



EUROPEAN COMMISSION
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Directorate D Government Finance Statistics

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- FINAL FINDINGS -

EDP dialogue visit to Spain
9-10 July 2015

Executive summary

Eurostat undertook an EDP dialogue visit to Spain on 9-10 July 2015 as part of its regular visits to Member States and with the aim to assess the existing statistical capacity, to review the implementation of ESA 2010 methodology, to review the recording of specific government transactions, and to assure that provisions from the ESA 2010 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the Spanish EDP tables and national accounts.

First, the follow-up of the 2012 Upstream Dialogue Visits action points were reviewed, and Eurostat took note that all recommendations of these visits have been implemented.

As regards the delimitation of general government, a detailed discussion took place on the public units engaged in financial activities in the light of the new ESA 2010; in particular two units were discussed in detail, i.e. ICO and ICF. In order to decide on the proper sector classification of both units, the Spanish statistical authorities were asked to provide additional information.

Eurostat took note that several public companies were re-classified inside the general government sector, with the implementation of the new ESA2010. In addition, Eurostat asked the Spanish statistical authorities to provide a note on the sector classifications of several public units, currently classified outside the general government sector.

The discussion continued on the recording of taxes and social contributions, in particular on the results of the statistical model used, which is based on assessments and declarations with a subsequent adjustment of the amounts unlikely to be collected.

As regards the Deferred Tax Assets (DTAs), the Spanish statistical authorities confirmed that DTAs will be recorded in line with the Eurostat guidelines and the government deficit will be impacted in the year 2015 (and reported to Eurostat in the context of the April 2016 EDP notification).

Concerning the Public Private Partnerships (PPP), Eurostat enquired about the work of the Technical committee on the classification of the PPP projects. The majority of the PPP projects are observed at the level of regional governments.

Eurostat further enquired about the liquidation process of eight concessionaires of the toll motorways and in order to full understand the responsibilities of government in such cases, the Spanish statistical authorities were asked to provide a note on this issue, including the foreseen changes in the law and whether there could be some national accounts implications in this respect.

The issue of the electricity tariff deficit and the establishment of the *Fondo de Amortización del Déficit Eléctrico (FADE)* were also discussed, in particular the recording of its transactions and the impact on government debt. As FADE is classified inside the central government sector, the issuing of bonds increases government debt.

Some other issues were also discussed such as capital injections, guarantees, military equipment expenditure, debt assumptions, debt cancellations and debt write-offs. It was noted that the recordings applied are in line with Eurostat rules.

Eurostat took note that the current cash recording for local government for EU funds is not fully in line with Eurostat rules, but that the possible impact on government accounts is negligible.

Eurostat welcomed the transparent, well-structured and comprehensive approach by the Spanish statistical authorities to the EDP related work. Eurostat appreciated also the documentation provided by the Spanish statistical authorities prior to and during the EDP dialogue visit.

Final findings

Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the Excessive Deficit Procedure, Eurostat carried out an EDP dialogue visit to Spain on 9-10 July 2015.

The delegation of Eurostat was headed by Mr Luca Ascoli, Head of Unit D1 (Excessive Deficit procedure and methodology). Eurostat was also represented by Mr Denis Besnard and Ms Simona Frank. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. Spain was represented by the Instituto Nacional de Estadística (INE), Intervención General del Estado (IGAE) and Banco de España (BE).

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA 2010 methodology, to assure that rules of the ESA 2010 Eurostat Manual on Government Deficit and Debt are complied with and to make sure that Eurostat decisions are duly implemented in the Spanish EDP and Government Finance Statistics (GFS) data. The main aims of the dialogue visit were: to review the implementation of ESA 2010 methodology, such as sectorization of units and the accrual principles (taxes) and to review the recording of specific Government transactions.

In relation to procedural arrangements, the *Main conclusions and action points* were sent to the Spanish statistical authorities for their comments. Then, within weeks, the *Provisional findings* will be sent to the Spanish statistical authorities in draft form for their review. After any adjustments, the *Final Findings* will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the documentation provided by the Spanish statistical authorities prior and during the EDP dialogue visit. Eurostat also thanked the Spanish statistical authorities for their co-operation during the visit and consider that the discussions were transparent and constructive.

1. STATISTICAL ORGANISATIONAL ISSUES

1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation: Data Sources. Revision policy

Introduction

The Spanish statistical authorities explained that institutional responsibilities in the framework of the reporting data under the EDP have not been changed since the last EDP dialogue visit.

The National Statistical Institute (*Instituto Nacional de Estadística – INE*) is the autonomous body responsible for the compilation of national accounts, which includes the non-financial accounts of the general government. Regarding the EDP notifications, INE compiles data for Gross domestic product (GDP) in the EDP table 1 and the Gross National Income (GNI) in the EDP table 4. INE transmits EDP notification tables to Eurostat.

The Bank of Spain (*Banco de España – BdE*) has the responsibility for financial accounts and for the compiling data related to government debt. Regarding EDP notifications, BdE compiles the general government debt data in the EDP table 1 and it is responsible for the compilation of the EDP tables 3 and 4, except the Gross national income (GNI).

The Audit Office (*Intervención General de la Administración del Estado – IGAE*) is the management centre for public accounting and is responsible for the compilation of the non-financial accounts of the general government, in accordance with the article 125 of the General Budget Law 47 of 2003. Regarding EDP notifications, IGAE compiles data on general government deficit / surplus data and on interest in the EDP table 1 and is responsible for the compilation of EDP tables 2.

Discussion and methodological analysis

The Spanish statistical authorities explained that the Organic Law 6/2013 was adopted on 14th November 2013, which created the Spanish Fiscal Council (*Autoridad Independiente de Responsabilidad Fiscal*).

This legal act is compulsory for all levels of government. In addition to the main aim of the act, concerning the exhaustive control of the commitment of budgetary stability, public debt and expenditure objectives, this act is also considerably important for the improvement of the quality of the compilation process of the government accounts, as the act formally recognizes the national *Working group of national accounting*, composed of INE, IGAE and BdE, under the name of *Technical committee of national accounts (Comité Nacional de Cuentas Nacionales)*.

The law stipulates that the Technical committee assesses and allocates economic transactions of public units and it is responsible for the ESA¹ sector classification of these units. It recognizes the three institutions as competent bodies to compile national accounts of the general government and public corporations, maintaining full professional independence and functional autonomy in the exercise of their respective responsibilities and powers conferred on the European and national regulation. In the exercise of their duties, they may conduct actions directly aimed at the verification and checking of the information provided by institutional units belonging to the state and local governments.

The Spanish statistical authorities explained that the Rules of procedure have not been adopted yet at this stage.

¹ European system of accounts

Eurostat enquired about the revision policy. It was explained that basic information of the *April (first) notification* is revised and complemented with half-finalised data in the *October notification (second)*. For the completion of the finalised accounts, information is improved with flows of other sub-sectors, additional information supplied by various reporting departments and from annual accounts of foundations and public corporations (*October t+1 notification*).

Usually, no updated information is received from providers of data in the April t+1 notification for n-2 data. However, non-ordinary revisions (not related to the update of data sources) due to changes of the methodology or sector re-classifications of units are non-regular and are agreed with Eurostat.

Data of the year n-2 (half-finalised data) become final in the October t+1 notification.

Findings and conclusions

Eurostat welcomed the creation of the Independent Authority for Fiscal Responsibility, and in particular the formal recognition of the Technical committee for national accounts and the new powers given to it.

Action point 1: As regards the implementation of the provisions of the Organic Law 6/2013 of 14 November 2013 creating the Independent Authority for Fiscal Responsibility, the Spanish statistical authorities agreed to provide the *Rules of Procedures* to Eurostat as soon as the three institutions involved in the committee adopt them.

Deadline: As soon as the document is adopted.

1.2. Follow-up of the Upstream Dialogue Visit recommendations

Introduction

Eurostat carried out an Upstream Dialogue Visit (UDV) to Spain during 18-22 June 2012 and 11-14 September 2012. Eurostat enquired about the progress report of the UDV action points.²

Discussion and methodological analysis

The progress of the implementation of the action points (AP) was discussed.

Regarding the Action points AP1, 2 and 3 the Spanish statistical authorities explained that the Supplier Payment Mechanism (SPM) was closed in 2013 and its accounts were audited, on a yearly basis, by IGAE as well as by the Court of Auditors.

² For detailed list of Action points see the Main conclusions and recommendations from the Technical and Upstream Dialogue Visits to Spain, 24 May, 18-22 June and 11-14 September 2012:
<http://ec.europa.eu/eurostat/documents/1015035/3991227/Spain-tech-visit-20120524-UDVs-20120618-22-20120911-14.pdf>

As regards the AP4, 9 and 11, the Spanish statistical authorities explained, that in April 2012, the organic law 2/2012 on Budgetary Stability and Financial Sustainability was adopted. An important feature of this law is the compulsory reporting of EDP data to IGAE on a monthly basis for Autonomous Communities and on a quarterly basis for Local government. This means that the provision of data from the state and local governments to IGAE is no longer based only on formal agreements but is also regulated by the Law 2/2012 (and implemented by the Order of the Ministry of Finance HAP/2105/2012). It is compulsory for the units belonging to these two levels of government to report data to IGAE.

Concerning the AP5 and AP7, it was explained that all Autonomous Communities have set up a single entry of point to register invoices in order to prevent an incorrect use of the accrual principle when recording expenditure.

As for the AP6, the Spanish statistical authorities informed Eurostat that, since 2012, all Autonomous Communities follow the accounting standard plan fully compatible with the General Government plan. It was stressed that this will have no impact on EDP statistics. The accounting practices implemented in the past in the Autonomous Community of Valencia were abolished.

Regarding the AP8 and 14, the Spanish statistical authorities explained that the Organic Law 6/2013 formally recognised the Working Group composed of INE, IGAE and BdE under the name “*Technical committee of national accounts*”. It recognizes the three institutions as competent bodies to compile national accounts of the general government and public corporations, maintaining full professional independence and functional autonomy in the exercise of their respective responsibilities and powers conferred on the European and national regulation. In the exercise of their duties, they may conduct actions directly aimed at the verification and checking of the information provided by institutional units belonging to the state and local governments. The Autonomous Communities will continue exercising their autonomy in the elaboration and management of their budget, but the Spanish statistical authorities shall have the power to access, check and monitor all the primary information provided by regions.

Concerning the AP10, it was explained that the Organic Law 2/2012 on Budgetary Stability and Financial Sustainability introduced a sanction procedure, addressed to the managers from all administrations responsible of bad practices in the management of the budget. The sanction procedure may be initiated when the result of the bad management causes incorrect recording in the national budgetary accounts.

As regards the AP12 and 13 and partly 14, the Spanish statistical authorities explained that all exchange of information between Autonomous or Local Governments and the IGAE are documented. Data is transmitted only via a formal procedure, i.e. IGAE Standardized questionnaire.

As regards the AP15 and 16, the Spanish statistical authorities confirmed that the criteria used for the market / non market test are applied in line with the MGDD and ESA 2010 for

all levels of general government and is explained in detailed in the EDP inventory, which is publicly available on the website of IGAE and Eurostat. This issue was also discussed in more detail under the item 4.1 (Delimitation of general government)

Findings and conclusions

Action point 2: Eurostat took note that all recommendations of the Upstream Dialogue visits in 2012 have been implemented by the Spanish statistical authorities.

1.3. EDP inventory

Introduction

The current ESA95 EDP inventory is published on the website of Eurostat as well as nationally on the website of IGAE.

The Member States are currently updating their EDP inventories in the light of the implementation of ESA 2010. Eurostat recalled the issue as it is foreseen to publish the revised EDP inventories on the Eurostat website by the end-2015.

Discussion and conclusions

The participants shortly reviewed issues relating to the delivery of the ESA 2010 based EDP inventory to Eurostat. The Spanish Statistical Authorities intend to transmit it to Eurostat by mid-November 2015.

Findings and conclusions

Action point 3: The Spanish statistical authorities will provide the first draft of the ESA 2010 EDP inventory by mid-November 2015, as established by the indicative Eurostat planning, with the aim to be published in December 2015.

1.4. Compliance with Council Directive 2011/85

Introduction

National publication of data as required by the Council directive 2011/85/ of 8 November 2011 on requirements for budgetary frameworks of the Member States³, in particular Articles 3(2) and 14(3), were discussed under this point of the agenda.

Discussion and conclusions

Eurostat took note that the required monthly and quarterly cash fiscal data and the reconciliation table showing the methodology of transition between cash-based data and data

³ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0041:0047:EN:PDF>

based on the ESA, are published in Spain by IGAE⁴. Regarding the Reconciliation table, Eurostat recommended to include the description of the estimation and imputation techniques for quarterly data of local government. The Spanish statistical authorities agreed to add this information to the already published Reconciliation table.

Eurostat took note that, as required, the data on contingent liabilities were published nationally. The data includes information on government guarantees for the years 2010-2013 and stocks of non-performing loans, the liabilities of government controlled entities classified outside general government, the off-balance PPPs and participation of general government in the capital of private and public corporations for the year 2013.

Eurostat noted that data on liabilities of government controlled units classified outside general government do not include liabilities of public banks (and it was neither reported to Eurostat in the annual Questionnaire on government controlled entities classified outside general government). The Spanish statistical authorities explained, that in the case of public banks, the liabilities consist mainly of deposits and are thus different from liabilities of other public corporations. They proposed to Eurostat to reconsider to split data on liabilities in order to show separately the liabilities of public banks. Eurostat took note of the Spanish proposal.

The Spanish statistical authorities agreed to provide data on liabilities of all public banks at the end of 2013 in the Eurostat annual Questionnaire on government controlled entities classified outside general government.

Findings and conclusions

Action point 4: As regards the methodological Reconciliation table, published on the website of IGAE as defined by the Article 3(2) of the Council Directive 2011/85 on requirements for budgetary frameworks of the Member States, the Spanish statistical authorities agreed to improve information on the estimation / imputation techniques used for quarterly data of Local Government (S.1313).

Deadline: End of the year 2015

Action point 5: The Spanish statistical authorities will include data on liabilities of all public banks at the end of 2013 in the Eurostat annual Questionnaire on government controlled entities classified outside general government.

Deadline: 1st September 2015⁵

⁴ <http://www.igae.pap.minhap.gob.es/sitios/igae/es/ES/ContabilidadNacional/InformacionGeneral/Paginas/Informaciongeneral.aspx>

⁵ The updated Questionnaire was provided to Eurostat on 1 September 2015.

2. FOLLOW-UP OF THE EDP DIALOGUE VISIT OF 24-25 JANUARY 2013

Introduction

All action points from the 2013 EDP dialogue visit have been implemented by the Spanish statistical authorities. Only a single action point initiated by the Spanish statistical authorities is still pending, i.e. Action point (AP) 21 (*The Spanish statistical authorities will send to Eurostat a request for clarification as regards land appropriations and their possible impact on the risk assessment performed in the context of Public-Private Partnerships*).

Discussion and methodological analysis

The Spanish statistical authorities explained that this request will not be sent officially to Eurostat and consequently, upon bilateral agreement, the AP21 was closed.

Findings and conclusions

Eurostat took note that all action points from 2013 were implemented.

3. ACTUAL DATA APRIL 2015 EDP REPORTING – ANALYSIS OF EDP TABLES

Eurostat thanked the Spanish statistical authorities for their timely and accurate transmission of EDP tables and the relating questionnaires. Eurostat said that there are no outstanding specific issue to be raised on the April 2015 EDP notification and recall to monitor the guarantee calls in the Caja Castilla La Mancha (CCM) in order to apply the “three calls rule”, if relevant.

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

4.1. Delimitation of general government, application of market / non-market rule in national accounts

4.1.1. Changes in sector classification due to ESA 2010

Introduction

The application of the sector classification rules were discussed under this point of the agenda on the basis of the updated part of the EDP inventory “Sector classification of units”. The competent body responsible for the classification of public units is the Technical committee of national accounts, composed of IGAE, INE and the BdE. The institutional sector in which public units are classified depends amongst other, on the compliance with the market / non market test (50 % test).

Prior to the meeting, the Spanish statistical authorities provided to Eurostat a list of units classified in the general government sector, by sub-sectors.

Discussion and methodological analysis

The Spanish statistical authorities explained that there were no substantial changes since the last EDP dialogue visit. It was stressed that the Autonomous Communities and Local governments are obliged to report all newly created units to IGAE and include them in the Inventories of Local Public Sector Authorities and Entities dependent on Autonomous Communities in line with the Organic Law 2/2012 and Ministerial Order HAP/2105/2012.

The 50 % test is generally being implemented on a *unit by unit* basis every 5 years. However, for companies with liabilities higher than 0.01 % of GDP and the units close to the threshold of 50 %, the market / non market test is implemented on a yearly basis. In case a public unit has no activity, it is automatically classified inside the general government sector (S.13).

Eurostat enquired about the classification of units in liquidation as this issue is being currently discussed in the EDP Working Group. The Spanish statistical authorities explained that public units in liquidation will most probably be classified inside S.13 even before the liquidation process is finalised. However, it happens very rarely that the public corporation would go into liquidation as they are usually rescued by government.

Eurostat asked about the sector classification of the entity *Corporación Tecnológica de Andalucía* - CTA. It seems that this entity was granting subsidies to other public corporations. The Spanish statistical authorities explained that this unit is currently being investigated by the Technical committee of national accounts and agreed to provide a note on the sector classification of this unit.

The participants reviewed the main changes in the list of units classified in general government sector since the last Eurostat EDP dialogue visit to Spain in January 2013. Eurostat took note that many companies were reclassified to general government in 2014 due to the introduction of ESA 2010. Eurostat enquired also about some units that were removed from the general government sector. The Spanish statistical authorities explained that the main reason was that the units did not exist anymore or that they were merged with other government units.

Findings and conclusions

Eurostat took note on the sector classification procedures in Spain.

Action point 6: Eurostat asked the Spanish statistical authorities to provide their analysis on the sector classification of the public entity *Corporación Tecnológica de Andalucía* (CTA).

*Deadline: End August 2015*⁶

⁶ The note was provided on 1 September 2015 and at the request of Eurostat, additional explanations on 30 November 2015.

4.1.2 Sector classification of specific units (public infrastructure companies, public holdings, units engaged in financial activities)

The discussion focused on the sector classification of units engaged in financial activities and holding companies in the light of ESA 2010.

Units engaged in financial activities

Introduction

Prior to the meeting, the Spanish statistical authorities provided a note on the sector classification of government controlled units engaged in financial activities, in particular of Instituto de Crédito Oficial (*ICO*) and Instituto Catalán de Finanzas (*ICF*).

Instituto de Crédito Oficial (ICO)

ICO is a state-owned entity attached to the Ministry of Economic Affairs and Competitiveness. The strategic management of ICO, as well as the assessment and control of the results of its activity, are incumbent upon the Secretariat of State for Economy. The main purpose of ICO is the support and promotion of economic activities contributing to the growth and improvement in the distribution of the national wealth.

In order to achieve these aims, ICO performs a dual function. On the one hand it acts on behalf of the State, as the State financial agency, by implementing government economic policy and managing State funds, as instructed by government. On the other hand, it acts on its own behalf, as the State owned bank, by providing financing to small and medium enterprises (SMEs) and self-employed participating in the financing of investment projects.

ICO is governed by a General Board. Its members are appointed by the Ministry of Economy and Finance among staff of different ministries. The debt and obligations it enters into with third parties benefit from the explicit, irrevocable, unconditional and direct guarantee of the Spanish Government. The limits of its indebtedness are established by the State's General Budget every year.

ICO is currently classified outside the General Government sector in S.122 (Deposit-taking corporations except the central bank).

Eurostat and the Spanish statistical authorities already bilaterally discussed the sector classification of ICO in the light of the new ESA 2010 prior to the meeting.

All activities on behalf of government are re-routed via government accounts. This issue was clarified and agreed with Eurostat.

Regarding activities that ICO performs on its own behalf, it seemed that ICO assumes most of the risk. However Eurostat noted that the General Board has to pre-authorise the majority of ICO operations (exceeding EUR 50 million for a single holder). Eurostat acknowledged the fact that the General Board entrusted the Operations committee of ICO to authorise some

operations in line with the *Agreement for delegation of tasks (Acuerdo de delegación de funciones)*. Nonetheless a detailed analysis of ICO operations showed that the majority of the operations still need the approval of the General Board. As all members of the General Board are appointed by the Ministry of Economy and Finance among staff of different ministries, Eurostat questioned the autonomy of decision of ICO. By means of certain limitation of its decision making regarding the operations on the assets side (such as direct financing and providing loans via second floor activities), the government (via the General Board) executes a significant control over its assets.

On the basis of the above-mentioned features, it appears that ICO does not comply with the definition of a financial intermediary and have the features of a captive financial institution as defined in ESA 2010. Given that it is controlled by government, it would need to be re-classified in the general government sector.

In April 2015, the Spanish statistical authorities informed Eurostat about the planned changes of ICO regulations, in particular of the Statute of ICO and the Agreement on delegation of powers (*Acuerdo de delegación de funciones*). These legal changes were discussed in more details during the meeting.

Instituto Catalán de Finanzas (ICF)

ICF is a public body with legal personality under private law, established by Legislative Decree 4/2002 of 24 December of the Autonomous Community of Catalonia. ICF may acquire, hold, claim, swap, encumber or dispose of all kinds of assets, agree to loans, enter into contracts and agreements in accordance with the law applicable to it, make undertakings, file appeals and pursue the actions established by law.

The functions that ICF has are (1) to grant financing to autonomous agencies, public corporations and public or private firms; and (2) to contract bank and other guarantees, on behalf of government (*Generalitat*), in favour of autonomous agencies, public corporations and public or private firms, together with their prior formalities and studies. As previously agreed with Eurostat, the activities performed on behalf of government are re-routed via government accounts.

The highest level decision-making body of ICF is the General Board, responsible for the essential strategic decisions relating to the entity's activity. It is composed of the Chairman, five *ex officio* members and other members. The *Generalitat* has the power to appoint and remove no fewer than six and no more than ten members.

The General Board delegates certain functions to the Executive committee, principally the approval of credit operations, up to a specific amount and terms. This limit is currently set at EUR 15 million and a maturity of 15 years.

The sector classification of ICF was discussed with Eurostat in 2011 and at that time Eurostat provisionally agreed this unit to be classified outside the general government sector. This decision on the sector classification of ICF was based on ES95 rules while, in the meanwhile,

ESA was revised and the classification of this unit should be analysed in the light of the ESA 2010.

Discussion and methodological analysis

To begin with, the Spanish statistical authorities explained that all units engaged in financial activities were analysed on a case by case basis.

Then the Spanish statistical authorities explained that some venture capital companies / funds and public mutual guarantee and re-guarantee companies were considered as entities with functions similar to captive financial institutions. The main difference between these units and the private financial institutions is that they do not seek to obtain a market rate of return, but carry out a limited range of activities for public interest and in narrow conditions set by the government controlling unit. In fact, these entities represent an alternative to performing tasks directly by the government. These units were already re-classified inside general government in the context of the October 2014 EDP notification and the impact on government debt was very limited.

It was further explained that most of Finance institutes of the regional (autonomous) governments are already classified inside general government. Each regional government has established a finance institute in response to its own particular needs and, accordingly, the economic characteristics to be taken into account in order to determine the sector classification vary from one entity to another. The activities of these finance institutes are mainly to act as a policy instrument in the area of financing. i.e. managing debt and granting guarantees on behalf of regional governments. Therefore such units are classified inside general government (with the exception of ICF, which is discussed separately below).

Regarding public banks, it was explained that BFA-Bankia group and Banca Mare Nostrum (BMN) are the only two financial institutions following financial assistance measures, which remained public. The government plan to privatise them. The public capital represents about 63 % of Bankia`s capital and about 65% of BMN`s capital. These entities became public when the government covered their capital needs during the first years of the financial crisis and, since then, they are performing their financial activities in the retail market competing with the rest of private Monetary financial institutions, taking deposits and granting loans. Consequently they are classified in the sector of financial corporations S.12.

CESCE and Consorcio de Compensación de seguros are public units engaged in financial intermediation as a consequence of the pooling of risks mainly in the form of direct insurance or reinsurance and they are classified in the sector of financial corporations (S.12).

All activities of *CESCE* made on behalf of general government are recorded in the government accounts, impacting government deficit. Moreover the Spanish statistical authorities explained that *CESCE* will no longer cover risks of export insurance on behalf of government (currently re-routed via government accounts) as this task will be, from 2015 onwards, performed directly by the State. Furthermore, it was also explained that *CESCE*

will be most probably privatised in the future.

ICO

Firstly, Eurostat underlined that according to the current legal acts, ICO does not seem to have the autonomy of decision as government (via the General Board) executes a significant control over the assets of ICO. In view of this feature, ICO would have to be re-classified in the general government sector as it has a limited management independence from the controlling unit by significant government control over its assets and liabilities. In this context Eurostat enquired about the foreseen changes of ICO regulations and in particular on when this would take place.

The Spanish statistical authorities emphasised that, according to their opinion, ICO is a financial intermediation, monetary financial institution and it is neither a captive financial institution nor an institution that behaves in a similar manner to captive financial institutions.

Nevertheless the Spanish statistical authorities explained the ongoing changes of ICO regulations, which will yet reinforce ICO's functional independence.

In April 2015 the ICO's General Council adopted a new Agreement on the Delegation of Powers (*Acuerdo de delegación de funciones*). The new Agreement raises the current limits of the Operations committee to execute operations without the consent or agreement of the General Board. The threshold was raised from EUR 100 million to EUR 200 million, which means that only operations higher than EUR 200 million euro will still have to be pre-authorised by the General Board while the rest of operations would be approved by the independent Operational Committee of ICO.

The second change concerns its Statute. On 9 April 2015, the Government Committee for Economic Affairs initiated the mandatory procedures for amending the institution's statutes, currently regulated in Royal Decree No 706/1999 of 30 April 1999, in relation to the composition of the General Board. Under the amendment, the Board will have a new composition. The majority of members will be independent, and will be appointed in accordance with their competence, experience and professional reputation. The General Board will have 10 members, out of which 4 will be independent and will have the right of double votes for decisions related to assets and liabilities of ICO. The members will be nominated for 3 years with the possibility of one prolongation of the mandate.

The Spanish statistical authorities explained, that in order to change the Statute, two legal acts have to be adopted and the process will take longer as the Parliament is involved in the legal process. The first step is the adoption of the new law on ICO by the Parliament. It is foreseen that the adoption will take place in September 2015. Once the new Law is adopted, the Royal Decree (Bylaws of ICO) has to be changed by government. It is planned that after the adoption of the new Law by the Parliament, it will take about 3-4 weeks to adopt the new Royal Decree, which will replace the current Royal Decree 706/1999 of 30 April.

In order to decide on the proper sector classification of ICO in the light of the above–

mentioned changes, Eurostat asked the Spanish statistical authorities, to provide the amended Agreement on the Delegation of Powers, the information on ICO's operations (credit lines) that need to be pre-authorised by the General Board in line with the new amended Agreement and the amended draft of the statute of ICO.

Eurostat will examine the new documents in order to decide on the sector classification of ICO in the light of ESA 2010. Eurostat also said that it is not its intention to re-classify ICO in the general government in the October 2015 EDP notification under the condition that the legal process is finalised by the end of the October 2015 EDP notification⁷.

ICF

Firstly Eurostat stressed that its provisional agreement in 2011 that ICO is classified outside the general government was based on ESA95. In the meanwhile the ESA 2010 was adopted and the sector classification of ICF needs to be re-examined, in particular whether this entity might have the features of a captive financial institution.

The Spanish statistical authorities explained that the situation of ICF is similar to ICO with the only exception that ICF does not have a banking license.

The government has the full power to nominate members of the General Board. The statute is silent about the composition of the General Board and the Spanish statistical authorities confirmed that at present all fifteen members of the General Board are government officials.

In addition the General Board has to pre-authorise majority of operations undertaken by ICF. Indeed, the General Board delegated some powers to the Executive committee for certain functions, mainly for the approval of credit operations, up to a specific amount and terms. This limit is currently set at 15 million euro and a maturity of 15 years. Nevertheless it was revealed that the members of this Committee are mainly the same as in the General Board (i.e. government officials).

On this basis, Eurostat said that it appears that ICF has no autonomy of decision as the government executes a significant control, via the General Board, over its assets. This indicates ICF to be an entity having the features of captive financial institutions.

However in order to decide on the final decision of the sector classification of ICF in line with ESA 2010 and MGDD Part I.6 (Entities having the features of captive financial institutions), Eurostat asked the Spanish statistical authorities to provide a detailed analysis of the sector classification of ICF⁸.

Findings and conclusions

⁷ On the basis of the documents provided by the Spanish statistical authorities to Eurostat, in line with the Action points 7, 8 and 9, ICO remains classified outside the general government sector.

⁸ On the basis of the documents provided by the Spanish statistical authorities to Eurostat, in line with the Action point 10, ICF remains classified outside the general government sector.

Action points 7: In order to decide on the proper sector classification of ICO, the Spanish statistical authorities will provide to Eurostat the 2015 amended draft of the statute of ICO.

Deadline: End of July 2015(a draft version was already provided during the meeting)⁹

Action point 8.: In order to decide on proper sector classification of ICO, Eurostat asked the Spanish statistical authorities to provide the 2015 amended Agreement on the Delegation of Powers (*Acuerdo de delegación de funciones*) of ICO.

Deadline: End of July 2015¹⁰

Action points 9: In order to decide on proper sector classification of ICO, the Spanish statistical authorities will provide to Eurostat the information on ICO's operations (credit lines) that need to be pre-authorised by the General Board in line with the 2015 amended Agreement (*Acuerdo de delegación de funciones*).

Deadline: End of July 2015¹¹

Action point 10: The Spanish statistical authorities will provided to Eurostat a detailed analysis of the sector classification of ICF (including the statute) in line with ESA 2010 and MGDD Part I.6 – Entities having the features of captive financial institutions - and if necessary reclassify it in the general government sector in the context of the October 2015 EDP notification.

Deadline: 1st September 2015¹²

Public Holding Companies

Introduction

The Sector classification of public holdings in the light of the ESA2010 rules was discussed under this point.

Discussion and methodological analysis

The Spanish statistical authorities explained that all holding companies were analysed on a case by case basis already before the implementation of the ESA 2010. There is only one public holding (*Sociedad Estatal de Participaciones Industriales* - SEPI) in the central government level, which is classified in the non-financial corporations sector (S.11), whereas all public holdings in the Autonomous Communities were classified in the general government already.

⁹ The amended draft Statute was provided on 31 July 2015.

¹⁰ The amended Agreement on the Delegation of Powers was provided on 31 July 2015.

¹¹ The requested information on ICO's operations was provided on 31 July 2015.

¹² The note on the sector classification of ICF, accompanied with annexes, was provided to Eurostat on 1 September 2015.

The Spanish statistical authorities underlined that SEPI is not a real Holding company, but it is considered as a Head Office according to the ESA 2010.

SEPI has a direct and majority participation in 18 companies. It also has competences on the *Corporación Radiotelevisión Española* and on the *Ente Público RTVE* as well as on 2 other controlled public foundations. Equally, it has minority direct shareholdings in 7 companies, and indirect shareholdings in more than 100 companies.

SEPI is a State holding classified in the non-financial corporations sector as a majority of the companies in which SEPI participates are classified in the non-financial corporations sector (S.11). Nevertheless, the flows relating to the restructuring of loss-making companies and the flows relating to the social liabilities of failed companies are re-routed via government accounts, with an impact on government deficit.

The Spanish statistical authorities considered that, also according to ESA 2010, SEPI should maintain its classification in the non-financial corporation sector (S.11) as it carries out an effective control of its affiliates, mostly classified in S.11.

Findings and conclusions

Eurostat took note of the explanations regarding the sector classification of Public holdings.

4.1.3. Government controlled entities classified outside the general government (public corporations)

Introduction

The Spanish statistical authorities provided, prior to the meeting, an updated Questionnaire on public corporations, which reflected the changes in the sector classification due to the ESA2010.

Discussion and methodological analysis

The method of identification and classification of public units has not changed since the last EDP dialogue visit. The process of classification of public corporations controlled by government is explained in detail in the EDP inventory.

Eurostat took note that the current version of the questionnaire did not include liabilities of public banks. It was agreed under item 1.4 of the agenda (AP5) that the Spanish statistical authorities should include data on liabilities of all public banks in the Eurostat annual Questionnaire on government controlled entities classified outside general government by September 2015.

Eurostat, together with the Spanish statistical authorities, reviewed the list of government controlled entities and asked some additional questions about specific cases.

Eurostat noted that the market / non-market test for *Metro de Madrid* was just above 50 % in the last three years. The Spanish statistical authorities explained that this unit had big investments in the past years, but currently they are not undertaking any investments. In addition they explained that the trains are not their property. Therefore they do not expect that the market / non market test would fall below 50 %.

Eurostat also enquired about the unit *Metropolitano de Tenerife* as it noticed that the market / non-market test has for some years fallen below 50 %. The Spanish statistical authorities explained that this unit is closely followed by the Technical committee and agreed to perform the market / non market test for 2014, in view of its potential reclassification in general government.

Then Eurostat enquired about the sector classification of the unit *Sociedad Estatal Canal de Navarra* as it noted that it has only three employees, in spite of a rather high amount of liabilities. The Spanish statistical authorities agreed to provide to Eurostat a note on the sector classification of this unit.

Findings and conclusions

Eurostat took note of the classification process of public corporations controlled by government.

Action point 11: Eurostat asked the Spanish statistical authorities to perform the market / non market test for the public entity "*Metropolitana de Tenerife*" for 2014, in view of its potential reclassification in general government in the context of the October 2015 EDP notification.

*Deadline: October 2015 EDP notification*¹³

Action point 12: The Spanish statistical authorities will provide to Eurostat a note on the sector classification of the public unit "*Sociedad Estatal Canal de Navarra*", in view of its potential reclassification in general government in the context of the October 2015 EDP notification.

*Deadline: October 2015 EDP notification*¹⁴

¹³ The note was provided to Eurostat on 1 September 2015. As the unit complied with the 50 % test, it remains classified outside the general government sector.

¹⁴ The note was provided to Eurostat on 1 September 2015. The unit was re-classified in the general government sector in the context of the October 2015 EDP notification.

4.2. Implementation of accrual principle

4.2.1. Accrual taxes and social contributions

Introduction

The Spanish statistical authorities use a statistical model based on assessments and declarations with a subsequent adjustment of the amounts unlikely to be collected for taxes (VAT, taxes on products, taxes on income and corporation taxes) and social contributions. This econometric model for the estimation of the amounts unlikely to be collected was developed by INE, and it is based on a system of accumulated averages.

The model estimates the part of pending entitlements for each fiscal period that are unlikely to be collected and the due pending payments that are going to be collected in the subsequent fiscal years. This adjustment for taxes and social contributions unlikely to be collected is applied from 1998 onwards.

In 2011, in agreement with Eurostat, the statistical model was adjusted due to the implications of the economic crisis on the method used for taxes.

Discussion and methodological analysis

The Spanish statistical authorities provided, prior to the meeting, an updated note on taxes and social contributions, including data on total revenue from assessment and declarations, cash received and amounts of taxes and social contributions not collected.

The Spanish statistical authorities confirmed that the second adjustment had been applied only for taxes from 2009 to 2012. This second step was based on the hypothesis that, in a time of economic stability, the weight of the rights pending to collect over the total accrued taxes (or social security contributions) should also be stable and that would increase in case the economy was in the negative part of the cycle. The second adjustment was abolished in 2013 as the companies started to have again access to bank loans, which was limited in years the 2009-2012.

Eurostat asked whether the parameters of the model were defined on a legal or a practical basis. The Spanish statistical authorities explained that there are no legal requirements and that the parameters were defined purely on a practical basis. The parameters are being constantly checked and adjusted. For example, the experience showed that most of the taxes are collected in the first years and after this period only 6 % of taxes is still collected.

Eurostat, together with the Spanish statistical authorities, reviewed the *Table on uncertain revenue adjustment model*, including data on accrual and cash data, rights outstanding receipt (tax accrued, but not collected), adjustments for uncertain collection, revenue from closed exercise (taxes accrued in previous years) and stock of accounts receivable.

Eurostat considered that the model used is rather complex. However when looking at the stock of accounts receivable (AF.89) at the end of each year, it seems that it corresponds to about one month of time adjusted cash data. This could indicate that the model is working properly.

In this context, as a *kind of proxy* to validate the model, Eurostat recommended to the Spanish statistical authorities to compare data on taxes received in January 2015 with the stock of accounts receivable calculated by the model.

The ECB raised the issue of time of recording of corrections for estimated non-viable tax refunds. Currently refunds are recorded at the time of request, adjusted for estimated non-viable refunds. These estimates are later corrected when the final decision is made by the tax authority. In 2013, Eurostat requested the Spanish statistical authorities to change the method of recording of tax refunds in national accounts. Previously, refunds were recorded at time of payment. Now refunds are recorded at the time of request, with an adjustment for non-viable refunds (similar to the adjustment for uncertain tax collection). Since it cannot be known in real time how many refund requests will be viable, the estimate of non-viable requests is subject to correction. The question raised was what is considered the (right) approach to the time of recording of this “correction”.

The Spanish statistical authorities explained that there are no revisions to this data as this will impact the model in the following years. The model was adjusted for the last time in 2008 and the next adjustment of the model is foreseen in 2020.

Findings and conclusions

Eurostat took note of the explanations.

4.2.2. Recording of deferred tax assets

Introduction

The Royal Decree-Law 14/2013 of 29 November 2013 on urgent measures to adapt Spanish Law to European Union regulations on the supervision and solvency of financial institutions, introduced an amendment of the consolidated text of the corporate income taxes (CIT), which modified the treatment of deferred tax assets (DTAs).

The new law allows banks and other companies to transform a portion of DTAs into direct refundable tax credits from January 2014 onwards. The reference date for the application of the new rules is 1 January 2011. DTAs covered by this reform are those stemming from provisioning for (i) credit insolvencies, (ii) foreclosed assets and (iii) pension funds for the company’s employees. For the cases mentioned above, credit claims would only materialise in the following situations:

- The company is not able to generate enough profits to offset remaining DTAs within the 18-year period. In this case, the unused amount of tax credits will become refundable in public debt.
- Insolvency or liquidation procedure of the company: in this case, the overall amount of remaining DTAs registered in the books of the company is automatically transformed into direct claims.
- Accounting losses at the end of a concrete year: in this case, DTAs will be transformed into refundable tax credits for the proportion of losses compared to the sum of capital and reserves of the company.

In 2014, Eurostat published a Guidance Note on *Treatment of DTAs and recording of tax credits related to DTAs in ESA 2010*.¹⁵ This guidance note clarifies the treatment on DTAs in national accounts and proposes guidance on the recording of tax credits related to DTAs under ESA2010. The note concludes that DTAs are not to be recorded in national accounts unless they give rise to a claim with the features of a tax credit, which is to be recorded in line with the provisions of ESA2010.

The note provides guidance that Payable tax credits related to DTAs should be recorded in national accounts as expenditure for the full amount at the time they are recognised by government.

Discussion and methodological analysis

Eurostat recalled the above mentioned Guidance note on the recording of DTAs in national accounts. The Spanish statistical authorities explained that companies submitted self-settlements of the year 2014 in June 2015, as well as complementary self-settlements of the years 2011, 2012 and 2013.

In those self-settlements, companies provided information about DTAs to be offset as their taxable basis allows it and about DTAs to be monetized in the specific cases as laid down in the Royal Decree 14/2013. The self-settlements, submitted by companies in June 2015, are currently being controlled and validated by the Tax Authorities. Data will be available on a provisional basis by September 2015 and on a definitive basis by September 2016.

All DTAs monetized will produce, in national accounts, a higher expenditure of general government in D.99 (Other capital transfers), in 2015. This information will be provided to the Spanish statistical authorities by the Tax Authorities.

The Spanish statistical authorities confirmed that DTAs will be recorded in line with the Eurostat Guidelines, and will be recorded at the time when they are recognised by government, i.e. in 2015 (referring to the accounting loss of 2014). DTAs will be for the first time reported in national accounts in the context of the April 2016 EDP notification on a

¹⁵<http://ec.europa.eu/eurostat/documents/1015035/2041357/Guidance-Note-on-Deferred-tax-assets.pdf/42b7934b-a509-4df4-9317-19a1f9900dbe>

provisional basis and on a definitive basis in the context of the October 2016 EDP notification. No big revisions are expected between provisional and final data.

DG ECFIN enquired about the availability of data on DTAs in the forecast of 2016. The Spanish statistical authorities confirmed that provisional information will be taken into account in the October 2015 EDP notification.

Findings and conclusions

Eurostat took note of the explanations.

4.2.3. Accrued interest

Introduction

The methodology for the calculation of government accrued interest payables was discussed.

Discussion and methodological analysis

The calculation of accrued interest for securities for the State and the state government sub-sector is done via a *security-by-security* approach. The interest is accrued over the life of the security.

Findings and conclusions

Eurostat took note of these explanations.

4.2.4. EU flows

Introduction

EU flows are recorded according to Eurostat rules in public accounts for the central and state government as well as for the social security sub-sector, while for the local government subsector amounts are being recorded on a cash basis. The Spanish statistical authorities underlined that the amounts involved are very small for local government. This issue was already discussed in the context of the 2013 EDP dialogue visit.

Discussion and methodological analysis

The Spanish statistical authorities confirmed that EU flows in the local government sub-sector are being recorded on a cash basis. The amounts involved for local government are not significant and, from a practical point of view, it would be very difficult to ask all municipalities and other local governments to timely report the amounts received from EU institutions directly. In addition, IGAE explained that even if the local government would have provided this data, IGAE would have no possibility to verify these figures.

Findings and conclusions

Action point 13: Eurostat took note that the current cash recording for local government for EU funds is not fully in line with the Eurostat rules, but that the possible impact on government accounts is negligible.

4.2.5. Military equipment expenditure

Introduction

The recording of military equipment follows Eurostat rules. Amounts are being recorded on a delivery basis from direct sources (Ministry of Defence).

Discussion and methodological analysis

The Spanish statistical authorities explained that there were no changes since the last EDP dialogue visit.

The high stocks in other related assets of government are considered as loans. Government is providing cash in anticipation to the constructors of military equipment for the equipment that is being built over many years. These loans are recorded in financial accounts and in the EDP table 3B. The Spanish statistical authorities explained that the interest rate is zero for these loans.

Eurostat questioned whether this is a correct recording and proposed to the Spanish statistical authorities to re-classify these loans as *Trade credits and advances*. The Spanish statistical authorities agreed to re-classify these loans (F.4) as Trade credits and advances (F.8).

On the liability side, all instruments are recorded as *Other accounts payable*. The government recognises the liability, but pays for the equipment later.

Findings and conclusions

Action point 14: The Spanish statistical authorities agreed to re-classify the advances provided to the suppliers of military equipment, currently classified as loans (F.4), as Trade credits and advances (F.81), in table 3B and in the financial accounts.

*Deadline: October 2015 EDP notification*¹⁶

¹⁶ This was implemented in the context of the October 2015 EDP notification.

4.3 Recording of specific government transactions

4.3.1 Guarantees

Introduction

The Spanish statistical authorities provided a list of outstanding guarantees for the central government by guarantee called and repaid. Also the list of CESCE¹⁷ operations, i.e. amounts paid by the State to CESCE, was provided.

CESCE had already been discussed with Eurostat in the past EDP dialogue visits and it was agreed that those amounts paid by the State to CESCE were always to be classified as other capital transfer, with an impact on government deficit (under *Other adjustments* in the EDP table 2A).

Discussion and methodological analysis

The participants reviewed the data on government guarantees for the years 2011-2014 submitted by the Spanish statistical authorities before the visit.

All activities of CESCE made on behalf of general government are recorded in government accounts. As it was already explained under item 4.1.2, CESCE will no longer cover the risks of export insurance on behalf of government as this task will be, from 2015 onwards, performed directly by the State.

The Spanish statistical authorities confirmed that the ‘three calls rule’ is being applied, i.e. repeated calls on a guarantee over three successive years lead in the third year to the entirety of the remaining guarantee being treated as if called. However there were no such calls in the past years.

Findings and conclusions

Eurostat took note of the explanations on guarantees.

4.3.2. Government claims; debt assumptions, debt cancellations and debt write-offs

Introduction

The participants reviewed the data on government claims for years 2012-2013 and debt cancellation by government for years 2011-2014 submitted by the Spanish statistical authorities before the visit. Debt cancellations towards third countries (Paris club) are made by the *Fondo para la Internacionalización de la Empresa (FIEM)* and *Fondo para la Promoción del Desarrollo (FONPRODE)*. All the transactions carried out by FIEM and

¹⁷ Compañía Española de Crédito a la Exportación

FONPRODE are considered as directly carried out by the State, impacting the government deficit.

Discussion and methodological analysis

Eurostat noted a change in the nominal value of the loans given to Greece for years 2012-2013. The Spanish statistical authorities agreed to check the reasons for this change.

Eurostat also noted a debt cancellation to Greece in 2012. The Spanish statistical authorities explained that there was no cancellation of the loan, but only the cancellation of the interest, which was recorded as a decrease of F.8 payables.

The main source for debt cancellation in the state and local government sub-sectors is the IGAE Standardised accounting information questionnaire. In addition to this questionnaire, also supplementary information from the budget is being analysed.

Findings and conclusions

Action point 15: The Spanish statistical authorities will check the reasons for the change in the nominal value of the loan given to Greece for the years 2012-2013 and report back to Eurostat.

Deadline: 1st September 2015¹⁸

4.3.3 Capital injections in public corporations, dividends, privatization

Introduction

Capital injections are analysed according to the rules established in the MGDD¹⁹ (as financial or non-financial). Only injections to profitable companies or to certain international financial institutions are considered to be equity injections. Most of the capital injections are classified as capital transfers.

The list of equity injections for the central and state government is available on a quarterly basis whereas for the local government is available on an annual basis.

Discussion and methodological analysis

The Spanish statistical authorities confirmed that the amounts of financial (equity) injections are very small and that the majority of capital injections are being classified as a non-financial transaction (capital transfer) in national accounts, impacting government deficit.

The list of capital injections classified as capital transfer by sub-sectors was provided prior to the meeting by the Spanish statistical authorities. The main data source to identify capital injections is the IGAE Standardised accounting information questionnaire.

¹⁸ The note on this issue was provided to Eurostat on 1st September 2015.

¹⁹ ESA 95 manual on government deficit and debt

Capital injections in cash are recorded in the budget of the administration granting them. Therefore, the identification of these capital injections to public units is done by analysing the transactions in the budget (transfers, capital contributions and loans) and the recipients.

Capital injections in kind are not recorded in the budget. Therefore, they are identified, generally, by analysing the accounts of the beneficiary institutions. The Spanish statistical authorities explained that capital injections in kind are very exceptional as they need to be approved by a legal act. They mainly relate to buildings and furniture.

The Spanish statistical authorities also confirmed that capital injections by SEPI on behalf of the State are still recorded, as agreed during the previous EDP dialogue visits; all flows relating to the consolidation or the restructuring of loss-making companies and flows relating to the social liabilities of failed companies are re-routed via government (under Other adjustments in the EDP table 2A). The list of capital injections by SEPI was provided to Eurostat.

Eurostat enquired on how capital injections made by other units on behalf of government are identified. It was explained that this is done by analysing the accounts of public corporations. The Spanish statistical authorities confirmed that there are no other public corporations (but SEPI) injecting capital on behalf of government.

Following this, the dividend policy was discussed in more detail. About 95% of dividends received by the Spanish government are coming from two public companies, i.e. the Bank of Spain and the State Lotteries (LAE). The Spanish statistical authorities provided to Eurostat, prior to the meeting, a list of dividends paid to government by corporation and their profits.

Firstly the dividend paid by the Bank of Spain (BdE) to government was discussed. Dividends are checked in order to ensure that they do not include capital gains from the extraordinary sale of assets, routine intervention in foreign exchange markets, or operations to revalue monetary gold and reserves.

The annual profits of the BdE are paid into the central government budget in three instalments, which are set out in *Royal Decree 2059/2008 of 12 December 2008* on the rules for payment to the Treasury of profits from the BdE. The Spanish statistical authorities underlined that profits are audited and do not include income from the sale or extraordinary reserves.

Eurostat observed that all benefits (ordinary profit) are paid to government and enquired what would have happened if the BdE would incur losses. The Spanish statistical authorities explained that this has not happened in the last 30 years and in such a case the *Net worth* of the bank would be impacted. The BdE has reserves from extraordinary profits.

Regarding the State Lotteries (LAE), it was explained that various regulations impose to the LAE an obligation to make certain expenses, which reduces its benefit (and the dividend to the State government). For the national accounting purposes, these expenses of LAE are rerouted as costs of the State.

Findings and conclusions

Eurostat took note of the explanations.

4.3.4 Public-Private Partnerships (PPP)

Introduction

The legal framework of contracts concluded by government bodies is the Law 30/2007 of 30th October, *de Contratos del Sector Público* (LCSP). LCSP applies directly to central government and local governments as well as to the the Autonomous Communities (State Government). Contracts concluded by government bodies must comply with LCSP, including contracts classified as PPPs. However, not all contracts under LCSP are PPPs as defined by the MGDD. Therefore the specific terms of each contract must be examined in order to determine whether is a PPP or not.

The Technical committee of national accounts regularly sends letters to enquire on PPP operations at sub-national levels, with an obligation for government units to report PPP at least once a year, with descriptions of contractual arrangements, administrative and technical details.

The updated list of all PPP projects was provided to Eurostat prior to the meeting, including details such as amounts involved and whether the PPP is on the balance sheet of the government or the private partner.

Discussion and methodological analysis

Firstly Eurostat enquired about the liquidation process of eight concessionaires of the toll motorways. The Spanish statistical authorities explained that these cases are still in Court as a common solution is foreseen for all eight cases.

It was underlined that all concessionaires concerned are private companies. Eurostat enquired about the possible impact on government accounts. The Spanish statistical authorities explained that, although the debt of these companies is not guaranteed by government, the State has the responsibility of the so called “liability of the current value of the assets” (*Responsabilidad patrimonial de la administración - RPA*), i.e. government has to take over the assets (current value), but not the debt of the companies. This is defined in the contract. The debt of the companies is estimated to be about 5 billion euro while the RPA is estimated to be much lower (taking into account amortization of the assets). The assets are about 10 years old.

Currently there is an ongoing discussion between banks, creditors and government in order to reach an agreement; but it is not known yet at this stage whether an agreement will be reached and, if yes, what kind of agreement.

In addition, not all expropriations were paid yet as there are still some cases open in Court. The expropriations fall under the responsibility of government.

The Spanish statistical authorities further explained that *a new draft law on public sector contracts* is currently under preparation. It proposes to modify the regime of RPA in the event of termination of the concession contracts due to the fault of the concessionaire, thereby restricting in certain cases the amount to be paid to the concessionaire. The main change relates to the calculation of the value of the assets. In the case of termination for a reason attributable to the concessionaire, it limits the maximum amount of the RPA so that the concessionaire does not receive a guaranteed recovery of the investment. A new law is expected to be adopted in September 2015.

Eurostat underlined that, according to the RPA, government has the responsibility to take back the assets. The question is how this is compatible with the current rules on concessions in the MGGD. Spain explained that this is the case for all concessions in Spain as it is included in all concession contracts.

Although it cannot be considered as an explicit guarantee, nevertheless at the time when a bank provides a loan to concessionaire, it is known that in the case of bankruptcy of the partner, the government would have to pay a part of its debt (related to assets). The government is considered as the legal owner of the assets and of the land. The private partner is therefore considered only as the economic owner of the assets and is not allowed to sell the assets. Eurostat said that the definition of “legal ownership” varies across countries.

The Spanish statistical authorities stressed that government does not have to take over the debt of concessionaires and its responsibility is strictly linked only to the amount of investment undertaken, taking into account amortization.

As Eurostat would like to understand fully what are the responsibilities of government and what exactly government has to pay to concessionaires, the Spanish statistical authorities were asked to provide a note on the issue of RPA, including the foreseen changes in the law and on whether there could be some national accounts implications in this respect.

Next, PPPs were discussed in more detail. The Spanish statistical authorities explained that the procedure for the analysis and the classification of PPPs has not changed and that individual PPP contracts are analysed in the meetings of the Technical committee of national accounts.

The Spanish statistical authorities confirmed that before the decision on the sector classification is taken by the Technical committee of national accounts, the project is by default classified on the balance sheet of government.

Eurostat enquired whether the Technical committee is aware of any renegotiations of the PPP contracts. It was confirmed that in the case of the renegotiating of the contract, the Technical committee receives all necessary information and, if necessary, re-classify the project in line with the rules.

The Spanish statistical authorities confirmed that there are no EU funds involved in the PPP projects.

A majority of PPPs in the central government and all PPPs in the local government sub-sectors, are classified on the balance sheet of government. The majority of PPPs were observed in the state government sub-sector, of which about half are classified on the balance sheet of government.

In 2015, the construction started in four projects related to hospitals while one of the projects (*Ciudad de la Justicia de Madrid*) was supposed to start in 2015, but has not started yet as the government annulled its decision to start the project.

Eurostat asked the Spanish statistical authorities to provide the two PPP contracts “*Complejo Hospitalario de Toledo*” and “*Cuidad de la Justicia de Madrid*”, accompanied with the reports of Technical committee of national accounts.

Findings and conclusions

Action point 16: Concerning concessions, the Spanish statistical authorities will provide to Eurostat a note on the issue of *Responsabilidad Patrimonial de Administracion* (RPA), including the foreseen changes in the law and on whether there could be some National accounts implications in this respect.

Deadline: 1st September 2015²⁰

Action point 17: The Spanish statistical authorities will provide to Eurostat two PPP contracts “*Complejo Hospitalario de Toledo*” and “*Cuidad de la Justicia de Madrid*”, accompanied with the reports of Technical committee of national accounts on the classifications of assets.

Deadline: End of July 2015²¹

²⁰ The Spanish statistical authorities provided the note on 1 September 2015. At the request of Eurostat, additional clarifications were provided on 30 November 2015.

²¹ The two PPP projects accompanied with the reports of the Technical committee of national accounts, were provided on 31 July 2015.

4.3.5. Government operations relating to financial turmoil

Introduction

The Spanish statistical authorities provided, prior to the meeting a table on the actual cases of government interventions in the context of the global economic crisis and the accounting consequences for government for years 2010 – 2014.

Discussion and conclusions

The participants noted that currently there are no outstanding issues as regards government operations relating to the financial crisis as the issue has been already previously discussed with Eurostat (during the 2013 EDP mission, its follow-up and EDP notifications).

4.3.6 Fondo de Amortización del Déficit Eléctrico (FADE)

Introduction

In the past decade, a significant mismatch had arisen between electricity production costs and the revenue received by electric utilities from electricity consumers through the regulated electricity tariff. Up to 2007, this deficit was covered by a mechanism whereby, at each year-end, electric utilities had financial claims on future consumers, which were legally recognised. Electric utilities assigned these claims to credit institutions and obtained revenues. Credit institutions recorded this operation as a receivable from the assignor of the claims, secured by those claims. In 2010, a new procedure was introduced in order to endow electricity system with a mechanism for financing the accumulated tariff deficit, so that utilities could obtain necessary liquidity. This mechanism involves the assignment of the related tariff deficit financial claims to a financial vehicle corporation – the Electricity Deficit Amortisation Fund (Fondo de Amortización del Déficit Eléctrico) - FADE.

The FADE was set up under Royal Decree-Law 6/2009 of 30 April 2009. FADE is not a separate legal unit, as it has no autonomy of decision. The Inter-Ministerial Commission has control over FADE, which is a collegiate central government body classified in the central government sub-sector (S.1311), and consequently FADE is classified in S.1311. FADE assets consist of the financial claims generated by electric utilities. The liabilities consist of financial instruments issued (bonds).

Prior to the meeting, the Spanish statistical authorities provided an updated note on FADE, including amounts.

Discussion and methodological analysis

The Spanish statistical authorities confirmed that the issuance of bonds is recorded as an increase in government debt. The purchase of financial claims is recorded as an acquisition of financial assets under *Other accounts receivable (F.8)* without impacting government deficit. The financial assets recorded will be amortised as electricity consumers will pay the related

surcharge through their electricity tariff during the next 15 years, as defined by the Royal Decree-Law 6/2009.

The debt issued by FADE reached a peak in 2013 (23 billion euro) and has gradually been reduced from that year onwards as claims started to be amortised. The funds obtained have been dedicated to reduce liabilities and increase deposits.

Findings and conclusions

Eurostat took note of the explanations of the Spanish statistical authorities on the recording of FADE operations in national accounts.

4.3.7 Others: Financial Derivatives, Sale and leaseback operations, UMTS, Emission permits

Introduction

Eurostat enquired on Financial derivatives, Sale and leaseback operations and Emission permits.

Discussion and methodological analysis

As regards Financial derivatives, the Spanish statistical authorities explained that the only type of derivative used, are currency swaps. These transactions are recorded as financial transactions in the item *Financial Derivatives and employee stock options* (F.7), with no impact on interest expenditure and government deficit. In relation to EDP debt, this variable includes the effect of currency swaps transactions. This treatment follows the current methodology of EDP statistics. There is however only a negligible number of swaps undertaken by general government bodies.

Regarding Emission permits, it was explained that, from 2013 onwards, the Spanish government will begin to sell carbon permits. These transactions are recorded according to the criteria in the MGDD. In public accounts, the sale of emission permits is recorded as revenue while in national accounts it is not considered to be revenue.

The Spanish government also purchased *carbon permits* under various bilateral and multilateral initiatives. These purchases have been recorded as central government expenditure with the impact on government deficit. Eurostat asked the Spanish statistical authorities to provide data on auctions of emission permits from 2013 onwards and on the amounts surrendered.

Concerning the Sale and leaseback operations, it was explained that the established procedures requires all public sector units to report information on any *sale and leaseback* operations.

In recent years (2010-2014) five such operations were identified at the level of the state government sub-sector. In these operations, after the buildings were sold, they have been

leased back to the government. Both contracts, sale and leaseback, were analysed by the Technical committee on national accounts and were considered as a real sale. Eurostat asked the Spanish statistical authorities to provide a copy of one contract together with the analysis of the Technical committee.

The Spanish statistical authorities informed Eurostat about the sale of 49 % of the shares which the public enterprise *Aeropuertos Españoles y Navegación Aérea* (ENAIRE), a public unit controlled by central government, held in the company AENA. The transaction was carried out in the beginning of 2015. In national accounts, the privatisation receipts were recorded as a transfer of equity and investment funds in the financial accounts and were not considered as revenue of the general government.

Findings and conclusions

Action point 18: The Spanish statistical authorities will provide to Eurostat data on auctions of emission permits from 2013 onwards and on the amounts surrendered in 2013 – 2014.

*Deadline: 1st September 2015*²²

Action point 19: The Spanish statistical authorities will provide to Eurostat a copy of the contract on the Sale and Leaseback of buildings in Andalucía in 2014 as well as the analysis of this contract by the Technical committee of national accounts.

Deadline: End of the year 2015

5. Other issues

Introduction

Eurostat enquired about the recording of Housing subsidies granted by government (*Generalitat*) in Valencia and in particular on whether all above mentioned subsidies, including the ones without budgetary credit, were recorded in national accounts in 2012, as agreed with Eurostat in the context of the April 2014 EDP notification.

Discussion and methodological analysis

The Spanish statistical authorities confirmed that all housing subsidies, including the ones without budgetary credit) granted by government of Valencia (*Generalitat*) were recorded in national accounts in 2012.

Findings and conclusions

Eurostat took note of these explanations.

²² The Spanish statistical authorities provided the requested note on 1st September 2015.

EDP dialogue visit to Spain, 9-10 July 2015

Draft Agenda

1. Statistical organisational issues

- 1.1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation; Data Sources, Revision policy
- 1.1.2. Review of Upstream Dialogue Visit recommendations
- 1.1.3. EDP inventory
- 1.1.4. Compliance with Council Directive 2011/85

2. Follow-up of the EDP dialogue visit of 24-25 January 2013

3. Actual data April 2015 EDP reporting – analysis of EDP tables

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government, application of market / non-market rule in NA

- 4.1.1. Changes in sector classification due to ESA 2010
- 4.1.2. Sector classification of specific units (public infrastructure companies, public holdings, units engaged in financial activities (ICO and other units), etc.)
- 4.1.3. Government controlled entities classified outside the general government (public corporations)

4.2. Implementation of accrual principle

- 4.2.1. Accrual taxes and social contributions
- 4.2.2. Recording of deferred tax assets (DTAs)
- 4.2.3. Accrued interest
- 4.2.4. EU flows
- 4.2.5. Military expenditure

4.3. Recording of specific government transactions

- 4.3.1. Guarantees
- 4.3.2. Government claims; debt assumptions, debt cancellations and debt write-offs
- 4.3.3. Capital injections in public corporations, dividends, privatization
- 4.3.4. Public Private Partnership
- 4.3.5. Government operations relating to the financial turmoil
- 4.3.6. Fondo de Amortización del Déficit Eléctrico (FADE)
- 4.3.7. Others: Financial derivatives, Sale and leaseback operations, UMTS, Emission permits

5. Other issues

- 5.1.1. ESA 2010 Transmission Programme
- 5.1.2. Any other business

EDP dialogue visit to Spain, 9-10 July 2015

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