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Directorate D: Government Finance Statistics (GFS)

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FINAL FINDINGS

EDP dialogue visit to Portugal

28-29 November 2022

EXECUTIVE SUMMARY

Eurostat carried out an EDP standard dialogue visit with the Portuguese statistical authorities on 28-29 November 2022. The overall purpose of this EDP dialogue visit was to review EDP arrangements in place and to ensure that the provisions of the European System of National and Regional Accounts (ESA 2010), of Eurostat's Manual on Government Deficit and Debt (MGDD 2019), as well as Eurostat's decisions, are duly implemented as regards the production of the Portuguese EDP and Government Finance Statistics (GFS) data.

The visit aimed to review the existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, to review the implementation of ESA 2010 methodology, mainly for the sector classification of units and the accrual recording of interest, taxes and social contributions, and to analyse the treatment of government interventions to alleviate high energy prices and those undertaken in the context of the COVID-19 aftermath.

Firstly, the functioning of the cooperation among institutions involved in the GFS/EDP data compilation was reviewed. Eurostat took note that the arrangements foreseen in the 2017 Institutional Cooperation Protocol are fully functioning, and that there were no changes as regards the quality management framework and audit/internal control arrangements since the last EDP dialogue visit. In relation to the staff resources dedicated to GFS/EDP compilation, Eurostat noted that the current staffing is well below those dedicated in other Member States with comparable population and reminded the importance of counting with an adequate number of resources allocated to the process.

Secondly, the Portuguese statistical authorities presented the progress on the implementation of the Budget Framework Law and the System of accounting normalization for the public administration. Eurostat welcomed the fact that a simplified version of the new accounts had already been implemented in the preparation of the 2023 State budget and recalled that delivering on the full and effective implementation of the 2015 Budgetary Framework Law is critical, as provided for by the Portuguese Recovery and Resilience Plan (RRP).

Eurostat reiterated its view, expressed in previous EDP dialogue visits, that a discrepancy between the B.9 and B.9f exists and, thus, should be shown explicitly in the Portuguese national accounts instead of including the discrepancy in other accounts payable. Eurostat stressed the importance of ensuring consistency in the EDP and GFS reporting and urged the Portuguese statistical authorities to undertake actions on the current inconsistency of reporting different figures of other accounts payables in EDP tables 3 and in ESA table 27, quarterly financial accounts.

As regards the sector classification of specific units, Eurostat welcomed the work done by the Portuguese statistical authorities to closely follow the business evolution of the public airline companies in order to determine the appropriateness of their current classification (outside general government) as well as the accounting treatment of the different transactions between government and them. In relation to the sector classification of Banco Português de Fomento, Eurostat requested some urgent further analysis provided that, among other factors, government seems to be the only client for two out of its three business lines. This analysis is especially relevant considering the forthcoming business developments, such as the Bank's role in the implementation of funds from the Recovery and Resilience Facility.

On the implementation of the accrual principle, the Portuguese statistical authorities were asked to provide more details on the recording of the corporate income tax, in particular in relation to some perceived limitations of the current recording method when there is an

economic downturn followed by a quick recovery. Eurostat also discussed the conversions of deferred tax assets into tax credits that took place during the period 2019-2022.

Regarding the recording of accrued interest, Eurostat congratulated the Portuguese statistical authorities for the comprehensive overview provided during the discussion on the debt transactions for the period 2019-2021. Eurostat proposed to continue the discussions on the recording of financial derivatives in national accounts.

The recording of EU flows was discussed in detail, including those under the Recovery and Resilience Facility (RRF). During 2022, Portugal received from the RRF a total of EUR 1.16 billion (0.5% of GDP) – of which, EUR 0.55 billion in grants and EUR 0.61 billion in loans.

In relation to measures implemented by government in reaction to the increase in energy prices, Eurostat clarified their time of recording as well as their accounting classification. Similarly, Eurostat followed up the unrolling of the measures undertaken in the context of the COVID-19 crisis.

As regards other specific government transactions, the reporting of government claims, capital injections, government guarantees, debt assumptions, debt cancellations and write-offs were reviewed. Eurostat took note about the detailed information available in Portugal as regards the existing and new PPPs and concession contracts, as well as energy performance contracts signed.

Eurostat appreciated the documentation provided by the Portuguese statistical authorities prior to the EDP dialogue visit, as well as the quality and usefulness of the discussions held during the visit. Eurostat congratulated the Portuguese statistical authorities for the significant improvements done in the past years as regards EDP and government finance statistics.

Final Findings

1. INTRODUCTION

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat and the Portuguese statistical office agreed to hold an EDP dialogue visit on 28-29 November 2022.

The delegation of Eurostat was headed by Mr Luca Ascoli, Director of Eurostat Directorate D ‘Government Finance Statistics (GFS)’. Eurostat was also represented by Ms Gita Bergere, Ms Lourdes Prado and Mr Miguel Alonso. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers.

The Portuguese statistical authorities were represented by Statistics Portugal, the Ministry of Finance and the Banco de Portugal. Representatives from the Portuguese Treasury and Debt Management Agency were also present during some of the discussions.

The previous Eurostat EDP dialogue visit to Portugal had taken place on 22-23 February 2021.

The visit aimed to review the existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of data sources, to examine the classification of some categories of institutional units and to review the recording of specific transactions, in particular, of the measures undertaken to alleviate the high energy prices and those implemented in the aftermath of the COVID-19 crisis.

With regard to procedural arrangements, the *Main conclusions and action points* would be sent to Portuguese statistical authorities for review. Then, within weeks, the *Provisional findings* would be sent to Portuguese statistical authorities for review. After this, the *Final Findings* will be sent to Portuguese statistical authorities and the Economic and Financial Committee (EFC) as well as published on the website of Eurostat.

Eurostat appreciated the relevant background material provided by the Portuguese statistical authorities prior the EDP dialogue visit and thanked them for their good co-operation and productive discussions during the EDP dialogue visit.

2. STATISTICAL CAPACITY ISSUES

2.1. Institutional responsibilities in the framework of the compilation and reporting of EDP and government finance statistics

Introduction

The Portuguese statistical authorities informed in advance of the meeting that there had been no changes in the institutional arrangements since the last EDP dialogue visit in February 2021. In particular, the Institutional Cooperation Protocol in the field of General Government Statistics, of 27 March 2017,¹ is still in place. This agreement promotes cooperation among

¹ The protocol is available at INE’s website, at the following link:
https://www.ine.pt/ngt_server/attachfileu.jsp?look_parentBoui=340372046&att_display=n&att_download=y.

the signatory entities in the field of General Government Statistics and as regards the Excessive Deficit Procedure.

Discussion

The Portuguese statistical authorities recalled that there is a technical working group envisaged in the Cooperation Protocol, called the General Government Statistics Group (GEAP), which has a consultative nature. GEAP, in its restricted composition, includes representatives from the National Accounts Unit of the Portuguese Statistical Office, from the Statistics Unit of the Central Bank and Budget Directorate (DGO) from the Ministry of Finance. Under this composition, GEAP analyses the accounts before each notification and discusses specific methodological issues related to national accounts in EDP notifications.

GEAP also foresees an enlarged set-up with the objective of enabling discussions between data providers, compilers and other data users. This composition involves representatives from ten other institutions, including the debt agency, the independent fiscal institution and the national audit office, among others.

Eurostat inquired about the flow of information between the Ministry of Finance, the independent fiscal institution (CFP) and the Parliament's technical unit for budget analysis (UTAO). Both institutions are part of the enlarged composition of GEAP. The Portuguese statistical authorities informed that there had been some delays in the data transmission in the past, due to resources constraints at the Ministry of Finance. The situation has improved, for example in the framework of the latest UTAO report on the 2023 State Budget. The Portuguese statistical authorities explained that, in general, the cooperation is functioning smoothly.

In relation to the staffing arrangements for EDP purposes, the General Government Statistics Unit (GGSU) at Statistics Portugal continues to have the responsibility of compiling annual and quarterly non-financial accounts. The unit is also responsible for the sector classification of government-controlled units and methodological analysis. There are seven people working at GGSU, similarly to the situation in the previous dialogue visit.

At Banco de Portugal (BdP), the GGSU is responsible for the compilation of general government financial accounts, Maastricht debt, apart from other indicators and answers to questionnaires and queries concerning general government financial statistics. GGSU in BdP consists of four people. DGO (Budget Directorate, Ministry of Finance) comprises four staff members.

Eurostat reminded about the importance of dedicating sufficient resources to the EDP and GFS statistics, stressing the additional workload and reporting requirements in the context of the measures implemented to mitigate the impact of high energy prices and the COVID-19 pandemic. Eurostat presented an overview of human resources allocated in each Member State to EDP/GFS compilation. In particular, all countries which are comparable to Portugal in terms of size have more dedicated resources. Moreover, some smaller countries in terms of population still have more resources than those available at the Portuguese Statistical Institute. In overall, only four EU Member States (all of them with lower population) have less resources employed in EDP/GFS matters.

The Portuguese statistical authorities acknowledged the under-staffing situation and expressed their intention of reducing the current gap with their EU peers.

Findings and conclusions

Eurostat took note of the information provided and reminded that counting with adequate staff resources is of paramount importance as it ensures accurate and timely data collection, analysis, and reporting.

2.2. Data sources and revision policy

Introduction

There have been no major changes to the data sources since the last EDP dialogue visit.

In September 2015, Portugal approved legislation enacting two instruments: the Budget Framework Law (Lei de Enquadramento Orçamental, or LEO) and the System of accounting normalization for the public administration (Sistema de Normalização Contabilística para as Administrações Públicas, SNC-AP). Their main general objectives were to update the financial reporting requirements and methods and the implementation of the IPSAS framework for entities within general government.

During the EDP dialogue visit, the Portuguese statistical authorities presented the status of the implementation of the 2015 legislation.

Discussion

The SNC-AP presents a single chart of accounts. Previously, different types/groups of units were using different charts of accounts. Another improvement brought by the new system is that balance sheets, profit and loss statements, cash flow statements and other information will be available by spending unit.

In the previous EDP dialogue visit, it was noted that all entities in the social security sub-sector were reporting in SNC-AP, while more than three-quarters were in the same situation within the central government and the regions. The implementation in the municipalities was somehow delayed due to the pandemic situation. The Portuguese statistical authorities explained that, in overall, the implementation has steadily continued and now 68% of the units are reporting within the new system. Among those not yet compliant and in addition to the local government units, there are notably those units classified within Autonomous services and Funds (other central government bodies sub-sector) that still use cash-based accounting. This degree of implementation has no impact on the B.9 of general government, as there are control mechanisms in place to ensure a proper transition to national accounts. Eurostat took note and requested to be informed about the latest forecast for a full IPSAS adoption.

In relation to the status of implementation of the LEO (e.g., the formulation of programme budgeting and a new treasury management model), the Portuguese statistical authorities indicated the preparation of the 2027 State budget as the estimated date of full implementation, although this date had to be further confirmed in view of the most updated status. It is important to note that a simplified version of the new accounts was already implemented for the 2023 State budget. Eurostat welcomed the full and effective implementation of the LEO, as it will strengthen overall budgetary planning and monitoring through a stronger medium-term focus and enhanced transparency and asked to be informed about the most current schedule. It was also noted that the RRP included some measures associated to its implementation in the framework of the ongoing structural changes in terms of budgeting, accounting, and information systems.

Eurostat moved on to inquire about data sources in relation to the Portuguese RRP. The Portuguese statistical authorities informed that the Ministry of Finance collects data on the development of RRP projects and expenditure, in cooperation with the national agency in charge of implementing and monitoring the RRF (Recuperar Portugal). Eurostat asked if there is a gap between RRF revenue and expenditure and the Ministry of Finance explained that the corresponding units had been instructed to record EU revenue only at the time the corresponding expenditure is incurred.

Eurostat discussed the exemption, foreseen in the 2022 draft State budget law, of any prior authorisation for execution from the Ministry of Finance in relation to public investments co-

financed by European funds (ESIF and RRF). It was explained that this measure aims at speeding up the absorption of EU funds, but that RRP contracts follow the same procedures as any other public contracts, including a close oversight by the Court of Auditors. The exemptions do not alter the completeness of the data sources available at the Ministry of Finance.

Finally, Eurostat inquired about the status of a law provision² that required the preparation of a quarterly ad-hoc report on the execution of the RRP projects. The Portuguese statistical authorities confirmed that the report is part of the law and therefore it will be published soon. Eurostat asked to be informed about its publication.

In relation to the revision policy, the Portuguese statistical authorities recalled that it is the same for financial and non-financial accounts. In the first EDP notification for year n-1, previous years are revised. In the second EDP notification of year n, there is a revision of the data for year n-1, whereas prior years are only revised if there are compelling reasons that justify the revision (i.e., benchmark revisions). Accounts for year n-2 have the status of final accounts.

Findings and conclusions

- (1) The Portuguese statistical authorities will send to Eurostat a note with the latest status of the implementation of the 2015 Budget Framework Law and the SNC-AP accounting system, stating in particular the estimated dates for their full implementation.

*Deadline: 15 February 2023.*³

- (2) In relation to the legal requirement for the publication, by the Ministry of Finance, of a quarterly monitoring report on the execution of the Recovery and Resilience Plan, the Portuguese statistical authorities will inform Eurostat when such report will be published for the first time and send a copy.

*Deadline: send the report as soon as published or inform on the status by 15 March 2023.*⁴

2.3. Compliance with the Council Directive 2011/85/EU

Introduction

The Ministry of Finance publishes monthly fiscal data of the central government, local government and social security funds, including cash-basis revenue and expenditure.⁵ Annual data regarding general government guarantees, liabilities of public corporations, off-balance-sheet PPPs, general government non-performing loans and the participation of general government in the capital of corporations are also published in the same website.

Discussion

Eurostat congratulated again the Portuguese statistical authorities for the degree of detail of the data published under the requirements of the Directive, notably in relation to the monthly fiscal data. Eurostat regularly compares these data with the working balances reported in the EDP notification tables, for the State Budget and the social security funds (in the case of the central and local governments, this comparison is not possible since the EDP figure excludes the so-called “other government bodies”, which are included in the data published under the

² DL 53-B/2021, Art. 17.º, n.º 3

³ A progress report on the implementation of the SNC-AP, dated November 2022, was sent to Eurostat.

⁴ The report had not been published at the date of drafting these findings.

⁵ https://www.dgo.gov.pt/EstatisticasFinancasPublicas/Paginas/SupervisaoOrcamentalAmbitoUE_Eng.aspx

Directive). Two items reconcile the State budget data published under the Directive with that reported in the EDP notification:

- a) The “recursos próprios comunitários” represent EU flows that are eliminated from revenues and expenditures, although each year there is a slight difference between both figures. Data reported by the Ministry of Finance includes these EU flows because they are reported within a specific chapter of the State Budget that comprises the estimated financial allocations of the transfers to the EU Budget (traditional own resources, e.g., custom duties).
- b) The “reposições não abatidas nos pagamentos” (RNAP) record the inflow of funds into the treasury of the State or other entities, as either a result of undue budget payments made in previous years, or because they have not been used, in whole or in part, by the entities that received them. In public accounts, RNAP are considered revenue. However, given its nature, RNAP are not included in the working balance reported in EDP table 2. Eurostat further inquired about the main reasons for the evolution of the RNAP figures reported for 2021 and in the partial budget execution for 2022. The Portuguese statistical authorities explained that the figure for 2021 was mainly affected by a one-off item (an additional payment, made with a one-year delay, of certain complements for socially vulnerable segments) and to delays in the execution of several military projects as a consequence of supply constraints. The latter was also the reason for the further increase of RNAP observed in the monthly budget execution report until September 2022. It was recalled that the RNAP serves for correcting some entries made in public accounting, in order to make them compliant with national accounts time of recording rules. The Portuguese statistical authorities proposed to include a detail of the items included in RNAP together with the explanatory notes attached to the EDP notifications. Eurostat appreciated this possibility and took note of the explanations provided.

Findings and conclusions

- (3) The Portuguese statistical authorities will disclose the detail of the items included within Reposições não abatidas nos pagamentos, in EDP T2A, in the clarification notes accompanying the EDP notifications.

*Deadline: From the April 2023 EDP notification onwards.*⁶

3. FOLLOW-UP TO THE EDP DIALOGUE VISIT OF 22-23 FEBRUARY 2021

Introduction

There was only one action point from the previous EDP dialogue visit pending to be implemented, related to the reporting of statistical discrepancies in EDP tables 3 and ESA table 27.

Discussion

Eurostat recalled that two types of discrepancies could arise in EDP tables 3: 1) The difference between B.9, compiled from non-financial accounts, and B.9f stemming from financial transactions; and 2) the discrepancy arising from the imperfection in stock and flow reconciliations. Due to this, two separate lines are devoted to discrepancies in EDP tables 3: the line "Difference between capital and financial accounts (B.9-B.9f)" and the line "Other statistical discrepancies (+/-)". However, EDP tables 3 for Portugal report both types of discrepancies together under the line devoted to other statistical discrepancies.

⁶ The detail was reported within the April 2023 EDP notification.

The Portuguese statistical authorities recalled that the reason why the line "Difference between capital and financial accounts (B.9-B.9f)" is empty in EDP tables 3 is that, in Portugal, B.9 is equal to B.9f by convention. The statistical discrepancy is artificially eliminated in ESA Tables -Table 25 versus Table 27- by way of adding it to F.8pay in the financial accounts (ESA table 27). In this way, the F.8 reported in ESA table 27 differs from the F.8 shown in EDP tables 3, as the former also includes the B.9/B.9f discrepancy item. According to the Portuguese statistical authorities, both the other payables and other receivables are explained in EDP questionnaire Table 4. They also indicated that the statistical discrepancy for Portugal does not exceed 0.2% of GDP over the last years.

Eurostat indicated that Portugal is now the only Member State following such a reporting approach in EDP tables 3 (since another Member State with a similar approach aligned to the common practice in October 2022), which in Eurostat's view raises questions for the users.

The Portuguese statistical authorities reminded that they have drafted a comment note, for publication in EDP table 3, explaining to the users the difference in presentation arising from the fact that the statistical discrepancy is artificially eliminated in ESA Tables (Table 25 versus Table 27) by way of an additional F.8pay entry. Eurostat considered that this proposal cannot be seen as a permanent solution of the issue. Rather, there should be a full alignment with the practice of the other 26 Member States.

The Portuguese statistical authorities reiterated that the full alignment of B.9 and B.9f is their ultimate goal and that, given the recently improved and better aligned data sources, and *de facto* small overall discrepancies, it is not necessarily appropriate to start publishing two different net borrowings. Eurostat was of the view that it is always better to show the existing discrepancy (even if it is small) rather than zero. Eurostat recalled that the availability of financial data per unit will be a possibility with the implementation of the SNC-AP system and will further support the analysis of the statistical discrepancies. The Portuguese statistical authorities agreed, while pointing out the difficulties of obtaining counterpart data also on a unit-by-unit basis.

Findings and conclusions

- (4) The difference between the non-financial and the financial accounts (B.9-B.9f) is empty in EDP table 3, as B.9f is equal to B.9 by convention because the Portuguese statistical authorities consider the balancing item of the non-financial accounts (B.9) as being of higher quality and thus the benchmark. To match both balancing items, the difference is reported under other accounts payable (F.8p). The Portuguese statistical authorities will reflect on whether to calculate separately the balancing item of the financial accounts (B.9f), given that, since October 2022, they are the only Member State that follow this approach and that the current reporting of statistical discrepancies is not in line with ESA 2010.

Deadline: Status report by the October 2023 EDP notification.

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. Practical implementation of the market/non-market test

Introduction

The practical aspects of the implementation of the 50% test were discussed in previous EDP dialogue visits. The discussion focused on whether there had been recent changes and in the sector classification of some specific types of units.

Discussion

The Portuguese statistical authorities confirmed that there had been no changes on how the market/non-market test is applied and the descriptions in the EDP inventory are up to date. All units are tested annually, based on non-consolidated financial information. The data from a specific administrative database (IES) is used as the main input with annual data for all corporations in Portugal, public and private. In some cases, additional information on subsidiaries is used, so that subsidiaries on production could be identified and eliminated from sales. The Portuguese statistical authorities explained that, for certain companies, the consumption of fixed capital (CFC) is used instead of the depreciation derived from the company financial statements. The CFC is calculated in each case rather than approximated through the use of a coefficient. The specific cases in question are companies dealing with substantial assets or companies whose market/non-market test shows results close to 50%.

A discussion ensued in relation to the classification of non-profit institutions (NPIs) participated by universities, after a question posed by the Portuguese statistical authorities in view of the 2024 benchmark revision. The case in point relates to small units dedicated to research activities which are sponsored by a university, with public and/or private associates. These units have no capacity of issuing debt, and their balance sheets are close to zero. Their financing is received mostly from EU Funds, either directly from EU institutions or through foundations that manage research programs. Although some of these units may report market output to the private sector, this is not significant for most (or all) of them. The participating universities are classified inside the general government sector. The analysis of whether the control lays in public hands is somehow burdensome, as there are numerous units and the composition of the board may greatly differ among them, even for those doing very similar activities. The question is whether a more general criteria may be defined for analysing the sector classification of this type of entities (non-market non-profit institutions), thus simplifying the task.

Eurostat recalled that NPIs that are non-market producers and controlled by a government unit, should also be classified inside general government. Control is determined based on government's (in this case, the specific university) ability to influence the general policy or programme of the NPI. In this context, when a majority of board members are appointed by government, the unit is to be classified within S.13. Moreover, the analysis should be complemented by reviewing other factors such as the composition of the governing bodies, the contractual arrangements in place, the funding obtained from government or the possible risk exposures. In relation to the analysis, two general options seem possible: either a case-by-case analysis or to classify all of them in S.13, as it would not seem appropriate classifying all of them outside S.13 given the main characteristics of the units. Eurostat ended by indicating that all Member States have this type of entities, and that the Portuguese statistical authorities may consider raising this issue in the context of the EDPS WG.

Findings and conclusions

- (5) The Portuguese statistical authorities will reflect about proposing, to the EDP Statistics Working Group, a discussion on the sector classification of non-profit institutions participated by universities. The issue at stake is whether all of them should be classified in the general government sector or whether some of them could be classified outside based on certain criteria.

*Deadline: EDPS WG of June 2023.*⁷

4.1.2. Government controlled entities classified outside of general government

Introduction

Changes in sector classification since the 2021 EDP dialogue visit were discussed under this point of the agenda. A detailed table of the changes in sectorisation, indicating the main reason for each, was provided by the Portuguese statistical authorities in advance of the meeting. The discussion also included the revision of the “questionnaire on government-controlled entities classified outside the general government sector” (the questionnaire), as well as of some specific units chosen because of their methodological relevance.

Discussion

Eurostat noted that 23 units had been reclassified outside general government during 2021, 20 due to their dissolution, two due to the loss of public control and one due to its merge into a different entity. At the same time, 28 units had entered the perimeter of general government (18 new ones, four due to the result of the market/ non-market test, six due to updated source data). Eurostat inquired about the reasons why in the questionnaire there are various units for which no results of the market/ non-market test are reported. It was explained that, although the test is performed for all units, the results are reported only for those with liabilities above 0.1% of GDP. Eurostat confirmed that this reporting approach is indeed in line with the instructions for fulfilling the annual questionnaire and requested to receive a one-off complete file with the results of the market/ non-market test for all the entities in the context of the EDP dialogue visit.

Eurostat inquired about the status of a unit that, according to the questionnaire, corresponded to the NACE code 84 (Public administration and defence services, compulsory social security services). In general, units within this NACE code are, by definition, classified inside S.13 unless there is a specific reason for not doing so. The Portuguese statistical authorities explained that the unit in question was a market producer that was correctly classified in S.11. They will further investigate the reasons for reporting that NACE code and see whether it is appropriate.

Eurostat discussed the sector classification of SATA (Air Açores), as the unit reported accounting losses and negative equity. Its market/ non-market test result was below 50% for 2020 and 2021. Eurostat recalled that a third consecutive failure in 2022 would result in the automatic reclassification of this unit inside S.13. The Portuguese statistical authorities explained that this unit is under a restructuring plan (as agreed with DG Competition) and that they will take a decision once the annual accounts for the year 2022 are published. At the same time, it was highlighted that all government support provided to the company in the recent years has been recorded with the corresponding impact in the B.9 of government accounts. Eurostat agreed with the proposal to wait until the 2022 financial statements are published noting that, as this will normally take place only in April, for the first EDP notification of 2023 the Portuguese statistical authorities may try to have some preliminary data already by February or March.

The classification of the following units was also discussed during the meeting:

⁷ The discussion took place in the EDPS WG of June 2023, where the Portuguese statistical authorities presented the case.

Sociedade de Transportes Colectivos do Porto (STCP)

STCP is a publicly owned unit in charge of the bus services in the Porto area. It was fully owned by the State until December 2019, when its property was transferred to the Porto municipality (53,69%) and to other surrounding municipalities. It is classified in S.11 despite of being technically in bankruptcy, presenting negative equity. The Portuguese statistical authorities indicated that the sector classification for this unit was decided in view of its market/ non-market test results (61% for 2019, 40% for 2020 due to the effect of COVID-19, and 53% for 2021). Eurostat took note and followed up with some questions. It was confirmed that the subsidies received by the company were not included in the calculation of the market/ non-market test. Also, in relation to the test, for 2020 a calculation of the results using an estimation of the consumption of fixed capital rather than the business accounts' depreciation was performed, showing no significant differences between both. It was finally noted that the debt of the company had been assumed by the State even before the transfer of ownership of the unit to the municipalities (and properly reflected in government accounts). Eurostat closed the discussion on this entity by indicating that, in the financial statements of STCP, it was mentioned that the unit had a separate complementary pension plan at the moment of the ownership transfer and inquired about the accounting recording of the transfer of these pension obligations. The Portuguese statistical authorities agreed to investigate the issue and revert to Eurostat.

TAP S.A.

TAP S.A. is the national flagship airline. Its sole owner is the Portuguese government, through the Directorate-General for the Treasury and Finance. In December 2021 a restructuring plan for the company was approved by the European Commission, with a total Restructuring Aid of EUR 2.55 billion foreseen, of which EUR 1.6 billion were received by end 2020 and 2021 and the rest could be received until 2025. From the amounts received, a loan plus interest of EUR 1.3 billion had already been recorded as capital transfers from general government in 2020 (the 2021 injection was structured as a conversion into equity of the loan granted in 2020). The remaining amount, of EUR 358 million, corresponded to a compensation from general government to TAP S.A. for the repayment of some debt incurred by the company prior to its privatisation in 2015. Since that debt had been incurred by TAP in order to cover some operating losses, the related impact in the non-financial accounts of government had already taken place before 2015, via D.43 – reinvested earnings. The loans had remained included in the gross debt of general government even after the reclassification of TAP outside S.13, as there was a high likelihood that the debt would have to be paid by the Portuguese State. In the financial accounts this repayment is recorded as a reduction in GG gross debt (F.4 – loans), with the counterpart operation in TAP S.A.

Additionally, the Company received COVID-19 related damages compensations of EUR 462 million during 2021, also as a capital increase. Given the financial situation of TAP, this capital increase was considered in national accounts as a capital transfer paid by the general government sector.

The Portuguese statistical authorities explained that TAP presented a market/ non-market test result of 50.4% in 2020, due to the severe impacts of the restrictions on world travels due to the COVID-19 pandemic, but in 2021 the market test ratio already improved to 70.3%. In addition, the financial information included in the restructuring plan for 2021-2025 points towards a strong increase in revenue while the operating costs are expected to remain controlled. In 2022, the restructuring plan foresees additional financial support to TAP from

the Portuguese State. The measures will be recorded in national accounts following the same criteria described above.

Based on this, the Portuguese statistical authorities consider that TAP should remain classified outside general government, although the financial situation of the unit will continue to be monitored. Eurostat took note of the information provided.

EFACEC

EFACEC is a Portuguese company operating in several industrial sectors that experienced difficulties in 2020. In order to ensure its financial stability, the Portuguese State decided to nationalise it by seizing its shares.

The nationalisation had a temporary nature, although the State continued to be the owner at the date of the discussion. As the nationalisation did not involve the purchase of shares, it was recorded in national accounts as K.4 - uncompensated seizure. The Portuguese statistical authorities recalled that, if the re-privatisation takes place, it will be treated as a direct sale of financial assets, impacting only ESA transactions F.2 and F.5. If there was a difference in the amount of the sale vis-à-vis the figure previously recorded, it would be recorded in other changes in price, K.7.

In the context of the severe negative impacts imposed by the COVID-19 pandemic on economic activity, EFACEC benefited from two loans from commercial banks partially guaranteed by the State (EUR 70 million in 2020 and 45 million in 2021). The Portuguese statistical authorities explained that, considering the market activity of the corporation, there was no expectation at that time of the guarantees being called and thus both were considered a contingent liability in national accounts. In the second quarter of 2022, government further granted a loan of EUR 50 million for the corporation to cover cash expenditures. As the company's economic and financial situation had deteriorated, this loan was recorded as a capital transfer, impacting the deficit of government.

The sector classification of the units of the group EFACEC will continue to be monitored. Until 2021, the two most relevant units of the group (Efacec Energia, Máquinas e Equipamentos Eléctricos, SA and Efacec Engenharia e Sistemas) presented a result of the market/non-market test above 50%.

In relation to the re-privatisation, Eurostat inquired about some recent press news mentioning a possible State support in a hypothetical agreement. The Portuguese statistical authorities took note and confirmed that they will monitor any future privatization negotiations in order to address the potential statistical impacts.

Banco Português de Fomento

Banco Português de Fomento S.A. (BPF) is a national promotional/development bank formally created in September 2020 by Decree-Law n. 63/2020 with the objective of supporting the development of the economy. It is a fully publicly owned financial corporation, with IAPMEI (Agency for Competitiveness and Innovation) and the Portuguese State, represented by the Directorate-General for Treasury and Finance, as the main shareholders.

BPF is a financial corporation under Article 6(1) (1) of the Portuguese General Rules on Credit Institutions and Financial Companies, but it does not hold a banking licence and it does not take customer deposits. It may issue any type of debt legally permitted, notably bonds or any

other financial instruments representing debt. The responsibility for issuing such type of debt belongs to BPF's board of directors.

The Portuguese statistical authorities explained during the meeting some of the recent developments affecting BPF. In June 2022, Portugal had received the Commission's State aid approval for the Strategic Recapitalisation Programme of the Capitalisation and Resilience Fund. This measure involves a financing agreement between BPF and IAPMEI which provides the Fund with up to EUR 1.3 billion of financial resources from the national RRF loans made available by the Directorate-General for Treasury and Finance of the Ministry of Finance. The Fund, classified in the general government sector, will be managed by BPF.

In September 2022, BPF carried out a capital increase of EUR 250 million financed from the RRF loans through IAPMEI. Also in 2022, government reportedly decided to transfer until the end of 2022 the management of state-guaranteed credit from the remit of COSEC (public entity managing state-guaranteed credit for exports to risky markets/clients since 1969) to BPF.

Eurostat observed that BPF has three lines of business: 1) the management of government investment funds; 2) the management of guarantee instruments supported by the Fundo de Contragarantia Mútua (FCGM, which is classified within the general government sector); and 3) the management of debt instruments, which correspond to "on-lending" loans financed by the European Investment Bank, the corresponding liabilities of which are re-routed through government accounts.

The Portuguese statistical authorities confirmed this and stated that BPF will play a significant role in the implementation of the RRF in Portugal, particularly with regards to the management of the Strategic Recapitalization Program (Programa de Recapitalização Estratégica) and the Consolidation Program (Programa Consolidar). These programmes aim to capitalize Portuguese companies through direct investment, co-investment, or partnerships with venture capital companies. The investment programmes will be structured through a dedicated fund called the Capitalization and Resilience Fund, mentioned before.

Eurostat asked about the sector classification of some of the biggest investment funds managed by BPF, based on the data published by the entity in its 2021 annual financial statements. The Portuguese statistical authorities informed that at least one of them (FINOVA) was classified outside the general government sector, despite of being fully financed by government. Eurostat inquired about the debt of this fund towards entities classified outside the general government, and the Portuguese statistical authorities stated that it was likely to be insignificant (i.e., below EUR 100 million). Eurostat took note and requested a further assessment of the sector classification of this fund, as well as of the remaining ones managed by BPF.

Eurostat further observed that government seemed to be the main or even the only client of BPF, and that this situation is expected to be exacerbated from the role that the entity will play in the implementation of the RRF. Although according to its statute the entity can raise debt, Eurostat underlined that so far it does not have own liabilities (it does not have deposits and it does not issue bonds), all the funding coming from government. Eurostat recalled that, during the discussions held in the previous EDP dialogue visit, it was agreed to monitor the sector classification of BPF based on its evolution, particularly in relation to its capacity for obtaining financing from the market and for developing business lines with clients other than government. The Portuguese statistical authorities explained that BPF was created in an economic context which rapidly changed due to the COVID-19 pandemic and the creation of

the RRF. They are nevertheless ready to quickly re-assess the sector classification of BPF in light of the current situation and planned activities.

Findings and conclusions

- (6) The Portuguese statistical authorities will verify the sector classification of the unit Instituto Nacional da Propriedade Industrial, since its NACE code according to the public corporations questionnaire is 84, “public administration and defence services, compulsory social security services”. As a matter of principle, units with such NACE code are part of the general government sector.

*Deadline: 15 February 2023.*⁸

- (7) The Portuguese statistical authorities will send to Eurostat the calculation of the market/non-market test for all public corporations, and not only for those with liabilities above 0.01% of GDP.

*Deadline: 15 February 2023.*⁹

- (8) In relation to SATA Air Açores, the Portuguese statistical authorities will analyse the company’s 2022 preliminary results and take a decision about its sector classification.

*Deadline: 15 March 2023.*¹⁰

- (9) The Portuguese statistical authorities will investigate and report to Eurostat the accounting implications of the assumption, by general government, of the pension obligations of the public corporation Sociedade de Transportes Coletivos do Porto, S.A. (STCP), which occurred in December 2019. The analysis will review, in particular, the obligations related to the pension complements that the workers of STCP had been accruing since 1975.

*Deadline: 15 February 2023.*¹¹

- (10) The Portuguese statistical authorities will continue to monitor the process of privatization of EFACEC Power Solutions SGPS, S.A., as well as the measures implemented by government to make this company viable and will inform Eurostat of the status and the possible statistical implications.

*Deadline: 15 March 2023.*¹²

- (11) The Portuguese statistical authorities will analyse the sector classification of the public fund FINOVA, managed by Banco Português de Fomento and currently classified in S.12. The results of the analysis will be shared with Eurostat.

*Deadline: 15 March 2023.*¹³

⁸ Eurostat was informed that there was an error in the NACE code reported for this unit.

⁹ The calculation was provided to Eurostat. It shows six small units failing the market/non-market test for three consecutive years and which will be reclassified before the April 2023 EDP notification.

¹⁰ The calculation, based on the provisional results for 2022, results in a ratio above 50%.

¹¹ The investigation revealed that the amounts involved are negligible. The adjustments will be introduced with the next benchmark revision of national accounts, in 2024.

¹² The updated report presented an overall impact of the operations involving EFACEC in the B.9 of general government of EUR 159 million.

¹³ The analysis performed by the Portuguese statistical authorities concluded on the appropriateness of reclassifying FINOVA into general government. Since the estimated impact in the B.9 of government accounts is not significant, and the gross debt impact is nil because the capital injections into this fund were done by units classified inside government, the reclassification will take place during the next benchmark revision to ensure the appropriate recording for the entire time series.

- (12) The Portuguese statistical authorities will inform Eurostat on which other public funds managed by Banco Português de Fomento are classified outside general government, if any, and explain the reasons for such classification.

Deadline: 15 March 2023.¹⁴

- (13) The Portuguese statistical authorities will analyse the sector classification of Banco Português de Fomento given that, among other factors, government seems to be the only client for two out of its three business lines (capital and guarantee instruments), while the third (debt instruments) is financed by the EIB, with the related debt re-routed through general government accounts. The analysis will also consider the forthcoming business developments, including the Bank's role in the implementation of RRF funds.

Deadline: 15 September 2023.

4.2. Implementation of the accrual principle

4.2.1. Taxes

Introduction

Prior to the EDP dialogue visit, the Portuguese statistical authorities provided Eurostat with the cash and accrued data for the main tax categories corresponding to the period 2018-2021, with partial data for 2022 as well.

Discussion

Eurostat recalled that the recording of indirect taxes was discussed in detail in the previous EDP dialogue visit. VAT is recorded using a time-adjusted cash basis, deducting $\frac{3}{4}$ of the revenue from January and February of year n and adding $\frac{3}{4}$ of the revenue from January and February of year $n+1$. This method of adjusting 1.5 months is linked to VAT declarations being submitted to the Tax Authority until 45 days after the period when the sales occurred (a month for big corporations and a quarter for small ones). Data is obtained from the Ministry of Finance (Tax Authority), and it becomes final by June $n+1$. Interest on late payments, fines and penalties for non-payment are recorded as D.75 – current transfers.

There are excise duties on tobacco, alcoholic beverages and oil and energy products. The revenue is recorded on a time-adjusted cash basis of one month, reflecting the fact that tax declarations must be submitted when the product is consumed, and paid by the end of the same month.

In relation to the corporate and personal income tax, revenues are recorded on a pure cash basis. Personal income tax declarations are due from April to June $n+1$, while corporate income tax (CIT) declarations are due by May $n+1$, with three advance payments during year n . A discussion ensued in relation to different modifications that government implemented in the scope and deadlines of these three advance payments for the corporate income tax in the context of the COVID-19 crisis.

CIT-related advance payments are made in three instalments during the year, typically in July, September and December 15th. Advance payments are based on the tax assessed for the immediately preceding period in which such payments are due, net of withholding tax by third parties, considered as payments on account. There are two tiers based on the volume of business:

¹⁴ The analysis identified two funds classified outside general government. Considering the small amounts involved and the fact that both are in a phase of winding down, the Portuguese statistical authorities decided to take a final decision based on an in-depth analysis in the context of the benchmark revision in 2024.

- Turnover equal to or less than 500,000 euros: Advance payments = (Tax assessed for the previous period - withholding tax for the previous year) x 80%.
- Turnover exceeding 500,000 euros: Advance payments = (Tax assessed for the previous period - withholding tax for the previous year) x 95%.

The amount obtained is divided into three instalments, although in the third instalment the amount can be adjusted according to the expectations of the taxable final amount of year n. The liquidation of the final balance for year n (i.e., CIT actually due minus CIT advanced in the year n) is done in the declaration of May n+1.

In response to the COVID-19 crisis, government decided in 2020 to reduce (or even suspend, in some cases) the first and second instalments for CIT advance payments. The requirement for the third payment was unmodified, although it was capped to the amount of CIT that each company had paid in relation to the previous year. The Portuguese statistical authorities considered that there was no need to adjust the accrual recording (in pure cash basis) to reflect any related impact because the effect would not be spread to the following period.

In 2021 this measure was discontinued, but government decided to support the liquidity of small and medium enterprises (SME)¹⁵ by implementing a suspension of the CIT advance payments, in the following terms:

- SMEs may be exempted from the first, second and third advance payments. However,
- if the taxpayer finds that, as a result of the exemption and based on the interim income statement for 2021, they failed to pay an amount greater than 20% of what would have been paid under normal conditions, they may proceed to pay the missing tax amount within the deadline of the third advance payment.

Eurostat indicated that the Portuguese budget implementation report of the year-to-date figures corresponding to 2022 showed a significant increase in CIT receipts. Specifically, in the second quarter of 2022, receipts were 54% higher than in the same period in 2021, and 37% higher than in the second quarter of 2019, before the pandemic. Overall, CIT revenues increased by 81% (EUR 2,786 million) in the period of January-September 2022 compared to the same period the year before. Eurostat emphasised the importance of ensuring that no payments related to 2021 had been shifted to 2022 as a side-effect of government's decision to modify the schedule of advance payments to SMEs. Otherwise, an ad-hoc adjustment should be recorded to correct it.

The Portuguese statistical authorities explained that the introduction of an ad-hoc adjustment was not deemed necessary. The increase in the 2022 receipts was explained by the underlying economic conditions, as the economy in Portugal showed a significant degree of resilience and the recovery from the lapse created in 2020 by the beginning of the COVID-19 pandemic had been much quicker and stronger than anticipated. As a matter of fact, an upward revision of GDP for 2021 had taken place following a better-than-expected behaviour of corporations. Since the advance payments are calculated based on the income of corporations in the previous year, it is normal that the advance payments made in year 2021 were much lower than those of 2022. In relation to the suspension of up to three advance payments during 2021 for SMEs, the Portuguese statistical authorities considered that the decision does not bring any effective change in the year of recording, as the third advance payment included a balancing provision. In addition, the biggest part of the CIT revenues is paid by big corporations, whereas the measures targeted mostly small companies with liquidity issues. Consequently, the Portuguese statistical authorities concluded that the increase of CIT

¹⁵ Defined in Portugal as those with an annual revenue below EUR 50 million.

revenues during 2022 is only due to economic conditions and in no way to a legislative change.

The Portuguese statistical authorities also expressed their strong preference for avoiding using ad-hoc adjustments to record taxes. This practice had been discontinued several years ago due to some inconveniences attached to the departure from recording observed events (i.e., cash receipts). It was also pointed out that previous economic recessions had similarly led to an increase in tax settlements observed the year following the recovery. What was perhaps abnormal in the case of the COVID-19 crisis was the fact that the recovery took place after only one year compared to, for example, a typical economic crisis where the GDP decreases for a number of years. Finally, the Portuguese statistical authorities recalled that the current recording based on cash data is in line with paragraph 4.82 of ESA 2010, that explicitly allows for a flexibility option to record any final tax liability on income in the period in which the liability is determined.

Eurostat took note of the explanations provided. However, it considered that further discussion was needed regarding the consequences of using a pure cash-recording method for taxation when there is a period of poor economic performance followed by a quick and strong recovery. Eurostat emphasized that a cash-based recording of tax settlements can be appropriate if these settlements remain consistent over time. It recalled that the 2008 financial crisis had highlighted the disparities in government accounting resulting from the utilization of pure cash, time-adjusted cash, or assessment approaches. As a response, during the COVID-19 crisis, ad-hoc adjustments were implemented to approximate the recording to an accrual basis and minimize accounting discrepancies among Member States. While Portugal did not make such adjustments due to the absence of legal changes, the recent figures of CIT revenue were not aligned with the underlying economic behaviour and require correction.

In this context, Eurostat requested the provision of data regarding the regulatory changes in CIT cash receipts over several years, with a specific focus on distinguishing the sub-category of Small and Medium Enterprises and indicating whether the payments were made as advances or final tax settlements. After analysing this data, Eurostat suggested to further discuss with the Portuguese statistical authorities the potential implementation of a special adjustment to be included in the April 2023 EDP notification.

The discussion moved to the issue of deferred tax assets (DTA). Eurostat recalled that DTAs created from the non-deduction of costs and negative equity variations from impairment losses resulting from debts and post-employment or other long-term employee benefits, may be converted into deferred tax credits (DTC) under a special legal regime when the taxpayer reports an accounting loss. The taxpayer may offset this credit against tax liabilities or ask for reimbursement from the State. For obtaining these tax credits, once the Portuguese Tax Authority has validated the tax return, the company has to issue (within a maximum period of three years) a convertible bond to the State, equal to 110% of the tax credit granted. Shareholders may acquire back this bond (which is in fact a warrant) before its conversion into capital over the following ten years.

The amount of deferred tax assets to be converted into a tax credit shall be subject to the certification by a statutory auditor and to the confirmation of the Tax Authority. This second step is summarized in a bi-annual report which is published in the webpage of the Tax Authority.¹⁶ The latest report published refers to the first semester of 2020 and Eurostat inquired about the existence of a more updated report. The Portuguese statistical authorities

¹⁶ See https://info.portaldasfinancas.gov.pt/pt/Grandes_Contribuintes/REPID/Paginas/default.aspx

confirmed that a more recent version existed in relation to the first half of 2022 and agreed to share it with Eurostat.

Eurostat noted that, based on the 2020 report, Novo Banco and Caixa Geral de Depósitos (CGD) appeared to be the main beneficiaries of the tax conversions. Eurostat proposed discussing these two cases further. The Portuguese statistical authorities clarified that the conversion of DTAs into tax credits for Novo Banco is recorded as D.9 in the national accounts in the year of validation. This is because Novo Banco has indicated that they will not repurchase the convertible bonds, as the conversion to share capital belonging to the State would only dilute the stake of the Portuguese Resolution Fund (classified in S.13). According to the privatization agreement, the private investor acquired 75% of the shares, and this percentage cannot be diminished. Therefore, the State will increase its share of the capital at the only expense of the Resolution Fund, another government unit.

Eurostat took note of the explanations and observed that there seemed to be a different process for the DTA conversion applicable to Novo Banco and to CGD, since Novo Banco was effectively receiving some disbursements from government whereas CGD was not. The Portuguese statistical authorities indicated that the time of recording of the DTA conversion is done at the moment when the Tax Authority issues the payment, rather than when it approves the request. This is due to the fact that the statistical authorities do not have access to the information associated to the time of approval, but they do have information on the payment. In the case of CGD, no payments had been granted yet. Eurostat stated that a better information sharing mechanism could be established with the Tax Authority so that the time of recording of these operations would be the time of approval instead of the time of payment. It further enquired about the reasons for possibly classifying a DTA conversion of CGD as a D.9, concluding that a case-by-case analysis would be more appropriate. Finally, Eurostat inquired whether these warrants are reported in GFS and the Portuguese statistical authorities confirmed that they are not recorded in the financial accounts, nor on the table on derivatives.

Findings and conclusions

(14) The Portuguese statistical authorities will analyse whether some amounts collected in 2022 in relation to the corporate income tax should be accrued to 2021 instead of 2022. In particular, the Portuguese statistical authorities will report to Eurostat the gross and net amounts collected for the corporate income tax in the three advance payments of a given year and in the following year's final liquidation, for the longest time series possible. The data will be split between small and medium enterprises and other corporations.

*Deadline: 15 February 2023.*¹⁷

(15) The Portuguese statistical authorities will send to Eurostat an updated report, prepared by the Portuguese Tax Authority, on the program of conversion of deferred tax assets into tax credits (REAIID). The Portuguese statistical authorities will clarify why the special reserve created at conversion may differ in some cases from the value, defined by law, of 110% of the amounts converted. Similarly, a clarification will be provided on the reasons for having significant delays between the date of approval and the date

¹⁷ The data was received and reviewed by Eurostat. It was confirmed that the trend in CIT was not influenced by regulatory changes. The Portuguese statistical authorities concluded that no change in the current method was advisable at the moment, although they will evaluate and analyse the available data and different recording methods aiming at implementing a structural change in the recording of the CIT in the Portuguese national accounts by developing an accrual-based methodology in the framework of the next benchmark revision of the national accounts to occur in September 2024. Eurostat took note of the conclusions.

of payment, as well as on the accounting treatment that will be applied for the payment related to Caixa Geral de Depositos (reportedly taking place before year-end).

The Portuguese statistical authorities will reflect on developing a method for accessing the information regarding REAID on a timely basis, as well as how and when to change the current practice of recording the conversion on a cash basis (when the amounts are paid) to an accrual basis (when the amounts are approved by the Tax Authority).

*Deadline: 28 February 2023.*¹⁸

4.2.2. Social contributions

Introduction

The recording of social security contributions was discussed at length in previous EDP dialogue visits.

Discussion

Eurostat recalled that social contributions are recorded on a time-adjusted cash basis, with one-month delay. Social security declarations must be presented in Portugal between day 10 and day 20 of every month, regarding the preceding month. The source for this adjustment is the monthly budget execution of Social Security. The financial management unit of the social security (IGFSS) collects the information and sends it to INE.

The final data for the year n becomes available in June of n+1.

Findings and conclusions

Eurostat took note of the information provided.

4.2.3. The impact of the COVID-19 crisis in taxes and social security contributions

Introduction

The Portuguese statistical authorities shared in advance of the meeting a summary table of the effect in national accounts of the fiscal measures implemented in response to the COVID-19 crisis, as well as a detailed table presenting the amounts involved in each of the deferral actions granted. These documents constituted the basis for the discussion.

Discussion

The Portuguese statistical authorities explained that several tax deferral measures had been implemented in Portugal in response to the COVID-19 crisis, such as a six-month deferral in the collection of the amounts due for VAT. The VAT deferral has been implemented in five phases, with the fourth phase ending in December 2021 and the fifth one starting in January

¹⁸ Eurostat received the most recent report on the program of conversion of deferred tax assets into tax credits prepared by the Portuguese Tax Authority and sent to the Portuguese Parliament, with reference to the first half of 2022. The report for the second half of 2022 was not available yet. A separate note explained the reasons for having in some cases a special reserve created at the time of the conversion of the DTA higher than 110% of the amounts converted. This occurs when the value of a specific conversion right is adjusted to be equal to the price of an ordinary share. Regarding the observed delays, it was noted that all requests are subject to an inspection, which may take up to 15 months for individual units or more in the case the unit is part of a group (as other units of the group may also be subject to inspections before the process can be concluded). In addition, there were significant delays also due to the COVID-19 pandemic, notably affecting the duration of some inspections and its formal recognition by the Tax Authority, and consequently delaying the payments.

2022. Although the COVID-19 related deferrals will likely be discontinued in 2022, other similar liquidity measures will be granted to the taxpayers in the context of the high energy prices during 2022. The accounting treatment will be done in the same way, i.e., by introducing ad-hoc adjustments to reflect the deferred amounts.

In relation to the corporate income tax, as it was discussed before the measures implemented were limited to adjusting the advance payments within the year. These advance payments, which are based on the corporate tax reported for the previous year, are payable in July, September and December. In the context of the COVID-19 crisis, certain companies were allowed to delay their advance payments due in July and September, upon the presentation of some projections of their expected income for the full year. In December, in the third instalment, the amount can be adjusted according to the expectations of the taxable final amount of year n.

Eurostat inquired about estimations of the amounts unlikely to be collected. The Portuguese statistical authorities informed that this estimation for VAT is based on the actual data of collections obtained, during the implementation of the previous phases. Eurostat noted that the supplementary table for the reporting of the measures introduced in the context of the COVID-19 pandemic did not include amounts unlikely to be collected and requested its inclusion.

In relation to the social security contributions, it was recalled that the payments corresponding to the months of November and December 2020 due by micro, small and medium sized corporations and self-employed workers could be deferred to the second semester of 2021. Eurostat was informed that a similar measure, although reduced in scope, was enacted in relation to the month of July 2022. The deferred amounts were recorded in the following months, with a small remaining stock at the end of the year.

Findings and conclusions

- (16) The Portuguese statistical authorities will include, in the table on the impact of COVID-19 crisis related measures, the losses derived from deferred taxes deemed uncollectable.

*Deadline: April 2023 EDP notification.*¹⁹

4.2.4. Interests

Introduction

Prior to the EDP dialogue visit, the Portuguese statistical authorities provided to Eurostat an updated table on the recording of interest and a reconciliation between the State, the central government and the general government debt. These documents were the basis for the ensuing discussion.

Discussion

Eurostat explained that the table on the recording of interest was created to verify the consistency of EDP table 3B. This table also allows observing the transit from face value to ESA nominal value of debt, consistently with the specific table on debt, compiled at the initiative of the Portuguese statistical authorities.

Eurostat recalled the detailed analysis that took place during the last EDP dialogue visit in relation to the recording of interest. The table submitted in advance of the current visit builds on the good work done in the past and shows some revisions to data previously reported,

¹⁹ This information was provided in the context of the April 2023 EDP notification.

notably in the stock of coupons. The scope of the table continues to be limited to the State debt.

Eurostat inquired about the recording of the capitalized interest, in relation to some instruments issued by the Portuguese debt agency that are linked to either the GDP real growth or the Euribor rate. The Portuguese statistical authorities informed that the capitalized interests are included in the figures reported in the table, although the corresponding memo line (item 23) in the table ‘Capitalization on indexed securities’ had been left empty. This disclosure will be included in future iterations of the table.

Eurostat noted that there were no figures reported in line 2 of the table (‘revaluations and other changes in volume’) where one could expect to see some foreign exchange effects due to the coupons payable from bonds issued in foreign currencies. The Portuguese statistical authorities will verify whether this information can be obtained from their registers in view of future versions of the table.

Eurostat indicated that the information provided in the table seemed complete as it was indeed matching the details published by the Debt Agency on the State debt, as well as ESA Table 28. In this respect, the reconciliation made by the Portuguese statistical authorities between the State and the Central Government debts was very useful.

Eurostat observed that the cost of the debt decreased during 2021 despite an increase in the stock. It was explained that some older and more costly issuances were purchased back during the year, including bonds issued in US Dollars. As a consequence, the average maturity of the debt rose slightly at the end of 2021, as the low interest rate environment supported by the ECB's purchase programme, as well as the demand for longer maturities, allowed for an increase in longer maturity issuances compared to 2020, at practically the same marginal cost. It was also recalled that Portugal carried out a first repayment of EUR 2 billion to the European Financial Stability Facility (EFSF) on 17 October 2019 and that EUR 0.5 billion were repaid to the European Financial Stability Mechanism (EFSM) on 4 April 2022.²⁰ In 2022, Portugal continued to engage in debt buy-back transactions and bond issuances targeting longer maturities.

Eurostat took note of the explanations provided and noted that the figure on line 21 of the interest table, concerning FISIM, was very small. The Portuguese statistical authorities indicated that this is due to the fact that most loans provided to the State come from EU institutions (e.g., EFSF, ESM or SURE loans), for which no FISIM is calculated. It was agreed that it was desirable (albeit difficult) to extend the scope of the table to the full central government sub-sector.

Finally, it was explained that retail debt instruments such as the so-called saving certificates (‘Certificados de Aforro’)²¹ have become increasingly attractive for Portuguese households. The net issuance of retail debt instruments is projected at EUR 12 billion in 2023, compared to around EUR 0.5 billion in 2021. Traditional financing sources, such as Portuguese

²⁰ Commission Decision of 26 August 2019 relating to the waiving under the mandatory proportionate repayment clause to the EFSM Loan Agreement between the Union and the Portuguese Republic, C(2019) 6264 final.

²¹ Saving certificates (‘*Certificados de Aforro, série E*’) are non-tradable and retail distributed, only to be subscribed by households. With a maturity of 10 years, their interest rate is calculated on a monthly basis considering the three-month Euribor rate. Their interest rate can fluctuate between 0% to 3.5%, being accrued on a quarterly basis. Early redemptions, total or partial, are possible (Government Order No 329-A/2017 of 30 October). The interest rate for subscriptions and capitalisation of saving certificates (‘*séries E*’) was fixed at 3.5% in April 2023.

government bonds²² or T-bills, are expected to lose weight compared to Portugal's initial financing programme for 2023.

Findings and conclusions

(17) In relation to the table on interest recording that the Portuguese statistical authorities filled-in in advance of the meeting, Eurostat will provide an updated template so that the interest capitalized may be appropriately distinguished and disclosed. The Portuguese statistical authorities will reflect about the possibility of expanding the coverage of the data reported to include Other Central Government bodies, and whether some values should be reported under line 2 "Revaluation (+/-) and other changes in volume (+/-)", since there are bonds issued in foreign currency.

Deadline: October 2023 EDP notification

4.2.5. Financial derivatives

Introduction

Prior to the EDP dialogue visit, the Portuguese statistical authorities provided to Eurostat a table summarising different aspects on the recording of financial derivatives. This document was the basis for the ensuing discussion.

Discussion

The Portuguese statistical authorities explained that the table provided is a preliminary version and still work in progress as, for example, the transactions to be reported in Blocs 4 and 5 of the table are still under review. The data sources available are mostly designed around the management of the associated cash flows, and there are some difficulties in reconciling these to national accounts concepts. Eurostat took note and indicated that there is a more updated template with additional explanatory notes that may be useful in completing the missing data.

The Portuguese statistical authorities explained that, in the period 2018-2021, the Debt Agency is hedging the debt portfolio mostly by means of interest rate swaps, cross-currency swaps, swaptions, FX swaps and forwards. Eurostat appreciated the fact that Bloc 1 was reported in gross values for all types of instruments and inquired about the nature of the swaptions reported for the period 2018-2020. The Portuguese statistical authorities agreed to come back with this information. A question followed in relation to the existence of derivatives used by government entities other than those managed by the Debt Agency. The Portuguese statistical authorities informed about some corporations, such as Metro do Porto, Metropolitano de Lisboa or STCP that enter into derivatives as well. It was agreed that it would be desirable to increase the scope of the table in future iterations.

Findings and conclusions

(18) The Portuguese statistical authorities will inform Eurostat about the details of the Swaption that was ended in 2021, including its characteristics (the buying party, the conditions embedded in the contract), the reasons for liquidation (maturity or cancellation) and whether its ending gave rise to a swap contract.

²² Portuguese government bonds issuances for 2023 include the private placement of bonds to *Caixa Geral de Aposentações* (CGA) as part of the transfer of liabilities from the *Fundo de Pensões do Pessoal da Caixa Geral de Depósitos* (FPCGD) to CGA (Decree-Law No 14/2023 of 24 February).

*Deadline: 15 February 2023.*²³

- (19) Eurostat will share with the Portuguese statistical authorities an updated template of the table on the recording of financial derivatives, as well as some clarification guidelines on how to fulfil it. The Portuguese statistical authorities will review the information and complete the table for the general government. Eurostat will remain available for holding a video-conference meeting to address further questions, if necessary.

Deadline: October 2023 EDP notification.

4.2.6. EU flows and RRF

Introduction

The Portuguese statistical authorities prepared in advance of the meeting a table summarizing the recording of EU flows for the period 2018-2021.

Discussion

The Portuguese statistical authorities recalled that all EU associated flows are transiting through the Treasury Agency (IGCP). The IGCP manages the accounts/funds of the State and shows them as off-balance-sheet amounts. No related revenue is recognised at the time the funds are received from the EU and there is no impact on the B.9 of general government. The funds received by the IGCP are transferred to the promoters of the programs except for the lines of business support that are channelled through the two intermediate entities classified in the other central government bodies (IAPMEI - Agência para a Competitividade e Inovação and ITP - Instituto de Turismo de Portugal).

In relation to the EU Financial Instruments, when they are implemented via a fund of funds, the associated EU flows are recorded as purely financial, i.e., as a payable (F.89) of the ‘beneficiary’ towards the EU, and not as government revenue. On the other hand, when they are implemented via IAPMEI and ITP, a notional unit (S.11) is created. This unit receives the EU flows and lends to SMEs. The Portuguese statistical authorities consider that this method reflects the economic reality of the EU flows entering the Portuguese economy and positively affecting the balance of the total economy, as they are not reimbursable, while ensuring the principle of the EU funds neutrality in the general government.

The only amounts in the context of EU flows recorded in the working balance are those related with the European Social Fund in table 2D. The accrual adjustment done in EDP tables 2D is included in “other accounts receivable”, while in EDP table 2A it is in the B.9 of other government units.

In relation to the recording of operations related to the Recovery and Resilience Facility (RRF), the Portuguese statistical authorities explained that the current rate of absorption is relatively low and below the budgeted amounts. In terms of recording, all revenue and expenditure related to RRF flows are recorded in government accounts, even if the final beneficiary of the measure is classified outside government. Public companies that are regularly reporting on accrual basis record the revenue at the same time than the associated expenditure. As the accrual recording is not applied by all institutional units classified within S.13 (e.g., those classified within other central government bodies), the Ministry of Finance issued some specific guidance to ensure that the revenue is recorded at these units only when

²³ A report with the details was provided to Eurostat, which confirmed the accounting treatment followed by the Portuguese statistical authorities.

the associated expenditure is incurred. However, some post-oversight and corrections are necessary.

The Portuguese statistical authorities explained that the political coordination of European funds is the responsibility of the Minister of the Presidency. An agency called Recuperar Portugal was created in May 2021 with the objective of negotiating, contracting and monitoring the execution of the RRP. It was recalled that the RRP for Portugal was approved in July 2021.²⁴ The RRF provided for a total financial contribution of EUR 16.6 billion (about 8% of GDP) – of which, EUR 13.9 billion in grants or non-repayable support and EUR 2.7 billion in loans – with payments to be made by 31 December 2026.²⁵ Portugal received on 3 August 2021, a pre-financing of EUR 2.2 billion (1% of GDP) – of which, EUR 1.8 billion in grants and EUR 0.4 billion in loans – corresponding to 13% of the original total financial allocation. Following the Commission’s endorsement of a positive preliminary assessment of Portugal’s payment request on 25 March 2022, a total of EUR 1.16 billion (0.5% of GDP), net of pre-financing – of which, EUR 0.55 billion in grants and EUR 0.61 billion in loans –, was disbursed to Portugal on 9 May 2022.²⁶

On 30 September 2022, Portugal submitted to the Commission its second payment request under the RRF for the disbursement of EUR 1.8 billion, net of pre-financing – of which, EUR 1.7 billion in grants and 0.1 billion in loans. In 2022, the maximum financial contributions were updated for all the Member States and the financial allocation in grants to Portugal under the Recovery and Resilience Facility increased by EUR 1.6 billion.²⁷ The total RRF grant allocation therefore stood at EUR 15.54 billion (7.3% of 2019 GDP).²⁸

In addition, under the Support to mitigate Unemployment Risks in an Emergency (SURE) instrument, Portugal was granted a loan for a maximum of EUR 5.9 billion (about 3% of GDP),^{29 30} with an average maturity of approximately 15 years, directed to finance public expenditure in relation to short-term work schemes or similar measures, as well as health related measures. The total maximum amount of the loan had already been fully disbursed to Portugal, of which EUR 3 billion on 1 December 2020, EUR 2.4 billion on 25 May 2021 and EUR 0.5 billion on 29 March 2022. On 28 September 2022, the Commission proposed to the Council to grant an additional loan of EUR 300 million to Portugal under SURE.³¹

²⁴ Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Portugal (ST 10149/21+ADD 1 REV 1).

²⁵ Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17–75.

²⁶ Positive preliminary assessment of the satisfactory fulfilment of milestones and targets related to the first payment request submitted by Portugal on 25 January 2022, transmitted to the Economic and Financial Committee by the European Commission.

²⁷ Commission note to the Council and European Parliament on 30 June 2022 relating to the update of the maximum financial contribution as stipulated in Article 11(2) of the Recovery and Resilience Facility Regulation (Regulation (EU) 2021/241).

²⁸ On 8 February 2023 Portugal received an additional EUR 1.8 billion – of which, EUR 1.7 billion in grants and EUR 0.1 billion in loans. See the positive preliminary assessment of the satisfactory fulfilment of milestones and targets related to the second payment request submitted by Portugal on 30 September 2022, transmitted to the Economic and Financial Committee by the European Commission.

²⁹ Council Implementing Decision (EU) 2020/1354 of 25 September 2020 granting temporary support under Regulation (EU) 2020/672 to the Portuguese Republic to mitigate unemployment risks in the emergency following the COVID-19 outbreak, OJ L 314, 29.9.2020, p. 49–54.

³⁰ Council Implementing Decision (EU) 2022/99 of 25 January 2022 amending Implementing Decision (EU) 2020/1354 granting temporary support under Regulation (EU) 2020/672 to the Portuguese Republic to mitigate unemployment risks in the emergency following the COVID-19 outbreak, OJ L 17, 26.1.2022, p. 47–51.

³¹ This amount was then disbursed to Portugal on 14 December 2022.

Findings and conclusions

Eurostat took note of the information provided.

4.3. Recording of specific government transactions

4.3.1. Capital injections in public corporations, dividends, privatization

Introduction

Prior to the EDP dialogue visit, the Portuguese statistical authorities provided to Eurostat a table listing the different companies that had paid dividends to government as well as their associated profits over 2018-2021.

Discussion

Eurostat observed that the dividends received by government mainly come from the Banco de Portugal, with a sizeable contribution coming also from Caixa Geral de Depósitos (CGD) in 2019 and 2021. The remaining companies appear to have a solid operating profit, although there is no information on the units paying a dividend to the social security funds (EUR 110 million in 2021, 0.05% of GDP).

Eurostat recalled that CGD did not issue a dividend for 2020, in line with the ECB recommendations for 2019 and 2020 fiscal years in the context of the COVID-19 crisis. In 2021, it distributed a dividend of 383.6 million to government. Eurostat inquired about the calculation of the super-dividend test in relation to that amount, particularly regarding whether part of the dividend had been distributed from reserves (retained earnings). The Portuguese statistical authorities explained that the net operating profit of CGD for 2020 was higher than the dividend paid in 2021 and, therefore, the full amount was considered as non-financial in national accounts. Eurostat took note of the information provided but noted that CGD reported the following in its 2021 Annual Report: “in November 2021 CGD distributed EUR 300 million in dividends retained in 2019 and 2020, via the delivery to its shareholder of amounts available in ‘Other reserves and retained earnings’ under articles 31 to 33 of the commercial companies code.” In light of that statement, Eurostat requested some further analysis to the Portuguese statistical authorities in order to clarify whether part of all the dividend received during 2021 from CGD should had been considered as a financial transaction.

Findings and conclusions

(20) The Portuguese statistical authorities will reflect on whether the recording of the dividend received by government in 2021 from Caixa Geral de Depositos (CGD) should be split and recorded as revenue between 2020 and 2021, since in 2020 CGD paid no dividend (following the ECB recommendation in the framework of the COVID-19 crisis) and the dividend paid in 2021 includes a component of retained earnings.

*Deadline: 15 March 2023.*³²

4.3.2. Guarantees

Introduction

³² The Portuguese statistical authorities provided this analysis, based on the minutes of the relevant General Assembly meetings. The full dividend received remains as non-financial in year 2021.

Eurostat appreciated the detailed table on guarantees provided by the Portuguese statistical authorities before the EDP dialogue visit.

Discussion

Eurostat inquired about the Contingent Capital Mechanism (CCM) related to Novo Banco, the guarantees provided to the African Development Bank and some other specific transactions.

Novo Banco is a “good bank” created in August 2014 during the resolution process of Banco Espírito Santo S.A. The Portuguese government privatized the bank in October 2017, when an investor acquired 75% ownership while the National Resolution Fund (classified in S.13) kept the remaining 25%. The privatization agreement foresaw a Contingent Capital Mechanism (CCM) of up to EUR 3,890 million that protected the buyer against future losses under some circumstances.

The CCM is considered in national accounts as a guarantee. The Portuguese statistical authorities first recorded a guarantee call in 2018 by booking a D.9 for EUR 792 million, expenditure of the National Resolution Fund (NRF), since nothing is received in exchange, no new shares are issued and the minority position of the NRF remains at 25% of *Novo Banco*’s capital). Subsequent calls were treated similarly. Overall:

- in 2018 for an amount of EUR 792 million,
- in 2019 for a total amount of EUR 1,149 million,
- in 2020 for EUR 1,037 million, and
- in 2021, for EUR 429 million.

In previous EDP dialogue visits, Eurostat recalled ESA2010 paragraphs 20.256 and 20.245 provisions, that state that when there is high likelihood that the guarantee will be called, such guarantees are recorded as if called at inception or an estimation of the expected loss has to be made. The Portuguese statistical authorities explained that, at that stage, it was difficult to assess the likelihood of a call; in addition, the amounts that might be called in the future are also difficult to define. A double mechanism is needed for the activation for this guarantee: on the one hand, it depends on losses incurred on the insured assets portfolio; and, on another hand, it also depends on the actually realised capital ratio of the Bank, as compared to the minimum capital requirements. Separately, the Portuguese statistical authorities noted that the MGDD states that, in case of guarantees on financial assets, a call is recorded as capital transfer at the time it takes place. Eurostat took note and considered that, taking into account all the features of the CCM, the approach followed by the Portuguese statistical authorities to record D.9 at the time of cash call was acceptable.

During the meeting Eurostat asked about the conclusions of a recent report issued by the Portuguese Court of Auditors in relation to the privatisation of Novo Banco.³³ In particular, the report highlighted a risk that the restructuring period related to the CCM may have to be extended. The original period was supposed to end by 31 December 2021. However, if Novo Banco had not reached sufficient profitability levels by then, the private investor could request an extension and the activation of an additional capital mechanism (capital backstop) of up to EUR 1.6 billion. The Portuguese statistical authorities informed that, to the best of their knowledge, such a backstop clause had not been activated. Eurostat took note and requested

³³ <https://www.tcontas.pt/pt-pt/ProdutosTC/Relatorios/RelatoriosAuditoria/Documents/2022/re1018-2022-2s.pdf>

to be informed about the latest status of the agreement, including a confirmation that the extension had not taken place.

In relation to the guarantees provided to the African Development Bank, the Portuguese statistical authorities confirmed that the total amount guaranteed in 2022 was EUR 400 million and agreed to further investigate the statistical treatment of these guarantees. Eurostat appreciated the information received and closed the discussion confirming that the guarantees provided by Portugal to Ukraine in the context of the Russian aggression were treated as one-off guarantees, in line with the discussions held at the framework of the EDPS WG.

To conclude this point of the agenda, Eurostat inquired about some recent news articles referring to the reimbursement, in July 2022, of a EUR 746 million public guaranteed loan by Oitante, a special purpose financial vehicle created in December 2015 to manage the bad assets resulting from the resolution of Banif bank. The Portuguese statistical authorities confirmed that the Treasury had granted a guarantee to the Fundo de Resolução (the National Resolution Fund) to be the guarantor of Oitante's loan.

Findings and conclusions

- (21) The Portuguese statistical authorities will analyse the capital backstop included in the privatization agreement of Novo Banco and clarify when and under which circumstances it could be activated. They will inform Eurostat about the results of the analysis, including those aspects related to the relevant accounting treatment.

Deadline: 30 June 2023.

- (22) The Portuguese statistical authorities will assess the statistical treatment of the guarantee provided to the African Development Bank in 2022.

Deadline: 15 March 2023.³⁴

4.3.3. Public Private Partnerships (PPP), concessions and EPCs

Introduction

Before the EDP dialogue visit, the Portuguese statistical authorities sent to Eurostat a list of existing PPP projects as well as the concessions signed since 2017 (which presented no changes compared to the information provided in the last EDP Dialogue Visit). A note explaining data sources and the most relevant characteristics of certain projects was also provided in relation to energy performance contracts (EPCs).

Discussion

Eurostat took note that the majority of PPPs in Portugal started in 2011 or earlier and that there are no recent projects under construction. Eurostat recalled that the main data source for central government PPPs is UTAP – Unidade Técnica de Acompanhamento de Projetos (Ministry of Finance). For the PPP's in Açores, the information is received from the Regional Government of Açores through the regional statistical office. The Portuguese statistical authorities confirmed that there are no PPP projects in Madeira.

³⁴ The Portuguese statistical authorities informed that, for the moment, there were no disbursement of the guarantee. These will occur when a specific company requests the African Development Bank the financing by presenting the project in question. The Portuguese State has to approve the financing, activating the guarantee. Given the specificity of this guarantee, Eurostat and the Portuguese statistical authorities will follow-up in relation to the recording in national accounts, notably considering that there are similar cases in other Member States.

The Portuguese statistical authorities informed that the contract for the provision of medical services of Hospital de Braga ended in the 3rd quarter of 2019, Hospital Vila Franca de Xira in the 3rd quarter of 2020 and Hospital de Loures in January 2022. In the three cases, the services previously provided by the private partner were taken over by a public corporation, Hospital de Braga, EPE, Hospital Vila Franca de Xira, EPE and Hospital de Loures EPE, classified in the general government sector. The PPP contract for the building management remained unchanged.

The process of studying and launching the project of the “Hospital de Lisboa Oriental” in a public-private partnership regime started in 2020 and the deadline for submission of the qualifying documents by the winning group is currently running. The contract will have a duration of 30 years, with the winning proposal presenting a Net Present Value of EUR 257.7 million.

Eurostat inquired about some recent court rulings that affected PPP contracts and concessions. The Portuguese statistical authorities explained that those related to PPPs are associated to financial rebalancing requests for small amounts, which are not material concerning the allocation of risks as discussed in the previous EDP dialogue visit. Regarding court cases affecting concessions, they typically refer to situations where the private partner is remunerated directly by tolls charged. In those cases, the court ruled that the reduction in traffic (and thus, in tolls revenue) was the direct consequence of delays or cancellation of the construction of some road sections relevant for the traffic in the concession under analysis, following government decisions. The compensation is recorded in national accounts as an expenditure, at the time of the court decision.

Eurostat observed that there are a number of contract rebalancing requests which, although perhaps non-significant individually, may lead to further fiscal risks if they are applicable to all existing contracts. In this context, it would be very useful to obtain an overview of the reasons why the partners are claiming those contracts rebalances (e.g., on the basis of force majeure, minimum amount of revenue, compensation for government action, etc...) as well as the compensations requested and granted.

As regards the Revive project for historical buildings, INE confirmed that the first contract was signed in 2019 and that 14 contracts have been signed so far, with a total contractual value of EUR 10 million.

Eurostat inquired on the type of contract planned to be used for the new airport of Lisbon and the Portuguese statistical authorities explained that it had not been decided yet.

The Portuguese statistical authorities confirmed that there is no centralised data source for concessions, which can be launched by different units. Therefore, INE gathers information project by project. In Portugal, all concessions are currently recorded off-government balance sheet.

In relation to EPCs, the Portuguese statistical authorities informed that there were some recent institutional modifications in the framework of energy efficiency improvement interventions, with technical and operational support provided by the Portuguese Energy Agency, which is assigned with the responsibility of providing the support in the closing of EPCs and in monitoring of contractual performance. In this context, the Public Procurement Portal³⁵ is being explored in order to monitor the existing contracts, as no centralized registration platform for EPC projects exists at the moment. The Portuguese statistical authorities have identified 14 contracts for public lighting systems in Municipalities fulfilling the criteria defined for EPC projects, with a total contract value of EUR 74.7 million (without VAT). The

³⁵ <https://www.base.gov.pt/base4>

accounting analysis shows that the recording as an operating lease is appropriate as the EPC contractors can be considered the economic owners of the underlying assets. Most of the risks related with the projects are borne by the EPC contractors, which are responsible for the construction and maintenance of the assets, including the substitution of defective equipment, with penalties for underperformance. On the other hand, the fees received by the EPC contractors are calculated based on the expected energy savings, being entitled in addition to half of the excess gains if the energy savings are higher than expected. Consequently, in national accounts the assets are recorded in the balance sheet of the private partner and the rental payments (EPC fees) made by Municipalities are recorded as expenditure (classified as intermediate consumption – purchase of services), with impact on government B.9.

Findings and conclusions

(23) In relation to the ongoing contract rebalancing requests, the Portuguese statistical authorities will check under what arguments are the partners claiming for compensation (e.g., on the basis of force majeure, minimum amount of revenue, compensation for government action, etc...) and will provide to Eurostat the figures for compensation requested and compensation granted, by project.

*Deadline: 15 March 2023.*³⁶

4.3.4. Debt assumptions, debt cancellations and debt write-offs

Introduction

Before the EDP dialogue visit the Portuguese statistical authorities provided to Eurostat a table listing all debt assumptions of S.1311 and S.1313, as well as debt cancellations and a list of government claims for the period 2018-2021.

Discussion

Eurostat recalled that there are recurrent cancellations related to some government claims. In particular, Portugal has intergovernmental claims against some Portuguese speaking African countries, notably Moçambique and S. Tomé e Príncipe. The debt of these countries was restructured in 2008 and 2013, being agreed that it was due to be paid twice a year, until 2025 and 2030 respectively.

In the previous EDP dialogue visit it was agreed that the Portuguese statistical authorities would reflect on the accounting treatment of the stock of these intergovernmental claims, for which debt is cancelled every year and for which there is low likelihood of overall repayment.

The Portuguese statistical authorities recalled that the amounts cancelled annually are comprised of principal and interest components and that, following the debt restructuring implemented in 2008 and in 2013, interests are due twice a year. When no payments are made, the total amount of interest due each year is cancelled with the recording of a capital transfer payable, neutralising the overall impact on the B.9 of GG. No decision is taken however in relation to the principal. By the end of 2020, the outstanding amount of claims on Moçambique was USD 219.4 million and on S. Tomé e Príncipe was USD 30.7 million.

During the discussions it was also explained that, given the small amounts recorded in national accounts on an annual basis, the Portuguese statistical authorities saw no need for a change for the moment. However, if in the next two years no repayment was made, in the context of the benchmark revision of the Portuguese national accounts due in 2024, it was agreed to change its statistical recording accordingly. Eurostat took note.

³⁶ This information was provided to Eurostat, which took note.

4.3.5. Measures in response of the rise in living costs and high energy prices

Introduction

The Portuguese government has implemented different measures in order to mitigate the impact of high energy prices on households and corporations, with some more planned in the coming months.

Discussion

The Portuguese statistical authorities provided an overview of the different measures implemented to counter the economic and social impact of the exceptional increases in energy prices. The budgetary cost of these measures is projected in the Commission 2022 autumn forecast to amount to 2.1% of GDP in 2022 and 0.9% of GDP in 2023.

The main measures consist of reducing government revenue (namely a general reduction of the fuel tax and the freeze of the carbon rate under the fuel tax) and increasing expenditure (namely a one-time support payable in October 2022 for different groups of the population, such as pensioners, employees, children and the youth, as well as subsidies for firms facing a rise in gas-related costs and support to boost energy efficiency and the energy transition). Some of the most relevant measures are scheduled to be approved/ enacted towards the end of the year, such as a windfall tax that will be levied on the excessive profits of energy and food distribution companies or a payment towards the energy system aimed to limit the prices of gas.

A discussion ensued in relation to the proper accounting codes to use in each type of transaction, as well as about their time of recording. Eurostat took note of the information provided.

4.3.6. Court decisions

Introduction

The Portuguese statistical authorities prepared in advance of the meeting a number of notes explaining the situation in relation to the issues discussed under this point of the agenda.

Discussion

Eurostat took note that there is a pending court decision related to a request from Energias de Portugal, S.A. for a financial compensation amounting to EUR 218 million for a project of exploitation for 75 years of a dam that did not advance. The State lost in the Arbitrage Court but appealed and the final decision is pending. In national accounts it will be recorded as D.99 for the full amount at the time the Court decision settles the dispute.

4.3.7. Other: Military expenditure, UMTS, ETS, sale and leaseback operations and securitisation

Introduction

The Portuguese statistical authorities prepared in advance of the meeting a number of notes explaining the situation in relation to the issues discussed under this point of the agenda.

Discussion

In relation to recent auctions of spectrum frequencies, the Portuguese statistical authorities informed that, in January 2021, there was a 5G auction, for a total amount of EUR 541.4 million, of which EUR 410.1 million were also paid in 2021. The rights of use of frequencies

were granted for a period of 20 years. In national accounts, the amount received in 2021 was treated as a financial transaction. The total amount will be spread proportionally to the number of years allocated for frequency usage rights and recorded as D.45 revenue.

In relation to ETS emission permits, it was confirmed that there were no differences between the data from the centralized ETS data sources (single ETS registry, commodity exchanges where ETS permits are auctioned by governments) and the data from national sources. The revenues from the sales of emissions are recorded by Fundo Ambiental (S.13, Central Government Autonomous Services and Funds subsector). Thus, the flows related with emission permits are recorded in table 2A under “Net borrowing (-) or net lending (+) of other central government bodies. There are no other types of ETS revenue for the government (other than D.29) and there are no cases where other government bodies (outside the WB) sold ETS allowances in the (secondary) ETS market. The method currently applied for ETS recording is the time-adjusted cash of 1 year, i.e., recording of the cash revenue collected in year T in the national accounts revenue of year T+1. Government revenue from ETS allowances in 2021 recorded as D.29 amounted to EUR 256 million. According to the annual accounts of Fundo Ambiental, the cash receipts due to ETS auctions in 2021 amounted to EUR 514 million. The difference between the cash and the adjusted amounts is reported in EDP questionnaire table 4, mainly in table 4.1.1 Payables concerning Fundo Ambiental (EUR 258 million for 2021).

In relation to military expenditure, the Portuguese statistical authorities explained a new compilation procedure to obtain data on military equipment on an individual basis. This has led to the identification of a number of advances paid for which the related equipment had already been received (but that had been still recorded within Other Accounts Payable).

Finally, the Portuguese statistical authorities informed that there had been no recent cases of sale and leaseback operations, securitisations and privatizations.

Findings and conclusions

Eurostat took note of the information provided.

5. OTHER ISSUES

Under this point in the agenda, it was discussed the State aid decision determining that Portugal should recover the aid granted under scheme III of the Madeira Free Zone. At the moment, the methodology and procedures to be adopted for determining the amounts to be recovered from the respective beneficiaries of that scheme are under discussion. It was explained that this process will take time and there is no certainty on the final amounts and if and when they will be repaid. In addition, there is no estimation on the uncollectable amounts which could be a relevant issue as many of the corporations involved do not legally exist anymore. In this context, the amounts will be recorded in government accounts when they are actually received. Eurostat took note of the explanations.

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