also indicated having received further documentation from the Belgian Ministry of Finance on the operation planned for 2006, involving a SICAFI (a kind of dedicated mutual fund for real estate) and would come back in coming weeks with views on the appropriate accounting treatment.

3.3 Private-Public Partnership projects

Introduction

Eurostat enquired about the projects concluded in 2005 and planned for 2006.

In particular, further information on the PPP road project in Flanders were sought by Eurostat. It is recalled that Eurostat's opinion was requested in November 2005 and subsequently provided, on a case involving a government-owned corporation setting up a SPV subsidiary in 2006, with which government will be able to sign PPP contracts. The SPV would build new roads in Flanders and government would agree to make regular payments to the SPV based on traffic flow and/or availability.

Discussion and methodological analysis

The Belgian statistical authorities indicated that, to their knowledge, no PPP projects had been completed in 2005. In addition, in relation to the PPP road project in Flanders, the Belgian authorities informed that they have forwarded the advice of Eurostat on the subject (Eurostat letter of 20 December 2005) and had not been formally contacted again by the relevant ministry.

It is nevertheless expected that the project will be carried out, however within a likely different arrangement in 2006.

The Belgian authorities expected that the shadow tolls would be replaced by availability fees, and asked Eurostat to indicate the criteria examined in such cases. Eurostat responded that it currently would have a preference for examining this issue on a case-by-case basis.

Findings and conclusions

When the Belgian statistical authorities will be asked for a new advice on the altered scheme, this advice will also be transmitted to Eurostat for information.

3.4 Alternative financing in the social sector

Introduction

It is recalled that three alternative schemes had been envisaged to finance old-age homes and hospitals in replacement of the existing investment grant traditionally provided by government, which covered 60 % of the cost of each project (and treated as capital transfer). Eurostat had advised in December 2005 that the three schemes, which involved zero interest rate loans or agreements to repay debts contracted from banks, should have the same impact on government deficit.

Discussion and methodological analysis

The Belgian statistical authorities indicated having forwarded the advice of Eurostat (letter of 20 December 2005), upon which the relevant ministry altered the scheme. The new scheme was adopted on 8 March 2006. The executive decisions concerning this new scheme will be transmitted shortly to the Belgian statistical authorities for advice.

The new arrangement described during the meeting includes conditionality attached to the progress of the building work, as well as to the availability of government funds. The intention of the new arrangement is to optimise the allocation of investment grants, by dispersing the same amount to a larger number of beneficiaries.

Findings and conclusions

Eurostat took note of the position of the Belgian statistical authorities, which in view of the specific conceptual difficulties will inform Eurostat when they have prepared a final advice.

3.5 Privatisation operations (e.g. La Poste)

Introduction

In relation to the privatisation of the postal company La Poste that took effect in January 2006, a first exchange of views was carried out.

Discussion and methodological analysis

According to the information provided during the meeting by the Belgian statistical authorities, the operation involved an increase in capital subscribed mainly by the selected investor (Danish mail company). The Belgian authorities mentioned that a balance sheet clean-up / repackaging had been carried out in 2005 prior the operation, involving accounting compensation of accumulated reserves, losses-brought-forward items, social capital, as well as possibly a re-estimation of assets and a reduction in subscribed capital. The Belgian statistical authorities provided during the meeting the balance sheet for the year 2004 and agreed to provide the balance sheet on the end of 2005 (and early 2006 if possible) after the meeting, to document the accounting actions that took place.

Simultaneously to the injection by the Danish post, the Belgian government also provided 40 mn €, and the question arose whether this amount would need to be recorded as a capital transfer or as an acquisition of equity. In this respect, Eurostat enquired to what extent the Danish investor had received specific guarantees on performance.

Findings and conclusions

It was agreed to continue the discussion on the accounting implications of this operation.

3.6 Application of the accrual principle in the context of postponed government payments

Introduction

Concerning unknown amounts of payments by government on 2005 expenditures, allegedly postponed to 2006, the Belgian statistical authorities clarified that, although their source data are on cash basis, they conduct adjustments whenever they have information to

do so, towards coming closer to an accrual recording required by ESA95 (paragraph 1.57): *"the system records flows on an accrual basis; that is, (...) when claims and obligations arise, are transformed or cancelled"*.

Discussion and methodological analysis

The Belgian statistical authorities indicated that the largest government expenditure components (i.e. transfers) were well monitored, and that corrections are made when necessary. Nevertheless, they admitted that this was not the case for intermediate consumption, a smaller component of expenditure, where no information on pending unpaid bills was available. The Belgian authorities were not aware of any specific development that would have occurred in 2005.

Findings and conclusions

Eurostat took note of these explanations.

3.7 Renovation of Résidence Palace

Introduction

The Belgian government owns a building called Résidence Palace. The building is being restructured, and will be put afterwards at the disposal of the Council of the EU, which may decide to purchase it, although it has no obligation to do so. The Council would start to pay annual rents to the Belgian government at the moment in which the building would be put at its disposal.

Discussion and methodological analysis

The Belgian statistical authorities indicated that they consider the operation as fixed capital formation of the Belgian government followed by a (financial) lease of the building to the European Council and asked to what extent this case differed from that of the Berlaymont building of 2002. On the latter Eurostat had advised that the Belgian government was acting on behalf of the EU. Eurostat clarified that its letter of 18 July 2005 on Résidence Palace, where it disagreed on financial lease classification, was specifically related to the impact on government deficit during the construction process. Because the Council of the EU did not commit irrevocably on the acquisition of the building, the Belgian government was at risk, and the renovation operations could not be deemed to be on behalf of the EU.

Findings and conclusions

Eurostat considered appropriate and it was agreed that the Belgian statistical authorities would send to Eurostat its draft opinion on the statistical treatment of the operation.

3.8 Pre-financing by enterprises of reduction of petrol price for households

Introduction

It is recalled that, due to the increase of petrol prices, the Belgian government decided in 2005 to pay on behalf of households a part of the VAT on gasoline for heating purposes. As it did not dispose of cash necessary for this purpose, government asked 16 big

enterprises to pre-finance 100 out of the 145 mn € which resulted from its decision. The payment from the enterprises took place on 27 December 2005.

The enterprises provided the cash, under the agreement that that government will repay the amount at a later stage. It has now been decided that the loan will be reimbursed during the first months of 2006 by government.

Findings and conclusions

Eurostat agreed that the 100 mn € paid on 27 December 2005 should be recorded as an incurrence of a government liability (loans F.4).

4 Other issues

4.1 Tables 2, 6, 7, 9, 11, 25, 27 and 28 of the ESA95 TP

EDP tables

Introduction

When analysing the Belgian data provided in the EDP tables for the April 2006 EDP notification with quarterly financial accounts for general government (ESA95 table 27), Eurostat noted small inconsistency for years 2002-2005 for securities other than shares and for other liabilities.

Discussion and methodological analysis

After examination and analysis of the possible reasons for this inconsistency with the Belgian statistical authorities, Eurostat clarified that the adjustment for swaps reported under EDP table 1 should in principle be recorded in the item Difference between interest (EDP D.41) accrued(-) and paid(+) and not in the item Securities other than shares (F.3).

Findings and conclusions

The Belgian statistical authorities agreed with this analysis and provided corrected EDP table 3B and 3A during the meeting.

COFOG

Introduction

Belgium has not yet provided data for Table 11 of ESA95 TP (COFOG) for the year 2004.

Findings and conclusions

The Belgian authorities indicated that the transmission of the 2004 data had been delayed owing to unexpected difficulties faced by the reporting authorities arising from transfer from Benelux to COFOG-methodology, but that these data would hopefully be available during the summer 2006. The answer to the letter of Eurostat of 03 April 2006 was

transmitted during the meeting. Eurostat also invited the Belgian authorities to be proactive in the compilation of second level of COFOG.

4.2 Local government data

Introduction

Eurostat enquired on the availability, timeliness, and quality of source data in relation to the local government sub-sector.

Discussion

The discussion revealed the need to improve the source data estimates for this sector.

Findings and conclusions

Eurostat finds it appropriate that the statistical authorities continue its efforts to make progress in this field.

4.3 Restructuring of SNCB

Introduction

In relation to the restructuring of SNCB, Eurostat noted that the EDP April 2006 notification does not include a capital transfer for the year 2005, as requested by Eurostat in the meeting with the Belgian authorities on 16 March 2006 in Luxembourg, and asked whether the Belgian statistical authorities intended to send a new notification.

Findings and conclusions

The Belgian statistical authorities indicated that the EDP tables notified, as modified for technical adjustments in tables 3A-E, were final from their side.