

NEWS letter

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pour le Crédit Communal

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The Newsletter contains important information about the affiliated institutions. Among other items, Newsletter contains articles on interesting developments, new products, cooperative ventures and summaries of annual reports. Contributions to the Newsletter are very welcome and should be submitted on disk (preferably in Word for Windows), by e-mail or by fax. Please direct questions and comments regarding the Newsletter to the secretariat.

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“ We look back on a very inspiring and captivating conference, hosted by Kommunalkredit Austria. They did all possible efforts to make this congress a festive event for all the participants. Not only interesting themes, points of view and opinions around Public-Private Partnerships, the enlargement of the European Union and the Stability Pact were exchanged. The organization also succeeded in giving the participants insight in the dynamics, the history and the traditions of the Austrian community. All honour to Reinhard Platzer and his staff! This newsletter is an extra edition. It is fully dedicated to the Congress. In this edition you will find summaries of the speeches. I hope they will keep the memory alive to this very successful event!

Pim Vermeulen, Secretary General

Non accounted forms of funding

Public-Private Partnerships: gain in projects, improving financial situation

*François Durollet, Vice General Manager of Dexia Crédit Local;
Head of the International Department*

There is a strong link between the increasing popularity of PPP and the criteria of the Stability Pact. This is not surprising, given the circumstance that many countries do not meet one or more of the criteria. Non accounted forms of funding can be very helpful to get the financial situation straight again.

Local authorities can help the central government to meet the criteria in terms of local deficit and debt. The contribution to the EMU-deficit and debt of local authorities are very small; the activities that contribute to the national economy can be very huge. Nevertheless, the virtues of local authorities do not prevent the central government to take measures to tighten the budgets of them. A few examples: In Germany, arrangements have been made to reduce the growth of local authorities' expenditure. In Italy, municipalities have to reduce their financial expenditures below a certain percentage of their current resources. Belgian authorities and regions have a financing capacity, expressed in a percentage of the GDP. And in Portugal new loans are limited

to the amount of the previous amortization.

These constraints initialized the trend, that (local) authorities are handing over competences to the market sector. Sectors, that were considered to be fields of national solidarity, like transport, are being transformed into market sectors (increase of tariffs, less public subsidies). In other countries, market activities that were performed by the public sector – for example the water supply in Austria – have been delegated to

The virtues of local authorities do not prevent the central government to take measures to tighten the budgets of them

the market sector. Also, some non-market activities, like prisons in France, have been delegated to the private sector.

But the financial situation should not be the only reason to use PPP's. PPP's can be – and that is more important – very helpful to get more things done, get it faster done, or get it better done.

Less project delays, speeding up the pace of investment, optimization of total construction and maintenance costs are examples of this. Fixed-price contracts with penalties for underperformance give additional security. Long-term contracts provide a strong incentive for the competitive private sector, while better definition of needs, thanks to the competitive dialogue, also contributes to achieve a higher quality.

WIDE PANORAMA

The panorama of PPP-structures in Europe is wide. At one side is the German system, where construction risks are the only risks to be borne by the private sector, and consequently the financing of it is within the Maastricht criteria. At the other hand we see the French system, where construction, performance and usage risks are laid with the private sector. In between we see the Private Financing Initiative (PFI) in the United Kingdom, where construction and performance risks have been transferred to the private sector.

These PFI's have an increasing popularity with the public authorities in the UK, despite opposition in media, Trades Unions and much of the workforce. Since 1994, 400 projects have been finished with an aggregate capital value of £ 27 billion. The yearly amount involved with PFI, is approximately £ 4 - £ 5 billion. The National Audit Office reported a saving of 10-15 per cent compared to traditional projects. Only 24 per cent of PFI projects have been delivered with delays, vs. 70 per cent of public projects.

SUCCESSFUL SECURITIZATION

A lot of countries establish now taskforces to improve the usage of PPP's. It is interesting to see that in the United Kingdom some innovation has been put through, that could be seen in other countries in the near future. The market there has achieved a critical mass, with a healthy volume of smaller transactions. PFI's enjoy stable ratings. Even severe difficulties with contractors don't bother the PFI-contracts, as the Jarvis case illustrates. This company was close to a bankruptcy, but it didn't have any effects on the contracts and there were no effects for the banks involved in the PPP. In recent times we also have seen the first successful securitization of a PFI portfolio in

the UK (by DePfa). An interesting pilot, the Credit Guarantee Facility has closed now.

Where the British government uses PFI's to save money, it is in some way expensive money, with a spread of 50 bp over treasury. Therefore, the government decided to finance by themselves in a special purpose vehicle, with guarantee from banks to avoid construction risk. The government tries to let the PFI benefit in this way from state price for funding. In the United Kingdom this is considered to be a non-accounted form of funding, because the guarantees prevent the government from contract failure. After the successful pilot for 2 hospitals, the government plans to extend this form of financing to 20 per cent of the number of projects, while asking guarantees for 50 per cent of banks, and 50 per cent of monoline companies.

EUROSTAT APPROACH

It is interesting to see how the British point of view fits in the Eurostat approach. In February 2004, Eurostat published rules for PPS. PPS should be treated as off-balance if both construction risk and availability risk or demand risk have been transferred to the private sector. Transfer of the construction risk alone, the 'Forfaitierung', therefore, should be considered as on-balance financing. PFI's for accommodation, for instance hospitals, prisons, where construction and availability risks are transferred, are considered to be off-balance, under the condition that penalties are potentially high enough. The category of concessions is considered to be off-balance.

It is interesting to see, that the PFI model has been transposed and adapted widespread in Europe. Examples of transposition are the wastewater treatment plant near The Hague in the Netherlands and the Portuguese SCUT-project, a development program for highway infrastructure. Continuation of this project, however, is unclear since the government change in the beginning of 2005. Examples of adaptation can be found in Germany, where 88 schools in the Offenbach region are being build in a so called Forfaitierung arrangement. There is a 15-year financing, with risk on the promoter during the construction and on the public agency after assignment of receivables, once works are approved. This construction has lead to savings of app.

19 per cent, compared with a procurement contract structure.

In Spain, a line of the Barcelona subway system has been build, using the 'Sistema Aleman'. The public agency launched an invitation to tender for civil engineering work, electrical contracting and signage. Three groups of Spanish builders bid successfully on contracts, totaling EUR 1 billion. The public agency is expected to honor receivables assigned to the banks, either 60 days after works are approved or in accordance with a pre-established schedule spread over five years. Both projects are, as has been stated before, forms of on-balance projects.

HEALTH CARE INTERESTING SECTOR FOR PPP

In France, legal framework has been adapted in 2004. A lot of large projects are in preparation. In the health care sector, two projects are worth mentioning. The University Hospital Centre in Caen, an investment of approx. EUR 100 million and the Sud Francilien Hospital Centre, a new hospital, an investment of EUR 250 million.

The health care sector is an interesting sector for PPP's. Within the national budgets, health care expenditures are dramatically increasing, due to the ageing population and the advances in medical technology. Traditionally, the three key players in the investments of the health care sector are the central governments, the local authorities and regions and the hospitals themselves. In Greece and Ireland, the contribution of the public sector is the unique way of financing investments. In Germany, Belgium, Denmark, Luxembourg and Sweden, the minor part of the investments is paid by the hospitals. In France, Finland and the Netherlands, the major part of the investments come on the account of the hospitals, with additional support from the public sector. In Austria, Spain, Portugal and Italy, we see a mixed financing, and the development of PPP's. A specific case is the United Kingdom, where PFI's/PPP's are common within the sector.

The high budgetary constraints met by this three key players overall in Europe should lead them to look at cheaper solutions for their future investments. The PPP model can be one of them.

International comparison of government guarantees in the rental sector and the Dutch guarantee system

Johan Conijn, Partner of RIGO Research & Advies, Amsterdam

Recently, a study was done by Research Institute OTB of the Technical University of Delft and RIGO Research & Advies, to make an inventory of government-backed guarantee systems in various countries and to compare the different guarantee systems. It should contribute, among other things, to the discussion of the role of government-backed guarantees as an instrument of housing policy.

For this purpose, a quick scan was made all around the world. From the many countries with a guarantee system, 12 countries were selected. Criteria were: different guarantee systems, representation of Western, Eastern and Non-European countries. One European country without government guarantees – the United Kingdom – was included.

To evaluate the functioning of a guarantee system, we have to see the system as part of the institutional, economical and social framework. Therefore, accessibility of information is an important factor.

With the exception of Germany, all the countries that have a government-backed system for the rental sector, also have a system for the owner-occupied sector. In his speech, Mr Conijn concentrated his attention to the rental sector.

The study showed considerable differences in the size of the rental sector in the various countries. Opposite to the large rental sector in Germany and the Netherlands, the sector is particularly small in Lithuania and Slovakia. After the fall of the communist regimes, the social sector was sold to the residents. Many of the high rise buildings are in a deplorable state now.

The large rental sector in Germany and the Netherlands is totally different organized. In Germany most of the sector is in control of private owners, while in the Netherlands, housing associations are the owners of the greater part of the sector. The transformation that took place in Germany was discussed in the Netherlands but did not take place. Housing associations are quite au-

tonomous, have a substantial own equity and are relatively independent of the government.

Status and role of the rental sector vary enormously, Mr Conijn said. In Lithuania and Slovakia, there is almost no attention for the rental sector in government policy.

At the other end, the rental sector is a central point in housing policy in for example Sweden, Denmark and the Netherlands. But there is a general trend of reducing governmental involvement. Less demanding alternatives for the public budget have been sought, which have led to an increasing market orientation, reduction or abolition of social housing subsidies, and made an end to public ownership of the dwellings.

HOUSING SUBSIDIES

Concerning the government involvement with the rental sector, Mr Conijn showed that most of the countries are granting housing subsidies, small they may be in some cases. In 8 of the 12 countries a guarantee fund is active. The absence in the other four countries is partly explained by the ownership of local authorities, the circumstance that part of the loans are provided by public bodies or explained by the substantial investment subsidies that are granted. All the guarantee funds are public funds with the exception of the Netherlands, where the Social Housing Guarantee Fund has a private character, with a backstop facility of the government.

Interesting is, that for instance in Belgium and France, the restructuring of housing bodies is carried out by the guarantee institute itself, while in the Netherlands a separate institute does so, financed by the housing associations themselves.

DUTCH SOLUTION

Direct comparison of the guarantee funds is difficult, as funds have different functions and adequate information is lacking. The

ratio of the risk capital to the outstanding guarantees is different.

In the USA, this ratio is high, while in the Netherlands this ratio is particularly low. Parallel with this, the guarantee fund in the USA has faced concrete claims, while in the Netherlands, the fund never had to pay out until now.

In his speech, Mr Conijn explained the special position of the Dutch Social Housing Fund. The role of the government has been kept to a minimum. This is possible, as the sector is financial sound, has a professional attitude towards financial management and has a great freedom in its policy. The construction of the fund spreads the credit risk of an individual association over all the participants. The present role of the government as a backstop, however a minimal one, is nevertheless essential for the financial world to grant loans to the housing associations under favourable conditions. Without any governmental involvement, the future would be uncertain.

Most countries use several instruments for their social housing policy. Guarantee funds can be seen as instruments with the same purpose. It is then relevant to pay attention to costs and revenues. That depends on the content of the guarantee, the terms of the guarantee, if a restructuring organisation exists and if the guarantee is given for housing project or on an organisational level.

In his conclusion, Mr Conijn summarised the advantages of guarantee funds in the rental sector: It can be seen as an instrument to reduce the role of the government; it is a cost-efficient instrument for housing policy. A prerequisite for a guarantee structure is a satisfactory institutional and legal framework.

Albertina Museum successful thanks to private partnerships

Klaus Albrecht Schröder

The Albertina museum was founded in the 18th century by duke Albert of Saksen and Hessen. He was married with Maria Theresia. With her fortune he started a collection of art. Nowadays the collection consists of 1.5 mln. art works from the 13th century till contemporary art like for example American Pop Art. The most famous collections of the Albertina museum are the art works of Dürer, Michelangelo, Rubens and Rembrandt.

The museum was founded on the 4th of July 1776, the American Independence day. It was a typical foundation of the Age of Enlightenment. The collection was not intended for representation purposes or to show his wealth. Albert had the purpose to educate people. He made success immediately. 'Everyone' could visit the museum, although one can understand that he actually meant the upper class of 10 per cent of the people. Anyway, one could say that it was the first democratic step of the so called ancien regime.

The Albertina museum was reopened two years ago. It is the most successful museum of Austria. And it had to be, because the legal position of the museum was changed. At the 1st of January 2000, the museum became independent from the ministry. It was no longer part of the public service. Mr Schröder became director for a period of

five years. His contract was renewed for another period of five years at the beginning of this year.

Since 1999 the Albertina museum has expanded fast. In the past the museum had 7,000 till 11,000 visitors a year, nowadays 800,000. Until 1999, the area of the museum was 2,500 square meters, now 24,000. Today the museum has 160 employees, before 1999 only 60 employees.

The museum changed thus dramatically since 1999. That was not possible without private sponsors. The operational costs of the museum of about EUR 5 mln. are paid by the state. But on top of that the museum has to earn about EUR 10-12 mln. Most of this amount comes from selling of tickets and catalogues. The museum has quite an educational impact on the city and the country.

But even more than that. About 50 per cent of the visitors are Austrian, the other 50 per cent come from abroad. About 80 per cent of the visitors are from German speaking countries, the other 20 per cent from other countries. The Albertina museum has close relations with (among others) the Munch museum and the National Gallery in Oslo, the Louvre (Paris), the Rijksmuseum (Amsterdam) and the Tel Aviv museum.

The museum got EUR 47 mln. from the

state, mostly from the federal Ministry of Economics. The museum spent EUR 73 mln. The funding gap was closed by the city of Vienna (through public private partnership). This was established by the former minister of Finance Mr Anros, who said that the museum could agree a public private partnership if the private sector contributed 1/3 of the costs.

A lot of investments were financed by private sponsors. Examples are the new entrance of the museum, the renovation of new exhibition hall and the renovation of the state rooms. Sponsoring is necessary because of the high costs. For example, the Albertina museum paid the last two years EUR 2 mln. on insurance premiums. Although the museum has government indemnity, many of our lenders insist on having insurance contracts. Sponsors are located all over the world: Daimler Chrysler, Telecom Austria, San Paulo Bank etc. In the future the policy of the Albertina museum is to engage more long term partnerships. Therefore a three year sponsorcontract with Kommunalkredit was signed. This contract does not refer to a specific exhibition, but to all activities of the museum during the coming years. It helps to continue the success of the Albertina museum in the future.

One year after the EU-enlargement

Austria has much profit of EU-enlargement

Martin Bartenstein, Austrian Federal minister of Economic Affairs

For Austria, the enlargement of the European Union was of great importance. It has a central geographic position within the enlarged Union. With more than half of its borders with the former socialist states, it has made the maximum of the new opportunities. Mr Martin Bartenstein, the Austrian Federal minister of Economic

Affairs, gave in his presentation the backgrounds of the Austrian success.

In his speech, Mr Bartenstein gave the background of Austria's economic situation. Compared to the European Union as a whole, Austria is in a very good shape. Where globally the economy shows a high growth rate, in the EU the results are a

mixed bag. The ten new member states show growth rates of approximately 5 per cent, the 15 'old' states are lagging behind with rates of 1 per cent or less. That is far too little to address social security problems or to reduce unemployment.

Austria is in a better position than most of its neighboring countries. It had an opti-

mistic view on the opportunities that the opening of the markets with the former socialist countries would bring. Germany, for example, did not take the chance and saw it as a further threat. And Austria has a decisive difference with Germany, said the minister: Austria had no need to be reunited, and did not have to bear all the costs of the reunion.

LOW GROWTH RATES MAIN PROBLEM

The European Union should focus more on its efforts to address the problem of low growth rates, according to Mr Bartenstein. The actions being taken on national and European level are not efficient enough. The decision making about greater flexibility of working hours and the new Services Directive have not yet been brought to a successful conclusion. But economists are of the opinion that opportunities for growth lie in particular in a flexible labour market and in the establishment of one internal market for services.

While the lack of growth has much to do with unemployment, many unions do not address this problem to a significant extent. There is a lot of social cohesion in Europe, a lot of sustainability, but in jobs, Europe does not fare well. There are 20 million unemployed people in Europe with little perspective so far to see it diminished.

In Austria, only 30 per cent of the people between 55 and 64 are still working, as compared to 40 per cent in Europe and even 60 per cent in Sweden. One of the toughest items, said Mr Bartenstein, was the reform of the Austrian pension system. The new system will raise the number of employed people between 55 and 64 years of age to almost 40 per cent in 2010, which comes closer to the 50 per cent the EU is aiming for.

Austria is one of the wealthiest countries in the Union. It shares its leading position with some smaller countries. But also the United Kingdom is in a good position because of its solid policy in terms of economy and labour market. The per capita GDP of the new member states is far behind. The Purchasing Power Parity is 40-70 per cent below the EU average. Even if growth rate would continue to stay around 5 per cent, it will take the new members 20-30 years to come at a par with EU average. But the new member states need this rate to prevent unemployment from growing, due to the

sharp increase of pro capita productivity.

KEY SUCCESS FACTORS

Mr Bartenstein pointed out a number of items as key factors for the relative success of Austria. The unit labour cost and manufacturing cost have shown a favourable development, partly thanks to the very sensible approach by Austrian Unions. The trade balance deficit, which was traditionally negative, is in balance now and the current account is positive as well.

The last ten years saw a strong development in foreign direct investment, thanks to the opening of the borders to the East. In 1995 the FDI was of no significance, but in 2004, investment amounted to EUR 52 billion, app. 20 per cent of Austrian GDP. In many of the new member states, Austria is the number one foreign direct investor with a specific strength in the Southeastern European countries. But Austria has a lot of work to do to maintain its position. We make a clear political statement on behalf of an accession of Romania and Bulgaria, said Mr Bartenstein, but Croatia and the other Western Balkan Countries should be actively approached with the perspective of EU membership as well.

Austria did much to create a better tax climate and to reduce social expenditure. Although it is very difficult to reduce social expenditure, said Mr Bartenstein, he mentioned a stable 27-28 per cent GDP for social expenditure, compared with the rise to above 30 per cent in Germany. The tax reform and the sluggish economy were the reasons for the present budget deficit of 2 per cent GDP. Part of the tax reform is a reduction of the corporate tax from 34 to 25 per cent. KPMG consultants compared

the 25 per cent rate with the 19 per cent flat tax in Slovakia. Due to attractive tax breaks for research and development in Austria and less flexible depreciation possibilities in Slovakia, the corporate tax burden is almost at a par.

WAGEDUMPING PREVENTED

The attractiveness of Vienna – 1,000 regional headquarters of international companies have an office in Vienna nowadays – is not only caused by the attractive taxation. It also has to do with history (the connections that have always existed with Central and Eastern Europe), but certainly with the position of Vienna Airport as well. It was established as an ideal hub to those countries.

Harmonisation of corporate tax as an answer to the complaints about tax dumping of the new member states does not make sense, Mr Bartenstein said. The tax base should be comparable, and a common minimum tax rate could be taken into consideration. On being asked, Mr Bartenstein said that the fear for a large inflow of cheap work forces would be much less if unemployment were decreasing. In Austria workers from foreign countries have to be paid according to Austrian rules. That prevents problems with possible wage dumping.

As a conclusion, Mr Bartenstein declared Austria as a winner in the enlargement process of the Union. Austria's only 2 per cent of the total population of the Union conduct 8 per cent of the trade with Central and Eastern European countries. Austria has a strategic position there, not only in industry but also in banking.

Enlargement costs, but it pays off more

Wolfgang Roth, Vice Chairman of the European Investment Bank

One year after the EU-enlargement, we can ask ourselves whether the expectations have been met. There are many points of view from which this question can be answered: the expectations of the so called old member states; that of the new

members, and that of the outside world.

First of all, however, we should never forget that the enlargement is a political and not primarily an economic issue. The first and most important expectation of EU membership is, that the enlargement will

further cause peace and stability in Europe. In 1989/1990 a new age started, historically spoken. For millions true freedom was only to come then, and not with the end of the Second World War. The time between these two events was a time of growing gaps in democracy and living standards. EU became more and more an attraction. After the Velvet Revolution, the EU became target and motor of reforms. It provoked the extraordinary efforts of the people of the new member states. In so far all problems and difficulties which remain in the political and economic area are normal in the context of a longer process. Enlargement is a political, not primarily an economic issue.

The EU convergence and enlargement process itself has had a considerable stabilizing effect. In none of the candidate countries have the ethnic tensions and conflicts, that are common in the region, escalated into the kind of war or attempts of genocide, that have blighted development in the western Balkans over the last 15 years. Border disputes and minority rights have mostly been sorted out in a constructive

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way. And almost everywhere the prospect of entry has encouraged continuity in the politics of reform.

With the enlargement, the transition period ended symbolically. New as well as old members face substantial political and economical challenges, but the emerging trends are very positive. The catching-up and convergence process continues with growth rates for the new members, twice as high as those in the EU-15.

New EU-members saw their GDP rise with 5 per cent in 2004, from 3.7 per cent in 2003. Economics forecast a growth rate of 4 per cent in 2005, more than twice the rate of EU 15.

And with forecasts for strong growth in 2005 and 2006, put against the low growth rates in the EU 15, it is not unexpectedly that people have very different views on this dilemma.

BOOST IN INVESTMENT, TRADE

EU structural and cohesion funds have poured in boosting investment in outdated

infrastructure. All the new members were net beneficiaries of the EU budget last year. The overall balance in their favour was 2.8 billion euro. This represents a big investment, beyond infrastructure, with money going into research, promoting enterprise, environmental protection, tourism, training, democracy building and innovation. The EIB increased lending to the new member states to app. 4.2 billion Euro.

The boost of enlargement can be seen in other ways as well. Tourists are flocking to the region. Students and young people from the 10 have seized the opportunity to travel and learn languages abroad.

But the arrival of the 10 new members has been beneficial for the old member states as well. Accession has boosted trade. Imports and exports between the EU 15 and the EU 10 have risen substantially since accession. But already the prospect of enlargement, and the boost from that for the economies of EU 10, led to an increase of the Euro-area exports to those states of 140 per cent between 1993 and 2003. Companies of the EU-15 are among the biggest investors. The outstanding feature of last year's economic developments in the new member states was a boost in foreign trade and their export sector strengthening. Today 86 per cent of their exports and 72 per cent of their imports represent intra-EU trade.

On the downside, the situation on the new Member States' labor market remains precarious, while in the old member states people are losing their jobs due to transfer of production facilities to the new member states. But before blaming the enlargement, the question should be posed where production facilities would be without the enlargement. China, perhaps?

It is also very important to notice, that the fears of a great exodus of workers from the east have not become reality.

PUT CHALLENGES IN EU-WIDE PERSPECTIVE

Now that we celebrate the first birthday of the enlargement, reflections go more to the future. How will development continue?

First thing is, that discussions on the challenges of the enlarged EU should be rational and sober, and not be too much driven by fears and other emotions. We should avoid to look at the EU-wide chal-

lenges too much along the border lines of old and new Member States.

In this context we should look at the discussions around the new services directive. Principally, the free movement of services is already implemented. The introduction of the country of origin principle would materially change the service market, and many questions arise on quality standards, legal position etc. arise. These questions are particularly relevant with regard to health and social services. But, before objecting to the Services Directive it might be preferable to look systematically to the problems of each sector and branch, to analyze the complex issues involved, and then to decide on exceptions and further necessary harmonization. If we are convinced that further integration could boost growth and employment and could lower consumer prices, we should further investigate into the issue and not stop asking questions. The debate should not be held from the East West perspective, but from an EU-wide perspective.

Distribution conflicts will become increasingly fierce in the enlarged European Union. They make a genuine reform of the decision making system all the more urgent. While the new member states wish to obtain as much as possible from the EU's structural funds, the southwestern countries will expect the same amount of grants as for the last 6 years, while the net payers must ask for a redistribution from southwest to northeast.

This will lead to a deep conflict, even a political crisis on the financial perspectives and the regional policies of the Union, during the UK presidency in the second half of 2005.

Although European's attention will be primarily directed inward during the coming years. An enlarged Europe will also be part

Europe's greater weight in
the world economy and
world trade will arouse new
expectations on the
European's role
in the world politics

of a changed international situation. It will border directly on areas of instability and weak democracies. An enlarged Europe will need an active 'Ostpolitik' and active Balkan policy to process the political conse-

quences of economic and social asymmetry along its external borders. Europe's greater weight in the world economy and world trade will arouse new expectations on the European's role in the world politics. It should be avoided that that policy remains paralyzed by the need to square positions of the various member countries. From the candidates for accession, especially the membership of Turkey will have a great impact. Turkey is the first large country with a Moslem population to have committed itself to the realization of democracy, rule of law, respect for human rights and the protection of minorities. If Turkey succeeds in this task, we will have the first viable bridge to understanding between the western democracies and the countries of the Islamic world.

OPERATING CONSTRAINTS

What is the role of the European Investment Bank in the new Member States? The capital investment requirement in Central and Eastern Europe is enormous. Modernization and development of basic infrastructure alone will require an amount of EUR 285 billion, merely to adapt the transport, water, waste management and energy infrastructure of the '10' to EU standards and to integrate it into Western European networks. Such amounts exceed by far the financial and institutional capabilities of the new member states. Spreading the investments over a period of 10 years would lead to a burden of 7-8 per cent of the GDP of the '10'.

Notwithstanding the enormous growth, EIB experienced and expect to experience a number of operating constraints that are common to almost all new member states. Budgetary restrictions – driven partly by a desire to comply in short term with the Maastricht criteria – lead to reluctance to assume additional borrowings by local authorities. Lead times for most projects in the region remain long. Arrangements for guarantees or security are often complex.

Furthermore, the capacity of the individual countries to absorb relatively high volumes of financial resources is tested over time. The analysis of the EIB is, than administrative and organisational bottlenecks or domestic resource constraints could hinder absorption capacity mainly in the middle term.

On these areas EIB seeks to support

local administrations to limit the impact of such constraints.

Giving their low starting levels in terms of income, almost all the new member states benefit from substantial EU grants to support their catching-up process. The EIB accompanies this process through active

coordination of its lending with the main EU budgetary instruments financing structural actions.

After one year it is too early to draw final conclusions. But the long-term evaluation is quite clear. Enlargement costs, but it pays also and the net result will be positive.

One year after the EU-enlargement – are Polish expectations met?

Jacek Przemyslaw Rynski, Chief Executive Office, Dexia Kommunalkredit Polska

May 1st 2005 was the first anniversary of the historical 5th EU enlargement. Marek Belka, the Polish Prime Minister, declared that the first year of membership was clearly positive for the country. That remains to be seen. Poland is still in a process. The real results are to be assessed in the longer time perspective.

Before accession, citizens and companies had many fears about the consequences of accession on the economy. Mr Rynski mentioned:

- Adverse impact of rising zloty on export.
- Mass-scale imports of second hand cars.
- Flooding the Polish market with cheap food from the (old) EU.
- Deterioration of the situation of farmers.
- Mass-scale bankruptcies of SME's.
- Buy-out of real estate by foreigners.
- Rise in food prices.
- Fears of local government authorities (availability of EU-funds).

RELIABLE PARTNER

Inflation in Poland rose fast around the time of accession, namely from 2.2 per cent in April to 4.4 - 4.6 per cent in the following months. However, this rise was not due to EU accession, but to rising prices of raw materials and oil. Food and beverage prices increased by 6.3 per cent.

However, the accession has many positive effects to the new member states, including Poland. The economy is growing, foreign investment is rising.

Poland is perceived as a reliable partner. The economy is well integrated with the sta-

ble and wealthy EU market. The international rating agencies have upgraded the outlook of Poland's sovereign rating from stable to positive at the beginning of 2005. Poland had become a serious partner on the European diplomatic stage.

According to the European Commission the GDP of Poland will grow 4.4 per cent in 2005 and 4.5 per cent in 2006. Last year the economy grew 5.3 per cent, the highest rate since 1997. The economic expansion is partly due to the inflow of EU-funds. Nevertheless, the distance with the old EU-member states is still huge. Mr Rynski sees a role for Kommunalkredit to speed up the economic development of Poland.

The western European demand for Polish products has soared, generating a 39 per cent increase in agricultural exports and a positive agricultural trade balance of EUR 853 mln. in 2004.

After the EU accession the inflow of foreign investment increased. In 2004 foreign investments on the basis of transactions amounted to USD 6 bln., 50 per cent higher than in 2003. The interest of the financial markets was high. That was reflected by an inflow of portfolio capital of about USD 11 bln. Poland needs every dollar and euro to reduce the social problems, to decrease unemployment and to stop the emigration of well educated workers to the old member states of the EU.

The increased credibility has led to the strengthening of the Polish currency. The exchange rate of EUR/PLN decreased from 4.76 to 3.98. The appreciation of the

Polish Zloty did not become a barrier to the expansion of exports. Positive factors are the tax shield of 19 per cent and very low labour costs. The development of the Zloty was similar to the Czech Koruna, but unlike the development of the currencies of the Baltic states.

LOCAL GOVERNMENT BENEFITS FROM STRUCTURAL FUNDS

Before the accession Poland was beneficiary of the ISPA, Sapard and Phare fund. As an EU member Poland benefits from the following structural funds European Regional Development Fund, European Social Fund, European Agriculture Guidance and Guarantee Fund and the Financial Instrument for Fisheries Guidance.

The farmers and the local governments authorities are the main beneficiaries of these funds. Because of the legal restrictions on borrowing and the small budgets, the government promotes those projects which are financed by funds from the EU. Poland is a net beneficiary of the EU budget. The net balance was EUR 1.5 bln. in

2004. The bilateral balance between the EU and the state of Poland was negative. The aid for farmers amounted to PLN 6.5 bln. The support for the EU in the traditionally conservative agriculture sector has increased since the accession from 20 to 70 per cent.

The role of the communal bank is to identify the financial needs of local communities and to manage projects. Mr Rynski stressed that it's important that one chooses projects which attract private investments and promote economic development.

Municipalities are restricted by law to borrow funds. Therefore Kommunalcredit developed a solution: off statutory financing through liabilities restructuring. The first case was the City of Gdansk. The city had overdue liabilities towards housing companies, which resulted from overdue rental payments. The default interest according to the applicable Polish law amounted to 13 per cent. The City of Gdansk and the housing companies reached an agreement on the transition of liabilities restructuring. Kommunalcredit purchased the restructured liabilities from the housing companies. The advantages of the transac-

tion were according to Rynski:

- Interest rate reduction from 13 per cent to 5.9 per cent.
- Reduction of the city's indebtedness.
- Improvement of the city's financial indicators.

LOCAL GOVERNMENT BENEFITS FROM STRUCTURAL FUNDS

Mr Rynski concludes that the accession of 10 new countries was different from previous accessions, because these countries were economically so different from the present member states. The EU was not *love at first sight* for the Eastern European countries. For many Polish it took time to get used to the new membership. One year after the accession the public opinion has become clearly positive of the membership of EU. The economy is growing, foreign investment is soaring and the farmers are satisfied. Poland is a serious player on the European diplomatic stage. Now the challenge is to make the accession successful in the next ten years. The Dexia Kommunalcredit Polska wants to contribute to that goal.

One year after the enlargement – are the Slovak expectations met?

Ludovit Odor, Ministry of Finance of the Slovak Republic

Slovakia looked eagerly forward to the 1st of May 2004, the day the entry to the European Union would be effective. Expectations for the economic development in the future were very high, the road to prosperity was opened, was the common view under the population. Now, one year later, it's time to look back on what the entry has brought to us so far, but, even more important, what future is going to bring for Slovakia.

First the basic economic facts. When it was made clear, that Slovakia would be invited to join the European Union, a huge impulse in investments got going as well as efforts to improve basic economic circumstances. Those efforts paid off. Growth rate of GDP improved, inflation was tamed and the public finance deficit shrank considerably. In the three years before the entry, the

average GDP growth was 3.7 per cent. In 2004 we saw 5.5 per cent growth, and for the period to 2008 we foresee an average of 5.4 per cent. Inflation fell from 7.7 per cent to an expected 2.4 per cent. Public deficit will come down from 6.9 per cent to 2.4 per cent in 2008, thus meeting the Maastricht criteria. And the popularity of the Union in Slovakia grew. In 2004, 77.6 per cent supported the EU-membership. One year later it has increased to 83.3 per cent.

The Union has helped to create a very supportive reform environment in Slovakia. Change in legislation, restructuring public finance in order to meet the Maastricht criteria, the sharp increase in Foreign Direct Investments, the support of EU funds, functioned as a catalyst to economic changes.

But is it all roses in the Union? No, we

have some negative experiences as well. We see overregulation, high administration costs and a complicated decision making as point that have to be improved. The necessary reforms suffer from lack in momentum. 'Brussels' has too many priorities, and sometimes in our view a wrong focus. And the existing barriers in free movement of working force is a considerable point on the downside too.

Although Slovakia is a small country, we think that in a joint effort we can put pressure to establish the in our view necessary reforms. But in general, Slovakia is happy to be part of the enlarged Union.

Crucial factors to stay happy will be an effective use of the EU funds and a substantial reform of the economic priorities of the Union. Active participation is a key element in this.

European Stability Pact and Capital Markets

Maastricht – The role of the ‘new’ Stability and Growth Pact for Capital Markets

Gertrude Tumpel-Gugerell, Member of the Executive Board of the European Central Bank

In this speech the attendees got a clear overview of a topical issue in financial markets: the new Stability and Growth Pact.

There are several reasons why a monetary union needs fiscal rules. First of all, preserving sustainable public finances is in the interest of the countries themselves, for instance to prepare for the ageing of the population of the member states in the euro area, that leads to an expansion of expenditures in the coming decade. Secondly, a high fiscal deficit leads to higher interest rates. There is only one pool of savings. Without rules a country with a higher deficit could grow at the expense of others, the so-called free rider behaviour. The criticism that the US has sound public finances without a Pact is not correct, as states in the United States often have self-imposed budget constraints and limited tax powers.

‘What have we achieved till now?’ was the question that Ms Tumpel-Gugerell gave an answer to. All countries made great efforts to reduce fiscal deficits since the Treaty of Maastricht was agreed in 1991. And indeed, the deficits were reduced significantly. But after 2000, on the back of a decline in the growth of the economy, some countries did not keep the public deficit below 3 per cent of GDP, leading to the collapse of the old pact.

ECB CONCERNS ABOUT NEW STABILITY PACT

In March of this year, the European Council agreed upon a new pact. In this pact, more attention is paid to governance: the governments must give more accurate data. The second arm is that the definition of close to balance depends also upon circumstances in the specific country. Euro area countries must also aim for more consolidation in ‘good’ times. In the third place, the new pact gives countries under

some circumstances more time to correct fiscal imbalances. In such circumstances, euro area countries may keep a higher deficit than 3 per cent if the crossing is small and temporary.

The new pact still has to be implemented, but the ECB has serious concerns about the new rules. First, there is a risk that the guiding role of the 3 per cent reference value dilutes because of all the exceptions. Secondly, concern of the ECB is that the new rules may again not be implemented strictly. In the third place, it is important that governments recommit to the principle of sound fiscal policy in deeds. The current situation in Portugal (ed.: and Italy) will be a first test case for the new pact.

In the current discussion we tend to forget, said Ms Tumpel-Gugerell, that the introduction of the euro in 1999 has had big advantages for euro area countries. First of all, nowadays there is one big and liquid financial market. The exchange risk became much smaller for citizens and companies. Moreover, it is much easier to trade and to sell or buy securities across borders in the euro area. The long term bond yields in the euro area came down in de years ahead of 1999 and thereafter. The borrowing costs of governments had come down in the last decade. This advantage can not taken for granted. Therefore, it is necessary according to Ms Tumpel-Gugerell that governments stick to the new fiscal rules agreed upon.

ADVANTAGE FOR LOCAL GOVERNMENTS

Local governments have also taken advantage of the big euro financial market. In 2004 they issued new bonds for a total amount of EUR 45 bln., 2 percent of the total issues in that year. The bond yields are at historical low levels. This is partly due to the credibility of the EMU concept.

Effects of the new Pact on financial mar-

kets are twofold. First, there is a risk of higher public deficits. Secondly, investors are uncertain about the fiscal prospects. We see a strong interest in bonds with very long maturities. Investors want to bring the duration of assets more in line with the duration of liabilities.

Because of the disappearance of the exchange rate risks between the euro area countries the interest rate spreads has come down to 30 basis points or less. Countries with a high debt (Italy, Greece and Belgium) have a slightly higher interest rate spread than other countries. It’s not the task of the ECB to correct the behaviour and assessment of financial markets. Therefore the ECB does not intend to make differences in the treatment of collateral beyond those generated by the market.

On the long term, fiscal prudence is necessary. Ageing will put a large burden on pension and health care expenditures. Standard & Poor’s has warned that if the governments take no measures, the ratings of the big European countries will worsen strongly. The ratings of Germany and France for example would decrease from AAA to ‘speculative’. This is of course a purely technical analysis, but we cannot ignore the problem of ageing. The risk is that the new pact leads towards higher public sector deficits and debts. First, because in the new pact there are more exceptions to the fiscal rules. Secondly the monitoring of deficits and debts becomes more complicated, because the new pact is more difficult to read. Sound finances are in the long term interest of financial markets, so believes Ms Tumpel-Gugerell. There are opportunities to work more with private partners, to develop new concepts of long term financing of public services.

PIRORITY FOR INFRASTRUCTURE

In the public debate the need for infra-

structure investments in the EU should be stressed.

In practice it is politically easier to cut public investments, because the effects will only appear in the long term. The need for infrastructure investments is also an important element in the Lisbon Strategy. Restrictive behaviour of governments in

respect of investments creates problems in the long term.

Ms Tumpel-Gugerell concludes that fiscal discipline is an essential part of EMU. Strict interpretation of the newly agreed rules is very important in respect of the public confidence in the euro. Countries have to step up efforts to come to necessary struc-

tural economic reforms. Public investments are also important to stimulate economic growth. One may not underestimate the consequences of public investments for long term competitiveness of the European economy. Finally, sound public finances create opportunities for financial innovations.

Which opportunities does the Stability Pact offer to Communal Banks?

Reinhard Platzer, Chief Executive Officer Kommunalkredit Austria

The Stability and Growth Pact has changed the behaviour of the public sector. Infrastructure projects are outsourced in state-owned companies. Projects are financed with involvement of the private sector (PPP). In some cases that is causing grey areas. Eurostat had to decide, whether a certain solution is permitted according to the accounting rules.

In the case of Austria there are several successful examples, Mr Reinhard Platzer said. The first case is water management. In 1996 Austria has chosen to create market producers in this sector. According to the ESA 1995, a public producer can be classified as a market producer, if it has decision-making autonomy, it keeps a complete set of accounts (or is able to do that) and if more than 50 per cent of production costs are covered by sales. This has been a great success. Even though the whole water management sector remained within the full responsibility of the municipalities, more than 90 per cent of the whole water management sector were 'statistically' transferred from the public to the private sector and the averaged cost recovery rate reached more than 80 per cent of the production costs. The concept of market producer was also implemented in health care and waste management. The deficit of the public sector decreased EUR 500 million p.a. or 0.2 per cent GDP. The Maastricht debt of Austria was reduced by EUR 4.7 bln. or 1.9 per cent GDP. Secondly, the efficiency of the activities has increased significantly.

The banking role of the state makes no

sense in the EMU. Austria decided to sell loans of the environmental and water management sector followed by the provinces which sold housing loans since 2001. The total proceeds were EUR 6.7 bln. About EUR 3.5 bln. was sold to Kommunalkredit. The operation led to a decrease of the deficit with EUR 2,000 million each year and a reduction of debt by 3 per cent GDP.

But there were also mistakes. An Austrian province sold housing loans by ABS structure with guarantee for the Special Purpose Vehicle (SPV). Eurostat decided that the SPV was still part of the province. Public debt was not decreased as planned. Eurostat made the same decision in the case of state owned companies, which were funded by the Austrian Federal Financing Agency.

KOMMUNALKREDIT PERFORMS WELL

As result of these activities Kommunalkredit Austria has performed well, according to Mr Platzer. In the first four months of 2005 it already realised 50 per cent of the total income of last year. The return on investment is about 20 per cent. Kommunalkredit is the best rated bank of Austria without public guarantees. This guarantees will disappear in 2007.

The strategy of Kommunalkredit is to use assets for covered bonds. Along this way it can refinance against AAA conditions. In the last 2.5 years Kommunalkredit realised covered bond transactions for a total amount of EUR 3 bln.

Kommunalkredit is also active in health-

care, construction, culture and social housing in Austria. We also have public entities in Switzerland and several Eastern European countries, Mr Platzer said.

Kommunalkredit has created a new company for its activities in Eastern Europe, Dexia Kommunalkredit Bank. In this bank Dexia Crédit Local has an ownership of 50.84 per cent and Kommunalkredit 49.16 per cent. The headquarters is located in Austria, the staff is the same as the staff of Kommunalkredit.

Kommunalkredit has entities in Poland, Czech Republic, Slovenia, Bulgaria and (in one month) Rumania. Clients in other countries are served from its headquarters in Austria. In the whole area live about 136 mln. people.

In Slovakia, Mr Platzer said, our entity is the main bank in public finance with a market share of more than 75 per cent. In Poland, Kommunalkredit is active with a greenfield company, but it is already number three in the market. Kommunalkredit participated in debt rescheduling operations of EUR 700 mln. within the framework of the Paris Club. The bank is also active in the Czech Republic. That market is complicated, because of the very low margins. In Bulgaria Kommunalkredit cooperate with two local banks.

LOW MATURITY PUBLIC DEBT

Eastern Europe is an expanding market. In 2002-2004 GDP in the EU-15 grew on average 1.3 per cent. Many countries in Eastern Europe grew significantly higher: Czech

republic 2.6 per cent, Poland 2.8 per cent, Hungary 2.9 per cent and the Baltic countries between 4.9 and 6.5 per cent. Incomes per capita in the area are increasing fast.

The assets of the new entities are gaining in value. Margins are coming down, but are still above Western European standards.

The need for public investments in the region is high, but there is lack of public resources. The countries get huge amounts of EU funds.: EUR 22 bln. in 2004-2006 and EUR 48 bln. in 2007-2013. Funds have to be co-financed. Each year these countries invest about 3.5 per cent GDP.

The alternative for governments in these countries is access to long-term capital. At the moment the maturity of the public debt of Czech Republic and Slovakia is low compared to the debt of Austria.

Transactions as in Austria and Germany will take place here. The private sector can participate. The construction risk and the demand or availability risk can be transferred to the private sector. The public sector should provide the strategic framework and can use its financing advantages to bring down costs. PPP's are an opportunity to implement infrastructure projects and to improve economic growth and wealth in Eastern Europe and Western Europe.

All in all, Mr Platzer concluded that the Maastricht criteria and the Stability and growth pact have a strong influence on the financing of infrastructure. The example of Kommunalkredit shows that banks which act fast to benefit from arising opportunities, can boost their own development and growth.

The Stability Pact and the Non-Accounted Funding of Infrastructure: The Austrian 'ASFINAG Approach'

Mag. Lukas Julinek, Head of Finance & Treasury ASFINAG

ASFINAG was established in 1982 by the Austrian parliament as a financing company. In 1997 the company was given the competence to plan, build and maintain roads and collect tolls. It's a public limited company which is responsible for the complete highway network of Austria. More than 50 per cent of the operative costs are covered by operative income. This is the so called 'Maastricht-Criteria', which determines that ASFINAG's balance sheet debt does not have to be consolidated with the state debt.

ASFINAG has got the following sources of income: the vignette, which is a toll sticker for personal cars. Other sources of income are the special toll of the six toll stations and the lorry toll which was implemented in 2004.

At the moment the operating network of highways has a length of 2,081 km. The main new investments are planned in the eastern region of Austria. The objective is to improve the roads with the new member countries of the EU. Substantial amounts are required to maintain existing highways, for example the well known Brenner pass.

LONG TERM PLANNING

In an economic and political environment of 'quick results' it is not easy to manage an asset with a life cycle of 50+ years. It can easily take 20 years until a new highway has passed all planning phases and is approved by public authorities. After that it takes a few years to construct the highway. During the operation period there will also be a need for construction efforts to maintain the quality of the top layer. The costs of maintenance as well as the traffic implications must not be underestimated. In Germany for instance there exists a substantial backlog in structural maintenance. Germany has already shown interest in the ASFINAG concept.

To build and maintain a highway is a long term investment project which is diffi-

cult to finance by private sources. It takes at least 25 - 30 years to reach the break even situation, interest costs not included.

PPP TESTED

Since 1997 ASFINAG's long term finance was raised indirectly in the form of loans granted by the Austrian Federal Financing Agency. The agency issued governments bonds in a very efficient way, and forwarded the proceeds of these bonds to ASFINAG in the form of loans. The Republic of Austria was of the opinion that these loans could be deducted from the gross state debt, as long as ASFINAG met the 'Maastricht-Criteria'. Eurostat saw that differently, and ignored the netting of state debt.

For that reason ASFINAG returned in 2003 to the capital market as an issuer in its own name, and installed a medium term notes program (MTN program) of EUR 10 bln. ASFINAG's annual issuance volume will exceed EUR 1 bln. for the years to come. Because ASFINAG benefits from an unconditional and irrevocable guarantee from the Republic of Austria this program has a top grade rating and the resulting interest rate is only 2-3 basis points higher than that of the Republic of Austria.

ASFINAG currently tests the possibility to build and finance new highway projects in the form of Public Private Partnerships (PPP). The first stretch of 50 kilometres in Eastern Austria has an estimated construction volume of EUR 800 mln. Beginning of construction is planned for 2006. The PPP contract contains design, construction, finance and operation. The concession period is 33 years, 3 years for construction and 30 years for operation. The project shall be financed by private debt and private equity. ASFINAG will contribute the tolling system. It is simply not efficient and compatible with existing electronic tolling systems in Austria to implement a new tolling infrastructure along this new highway stretch.

Financing a highway in the form of a PPP is only economically feasible if certain elements of the project have a critical size:

- Value of the project: At least EUR 500 mln. to attract enough international interest for participating in the tender. This translates into a stretch length of approximately 50 kilometers. (Closer to cities it can be less because of expensive areas that have to be expropriated and the expected higher traffic volume).
- Operational maintenance starts to become efficient for network sizes of at least 500 kilometers.
- The third element is the tolling system: In case of electronic systems, they can't be big enough, because of substantial economies of scale. Because of the many exits (each 7 kilometers) along Austria's highways it would be extremely expensive to build and maintain toll plazas and it would also contradict the main target of highways, namely to improve traffic flow and safety. Therefore in the case of Austria, electronic tolling is the only sensible solution.

The PPP revenue concept consists of an availability fee (70 per cent) and a shadow toll (30 per cent), which ensures that the project qualifies as a concession, rather than a construction contract.

There are other, mostly more expensive projects in the ASFINAG 'investment pipeline'. The first 'PPP' is a test case. ASFINAG hopes that increased competition will reduce particularly construction prices, which constitute approx. 75 per cent of the operative life cycle cost of a highway. Financing cost is a function of depreciation and repayment possibilities. A key element of this PPP is the functional tender concept that amongst others includes the transfer of the soil risk to the bidder.

Debt and Budget-optimized Financing Options The 'Maastricht' Context

Günther Hanreich, Director-General Eurostat

The evaluation of financing operations of governments and the potential impact on the Maastricht criteria of budget and debt has raised the interest of the banking community in the work of Eurostat substantially. With reference to the recent reforms, Mr Hanreich stresses that these criteria are not changed.

Because of these constraints governments are exploring new and innovative ways to finance public services. The objective is of course to avoid negative impact of investment expenditures on debt and deficit numbers. Therefore the involvement of the private sector in the financing and operating of large investment projects in public services, mostly through PPP's has increased.

Eurostat has to assess the impact of these projects on public debt and deficit. This is always a rather complex process. Therefore, Günther Hanreich explained in his lecture only the general criteria that Eurostat uses to assess the impact of a project on public finance. Eurostat has developed these criteria in the last two years in cooperation with member states and the ECB. The main condition is that the company can be classified as 'market producer' by national accountants. Therefore at least 50 per cent of costs must be covered by sales made on normal commercial terms. A public company can be a market producer if in addition to the above:

- The management can make independent day-to-day decisions.
- There are no hidden subsidies.
- A full set of accounts is available.

Mr Hanreich warns that attempts to make an entity merely look like a 'market producer', without actually meeting the conditions, will eventually fail. In many cases in the past, Eurostat had to make adverse decisions. The potential political fall-out could be avoided if the authorities had consulted Eurostat before engaging the project.

Joint financing becomes actual, if the private sector is reluctant to finance a project alone. That is often the case by defence projects, large infrastructure projects and

more general by all projects with highly uncertain investment returns. PPP is often the only solution in these cases.

But what qualifies as a PPP? In the beginning of 2004 Eurostat presented new accounting rules. The main conditions are:

- A long term contract of generally 20-30 years.
- PPP asset is used to deliver typical public services, such as transportation, education, health care etc.
- Truly 'private' partner.
- Government is the main purchaser of PPP-derived services (unlike most concessions).
- Government generally provides some capital or physical property.
- Private partner must assume key risks, notably the construction risk and either availability risk or demand risk.
- PPP asset returns eventually to government at zero cost or at reasonable price reflecting actual asset value.

If these conditions are met PPP asset can be removed from the government balance sheet. The budget impact is then limited to yearly scheduled payments to the private partner. The impact on debt is limited to any debt raised for government's financial participation in the project.

The national statistical institute and the ministry of Finance of the country need to make a careful assessment of the deal, including for example an analysis of the impact of government guarantees. Eurostat will then start a constructive dialog with the member state if it comes to verifying whether or not the project has an impact on the public budget or debt.

Mr Hanreich concludes that the demand for long term capital investments for public services remains high. On the other hand, governments are confronted with limits on budget deficit and debt. PPP is the only option to reconcile these conflicting objectives. UK and Luxembourg played a pioneering role. Nowadays we can find PPP in a wide variety of sectors and in many countries.

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