



Investment in the Excessive Deficit Procedure

**WG Long Term Investments
Brussels, 4 December 2019**

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Overview

1. Role of Eurostat
2. Recording of investment in NA
3. State of play

1. Role of Eurostat

Defined in:

- Regulation **579/2013** on ESA 2010
- Regulation **479/2009** on the application of the Protocol on the EDP

Eurostat responsible for:

- **Providing** deficit and debt figures to be used in SGP
- **Assessing quality** of the data reported by EU MS
- **Interpreting** European System of Accounts (ESA 2010)

1. Role of Eurostat

How does Eurostat check EDP data?

EDP Notification → Twice a year: **MS** provide EDP tables, underlying ESA accounts, additional questionnaires and clarifications.

Eurostat:

- Assesses if figures are compliant with accounting rules
- Publishes official deficit and debt figures
- Can amend the figures or express a reservation on the quality of the data reported
- Carries out EDP Standard Dialogue Visits to MS

1. Role of Eurostat

Rules applicable for government finance:

- **ESA 2010**
- Manual on government deficit and debt (MGDD)
- Eurostat Guides, guidance notes, clarifications
- Eurostat bilateral advice (ex-ante/ex-post)

How are rules decided?

- Issues discussed at the request of MS or Eurostat
- 3 different WG participated by NSIs, CBs & MoFs
- Decisions taken by majority vote

2. Recording of investment

In all accounting systems, investment:

- (i) constitutes **expenditure** → impacts deficit
- (ii) is recorded on **accrual basis** (not cash)

Difference between NA and other frameworks:

- IPSAS & IFRS record investment via **depreciation** (CFC), over the economic life of the asset (ex:50 years for a road)
- NA records infrastructure investment via GFCF, over the **construction period** of the asset (proxy) (ex:2 years for a road)

2. Recording of investment

Definition of investment

Article 2 of Protocol 12 on the EDP attached to the Treaty on European Union:

*'Investment' means **gross fixed capital formation** (GFCF) as defined in ESA*

Article 1.4 of Regulation 479/2009

*'Government investment' means the **GFCF** of the sector of GG as defined in ESA*

2. Recording of investment

Time of recording of investment (GFCF)

ESA 2010 3.134:

*Gross fixed capital formation is recorded **when the ownership of the fixed assets is transferred** to the institutional unit that intends to use them in production.*

*Time of recording = **when asset transferred** = when investment made*

*Proxy for infrastructure = **over construction period***

2. Recording of investment

How is government investment carried out?

- Procurement contract
- Public Private Partnerships (PPPs) (gov pays)
- Concession (users pays)
- Lease
- Energy Performance Contracts (EPCs)

2. Recording of investment

Accounting consequences

Can the type of contract chosen affect the statistical treatment? Yes

Main issue: Determine **if government is purchasing assets** (GFCF, on balance) **or services** (assets off balance). How?

- Identify the economic owner of the assets (government or the counterpart)
- Who is this? The one bearing most risks & rewards
- Specific rules in ESA and the MGDD

2. Recording of investment

Accounting consequences

Traditional contracts for procurement of assets → gov purchases an asset (gov GFCF) → immediate **impact on government deficit for the whole amount of the investment (and debt if raised)**

PPPs, concessions, leases, EPCs → allow off balance sheet (gov/users purchase services and not assets)

- if on **B/S**, **impact on deficit** plus imputed debt
- if off **B/S**, payment of services spread over time

ESA 2010 only framework allowing PPP OFF B-S!

3. State of play. Concerns

Concerns on investment

- 1) More flexibility in the **SGP**
- 2) Negative effect of accounting of investment in **ESA2010**
 - **Time of recording** seen as one of the obstacles for investment → **Defined in ESA 2010 (EU Regulation)**
 - **Uncertainty on rules + complexity (PPPs, EPCs...)** → **Called for more clarity and stability** around the rules

3. State of play. Eurostat actions

Clarified how to apply the rules to specific projects:

- Publication of Guide on statistical treatment of **PPPs** 2016
- Publication of Guide on statistical treatment of **EPCs** 2018
- Future: Guide on **concessions**? Sections on Q&A?

Attends different fora to present & explain rules

Provides ex-ante advice on the statistical treatment of investment projects + Publishes all advices

Eurostat role limited to statistical treatment & clarify rules. No say on Vfm, bankability, affordability, etc. → EPEC



European
Commission

Q & A

Country practice → Use of PPPs

Concessions used by all MS

Not all MS use PPPs: BG, RO

Some MS very active: BE, UK, IE, FR, NL, ES, PT

Some relatively active (few projects): SK, LT, SE,
CZ

Country practice → Type of project

Depends on the country

Most MS: transport infrastructure (**roads**, trams)

In some/few MS: hospitals, prisons, schools, waste, water treatment, public buildings (swimming pool, court, firemen, police, concert hall...)

New types: internet broadband, telematic system for buses, EPCs, etc.