



EUROPEAN COMMISSION  
EUROSTAT

Directorate C: National and European Accounts  
**Unit C-3: Public finance**



Luxembourg, 28 September 2009

**- FINAL FINDINGS -**

**EDP dialogue visit to Spain**  
**15-16 June 2009**

## Executive summary

Eurostat undertook an EDP dialogue visit to Spain on 15-16 June 2009 as part of its regular visits to Member States and with the aim to assess the existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to clarify the issues relating to EDP tables raised in the context of previous notifications, to review the progress achieved in implementing ESA 1995 methodology and to assure that provisions from the ESA 1995 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the Spanish EDP tables and national accounts.

Eurostat welcomed the transparent and well structured approach by the Spanish statistical authorities to EDP related work. Eurostat very much appreciated documentation sent before the meeting. Eurostat also expressed satisfaction for the transparent and comprehensive presentation of the issues by the Spanish statistical authorities.

First, Eurostat enquired about the institutional arrangements and division of responsibilities with respect to the reporting of data under EDP. It was confirmed that there have been no changes since the last EDP dialogue visit in 2007. The *Intervención General del Estado (IGAE)* is responsible for the general government sector accounts and compiles data relating to government deficit. *Banco de España (BE)* has responsibility for financial accounts and for compiling data relating to general government debt. The *Instituto Nacional de Estadística (INE)* is responsible for methodological issues relating to national accounts.

Next, the characteristics of data sources for government statistics reporting were discussed. Eurostat concluded that data source situation for central government and social security funds sub-sectors is good. As regards the state government sub-sector, Eurostat took note of the new IGAE questionnaire. Concerning the local government sub-sector it was noted that samples are used, for provisional and also for final accounts.

Concerning the EDP tables, Eurostat took note that an imputation of the benefits for government zero interest loans at inception has been recently introduced. It was concluded that this recording should be considered as provisional until a guidance note on this issue is prepared by Eurostat.

Eurostat welcomed the progress achieved with a coordinated work between IGAE and *Banco de España* on the improvements of *Other accounts receivable / payable* and *Acquisition of financial assets*. Eurostat encouraged the Spanish statistical authorities to finish the work before the October 2009 EDP notification.

Eurostat took note of the classification process for newly created units based on business plans, in particular in the State and Local government sub-sectors, and welcomed the follow-up and close monitoring of these units.

The *Banco de España* presented the functioning of regional saving banks in Spain.

Regarding the recording of taxes and social contributions, Eurostat took note that a statistical model based on the assessments and declarations with a subsequent adjustment of the amounts unlikely to be collected, is used. Eurostat expressed some concerns about the implications of the financial crisis on the method used and, in particular, how the model is functioning in such exceptional circumstances. The Spanish statistical authorities explained

that the short-term movements (positive or negative) are not taken into account and that such implications are neutralised over time. Eurostat invited the Spanish statistical authorities to prepare a note on taxes and social contributions, which will be examined by Eurostat.

As regards the new VAT refund system for small and medium enterprises in 2009, the Spanish statistical authorities agreed to provide information on how many enterprises have chosen this measure and on the amounts involved.

Government interventions into financial institutions, in the context of the financial turmoil were also discussed, and Eurostat welcomed the transparency of the Spanish statistical authorities in providing to Eurostat all relevant information.

Concerning the Public Private Partnerships (PPP), Eurostat encouraged the Spanish statistical authorities to complete their analysis of the PPP projects, which are currently under study.

As regards carbon trading rights, Eurostat took note of their recording, with an impact on government deficit and explained that this issue will be discussed at a forthcoming OECD – Eurostat Task Force.

Further Eurostat welcomed the ongoing work on the cross-checking of direct data sources with Banco de España data on capital injections.

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

# Final findings

## Introduction

In accordance with article 8d of Council Regulation (EC) No 2103/2005, amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit to Spain on 15-16 June 2009.

The delegation of Eurostat was headed by Mr. John Verrinder. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. Spain was represented by the Instituto Nacional de Estadística (INE), Intervención General del Estado (IGAE) and Banco de España (BE).

Eurostat carried out this EDP dialogue visit with the aim to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to clarify the issues relating to EDP tables raised in the context of previous notifications, to examine the statistical treatment of public interventions relating to the financial turmoil, to review the progress achieved in implementing ESA 1995 methodology (sectorisation of units and the implementation of Council Regulation 2516/2000) and to assure that provisions from the ESA 1995 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the Spanish EDP tables and national accounts.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 8 of Regulation 3605/1993 as amended, indicating that the *Main conclusions and action points* would be sent within days to the Spanish statistical authorities, who may provide comments. Within weeks, the *Provisional findings* would be sent to the Spanish statistical authorities in draft form for their review. After adjustments, *Final Findings* will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

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

## 1. Statistical organisational issues

### 1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation

#### *Introduction*

Eurostat enquired about the institutional arrangements and division of responsibilities in the framework of the reporting of data under the EDP and government finance statistics.

### *Discussion and methodological analysis*

The Spanish statistical authorities confirmed that there have been no changes since the last EDP dialogue visit in 2007. The *Intervención General del Estado (IGAE)*<sup>1</sup> is responsible for the general government sector accounts and compiles data related to government deficit. The *Banco de España (BE)* has responsibility for financial accounts and for compiling data related to government debt. The *Instituto Nacional de Estadística (INE)* is responsible for methodological issues relating to national accounts. The three institutions meet regularly to discuss and resolve methodological or classification questions which may arise.

The EDP tables are transmitted to Eurostat by INE, as its role is to coordinate the compilation process.

### *Findings and conclusions*

Eurostat took note that there were no changes of the institutional arrangements and responsibilities, in the framework of the reporting of data under the EDP and government finance statistics compilation, since the last EDP dialogue visit to Spain.

## **1.2. EDP inventory**

### *Introduction*

Eurostat thanked the Spanish statistical authorities for providing an updated version of the EDP inventory. The EDP inventory is published in the website of Eurostat as well as nationally in the website of IGAE.

The data sources and methods used for general government deficit and debt compilation, as described in the EDP inventory, were discussed.

### *Discussion and methodological analysis*

It was noted that the update of the EDP inventory mainly related to the financial accounts, documenting improvements of data sources. Eurostat welcomed this work.

The Spanish statistical authorities informed Eurostat about their intention to revise the EDP inventory in order to improve user-friendliness of the current format. Eurostat explained its ongoing project to improve the general format of EDP inventories. In this context Eurostat invited the Spanish statistical authorities to send their ideas / proposals for a new format of the EDP Inventory.

As regards data sources in the central government sub-sector, the Spanish statistical authorities confirmed that direct sources are used. The basic information for the State is obtained from the Accounting Information Database System (SIC - *Sistema de Información Contable*), which is an official database containing all information on expenditure and revenue of the State.

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<sup>1</sup> Government Audit Office

It was also confirmed that no estimations are needed for the independent bodies included in this sub-sector as all data is already available for the first EDP notification (but the accounts are not yet audited).

As regards the social security funds sub-sector, the Spanish statistical authorities confirmed that the accounts of *Servicio Público de Empleo Estatal* (SPEE)<sup>2</sup> are included in the working balance. In 2008, an additional extra-budgetary expenditure for the unemployment benefits occurred, which was not included in the working balance as it was not foreseen in the budget. This issue was discussed in more detail under item 2.1 (EDP table 2D).

The Spanish statistical authorities also confirmed that direct information available on the social security funds sub-sector provides 100 % coverage.

#### *Findings and conclusions*

***The Spanish statistical authorities agreed to correct the information in the EDP inventory on estimations for the bodies included in the central government sector before the October 2009 EDP notification (Action point 1).***

Eurostat invited the Spanish statistical authorities to send their ideas / proposals for a new format of the EDP Inventory.

Eurostat concluded that data source situation for the central government and social security funds sub-sectors is good.

### **1.3. Data sources for state and local government**

#### *Introduction*

When direct data sources are not available, other indirect data sources are used. This is mainly the case for the sub-sectors state government (*Comunidades Autónomas*) and local government, where there are difficulties to obtain direct information for a large number of units.

As regards the state government sub-sector, the first notification and half-finalised notification data are collected with a *Standardised accounting information questionnaire*. The questionnaire is sent by IGAE to all 17 *Comunidades Autónomas*. Finalised accounts are based on General Accounts of each of the *Comunidades Autónomas*.

Local government non-financial data are based on samples, for provisional and also for final accounts.

#### *Discussion and methodological analysis*

The questionnaire used in the state government sub-sector was designed by IGAE and approved by the Council of Fiscal and Financial Policy, which is a coordination body between the State and *Comunidades Autónomas*. This questionnaire was further revised / improved in March 2009. This revision will not result in the backward revision of data, but will provide additional qualitative information for the existing data. The IGAE also explained that there is

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<sup>2</sup> Management body for unemployment benefits and policies for stimulating employment

no legal obligation for the *Comunidades Autónomas* to fill in the questionnaire. However, as it is also in the interest of the regional governments to ensure a good quality of data, the response rate is (about) 100 %.

As regards data sources in the local government sub-sector, it was clarified that the sample is exhaustive for *Diputaciones*, *Consejos Insulares*, *Cabildos Insulares*, capitals of the provinces and, finally, for local entities whose population is over 50,000 inhabitants (and not 5,000 as previously stated in the EDP inventory and 2007 Final findings of the EDP dialogue visit to Spain).

The first notification data of the local government sub-sector are based on statistical models, developed by INE. INE further explained that no corrections are made to the results, only qualitative checks. For half-finalised and finalised data, samples are being used as described above. INE also explained that work is under way on selecting a sufficiently representative sample of local governments to provide direct information on the local government sub-sector for the first notification, within the time limit set by the EDP Regulation. The Spanish statistical authorities also explained that although there is no legal obligation for the units to respond, the response rate is rather high.

The Spanish statistical authorities further explained that almost all source data are already available for the half-finalised accounts. The *Banco de España* added that data on debt of the local government for the six biggest city councils of more than 100,000 inhabitants is checked every quarter.

Then Eurostat enquired about the accounts revision process and whether any analysis of the revisions is being made. Basic information of the *April (first) notification* is revised and complemented with half-finalised data in the *October notification (second)*. For the completion of the finalised accounts, information is improved with flows of other sub-sectors, additional information supplied by various reporting departments and from annual accounts of foundations and public corporations (*October t+1 notification*). The Spanish statistical authorities said that no analysis of data revisions has been made.

Eurostat also asked whether there is some correlation between revisions in state government and local government data. It was confirmed that the revision of data in the state government sub-sector is not directly related to the revision of data in the local government sub-sector.

The *Banco de España* explained that for these two sub-sectors a testing process has been established on a quarterly basis in order to compare data on debt compiled through indirect data sources (data obtained from state and local governments) with information available from direct data sources (internal records of the *Banco de España*). Data on debt are always validated with an agreement of regional or local governments. If a discrepancy is found, than information is checked directly with the financial institutions (i.e. bank) involved in order to find a reason for a discrepancy.

### *Findings and conclusions*

As regards the state government sub-sector, Eurostat took note of the new IGAE questionnaire, which will provide additional information for this sub-sector.

***Eurostat encouraged the Spanish statistical authorities to make an analysis of data revisions for state and local government sub-sectors by the end of 2009 (Action point 2).***

Eurostat welcomed the established procedure for the cross-checking of debt data by the *Banco de España* for the state and local government sub-sectors.

## **2. Follow-up of the April 2009 EDP reporting – analysis of EDP tables**

### *Introduction*

Eurostat analysed the EDP tables and the questionnaire related to the EDP notification tables, as reported in the April 2009 EDP notification.

The Spanish statistical authorities informed Eurostat that they would be ready to fill in the new version of the EDP related questionnaire in the October 2009 EDP notification.

### EDP table 1

#### *Discussion and methodological analysis*

Eurostat noted that there were revisions of data on long-term loans for the period 2005-2007 and that there were no revisions in deficit data. The Spanish statistical authorities clarified that these revisions were due to the imputation of loans in central government sub-sector, which corresponded to the imputed financial counterpart (loan) of Gross Fixed Capital Formation (GFCF). As the payment of the infrastructure is at the end of the period, loans are imputed during this period. The imputed loans do not include any interest. The counterpart GFCF is recorded at the end of the period. This revision was a result of the joint work between *Banco de España* and IGAE on the improvements of data sources.

#### *Findings and conclusions*

Eurostat took note of the revisions of data on long-term loans and congratulated the Spanish statistical authorities on the improvements.

### EDP tables 2

#### *Discussion and methodological analysis*

The working balances in tables 2A-D are on a mixed basis and correspond to the balance of non-financial transactions of each sub-sector. These are on accrual basis, i.e. allocation of the transactions is made according to the real flow of goods / services and not when the financial flows occur. The Spanish statistical authorities confirmed that the only exception is for interest, which is recorded on a cash basis.

Eurostat took note that an imputation of the benefits for government zero interest loans at inception has been recently introduced, which significantly worsened the government deficit in 2008. The imputation was included under *Other adjustment* in the EDP table 2A.

The Spanish statistical authorities were of the opinion that this adjustment is fully in line with ESA95 rules and the text of the *ESA95 Manual on Government Deficit and Debt*. As this issue is currently being discussed at the *Financial Accounts Working Group*, on the basis of which Eurostat will prepare a guidance note, Eurostat noted that this recording should be considered as provisional. The Spanish statistical authorities indicated the urgency of having this guidance before their 2008 data becomes final (in the 2010 April EDP notification).

In April 2009 a new adjustment *Local investment fund* was introduced in the EDP table 2A, and includes transactions of the “*Fondo Estatal de Inversión Local*”, created by the Royal Decree-Law 9/2008. This fund is not a legal entity and it has been designed for funding local government investments in 2009. In the Budget, expenditure was already registered in 2008. However, for national accounts purposes, it will be accounted for at the time of the transfer to the local government, i.e. in 2009.

The Spanish statistical authorities further explained the expected recording of flows related to this fund. In national accounts, the transactions of this fund are considered to be carried out by the State. A capital transfer (investment grant) will be recorded from central government to local government sub-sector. There will be no impact on deficit of the local government as expenditure and revenue will be recorded at the same time. Thus the impact will be on the central government deficit in 2009 (in the EDP table 2A).

Eurostat noted consistent negative adjustments in the row "Difference between interest paid and accrued" in the local government sub-sector (EDP table 2C), although for small amounts. IGAE explained that this data are obtained from their questionnaire and has not been analysed in more detail. Eurostat suggested to monitor / investigate this issue.

As regards the social security funds sub-sector, Eurostat took note that transactions of the *Servicio Público de Empleo Estatal* (SPEE) are included in the working balance. It was also noted that in 2008 there were additional extra-budgetary expenditures of 1.9 billion euro for unemployment benefits, which impacted the deficit of this sub-sector (via other adjustment in the EDP table 2D). From 2009 onwards these additional costs will be borne by the budget (central government sub-sector). Thus no additional adjustment is foreseen for social security funds data in 2009. This recording was chosen as the Spanish statistical authorities were of the opinion that this is an obligation of the central government and not of social security funds. In 2009, this extra-budgetary expenditure is expected to amount around 1.7 billion euro (to be included in the working balance in EDP table 2A).

#### *Findings and conclusions*

***Eurostat undertook to produce a guidance note on the statistical recording of government loans granted at zero or low interest rate by the end of 2009 (Action point 3).***

Eurostat took note of the expected recording of flows relating to the *Local Investment Fund* in 2009, and of the extra-budgetary expenditure for the unemployment benefits.

Eurostat suggested monitoring the row "Difference between interests paid and accrued" in the local government sub-sector (EDP table 2C).

#### EDP tables 3

#### *Discussion and methodological analysis*

During the October 2008 EDP notification round, INE informed Eurostat about a coordinated work between IGAE (non-financial accounts) and *Banco de España* (financial accounts) to improve the breakdown of *Other accounts receivable / payable* and *Acquisition of financial assets*.

All the revisions in the EDP tables 3 were the result of this coordinated work. In the April 2009 EDP notification, data on *Acquisition of financial assets (loans and shares and other equity)* and *Other accounts receivables / payables* were improved. The revisions were made only in the financial accounts.

The following problems were identified and improved:

- double counting of some transactions (as financial and non-financial);
- some transactions did not have a proper counterpart information.

The Spanish statistical authorities also reported that they expect to finalise the work by the October 2009 EDP notification. Expected improvements will relate to further analysis of *Currency and deposits* (however no big modifications are expected) and *Other accounts receivable / payable*. These improvements will also lead to a reduction of the statistical discrepancy.

Eurostat welcomed the progress made in this area and stressed the importance of improving the breakdown of receivables and payables and consequently reducing the statistical discrepancy.

Eurostat further enquired about the content of the line *Appreciation / depreciation of foreign-currency debt* and *Other volume changes in financial liabilities*. The Spanish statistical authorities confirmed that some government debt is denominated in foreign currency, i.e. mainly in US dollars and Japanese yen. Thus the line *Appreciation / depreciation of foreign-currency debt* relates to the valuation changes caused by the exchange rate fluctuations. As regards the line *Other volume changes in financial liabilities*, it related to a write-off of peseta coins in 2008 in EDP table 3B and to early redemptions of loans in the central government and social security funds sub-sectors in 2007 and 2008.

#### *Findings and conclusions*

***Eurostat welcomed the ongoing work by the Banco de España on the improvements of the financial accounts and encouraged them to finish the work, notably the breakdown of receivables and payables, before the October 2009 EDP notification (Action point 4).***

Eurostat took note of the explanations of the line *Appreciation / depreciation of foreign-currency debt* and *Other volume changes in financial liabilities*.

### **3. Methodological issues and recording of specific government transactions**

#### **3.1. Delimitation of general government, application of market / non-market rule in national accounts**

##### **3.1.1. Changes in sectorisation since last EDP visit in February 2007**

###### *Introduction*

The creation of a new public unit has to be endorsed by the cabinet or by the Parliament, in the case of the State, or by the equivalent regional or local bodies for the remaining general government sectors. The Working Group composed by INE, *Banco de España* and IGAE analyses the sector classification of these units, determining which are the units that according to ESA95 are to be classified inside general government.

A database (Sectorisation of Institutional Units Database) is available on the website of the Bank of Spain<sup>3</sup>.

The Spanish statistical authorities provided an updated exhaustive list of all general government units by sub-sector.

#### *Discussion and methodological analysis*

As regards the sector classification of units, the Spanish statistical authorities explained that there were no substantial changes since the last EDP dialogue visit.

The Spanish statistical authorities also explained that there was one borderline case observed since the last EDP dialogue visit (ICF Equipaments) and, after examination, it was judged to be classified inside general government.

The foundations / public corporations with similar characteristics are classified by "blocs", for reasons of practicality.

The classification process is composed of three main steps:

- step 1: is the entity an institutional unit;
- step 2: does the institutional unit have an autonomy of the decision;
- step 3: are more than 50% of production costs covered by sale (50% rule). As the actual accounts are not available for the newly created units, usually the business plans are examined.

All public enterprises are being followed up (monitored) with a systematic check of the 50 % rule every five years. In the case of the newly created units, the differences between business plan and actual accounts data are examined. If an analysis of the actual accounts reveals that the unit should have been classified inside general government, than this unit is re-classified inside general government from the time when it was created.

The Spanish statistical authorities also confirmed that if a unit does not have any revenue, it is automatically classified inside general government.

#### *Findings and conclusions*

Eurostat took note of the classification process for newly created units based on business plans and welcomed the follow-up and close monitoring of these units.

### **3.1.2. Public utility (water, heating) companies, public hospitals, universities**

#### *Introduction*

There are 12 water companies operating in Spain that are included in the non-financial corporation sector. The government pays each year amounts to these entities and records it as acquisition of shares. These companies can have private funding. After analysing its accounts, in the previous EDP dialogue visits, Eurostat agreed that the water companies were classified in the non-financial corporation sector.

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<sup>3</sup> <http://wwwa.bde.es/bsd/BsdCambioIdiomaServlet?idioma=en>

All public hospitals and universities in Spain are classified inside general government.

#### *Discussion and methodological analysis*

The Spanish statistical authorities confirmed that water companies are profitable. Eurostat noted that all public hospitals and universities are classified inside general government.

No other specific issues were raised at this point.

#### *Findings and conclusions*

Eurostat thanked the Spanish statistical authorities for filling in the questionnaires on hospitals and universities.

### **3.1.3. Public corporations controlled by state and local government**

#### *Introduction*

The Spanish statistical authorities provided a short note on the public corporations controlled by state and local governments. All 17 *Comunidades Autónomas* (CCAA) and more than 9000 local government units (CCLL) have the right to establish new dependent entities. At least once per year, IGAE requests information from CCAA and CCLL on the creation of such new entities.

In the recent years, the competence of the Ministry of Finance has been strengthened by law. CCAAs and CCLLs are obliged to create an inventory of such units and provide it to the Ministry. In addition, they also must provide to IGAE all information needed for the classification of these units. The responsibility for the classification is within the Working Group.

The Spanish statistical authorities provided data on the debt of public corporations controlled by government and not included inside general government as well as those which are classified in the general government (and reported in the EDP tables).

#### *Discussion and methodological analysis*

For the classification process of public corporations see item 3.1.1.

#### *Findings and conclusions*

Eurostat took note of the classification process of public corporations controlled by state and local governments.

### 3.1.4. Public banks

#### *Introduction*

Savings banks (*Cajas de ahorros*) are an old and peculiar form of financial institutions in Spain, and display a set of particularities relating both to the significant social content of their action and to their strong regional roots. They are not listed or traded in the stock market.

They allocate a high percentage of the profits they generate to financing social and cultural projects. The close relationship savings banks have with the region in which they are established is another of their distinctive features.

#### *Discussion and methodological analysis*

Eurostat enquired on the extent of the control that state governments have in saving banks. The *Banco de España* presented the functioning of regional saving banks in Spain.

Firstly, the similarities with other banks were presented:

- The same laws apply for saving banks as for other banks and they are the subject of same obligations. They function under the regulation of the *Banco de España*;
- Their main financing comes from deposits;
- They can operate outside Spain.

The biggest difference between the saving banks and other banks is that profits are not distributed, but are intended for charitable, social and cultural activities.

The highest governing and decision-making body of the saving bank is the General Assembly, which consists of representative of regional and local (municipalities) governments, depositors, employees and corporate founders. It was emphasised that there is a limit for government participations and it can not exceed 50 % (i.e. representatives of state and local governments). Hence government can not have a majority control in the General Assembly.

The main purpose of government involvement in the saving banks is to administrate the charitable, social and cultural activities of the bank, and to define general policy of the bank.

The Spanish statistical authorities added that the nature of savings banks could be more assimilated to the private non-profit sector than to the general government sector. They are non-profit-making social institutions and are classified as monetary institutions (credit institutions). In general, they are profitable and they are increasing their market share in Spain.

#### *Findings and conclusions*

Eurostat took note of these explanations.

## **3.2. Implementation of accrual principle**

### **3.2.1. Accrual taxes and social contributions**

#### *Introduction*

The Spanish statistical authorities use a statistical model based on the assessments and declarations with a subsequent adjustment of the amounts unlikely to be collected. This econometric model for the estimation of the amounts unlikely to be collected was developed by INE and it is based on a system of accumulated averages.

There are two types of assessments:

- declarations-settlements: assessments where taxpayers declare their tax liabilities and pay the corresponding amount;
- previously contracted settlements: assessments where the amount of tax due is calculated by the Tax Administration.

#### *Discussion and methodological analysis*

The Spanish statistical authorities explained that there are no updates to report to the methods used for calculation of accrued taxes.

Eurostat enquired whether there are any implications of the financial crisis on the method used and, in particular, how the model is functioning in such exceptional circumstances as financial crisis. The Spanish statistical authorities explained that short-term implications are not taken into account in the model. The model is backward oriented and self-corrects / adjusts over time.

As Spanish statistical authorities explained, the financial crisis has short-term implications. Some enterprises might not be able to pay taxes in 1 or 2 years, but they will be paying again in the long-term (i.e. in 5-10 years). It was also explained that in the past, neither positive nor negative short-term movements were taken into account. Furthermore, it was stressed that in the past there were more positive effects than negative ones. All these implications are neutralised over time in the model.

The Spanish statistical authorities also confirmed that in case the crisis would have longer consequences then the model would have to be adjusted.

Eurostat expressed concerns about the timing issue if the government would be cancelling taxes due to the crisis. The Spanish statistical authorities assured that so far that were no cancellations of taxes from government to enterprises (tax amnesties). There was only re-scheduling of tax payments due to liquidity problems in some enterprises.

In addition, the table 1 on *Other receivables/payables relating to taxes and actual social contributions of general government* of the EDP related questionnaire was examined. Eurostat noted that the amounts of transactions in *Other accounts receivable relating to social contributions (D.611)* have been negative since 1999. Eurostat enquired whether there is a particular reason for it. The Spanish statistical authorities explained that this is probably due to the historical impact from the years 1995 -1996, when large amounts of receivables were recorded. This might still influence the model. Eurostat noted that the same pattern was also observed for the total taxes, but there are no negative amounts of transactions in *Other accounts receivable relating to total taxes*.

It was agreed that the Spanish statistical authorities would prepare a note on taxes and social contributions. This note shall include explanations of the historical impact, as well as data on total revenue from assessment and declarations, cash received and amounts of taxes and social contributions not collected. This will be examined by Eurostat, also in the context of the present financial crisis.

Spain introduced a one-off measure (revenue reducing); a new VAT refund system in 2009 for small and medium enterprises (SMEs). In the past these businesses claimed quarterly, but now they can voluntarily submit monthly claims. If they change to monthly claims, they must remain with this (with no chance to go back to quarterly claims). This will have a one-off impact on the 2009 government deficit. Eurostat asked to receive information on how many enterprises have chosen this approach and on the amounts involved.

#### *Findings and conclusions*

***The Spanish statistical authorities agreed to prepare a note on taxes and social contributions, including explanations of the historical impact, as well as data on total revenue from assessment and declarations, cash received and amounts of taxes and social contributions not collected. This note is to be provided by the end of 2009 (Action point 5).***

***The Spanish statistical authorities agreed to provide information on how many enterprises have chosen a new VAT refund system in 2009 and on the amounts involved by the end of 2009 (Action point 6).***

### **3.2.2. Accrued interest**

#### *Introduction*

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

#### *Discussion and methodological analysis*

The calculation of accrued interest for securities varies across the sub-sectors. For the State, a "security-by-security" approach is used and in other government sub-sectors estimations are made because such detailed information is not available. The interest is accrued across the life of the security.

Eurostat noted that 90 % of all government securities are issued by the State.

The Spanish statistical authorities said that they are in the process of applying the "security-by-security" method for calculation of accrued interest also in other government sub-sectors, notably in the State government sub-sector.

#### *Findings and conclusions*

Eurostat welcomed the ongoing work on the application of "security-by-security" approach for the other government sub-sectors.

### 3.3 Recording of specific government transactions

#### 3.3.1 The financial turmoil: actual cases and accounting consequences for government

##### *Introduction*

In 2008, the Spanish government adopted several measures to help stabilise the financial system, such as:

- regulatory changes on the raising of the ceiling on guarantees granted to depositors (from 20,000 to 100,000 euro);
- the creations of a Fund for the Acquisition of Financial Assets (FAAF)<sup>4</sup>;
- granting of State guarantees for new financing operations by Spanish resident banks;
- the acquisition of securities suitable for shoring up credit institutions' capital by the State (not used in 2008).

The *Fund for the Acquisition of Financial Assets (FAAF)* has no legal personality; it is assigned to the Ministry of Economy and Finance through the Secretariat of State for the Economy and is administered, managed and steered by a Steering Council and an Executive Committee. The aim of the FAAF is "to boost financing by financial institutions to individuals and firms". The FAAF is intended to be temporary and will be wound down naturally as and when markets return to normal. Its financing will arise from the issue of government debt. The contribution of the fund in 2008 was 9.3 billion euro, extendable to 50 billion euro in 2009. To meet these objectives, the FAAF will acquire from credit institutions, on a voluntary basis and under market conditions, high-quality Spanish financial assets backed by loans granted to individuals, firms and non-financial institutions. As regards the classification of the FAAF, it was decided that it is not an institutional unit and should be classified under the general government sector, in the central government sub-sector.

The activity of the *Official Credit Institute (ICO)* was stepped up in 2008 and, in particular, in 2009 to facilitate credit to businesses. In 2008, the State guarantees for securitizing loans to SMEs were increased as well as ICO guarantee lines for securitisation of mortgage loans to buy social dwelling. In 2009, allocations to existing ICO funding lines have been increased and new funding lines were created.

In March 2009, the *Banco de España* rescued the *Caja Castilla La Mancha (CCM)*, a Spanish savings bank, in order to tackle liquidity and capital problems linked to a steady deposit withdrawal triggered by the increase in defaults, especially in the mortgage sector. The executive Commission of the *Banco de España* adopted the decision to replace the governing bodies of the institution.

##### *Discussion and methodological analysis*

Firstly, Eurostat enquired about the situation of *Fund for the Acquisition of Financial Assets (FAAF)*. It was explained that it is not purchasing further securities at the moment as there is no need. It was also confirmed that no securities have yet been sold.

Secondly, Eurostat enquired about the rescue operation of *Caja Castilla La Mancha*, and in particular whether there have been any capital injection by the Bank of Spain. The Spanish statistical authorities stressed that it was merely an intervention of the *Banco de España* and not of government. Further it was assured that no capital injection was given to *Caja Castilla*

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<sup>4</sup> El Fondo para la Adquisición de Activos Financieros (FAAF)

*La Mancha*. If there would have been a capital injection, then it would have no impact on government accounts as it would be given by the *Fondos de garantía de depósitos*, which is classified outside general government.

This fund was created in the beginning of 1990`s and since then the Spanish banks are financially contributing to it. It was also further clarified that the *Banco de España* decides if an intervention of this fund is necessary.

The Spanish statistical authorities confirmed that a government guarantee was given to this bank. Therefore, the only impact of this rescue operation on the government accounts would be if the guarantee would be called.

Finally, Eurostat enquired about ICO operations undertaken on behalf of government in the context of financial crisis and its recording. The Spanish statistical authorities stated that ICO operations, undertaken on behalf of government in the context of financial crisis, are not included in the accounts of ICO and are included in the accounts of government. A part of them are recorded as a capital transfer in the EDP table 2A. In the case of loans granted by ICO to non-financial corporations at favourable conditions in the context of the financial crisis, the difference between the market interest rate and favourable interest rate is booked as an expenditure of government (via capital transfer).

As regards ICO, Eurostat also said that it would examine the 2008 capital injection by government into ICO during the next EDP notification process (see action point 7 below).

### *Findings and conclusions*

Eurostat took note that *Fund for the Acquisition of Financial Assets (FAAF)* is not purchasing further securities at the moment and that so far no securities have been sold.

As regards the rescue operation of *Caja Castilla La Mancha* it was noted that there was no capital injection and that only a government guarantee was given. The only impact on government accounts would be if the guarantee would be called.

Eurostat noted that *Official Credit Institute (ICO)* operations, undertaken on behalf of government in the context of financial crisis, are not included in the accounts of ICO and are included in the accounts of government.

## **3.3.2. Guarantees**

### *Introduction*

The Spanish statistical authorities provided the list of all outstanding guarantees, by sub-sectors, guarantees called and repaid. In 2008, the outstanding stock of guarantees amounted to about 1.1 % of GDP. The percentage of guarantees called was very low.

Also the list of CESCE<sup>5</sup> operations, i.e. amounts paid by the State to CESCE, was provided.

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<sup>5</sup> Compañía Española de Crédito a la Exportación

CESCE was already discussed with Eurostat in the past EDP dialogue visits and it was agreed that those amounts are always classified as other capital transfers (under *Other adjustments* in the EDP table 2A).

#### *Discussion and methodological analysis*

The Spanish statistical authorities confirmed that all amounts paid by the State to CESCE are treated as capital transfers. It was also confirmed that the only operation of government in CESCE is related to guarantees and that no capital injection was given to it.

Furthermore there was a discussion of the *Securitisation Fund (Fondos de Titulización)*. This fund is classified outside general government (S.123). The guarantees granted in 2008 by the State to the Securitization Funds are guarantees to securities issued by the fund, for the loans granted by credit institutions to SMEs. Since 1999, the State annual budget laws authorize the guarantees on securities issued by Securitization Funds. Moreover, these laws also lay down the maximum amount of new guarantees (3 billion euro in 2008) and also the limit of the guarantees stock (7.7 billion euro in 2008). The Spanish statistical authorities confirmed that so far no guarantee has been called. The Fund pays a guarantee fee to government. The limit of the guarantees stock in 2009 is 11 billion euro, i.e. an additional 3.3 billion euro of new guarantees can be granted to this fund.

#### *Findings and conclusions*

Eurostat took note of the explanations on the guarantees granted by the State to *Securitisation Fund (Fondos de Titulización)*.

### **3.3.3. Military equipment expenditure**

#### *Introduction*

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

#### *Discussion and methodological analysis*

Eurostat noted that the stocks of *Other related assets of government*, as shown in the Table 6 of the EDP related questionnaire, are very high and are even increasing. In 2008 it amounted to about 0.69 % of GDP.

The Spanish statistical authorities explained that the high stocks in other related assets of government are considered as loans. Government is providing cash in anticipation to constructors of military equipment for the equipment that is being built over many years. The government recognises the liability, but pays for the equipment later. On the asset side, the long-term instruments are recorded as *loans* and the short-term instruments are recorded as *Other accounts receivable*. On the liability side, all instruments are recorded as *Other payables*.

The delivery of military equipment being built over many years is foreseen in the coming years, which will reduce the stocks of other related assets.

The Spanish statistical authorities also explained that all research and development (R&D) is related to the future manufacturing of military goods and will therefore be recorded at the time of delivery.

#### *Findings and conclusions*

Eurostat took note of these explanations.

### **3.3.4. Debt assumptions, debt cancellations and debt write-offs**

#### *Introduction*

Debt cancellations towards third countries (Paris club) are made by the *Fondo de Ayuda Oficial al Desarrollo* (FAD). The *FAD* is an entity that is in charge to provide international development aid by credits or grants. It is not an institutional unit and it is included in the State accounts. Debt cancellation is recorded as other capital transfers whenever there is a cancellation.

*ICO (Official Credit Institute)* is a “development bank” whose capital is 100% State-owned. It is entrusted with performing operations ordered by the State and its credits are recorded on the assets side of its balance sheet. If debt is not repaid and the State decides to release borrowers from their repayment obligation, a capital transfer is recorded from the State to borrowers.

#### *Discussion and methodological analysis*

The Spanish statistical authorities confirmed that the recording of the debt assumptions, debt cancellations and debt write-offs has not changed.

#### *Findings and conclusions*

Eurostat took note on these explanations.

### **3.3.5. Capital injections in public corporations, dividends, privatization**

#### *Introduction*

Capital injections are analysed according to the rules established in the MGDD<sup>6</sup> (financial or non-financial). Only injections to profitable companies or to certain international financial institutions are considered to be equity injections. The list of all capital injections by sub-sectors was provided by the Spanish statistical authorities.

#### *Discussion and methodological analysis*

The *Banco de España* explained that only total amounts of capital injections are received from their own data sources and that no information on individual capital injections is available. Eurostat enquired how it is then distinguished between financial and non-financial capital injections. The *Banco de España* explained that in this case IGAE data sources are being used. Eurostat took note that IGAE data sources are used for *Shares and other equity* in

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<sup>6</sup> ESA 95 manual on government deficit and debt

the EDP tables 3.

The regional and local governments send to IGAE the list of all capital injections that they consider as capital transfers. The IGAE also added that the state governments are obliged to analyse individual capital injections as each *Comunidad Autónoma* has its own limit on debt.

It was further stressed by the Spanish statistical authorities that the amounts of financial capital injections are very small, and the majority of capital injections are classified as a capital transfers (especially in the state and local government sub-sectors). The IGAE also explained that the Working Group decides on the classification of capital injections by the central government sub-sector.

The Spanish statistical authorities informed Eurostat about the ongoing work on cross-checking of direct data source (IGAE) with *Banco de España* data on capital injections.

The capital injection to ICO in 2008 was discussed. Eurostat noted that the whole amount of capital injection was recorded as an equity injection, and it was not split into non-financial and financial elements as in 2007. The INE stated that the part of capital injection in 2007 was classified as capital transfer due to the Eurostat request during the April 2008 EDP notification. Eurostat was of opinion that a part of capital injection which derived from the cancellation of a loan granted by the State to the ICO should not be classified as an equity injection. The Spanish statistical authorities did not agree with Eurostat's view, but however agreed at that time to re-classify it. Their opinion was that the conversion of the State loan to a capital contribution was due to strictly financial criteria and not a public policy matter.

The IGAE also confirmed that ICO is a profitable enterprise with positive reserves. There were no conditions attached to the equity injection by the State in 2008. Eurostat concluded that it will reflect on the equity injection by the State to ICO in 2008.

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

#### *Findings and conclusions*

***Eurostat welcomed the ongoing work on the cross-checking of direct data source (available in the IGAE) with Banco de España data on capital injections and encourage them to finalise this work (and send the results to Eurostat) by the end of 2009 (Action point 8).***

***Eurostat will reflect on the capital injection undertaken by government to ICO in 2008, recorded as financial transaction, before the October 2009 EDP notification (Action point 7).***

### 3.3.6. Public Private Partnerships (PPP)

#### *Introduction*

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

In all the cases where the partner is private, the Spanish statistical authorities reported, during the last EDP dialogue visit, that it was possible to observe the following:

- the construction risk is always on the side of the private partner. The only exceptions when government might be at risk are exceptional circumstances such as terrorist attacks or natural disasters;
- the demand risk is generally not transferred to the private partner. Although some contract might transfer some of the demand risk, this transfer was generally found insufficient. There was only one case, where the risk was transferred to the private partner;
- the availability risk is always transferred to the private investor and it is usually measured through quality indicators.

During the 2007 EDP dialogue visit, the Spanish statistical authorities confirmed that the treatment of PPP projects was in line with the Eurostat rules.

The updated list of all PPP projects was provided by the Spanish statistical authorities prior the EDP dialogue visit.

#### *Discussion and methodological analysis*

Eurostat noted that several new PPPs had been launched since the last EDP dialogue visit, and that most of them are classified on the balance sheet of government. It was also observed that five PPPs were re-classified on the balance sheet of government. The Spanish statistical authorities explained that these individual PPP contracts were analysed in the meetings of three institutions involved in government finance issues (Working Group) and it was decided to classify them on the balance sheet of government. Eurostat welcomed the progress made by the Working Group.

Eurostat further enquired about particular PPP projects reported in the table 7 of the EDP related questionnaire - hospitals in Madrid and building of highways in some regions - as well as the justification for their recording in national accounts.

The Spanish statistical authorities confirmed that every individual contract was analysed, and there was no analysing by "blocks" of contracts.

In the case of the hospitals in Madrid, the Working Group observed that only in the case of one hospital was the risk not sufficiently transferred to the private partner (similar to hospitals in Valencia); while the PPP projects for the other hospitals in Madrid showed that the risk was sufficiently transferred to the private partner.

Eurostat also noted that all highways in Galicia, except one are on the balance sheet of government. The Spanish statistical authorities explained that the contract, which is classified off the balance sheet of government, does not contain a particular clause on PPP duration. The opinion of the Working Group was that "clause 6" of the contract's *Particular Conditions and*

*Technical Specifications* related to the duration of the PPP has a decisive influence on the sector classification of the PPP asset. The limits imposed with this clause attenuate significantly the deductions and rewards mechanism, and therefore the transfer of risks and rewards to the private partner does not comply with the required terms in the manual on government deficit and debt. Eurostat was consulted on this issue and agreed with the opinion of the Working Group<sup>7</sup>.

Eurostat also enquired about "clause 77", which gives government the possibility to amend or change the contract for public interest purposes, i.e. changes the maximum tariffs of royalties paid to the private partner so to re-establish the economical balance of the concession. The Spanish statistical authorities explained that all PPP contracts in Spain contain such a clause. The opinion of the Working Group was that this clause allows government to amend the contract for duly justified reasons of public interest and that it is included in the contract as a contingency measure. In case this clause would be activated it would result in a re-allocation of the assets to the balance sheet of government when the amendment was approved, with an immediate impact on government deficit and debt.

It was also explained that all individual contracts are analysed, even in the case that the partner is a public corporation. There is no rule that in such a case the PPP would be automatically on the balance sheet of government. However, until now the assets of all such projects were decided to be on the balance sheet of government.

There are currently several contracts under study by the Spanish statistical authorities.

#### *Findings and conclusions*

Eurostat took note of these explanations.

***Eurostat stressed the importance of completing the analysis of PPP projects, in particular the PPP Hospital de Burgos, which is currently under study, before the October 2009 EDP notification (Action point 9).***

### **3.3.7. Others: EU flows, sale and leaseback operations, securitisation, Swaps, Carbon trading rights**

#### *Introduction*

Eurostat enquired on EU flows, sale and leaseback operations, securitisation, swaps and carbon trading rights.

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<sup>7</sup> The advice of Eurostat and the reply from the Spanish statistical authorities is publicly available on the website of Eurostat:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/documents/ES\\_2008\\_Spain\\_Classification\\_of\\_the\\_assets%20in\\_the\\_PPP.pdf](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/ES_2008_Spain_Classification_of_the_assets%20in_the_PPP.pdf)

[http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/documents/ES\\_2008\\_Spain\\_Classification\\_of\\_the\\_assets\\_in\\_the\\_PPP\\_An.pdf](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/ES_2008_Spain_Classification_of_the_assets_in_the_PPP_An.pdf)

### *Discussion and methodological analysis*

EU flows are recorded according to Eurostat rules in the public accounts for the State government. For local government, amounts are being recorded on a cash basis as it is not practical to ask to all the local communities an exact reporting of these amounts. However the Spanish statistical authorities confirmed that the amounts involved are very low.

The Spanish statistical authorities confirmed that there were no sale and leaseback and securitisation operations in recent years.

As regards swaps, it was noted that there is only a negligible number of swaps used by general government bodies. It was confirmed that regional governments also have the capacity to use them and that information is available at the *Banco de España*.

As regards the Carbon trading rights, the Spanish statistical authorities explained that the contributions to the Carbon Funds are recorded as *Other Capital Transfers (D.99)*, as no future benefits are expected. Eurostat took note of this recording and explained that this issue will be discussed at a forthcoming OECD – Eurostat Task Force. The work of this Task Force is expected to be completed at the beginning of 2010.

### *Findings and conclusions*

Eurostat took note of these explanations.

## **4. Other issues**

It was noted that EDP and ESA tables are consistent.

## **Annex 1: List of participants**

### **INE**

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