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## New decision of Eurostat on deficit and debt

# Liquidation of the EFTA Industrial Development Fund for Portugal

**Eurostat, the Statistical Office of the European Communities in Luxembourg**, has taken a decision on the accounting treatment of the liquidation in 2002 of a Fund operated from 1977 onwards by EFTA (European Free Trade Association) for industrial development in Portugal. As a result of the decision, the transfer of the remaining assets of the Fund to the Portuguese government has no effect on the deficit recorded in 2002, which, therefore, stands unchanged at 2.7% of GDP, according to the March 2003 Excessive Deficit Procedure notification.

The decision is in line with the European System of Accounts (ESA95) and consistent with the opinion taken by a majority of members of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB).

### Background

In November 1975, EFTA - which at the time included Portugal - decided to set up a Fund to support the development and restructuring of Portuguese industry. The Fund was set up in 1976 and started operating on 1 February 1977.

According to the statute of the Fund its core objective was "to contribute to the development of Portuguese industry by financing specific projects for the reconstruction or creation of enterprises, especially small and medium sized, in the private and public sector" (article 2 of the Fund Statute).

The Fund was financed by contributions provided by EFTA countries (including Portugal) plus an associated member (Finland), according to a specific contribution key. The share of Portugal was 6.1% of the total. The statute established that the contributions paid to the Fund by the EFTA countries accrued interest from the sixth year of the Fund's operation.

The statute specified that the Fund should be liquidated 25 years after its establishment and that the contributions should be repaid to the contributor countries. This effectively started in 1998 by decision of the EFTA Council. It was also specified that when the Fund ceased to exist, (i.e. after the repayment of all contributions and respective interest) the Portuguese government (or an institution designated by it) would become the owner of any remaining assets.

The Fund was liquidated in January 2002 and an amount of 139 million euro (equal to 0.1% of the Portuguese GDP), corresponding to the remaining assets, was paid to the Portuguese government.

In the context of the reporting obligations under the Excessive Deficit Procedure the issue was to determine whether these liquidation proceeds should be recorded in the Portuguese government accounts as an unrequited transaction (capital transfer received with a positive impact on the deficit) or as the realisation of a financial asset already owned by the Portuguese government (without any impact on the deficit).

### Eurostat decision

The Portuguese government owned a specific right on the Fund in the event of its liquidation. This right should have been recorded as a financial asset (in the category of "shares and other equity") of the Portuguese government.

Therefore, when the Fund ceased to exist, the transfer of the remaining assets was a financial transaction in the form of an exchange of cash for an existing financial asset held by the Portuguese government.

### Consequences of the decision

The transfer of the remaining assets from the EFTA Fund to the Portuguese government cannot be considered as an unrequited receipt of government, but has to be treated as the realisation of a financial asset.

Therefore, the transfer has no impact on the general government deficit for the fiscal year 2002.

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### **CMFB opinion**

#### **on the treatment in national accounts of the transfer of assets from the EFTA Fund to the Portuguese Government**

Eurostat consulted the CMFB on 10 July 2003 on the above-mentioned subject. The deadline for returning the questionnaire was Tuesday 22 July 2003. The CMFB Executive Body agreed both the procedure and the content of the consultation. Thirteen (13) national statistical institutes and twelve (12) national central banks from the Member States returned the questionnaire. A total of twenty-five (25) national institutions, from all fifteen (15) Member States, thus participated in the consultation. The ECB also provided a reply.

The result of the consultation was as follows:

Fourteen (14) national institutions responded that, at the liquidation of the EFTA Fund, the transfer of remaining assets from the EFTA Fund to the Portuguese Government should be treated as the liquidation of a financial asset (financial transaction) in the national accounts, three of them considering that the financial asset results from the conclusion of an initial contingent asset. Eleven (11) national institutions answered that the transfer of remaining assets from the EFTA Fund to the Portuguese Government should be recorded as a capital transfer (non-financial transaction) from the Rest of the World to the Government in the national accounts.

***Accordingly, the majority of the CMFB members consider that the transfer of assets from the EFTA Fund to the Portuguese Government should be treated as the liquidation of a financial instrument (financial transaction) in the national accounts, with no impact on the government deficit.***

In addition to this opinion, the following has been transmitted to Eurostat and will be kept in the records of the CMFB secretariat: a document putting together the summary of the votes and all the original answers from the CMFB Members.

(Signed)

Jean CORDIER

CMFB Chairman

Paris, 11 August 2003

