

Public investment: recording in EDP statistics & treatment under the SGP

Session 22 – Macroeconomics

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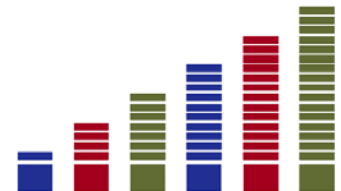
Lourdes Prado Ureña

Eurostat

Lourdes.prado-urena@ec.europa.eu

Content

1. EDP & SGP → Eurostat's role
2. Public investment & PPPs → link with quality of EDP
3. Investment plan for Europe (EFSI)
4. Conclusions



1. EDP & SGP

- Maastricht Treaty (Treaty on the EU, TEU) adopted 1992

- Treaty on the Functioning of EU (TFEU) adopted 2009

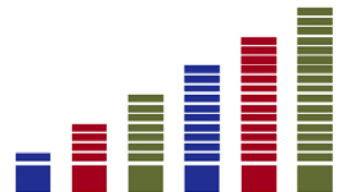
Government deficit → limited to 3% GDP

Government debt → limited to 60% of GDP

- SGP adopted in 1997. Articulated in 2 branches:

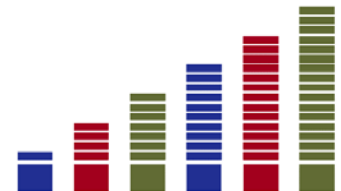
Preventive arm → sets budgetary targets (MTO)

Corrective arm → EDP (to correct excessive deficit/debt)



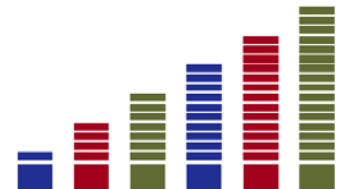
1. EDP & SGP. Responsibilities

- (i) Member States → Compile government accounts
Transmit data to Eurostat
- (ii) Eurostat → Assesses/validates figures reported by MS
Publishes official deficit and debt figures
- (iii) DG ECFIN/EC/Council → Examine Eurostat's figures
Decide whether to launch EDP



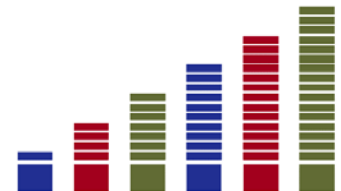
1. EDP & SGP. Responsibilities

MEMBER STATES: Compilation	EUROSTAT: Assessment & validation of MS data Provision of official figures	DG ECFIN/EC/Council Decision on launching an EDP
1. Compile government accounts: - ESA tables - Deficit & debt figures - EDP tables & questionnaire	3. Assesses figures reported by MS	7. EC examines figures published by Eurostat
	4. Possible corrections by MS	8. If no fulfilment by a MS--> EC Issues report
2. Transmit data to Eurostat (before 1st April and 1st October)	5. Possible amendments/reservations by Eurostat	9. Council decides if EDP exists for that MS
	6. Publication of official deficit & debt figures of EU MS (around 20-23 April and 20-23 October each year)	10. Council opens EDP with recommendations
		11. Deadline set to comply with recommendations
		12. EC assesses if effective action taken by MS
		13. If no action: new recommendations & back to point 11
		14. If action: EC propose EDP abrogation
15. Council takes final decision		
	16. EDP closed	



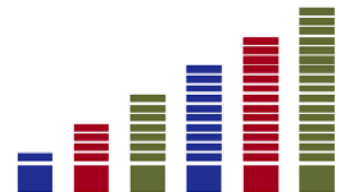
1. EDP & SGP. Eurostat's role

- Defined in Council Regulation 479/2009 of 25 May, which sets the framework for the application of the Protocol on the EDP
- Eurostat responsible for:
 - Assessing quality of the data reported by EU MS
 - Providing deficit and debt figures to be used in EDP
- Quality of data defined in Chapter III (articles 8-13)



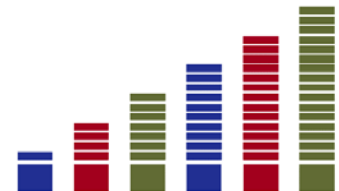
1. EDP & SGP. Eurostat's role

- What is the quality of deficit and debt data?
 - Existence of clear accounting rules → ESA 2010 and MGDD
 - Compliance with accounting rules
 - Data availability → appropriate data sources
 - Completeness, reliability, timeliness, consistency
- How is the quality checked by Eurostat?
 - MS provide EDP tables, underlying ESA accounts, additional questionnaires and clarifications
 - EDP Inventories
 - Regular EDP dialogue visits
- What if poor quality?
 - Amendments, reservations, special visits, etc.



2. Public investment. Definition

- Defined in 479/2009 as "*gross fixed capital formation of the general government sector*".
- What is it in practice? Assets (such as infrastructure, dwellings, buildings, machinery etc.) which are used in production for more than 1 year
- **Investment is a relevant part of government expenditure**
→ **Correct recording important for correct deficit figure**
- Investment is Expenditure in all accounting frameworks
- When is investment recorded? **Difference**
 - In NA: As assets are built (ex. 500 mn over 5 years)
 - In business accounts: Gradually, as assets are amortised (ex. 500 mn over 50 years)

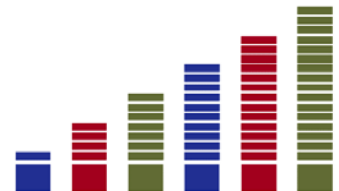


2. Public investment. Modalities

Traditional procurement contract for construction VS PPPs/concession contracts

What are PPPs/concessions?

- Long-term contracts between government & a private partner
- For construction of specific infrastructure assets (motorways, hospitals, schools, prisons, tramways, etc.)
- Partner constructs the asset
- After construction, partner operates and maintains the asset over long period (30 years) & receives regular payments for the service provided to government



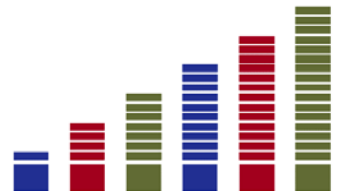
2. Public investment. Modalities

Difference between PPP & concession:

Source of revenue of the partner after construction

PPP → Regular payments received by the partner are provided mainly by government, who pays on behalf of users (ex: motorway with shadow toll)

Concession → Payments received by the partner are provided mainly by final users (ex: motorway with toll paid by drivers)



2. Public investment. Modalities

- **Procurement contract:**

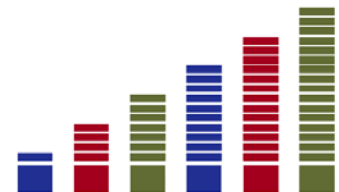
- Economic owner of the infrastructure built: always government → on-balance sheet recording
- Investment impacts government accounts over the years of construction (big amounts in short period of time)

- **PPP/concession contract:**

- With ESA, the economic owner of the assets built may be either government or the partner.

Key → determine who is the economic owner:

- If partner is economic owner → Off-balance sheet recording (smaller amounts over a long period of time)
- If gov is economic owner → On-balance sheet recording



2. Public investment. Example

Ex. Motorway with total capital cost of 300 mn
Built over 3 years (assume construction is linear)

- Case 1 → Procurement contract

Government expenditure: 100 mn per year during 3 years of construction

- Case 2 → PPP. 30 years. Government pays 15 per year.

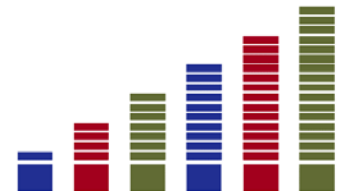
a) If off-balance: Gov expenditure 15 mn per year during 30 years

b) If on-balance: Gov expenditure 100 mn per year during 3 years + debt

- Case 3 → Concession. 30 years. Users pay

a) If off-balance: No government expenditure, as users pay

b) If on-balance: Gov expenditure 100 mn per year during 3 years + debt



2. Public investment. Example

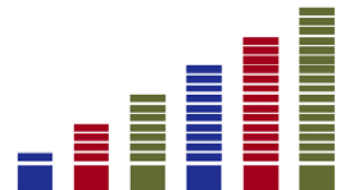
Recording of government expenditure in national accounts (in mn)

Motorway with total capital cost of 300 mn

Built over 3 years (assume construction is linear)

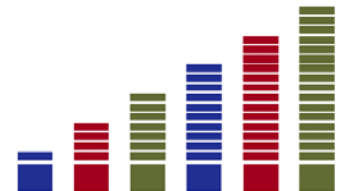
Exploitation of 30 years

		Construction			Exploitation				
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 30
1	Procurement	100	100	100	-	-			-
2a	PPP off-balance	0	0	0	15	15			15
2b	PPP on-balance	100	100	100	5	5			5
3a	Concession off-balance	0	0	0	0	0			0
3b	Concession on-balance	100	100	100	5	5			5



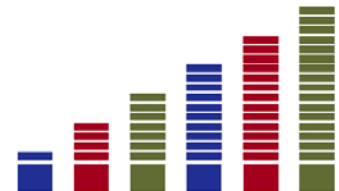
2. Public investment. PPP rules

- Defined in ESA 2010 chapter 20 + MGDD chapter VI
- **Main issue: determine who is the economic owner**
- In ESA 2010, case by case approach:
 1. Economic owner → Unit bearing risks & rewards
 2. If risk & rewards analysis not conclusive → Control of the asset
- **What needs to be assessed in practice?**
 - If projects meets definition of PPP/concession
 - If the partner is really private
 - Existence of government financing and/or guarantees
 - Early termination clauses
 - Analysis of risks (construction, demand/availability) & rewards
 - Allocation of the assets at the end of the contract
 - Refinancing clauses
 - Force majeure events, etc.



3. Investment Plan for Europe

- November 2014 → EC launched its Investment Plan for Europe
- Aim → Mobilize EUR 315 bn of investment in 3 years by using public money to attract private investors
- How? Support to be provided by the EFSI (European Fund for Strategic Investment), set up within EIB
- Guarantee of EUR 21 bn → EFSI has risk absorbing capacity of EUR 21 bn (16 from EU budget, 5 from EIB)
- By July 2015, 8 EU MS & 11 promotional banks announced their participation in the EFSI



3. Investment Plan for Europe

MS can participate in the EFSI at 3 levels:

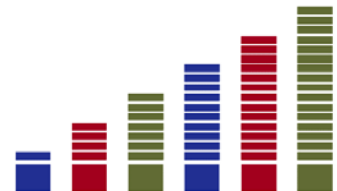
(i) Directly into EFSI with cash payments/guarantees

Cash payments → could impact government expenditure

Guarantees → impact if guarantee is called

(ii) Into EFSI through investment platforms, investing in specific areas/sectors → General rules applicable (impact on government expenditure possible)

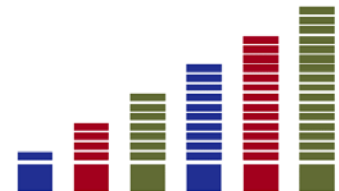
(iii) Alongside with EFSI in individual projects (normal procurement projects or via PPPs) → General rules for investment/PPP applicable (on-balance sheet recording possible)



4. Conclusions

4.1 State of play as regards PPPs/concessions

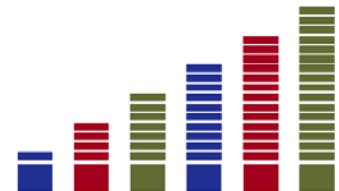
- Complex issue, but key for proper deficit measure
- Eurostat has tried to:
 - Clarify existing rules
 - Provide transparent communication
- How?
 - Explanatory note published in March 2016
 - More detailed guidance under preparation
 - 2 meetings on PPPs in February & March 2016



4. Conclusions

4.1 State of play as regards PPPs/concessions

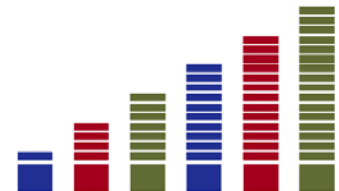
- Situation varies across MS in terms of use of PPPs
→ Some MS active in the use of PPPs, some are not
- Situation varies as concerns statistical treatment →
 - In some MS, all PPPs are treated on-balance (DE, FR)
 - In others, case by case analysis with a high percentage of PPPs on-balance (ES)
 - In others, the use of PPPs is conditional to the project qualifying off-balance (BE)



4. Conclusions

4.2 Comparison of ESA with other standards

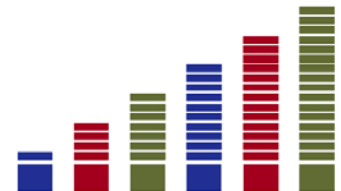
- ESA allows more flexibility for PPPs than all other accounting standards.
- Eurostat criticized by other international institutions for allowing off-balance sheet recording & allowing the use of PPPs to circumvent spending ceilings.
- ESA 2010 PPP rules should therefore be considered an opportunity rather than a burden.
- Yet some MS put pressure on the statistical treatment of PPPs being too restrictive and complain on ESA 2010 rules.



4. Conclusions

4.3 Statistical recording vs application of the SGP

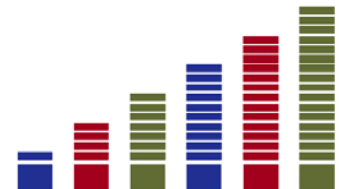
- What could be changed?:
 - Statistical rules (ESA 2010)?
 - Application of the SGP?
- What cannot be changed?:
 - The interpretation of existing statistical rules



4. Conclusions

4.3 Statistical recording vs application of the SGP → [Change ESA?](#)

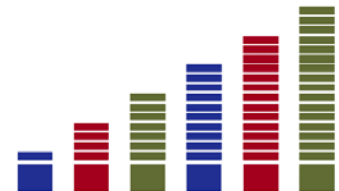
- Compliance with ESA 2010 → Compulsory for the statistical recording of transactions in NA
- Could ESA 2010 be changed? Yes, but...
 - As a Regulation, it should be voted and approved by EU MS
 - Slow process & qualified majority needed
 - Imply deviation from international NA rules (ESA 2008)
 - Adopting business accounts may not improve government accounts in present years. Why? It will do so for future projects, but government expenditure of present years would be impacted by the amortisation of past projects...



4. Conclusions

4.3 Statistical recording vs application of the SGP → **Change application of SGP?**

- Could flexibility be allowed in the application of the SGP? Yes, by the use of one-off measures & the investment clause.
- One-off measures:
 - Must have an impact above 0.1% of GDP
 - Have a transitory effect that does not lead to a sustained change in the budgetary position of MS
 - Are not taken into account for launching an EDP
 - Ex: contributions to EFSI, government interventions to support financial institutions in some MS, tax amnesties
- One-off measures explain why MS above 3% may not be the object of an EDP



THAN YOU FOR YOUR ATTENTION

