BENELUX, WITH ITS LOW COST OF TRANSACTIONS, CONTINUES TO ATTRACT MULTINATIONALS LOOKING TO SET UP CENTRALISED FINANCIAL SERVICES CENTRES. THE REGION IS ALSO BENEFITTING FROM NEW EU DIRECTIVES GOVERNING PAYMENT COSTS AND WITHHOLDING TAXES. **ROGER HEIBRINK** REPORTS.

BANKING ON BENELUX

The economic outlook for the Benelux region is positive. In Belgium, the growth of export trade has been more than enough to compensate for the negative effects of a stronger euro. However, although overseas markets and exporters are likely to keep performing well, exports do not look set to provide the main stimulus to growth. This will have to come from domestic demand, which was looking more buoyant in the first quarter of 2004. Household spending was particularly strong and this was partly due to increasingly favourable labour-market reports.

In Belgium, inflation has risen, largely due to a significant increase in oil prices. However, in the next year, the risk of inflation will be limited, with oil prices expected to fall. Combined with a far-from buoyant labour market, this will put pressure on prices. The European Central Bank (ECB) is confident inflation in the euro zone will return close to its 2% target and, as a result, key rates will stay unchanged in 2004.

After its sharp appreciation since the start of 2002 and a high of one euro:US$1.28 in February 2004, the euro has lost territory against the dollar. It might suffer in the short-term from a narrowing US$:euro interest rate spread. However, in view of imbalances in the US economy, a renewed appreciation of the euro is inevitable.

CORPORATE LIQUIDITY MANAGEMENT. With the euro becoming the currency for 12 out of 15 member states of the European community in the last few years, countries have had time to get used to it. Domestic and international payment and clearing channels have also proved they are capable of dealing with it.

By issuing an EU directive stipulating that as of 1 July 2004, the cost of a cross-border payment must be the same as a domestic payment (see: *Evolution of the euro*, page 43), the EU gave corporates good reasons to rethink the organisation of their cross-border payments and collections. This directive is only valid for cross-border payments that give the International Bank Account Number (IBAN) and Bank Identifier Code (BIC) of the beneficiaries' banks and only relates to payments lower than €12,500 (to be raised to €50,000 in 2006).

Of equal importance for several countries in the Benelux region is the recent EU directive concerning payment of interest/royalties. This stated that from 1 January 2004, withholding tax (WHT) should not be levied in a source state on interest paid between associated companies within the EU member states.

PAYMENT PROCESS CHANGES. Centralisation of accounts, in terms of the number of current accounts used and how they are managed, is

THE ATOMIUM IN BRUSSELS

'MOVEMENT TOWARDS CONCENTRATION HAS NOT REACHED ITS CONCLUSION AND IS EXPECTED TO GO ON FOR SEVERAL YEARS AND GRADUALLY EXPAND'

Belgian Co-ordination Centres

Belgian Co-ordination Centres (BCCs) are well-known to multinational companies among others as structures that provide the means to centralise the financial services of an entire group of companies. Hundreds of BCCs have been set up, but this number has declined over the last few years and the specific fiscal treatment of these companies is still the subject of an EU Commission investigation.

On 16 July 2003, the EU Council allowed the Belgian government to renew Co-ordination Centre agreements offering some tax benefits. Many of these agreements are now coming to end, and can only be extended until the end of 2010. It is, however, specified that some specific tax advantages need further clarification. An agreement concerning these topics was reached between the Belgian government and the EU commission on 6th May. Formal approval is still pending.

The current situation means that:

- the BCC structure became less interesting from a fiscal point of view, although it is still attractive; and
- there is legal insecurity for those companies whose recognition comes to an end.

becoming commonplace in the Benelux region. In the euro zone, there is little need to keep local bank accounts in countries where your company does not have a local representation. However, a local account may be necessary if incoming funds are collected via a domestic direct debit system. At the moment, an efficient cross-border solution to deal with these transactions does not exist. A local account may also be more appropriate if payments are performed by cheques, which do not fall under the EU directive.

If companies' average transfer amounts are higher than the EU threshold of €12,500, then this might also be considered a good reason for having a local account. This is only the case if the local account concerned is considered a resident account.

Companies in the euro zone opening accounts in the new EU member states should examine whether this is beneficial because accounts in these new member states also attract charges for local debtors and the account holder, similar to those levied on genuine cross-border payments. This is because payments will still be seen as going in and out of a non-resident foreign currency account.

Where different local accounts are still used for whatever reason, they will in most cases be included in a domestic cash pooling system. The physical centralisation of funds (zero/target balancing) is growing much faster than notional pooling.

Increasingly, the master account of such a local pool is included in a cross-border sweeping/topping system with the master account located in Benelux. Until recently, the Netherlands offered more advantageous treatment in relation to WHT on interest payments, but as stated earlier, in Belgium WHT is now zero in nearly all cases.

TREASURY CENTRALISATION. Many corporates in the Benelux have also witnessed a certain degree of consolidation, which has resulted in the centralisation of treasury/accountancy departments as well as payment factories. Other factors that played a major role in the advent of such payment factories includes:

- Major companies wanting to take advantage of the opportunities offered by global enterprise resource planning (ERP) systems.
- The payment/reporting features put forward by the new generation of web-based electronic banking systems, which support different languages and even more file formats, also offer new opportunities.

It is clear the concept behind these factories ranges from acting as a mere central control point to a genuine centralised point of initiation for all payments and collections. They operate in three main ways:

- All local entities initiate local payments/collections and the central entity takes care of all cross-border and inter-company payments.
- The local entities enter the local payments, but it is the central treasury department that has the final signing power.
- All payments from accounts are initiated and signed by the central department using either local formats or one international format.

Movement towards concentration is expected to go on for several years and expand geographically as new member states adopt the euro. The key question corporates have to answer is, where do they locate their new 'payment factories'? Will the Benelux still be the preferred area because of the low cost of transactions, or will some other countries try to take over this position?

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