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EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality
Unit D-2: Excessive deficit procedure (EDP) 1

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FINAL FINDINGS

EDP dialogue visit to Portugal

10-11 November 2014

Executive summary

Eurostat carried out an EDP dialogue visit to Portugal on 10-11 November 2014. The main objective of this visit was to review the compliance of the Portuguese EDP data with the EDP statistical framework, in particular with ESA 2010 and the updated version of the Manual on Government Deficit and Debt. The treatment of specific government operations was discussed, in particular the support measures provided to Banco Espírito Santo and the special regime on deferred tax assets. In addition, the data sources for the compilation of EDP statistics were reviewed and some issues raised in the context of the October 2014 EDP Notification were further clarified.

As far as institutional arrangements are concerned, the Portuguese Statistical Authorities explained the state of play of the revised Institutional Protocol under preparation, involving new institutions and statistical areas.

As regards the misreporting of expenditures in the Autonomous Region of Madeira which occurred in the past, in October 2014 the Public Prosecutor made public its decision to close the national investigation that was launched in September 2011. Although misreporting of expenditure was proved, the National Statistical Authorities explained that they do not have the power to impose sanctions. Eurostat, which based on Regulation 1173/2011 has the power to impose sanctions in case of manipulation of statistics, confirmed that no sanctions can be applied in case of events that occurred before Eurostat's regulation entered into force (December 2011).

Eurostat underlined the importance of data availability from all government subsectors for EDP reporting and inquired on the data availability and the responsibilities undertaken by each unit for the compilation of deficit and debt data for each government subsector (data sources, availability of accounts, basis of the accounts, adjustments undertaken, auditing, delimitation of the public perimeter, transactions undertaken on behalf of government and other relevant information needed).

It was agreed that the Portuguese Statistical Authorities would provide the revised version of the EDP inventory in line with ESA 2010, to be published by the end of 2015.

Eurostat reviewed some action points still outstanding from the previous visit to Portugal, notably those related to government other accounts payable/receivable and statistical discrepancy. Eurostat expressed concerns on the high aggregated statistical discrepancy between financial and non-financial accounts for the period 2010-2013 and asked the Portuguese Statistical Authorities to investigate the issue. Eurostat recalled that the discrepancy should be correctly reported in EDP table 3 and that it should not be reported under the lines for other accounts payable/receivable, which should include only amounts ascertained as other accounts receivable or payable.

The EDP tables and the Questionnaire of the October 2014 EDP Notification were also examined and some issues raised in the assessment round were further clarified. As regards the delimitation of general government, the sector classification of the following units, among others, was discussed: Instituição Financeira de Desenvolvimento, Fundo de Contragarantía Mutuo, Comissão do Mercado de Valores Mobiliários, Instituto de Seguros de Portugal, Aguas de Portugal, Banco Efisa, Empresa Pública de Urbanização de Lisboa and Sagesecur.

Eurostat shared with the Portuguese Statistical Authorities its preliminary view concerning the accounting consequences of the special regime on deferred tax assets (DTAs) recently enacted in Portugal. It was confirmed that an implementing act for this special regime is still to be approved and that the final analysis will be undertaken upon approval of the implementing act.

Concerning the support measures provided to Banco Espírito Santo, the possible accounting treatment of the EUR 4.9 bn capital injection undertaken in August 2014 by the Portuguese Resolution Fund in Novo Banco was discussed. The expected future sale of Novo Banco was a key issue for the analysis. In case the sale of Novo Banco would take place within one year time after the capital injection, the rules for capital injections in the context of a privatisation process would be applied. Otherwise, the usual rules for capital injection would apply.

Eurostat inquired on the numerous swap cancellations undertaken for swap contracts of the State and State owned enterprises in 2013 and on the statistical treatment applied. The Portuguese Statistical Authorities confirmed that there had been no swap renegotiations so far.

Eurostat raised the attention of the Portuguese Statistical Authorities on the treatment of interest accrued related to saving and treasury certificates. Eurostat expressed doubts on the treatment of capitalized interest for these debt instruments, which is currently not included in government debt. The issue is being discussed in the EDP Task Force on methodology and in the EDPS WG.

Eurostat inquired on the statistical treatment of the electric tariff debt in Portugal and the transfer of most of these claims by Electricidade de Portugal Serviço Universal to third parties. The Portuguese Statistical Authorities confirmed that, in national accounts, the tariff debt is considered a debt of the users of electricity, and no impact on government deficit or debt has been recorded so far.

Other issues such as PPP contracts, guarantees, mobile phone licences and carbon trading rights were also covered in the meeting.

Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009, as amended, concerning the quality of statistical data in the context of the Excessive Deficit Procedure (EDP), Eurostat carried out an EDP dialogue visit to Portugal on 10-11 November 2014.

The delegation of Eurostat was headed by Ms Lena Frej Ohlsson, Head of Unit D-2 Excessive Deficit Procedure (EDP) I. Eurostat was also represented by Mr Luca Ascoli, Mr Denis Besnard and Ms Lourdes Prado Ureña. Representatives of the Directorate General of 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 the National Statistical Institute (INE), the Ministry of Finance (the Budget Directorate General DGO) and the Bank of Portugal (BdP). In addition, representatives from the Portuguese Public Debt Agency (IGCP¹), the Resolution Fund and other directorates of the Ministry of Finance participated for some of the agenda points.

The previous Eurostat EDP dialogue visit to Portugal took place on 22-23 November 2012.

Eurostat carried out this EDP dialogue visit to review the implementation of ESA 2010 methodology and to ensure that provisions of the Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in the Portuguese EDP data.

The main objectives of dialogue visit were to review the following issues:

- (1) the special regime on deferred tax assets (DTAs) recently enacted in Portugal;
- (2) the treatment in national accounts of support measures provided to Banco Espírito Santo;
- (3) the sector classification of a number of units, in particular the new development bank (IFD);
- (4) the availability of data for the compilation of deficit and debt figures at all government levels;
- (5) the treatment in national accounts of different government specific transactions, as financial derivatives recently cancelled, the measures undertaken in the context of the electric tariff debt and the interest related to saving and treasury certificates;
- (6) some issues raised in the context of past EDP notifications and EDP visits, in particular the reporting of statistical discrepancies.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, as amended, indicating that within days the main conclusions and action points would be sent for comments to the Portuguese Statistical Authorities. Subsequently, the provisional findings would be sent in draft form for review. Finally, after amendments, the final findings would be sent to the Portuguese Statistical

¹ Instituto de Gestão do Crédito Público, recently renamed Agência de Gestão da Tesouraria e da Dívida Pública

Authorities and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat thanked the Portuguese Statistical Authorities for the amount and quality of the documentation provided before, during and after the EDP dialogue visit. Eurostat appreciated the good cooperation on EDP-related issues from the Portuguese Statistical Authorities and considers that the discussions were transparent and constructive.

1. Statistical capacity issues

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

- Institutional cooperation and EDP processes

Introduction

Prior to the visit, the Portuguese statistical authorities had sent a note on the institutional responsibilities in the framework of the EDP reporting. As explained in the note, there were no changes in institutional arrangements since the last EDP dialogue visit. The responsibilities in terms of EDP reporting are divided as follows:

- Statistics Portugal (INE) is responsible for compiling the non-financial accounts and actual data for general government net lending/net borrowing. In particular, the unit in charge is the General Government Statistics Unit (GGSU) in the National Accounts Department of INE;
- Banco de Portugal (BdP) is responsible for compiling the financial accounts and actual data for general government gross debt. In particular, the unit in charge is the Statistics Department of BdP;
- The Ministry of Finance (MoF) is responsible for providing planned data. In particular, the unit in charge is the Directorate-General of the Budget (DGO).

An "*Inter-institutional cooperation agreement in the field of general government statistics*" was signed in 2006 between the co-compilers of EDP statistics in Portugal mentioned above (INE, MoF and BdP). A technical working group on general government statistics involving the three institutions was created within the cooperation agreement. According to the note provided before the visit, the technical working group continues to maintain a pivotal role on the preparation of the EDP reporting.

Nevertheless, since the last EDP dialogue visit in 2012, INE has been engaged on a process of a multilateral discussion trying to achieve a new institutional arrangement. This process is aimed at enlarging both the scope and the participants while preserving the autonomy of the Statistical Authorities.

Eurostat inquired about the number of staff involved in the compilation of government finance statistics (GFS) in the three institutions, the role of the regional statistical offices in Madeira and Açores (plus the cooperation with INE/BdP) and the state of play concerning the update of the inter-institutional protocol.

Discussion

The Portuguese statistical authorities confirmed that the GFS team in INE has seven members, the GFS team in BdP has three members (but staff from other departments also cooperate with the GFS team) and four people are involved in the estimates for the current year carried out by DGO. INE considers its GFS team understaffed and mentioned its intention to enlarge the team by one person in the near future.

The Portuguese statistical authorities explained that, according to the Portuguese law, the Regional Statistical Offices of Madeira and Açores are autonomous and have the mandate to produce the national accounts of their regions (including EDP statistics). This is done in cooperation with INE and BdP. The regions send to INE both public accounts and national

accounts. This information is checked by INE, who has the last say concerning the national accounts figures and can change the data if considered appropriate. It was confirmed that INE has no employees in the regions. The final figures for government debt are compiled by BdP using the input from the regions in combination with other sources.

Concerning the update of the inter-institutional protocol, the Portuguese statistical authorities confirmed their intention to enlarge both the scope and the institutions participating in the arrangement, notably by including the recently created Portuguese Public Finance Council, the Court of Auditors (CoA), the statistical Regional Government units of Madeira and Açores, the Directorate General for Local Administration (DGAL) and more entities in the sphere of the MoF (particularly, the General Directorate of the Treasury and the Public Debt Management Agency, (IGCP)) and of BdP (the Research Department). It was confirmed that the leading role of INE will not change and that the Protocol foresees two levels, a core group represented by INE, BdP and the MoF and a second level including the other institutions. However, it was not yet known when this new arrangement would enter into force.

Eurostat inquired about cooperation with the national CoA besides the updated Protocol under preparation. The Portuguese statistical authorities explained that the cooperation had increased since the past EDP visit, even though no formal agreement between INE and the CoA yet exists for the moment. INE expressed its concern with the fact that the time of the publication of the reports of the CoA is too late to be used in the production of GFS/EDP statistics and expressed its desire to have access to the reports before they are officially published. The lack of agreement on this point is contributing to the delay of the updated inter-institutional Protocol.

Main findings and conclusions

Action point 1: INE will inform Eurostat on the progress achieved in relation to the revised Protocol involving new institutions and statistical areas.

Deadline: Ongoing²

- **Audit and internal control arrangements**

Introduction

There are two main entities auditing public accounts: The General Inspection of Finance (IGF), which is part of the Ministry of Finance and is responsible for internal control and the Court of Auditors³ (CoA), which undertakes external control.

Eurostat inquired about the auditing of government debt figures compiled by BdP and the auditing of social security data and of the accounts of deposit guarantee and resolution funds.

² No information on this action point has been provided to Eurostat up-to-date.

³ Tribunal de Contas.

Discussion

BdP explained that the debt figures produced by BdP are audited at different levels:

- First, there is the quality control procedure in BdP (internal control) for sources, Money and banking statistics, the credit register, etc.
- Second, there is the quality control assessment by the ECB, which controls statistics that are supervised by the ECB.
- Third, there is the quality control undertaken in cooperation with INE, the MoF (DGO) and the IGCP concerning national accounts issues (consolidation, the government perimeter, etc.) among others.

The Portuguese statistical authorities confirmed that the accounts of social security are audited by the CoA and that the accounts of the deposit guarantee scheme and resolution fund are certified by external auditors, despite being subject to regular auditing by the CoA.

- **Follow-up on the misreporting of expenditures in the Autonomous Region of Madeira**

Introduction

In 2011, internal investigations undertaken by the Portuguese authorities revealed that deliberate misreporting of expenditures had occurred in the Autonomous Region of Madeira. This led to backward revisions to both debt and deficit data. As a result, an investigation was launched in September 2011 by the National Public Prosecutor to further clarify the issue and possibly identify individual criminal responsibility.

On the 8th October 2014, the National Public Prosecutor made public its decision to close the investigation of the misreporting of expenditures in Madeira. The Public Prosecutor confirmed the falsification of accounts without prosecuting any of the responsible persons, as it was not proved that they acted deliberately in order to cause harm.

Eurostat asked the Portuguese statistical authorities to explain the latest developments on this case.

Discussion

The Portuguese Statistical authorities pointed out a number of measures that have been taken to reinforce the control and monitoring mechanisms to prevent similar cases occurring in the future. Although the actions will not be completed until the full implementation of RIGORE⁴ in the regions, improvements in the reporting by the Region of Madeira were confirmed. For instance, INE explained that the national accounts information transmitted by the region is now available by unit (which was not the case before) and also that a template including

⁴ Central system for collecting information.

specific information (such as information on taxes, debt assumptions, capital injections, etc.) is filled in by the region and transmitted to INE on a quarterly basis.

Concerning the closing of the investigation with no prosecutions, it was explained that the Portuguese Statistical authorities currently have no power to impose sanctions. The Portuguese Statistical authorities are exploring how to modify and improve their national legislation concerning statistics and asked for the support of Eurostat on this issue.

The Portuguese Statistical authorities mentioned that the falsification did not take place in the statistical system, but at the level of data sources and Eurostat confirmed that this was also the case for another country where Eurostat has used its new powers concerning the manipulation of statistics. However, Eurostat recalled that, at the time when the misreporting in Madeira occurred, Eurostat's new powers concerning investigations and sanctions for misreporting were not in force. Regulation 1173/2011 on the effective enforcement of fiscal surveillance granted new powers to Eurostat as concerns cases of serious negligence in statistical reporting. This regulation entered into force only in December 2011.

Eurostat stated the importance that all statistical data necessary for the EDP reporting should be made available by the Regions to the national statistical authorities.

Main findings and conclusions

Action point 2: As regards the case of statistical misreporting in Madeira, Eurostat will analyse whether fines and penalties can be imposed on misreporting entities in the context of national statistical laws in other EU Member States and inform the Portuguese Statistical Authorities on the result.

*Deadline: February 2015*⁵

1.2 Data sources and revision policy

1.2.1 EDP data availability at the different government levels

Introduction

Given that no Eurostat UD^V⁶ was undertaken to Portugal, data sources and data availability were analysed in detail in the SDV of November 2014.

Before the mission, the Portuguese authorities were asked to fill in very detailed tables for each subsector in order to identify any lack of data that could be relevant for the compilation of government deficit and debt figures. Among others, the following information per subsector was requested in the tables prepared by Eurostat: data sources, availability of accounts, basis of the accounts, adjustments undertaken, auditing, delimitation of the public perimeter, transactions undertaken on behalf of government and other relevant information needed in the context of the EDP reporting.

⁵ This action point was implemented.

⁶ Upstream dialogue visit.

Eurostat thanked the Portuguese statistical authorities for filling in the tables containing detailed information on data availability and responsibilities in the compilation of EDP/GFS statistics. The tables were discussed and reviewed during the meeting and Eurostat inquired on specific issues.

Data on trade credits and advances

Discussion

The data source for trade credits and advances is the Monthly Bulletin published by DGO (MoF), which informs on the budget execution for all government levels on a monthly basis. The data for the compilation of trade credits and arrears are reported in table 16 of the DGO publication. The amount of trade credits reported in EDP tables is obtained from this publication, by deducting amounts that are already included in public debt (for instance, amounts reclassified as loans).

Data for trade credits compiled by DGO are based on individual questionnaires answered directly by the different government entities (State, SFAs⁷, regional and local governments). Public corporations classified in S.13 are not covered by the questionnaire on trade credits, as they report normally on an accrual basis and thus, the balance sheet is used by INE as data source for trade credits. The information in the Monthly Bulletin is also used in the compilation of financial accounts by BdP.

On the other hand, the table on arrears provides information on a wider perimeter, as it includes data for public corporations (classified inside and outside S.13) and public hospitals (which were classified outside government under ESA 95).

It was confirmed that Eurostat decision on "*The statistical recording of some operations related to trade credits incurred by government units*" is applied. Trade credits which are refinanced through factoring without recourse, securitization contracts or debt repayment arrangements are classified in the financial instrument "AF4 Loans" and included in government debt. Data on factoring without recourse and on securitization of trade credits are transmitted by financial institutions to BdP, via the Monetary and Financial Statistics.

The regional statistical service of Madeira provides data on debt repayment arrangements, including debt renegotiation agreements. This type of arrangements corresponds to trade credits liabilities originally from the Regional Government of Madeira. Part of these credits was not repaid at maturity and was subject to successive restructuring arrangements. This represents a change in the substance of the original financial relation between the government unit and its supplier, assuming the features of a loan, with the consequent impact in public debt for EDP purposes.

Main findings and conclusions

Action point 5: Eurostat invites the Portuguese Statistical Authorities to investigate whether debt renegotiation agreements undertaken in relation to trade credits exist for public corporations and other entities classified inside government, as well as for the two autonomous regions of Madeira and Azores and the municipalities.

⁷ Central government autonomous services and funds.

*Deadline: April 2015 EDP Notification*⁸

Compilation of other accounts receivable and payable

Discussion

In Portugal, data for financial instruments is obtained from different statistics compiled by BdP (for instance monetary and financial statistics and balance of payments). However, this is not the case for data on other accounts receivable/payable (F.8), which is not directly obtained from the set of information compiled by the BdP.

Other accounts receivable include the following items:

- Time adjustment for taxes and social contributions.
- Accounts receivable related with the time differences of financial and non-financial transactions, such as, pension funds transfers, super-dividends and concessions.
- Advances related with the acquisition of military equipment.
- Time adjustment of the European Union transfers.

Other accounts payable reflect mainly the difference between the expenditure calculated on an accrual basis and payments. In the case of the Portuguese national accounts, other accounts payable include the following items:

- Trade credits, which reflect the time adjustment for expenditure in goods and services.
- Other accrual adjustments to expenditure, excluding expenditure in goods and services.
- Counterpart of the transfer of pension funds' assets to General Government.
- Time adjustment of the European Union transfers.
- Adjustments in expenditure related to military equipment.

The information for other accounts receivable and payable in EDP table 2 is filled in by INE, while the data for other accounts receivable and payable in EDP table 3 is filled in by BdP.

Data for other accounts receivable and payable are based on information collected from the Ministry of Finance (DGO) and on direct sources of INE on operations for which the moment of recording in national accounts is different from the moment of payment.

As stated above, the data source for trade credits and advances is DGO (except for public corporations in S.13), while the payables and receivables related to non-financial transactions different to trade credits (taxes, military equipment, EU funds, etc.) are compiled by INE using direct data sources (tax agency, units managing EU funds, the Treasury, the Ministry of defence, etc.).

⁸ This action point was implemented. The Portuguese Statistical Authorities do not currently have any evidence that there might be other cases of debt renegotiation agreements in Portugal. In Portugal, the use of contracts of factoring without recourse is common, which makes the likelihood of existence of other renegotiation of agreements low. Additionally, the Portuguese Statistical Authorities have requested DGO to include, in a forthcoming review of the templates asked to public entities on arrears, a specific item to assess the existence of such renegotiation of agreements, and, if they exist, which ones are already covered by factoring without recourse.

Subsequently, BdP uses the data from DGO and INE and adds further adjustments related to specific financial transactions of public corporations (advances from Parpública, other advances related to financial accounts, etc.). For some items, such as EU flows, BdP does not use the data provided by INE. Finally, two additional adjustments are made by BdP to the other accounts payable (AF.8):

- Trade credits and other accounts payable which have the feature of a loan are deducted from AF.81 and added to AF.4 Loans.

- The amount needed to achieve the same net lending (+) / net borrowing (-) of general government of the non-financial accounts is added to other accounts payable.

It was confirmed that the compilation of data on trade credits and other accounts receivable/payable is done according to the following procedure:

Trade credits

1) DGO provides data on trade credits for all subsectors (without public corporations classified in S.13). Source: questionnaire.

2) Data for trade credits of public corporations is added by INE.

3) BdP adjusts this information by deducting from the trade credits certain amounts to be recorded as loans. Source: Monetary and Financial statistics plus specific information on debt repayment agreements.

Extension from trade credits to other accounts receivable/payable

4) INE provides the data for payables and receivables related to non-financial transactions and not linked to trade credits (taxes, EU flows, military equipment...). This information is used by INE to fill in the receivables and payables in EDP table 2.

5) Adjustments related to financial transactions and other adjustments are added by BdP. In some cases, BdP does not use the data from INE (like for EU flows).

6) The difference needed in order to reach the B.9 compiled by INE is added by BdP to other accounts payable (F.8). This way, by altering F.8 it is ensured that $B.9 = B.9f$. This information is used by BdP to fill in the receivables and payables in EDP table 3.

Data availability for S.1311

Discussion

The information for the Central Government subsector is quite complete. Information is available for the April notification (although revised for October when budgetary information is replaced by the General State Account). Information for the State is on a cash basis and adjustments are undertaken in order to have accrual data. All units are subject to internal and external control, although not all of them on a yearly basis for external control.

Eurostat inquired about the data sources used for the compilation of the debt of universities. The Portuguese statistical authorities explained that the balance sheets are not used for universities and that the sources used are different statistics compiled by BdP (Monetary and Banking statistics, Balance of Payments, securities statistics, etc.).

It was confirmed that no balance sheets for year n-1 exist for SFAs⁹ in the April EDP notification of year n. However, balance sheets exist for all previous years. Accounts for SFAs in Portugal follow the POCP (Official Public Accounting Plan), which is accrual-based and are available for October of T+1. The information used in April comes from administrative records and is cash based. It was confirmed that no adjustment for accrued interest is needed for SFAs and NPIs¹⁰, as amounts are not relevant. For premiums and discounts, BdP has information from the securities database unit by unit and instrument by instrument.

State owned enterprises (SOEs) use IAS (International Accounting Standards) and therefore report in line with accrual and including adjustments for premiums and discounts.

It was confirmed that, following a Decree-Law, most public units deposit their cash available in a Treasury account and the amounts deposited are used to decrease the financing needs. The information is available by entity and the amounts corresponding to units classified outside the government sector are included in government debt. These amounts correspond to different instruments (CEDIC and CEDIM) and are recorded in the financial accounts as F.29 (other deposits).

Eurostat inquired about the Central Credit Register (CCR), a detailed micro database including information on loans and covering all financial institutions and some non-financial entities extending credit (for instance IHRU¹¹, Instituto do Turismo de Portugal and IGCP¹²). It was confirmed that the coverage is not exhaustive for the public sector, whose units in the CCR add up to 415. The Portuguese statistical authorities explained that most important lenders are however covered.

Concerning re-routing, it was confirmed that with the introduction of new ESA2010 (and the subsequent enlargement of the government perimeter), no re-routed transactions are currently reported in the general government accounts of Portugal. With ESA95, some transactions related to Parpública were re-routed.

Main findings and conclusions

Action point 7: As regards the issue of non-performing loans, Eurostat invited the Portuguese Statistical Authorities to investigate the possibility of including a more complete coverage of government entities in the Central Credit Register (CCR).

*Deadline: June 2015*¹³

⁹ Central government autonomous services and funds

¹⁰ Non-profit institutions

¹¹ Instituto da Habitação e da Reabilitação Urbana

¹² Instituto de Gestão do Crédito Público, recently renamed Agência de Gestão da Tesouraria e da Dívida Pública

¹³ This action point is still outstanding.

Data availability for the two regions

Discussion

In line with the practice for Central government, cash data for the execution of the budget and trade credits for the two regions are also published by DGO on a monthly basis.

INE receives public accounts and national accounts from the two regions, including information of public corporations classified in S.1312. The information is received on a quarterly and annual basis. The adjustment for accrued interest and premiums/discounts is calculated by the regions in cooperation with the national debt agency IGCP. Madeira and Açores published data for accrual interest for the first time in October 2014.

INE checks the information provided by the regions and undertakes further adjustments by using the information reported regularly by the regions in a specific template designed by INE, which includes data on transfers, information on specific units, debt assumptions, capital injections, arrears, guarantees, PPPs, financial leasing, payments related to SCUTs, sales of assets, etc.).

The Portuguese statistical authorities explained that there have been no recent cases of PPPs in the regions and that those in place relate to old contracts. However, it was confirmed that PPPs in the regions are not dealt with by UTAP¹⁴, the specific unit for PPPs in the Ministry of Finance. For PPPs, INE depends on the data reported by the regions in a regular specific template.

Main findings and conclusions

Action point 6: The Portuguese Statistical Authorities will check if a cash pool management system exists also in the two autonomous regions.

Deadline: April 2015 EDP Notification

Data availability for the municipalities

Discussion

The main data source for municipalities is the Directorate General for Local Authorities (DGAL), which depends on the Presidency of Ministries (and not on the MoF). In April, data are compiled from the budget execution which is cash based. In October, data are compiled from the profit and loss accounts, which are accrual based and follow the POCAL (Official public accounting plan for local government). It was confirmed that profit and loss accounts are available for all municipalities and that the deadline for providing such data for year T is May/June of year T+1.

The Portuguese statistical authorities explained that adjustments for accruals (in April) and for the relevant transactions in both notifications are normally undertaken by INE. Concerning

¹⁴ Unidade Técnica de Acompanhamento de Projetos

the sources used for the adjustments, BdP provides certain information on financing and data for trade credits are available from DGO. However, it was confirmed that, for the other main adjustments, there is currently no regular reporting system in place to provide data on capital injections, dividends, PPPs, leasing, etc. Such transactions are analysed only if they are identified and concern sizeable amounts. Concerning swaps, INE was informed that apparently these units do not enter swap contracts.

The Portuguese statistical authorities explained that a new reporting system was recently implemented by DGAL, which includes information on local public corporations (with details on capital injections), PPP and concessions undertaken by municipalities. The new reporting system was currently being tested by INE and was foreseen to be used in the forthcoming EDP notifications.

For the compilation of the debt of municipalities, BdP does not use information from DGAL or profit and loss accounts/balance sheets. Debt data are compiled from the different sources used in BdP: central credit register, securities data base, balance of payments and treasury account.

Main findings and conclusions

Action point 8: The Portuguese Statistical Authorities will assess whether the new reporting system in place for the municipalities will allow the provision of all necessary information to comply with ESA 2010 reporting in the context of EDP data.

Deadline: April 2015 EDP Notification¹⁵

Data availability for local parishes

Discussion

This level groups a big number of units (over 3,000), but deficit and debt figures for these units are normally very close to zero. The Portuguese statistical authorities explained that the only transactions related to these units are the transfers received from the municipalities.

INE is responsible for the compilation of information on these units. For the April notification there is no information available and estimations are made based on the transfers received by these units. In order to compile the data for local parishes in the October notification, INE conducts a survey and based on its results the B.9 figure is estimated.

The impact of these units is so small that, even though the source data are cash-based, no adjustments for accruals are needed. These units do not own local corporations nor undertake PPPs.

Data availability for social security

Discussion

¹⁵ A note on the issue was provided to Eurostat on 31 March 2015. An updated note providing more detailed information is expected once the analysis by INE and DGAL is finalised.

This subsector consists of 13 units and the data source is the IGFSS (institute for financial management of social security). Budgetary information is available for the April notification and is revised in October, when the budgetary information is replaced by the General Account. Information is on a cash basis.

No accrual adjustment is undertaken for interest, as amounts do not seem significant. Adjustments for debt assumptions, capital injections, dividends, etc. are also not applicable due to the nature of the activities of these units. The only adjustments applied refer to payables and receivables and accrual adjustments for revenue and expenditure.

The Portuguese statistical authorities explained that INE analyses the dividends received if there are amounts reported. It was confirmed that the portfolio investment of these units relates only to quoted shares and participation in mutual funds of non-resident units and that there are no participations in public corporations.

1.2.2 Bridge table between public accounts and ESA data

Discussion

Before the meeting, the Portuguese authorities had provided a bridge table for the transactions in budgetary reporting and ESA 95 codes. It was confirmed that the bridge table is compiled by INE. Eurostat recalled that the updated table establishing the correspondence with ESA 2010 codes is to be provided together with the updated ESA 2010 Inventory.

1.2.3 Calculation of the working balance in EDP tables

Introduction

Prior to the mission, INE provided a document explaining the sources for the working balance (WB), accrued interest and premiums and discounts in EDP tables. The working balance is on a cash basis in all EDP tables 2A-2D. Interest expenditure and revenue in the WB is recorded on a cash basis and does not include payment of discount and inflow premium. Therefore, adjustments need to be made in the corresponding lines in order to have a correct B.9, based on accrual figures.

Working balances

Discussion

In EDP table 2A, the WB for actual data for the State sub-sector is the General State Account. The WB corresponds to the balance of the State including financial transactions and is published in the General State Account. For planned data, the WB is obtained from the State Budget. Because of the different sources for the working balance used in April and October, there could be small differences in the WB between notifications. The audited account of the State for year T is available only in December T+1 and data are final in April T+2.

The WB in EDP table 2C includes Municipalities and Regional Government Units (regional administration plus Autonomous Services and Funds), so 3 different sources are used (municipalities, Madeira, Açores). Some local units (Parishes, Autonomous Services and Funds from municipalities and local corporations) are classified in the Local Administration

subsector, but not reported in the WB. Public corporations classified in Regional Government are also not reported in the WB.

The WB of the Regional Government sector corresponds to the balance of the accounts of each region (Regional Government of Madeira and Açores plus Autonomous Services and Funds) including financial transactions. The accounts of both regions are published. Such accounts for year T are available in June T+1 and are audited by December T+1, leading to final data in April T+2.

The WB of the Local Government corresponds to the balance of the Municipalities including financial transactions. The account of the Municipalities is compiled by the General Directorate of Local Government and is also published.

The WB of Table 2D corresponds to the balance of the Social Security Funds including financial transactions and it is also published in the General State Account.

Eurostat recalled that, in past notifications, some transactions for which no cash had been disbursed were recorded in the WB (for instance, the sale of the concession of ANA and some amounts for loans provided by the State to the regions) and were thus corrected in the adjustment lines. Eurostat inquired whether these were exceptions or whether this was a usual practice. The Portuguese statistical authorities explained that, according to the Law for budgetary accounts, payments disbursed during the first days in January of year T+1 are accounted as of December of year T.

Premiums and discounts

Discussion

It was confirmed that information for premiums and discounts of central government is obtained from the IGCP (debt agency). IGCP reports premiums and discounts on issues and redemptions of securities issued by the State, namely Treasury bonds, Treasury bills and euro commercial paper. Premiums and discounts correspond to the difference between nominal value of securities and the issue value. In the case of Treasury bills, there are significant discounts since these bills do not provide for the payment of coupons and interest is deducted on issuance. For Treasury bonds, the premiums and discounts reflect the difference between the coupon interest rate and the market rate at the time of issuance.

An adjustment is also included for premiums/discounts related with the redemption of securities. These premiums/discounts occur in cases of early redemption of securities and are related mostly with the fact that, in the moment of redemption, interest has accrued since the last coupon payment.

Tables 3A and 3B include this information. However, premiums/discounts are not significant for Local Government and Social Security Funds.

The Portuguese statistical authorities confirmed that, in EDP tables 2, adjustment for premiums and discounts are reported under the line for adjustment between interest accrued and paid.

Accrued interest

Discussion

According to the note provided, interest accrued and paid in tables 3B is obtained from the IGCP. The IGCP calculates accrued interest on a loan-by-loan and security-by-security basis. This information is reported to BdP and aggregated by type of security and by maturity of the instrument. BdP then adjusts this information in order to include interest from other General Government units other than the State. Interest from loans, securities and saving certificates are included in this information.

In table 3D, information was obtained from INE for municipalities, by collecting information from the accounts of local government units.

The sources for the accrual adjustments for interest and premiums and discounts by subsector are the following:

- For central government, the main source is the IGCP
- For the regions, the main sources are the regional debt agencies, in cooperation with the IGCP
- For the municipalities, the main source is the POCAL (Official Public Accounting Plan for local government)
- For social security, there is no need to undertake accrual interest adjustments as the social security subsector has no debt.

1.2.4 Changes in data sources and revision policy

Introduction

In Portugal, there is a national law for accounting records in cash basis for all units in General Government- Decree-Law n.º 26/2002, of 14 of February. However, the Official Plan of Public Accounting (POCP, with small variations for different government levels) uses the accrual basis and is already used for SFA (autonomous services and funds), National Health Service, and Municipalities (POCAL). Eurostat inquired on the implementation of the POCP for the remaining government units and on the state of play of the IPSAS project in Portugal.

Discussion

INE explained that the POCP was work in progress and that it was still not ready to be implemented for the State, the Regional Government and the IGFSS (institute of financial management of social security).

Concerning IPSAS, INE explained that the project was in the pipeline and that entities were not expected to report following IPSAS in the short run, the earliest expected deadline for a first group of reporting units being 2016.

According to INE, there were no major changes in data sources or in the revision policy since the last EDP visit. Benchmark revisions in Portugal take place every five or six years. The last benchmark (named 2006) was undertaken in order to introduce the Simplified Business Information (IES). The IES system, which includes information for more than 400.000 corporations, makes it possible to acquire administrative and statistical information in a

coherent coordinated manner covering all corporations (private and public) registered in Portugal. INE explained that the new benchmark (2011) had been introduced for the implementation of ESA2010 among other changes.

1.2.5 EDP inventory

Introduction

A new EDP Inventory format was approved by the CMFB in June 2012. Portugal had sent the new EDP Inventory in 2013, within the deadline requested, and it was published in Eurostat's website as well as at national level.

Subsequently, following the implementation of ESA 2010, the EDP Inventory template was updated again in order to include ESA2010 related changes. MS were requested to update their inventories once again in order to bring them in line with ESA2010, with a view to publishing by November 2015.

Discussion

Eurostat thanked the Portuguese Authorities for having provided the EDP inventory in 2013. Eurostat had analysed the inventory thoroughly after publication and agreed to provide detailed comments to the Portuguese statistical authorities after the mission, so that the comments and suggestions by Eurostat could be taken on board for the forthcoming update of ESA 2010 EDP Inventory.

Main findings and conclusions

Action point 9: Eurostat will provide its comments on the Portuguese EDP Inventory and INE will incorporate these comments in the revised ESA 2010 version of the Inventory, to be provided to Eurostat and published by the end of 2015.

Deadline for Eurostat's comments: December 2014¹⁶

Deadline for transmitting to Eurostat a draft of the new inventory: June 2015¹⁷

2. Follow-up of the EDP dialogue visit of 22-23 November 2012

The previous EDP dialogue visit to Portugal took place on 22-23 November 2012. Most action points from that visit had been implemented at the time of the November 2014 visit.

Two action points not yet implemented (action points 5 and 13) were related to government other accounts payable and the statistical discrepancy. Both issues have been raised by Eurostat during the last EDP notifications and have been included in the agenda for

¹⁶ This action point was implemented.

¹⁷ This action point was implemented. The ESA 2010 EDP Inventory was provided to Eurostat in November 2015.

November 2014. After the implementation of action points 3 and 4¹⁸ of 2014, action point 13 of the SDV of November 2012 can be closed. This is however not the case for action point 5 of the SDV of November 2012 concerning the comparison of data sources for government payables, which remains open.

Action point 1 of 2012 remains open, as no updated inter-institutional protocol has been transmitted to Eurostat.

As regards, action point 2, concerning the case of misreporting Madeira, following the closing of the case by the Public Prosecutor in October 2014 and the discussion under point 1.1 of this document, Eurostat considers this action point as closed.

At the time of drafting of these findings, two action points of the 2012 visit (action points 1 and 5) are still open out of a total of 26 action points.

3. Follow-up of the October 2014 EDP reporting – analysis of EDP tables

3.1 EDP tables

Introduction

Eurostat received data for the October 2014 EDP Notification on the 30 September and 1st October 2014. Two requests for clarification followed the October 2014 EDP notification. The October 2014 EDP notification was the first one reported following ESA 2010 provisions. Thus, most of the revisions carried out between April 2014 and October 2014 were due to the implementation of ESA 2010.

The deficit was revised for all the years, mainly due to the change in the treatment of lump sum payments for pension schemes and to the reclassification of 268 units in the government sector. The change in the treatment of interest on swaps and FRAs also contributed to the revision to a minor extent.

The debt increased significantly for all the years, mainly due the reclassification of units in the government sector. The impact on the debt ratio was however softened by the increase in GDP linked to ESA 2010 methodology. Other revisions not linked to ESA 2010 (mainly updated data sources) contributed to the revision of the debt.

During the discussion, Eurostat inquired on a number of issues identified during the past EDP notifications (see also points 3.2-3.4 below).

Discussion

Eurostat inquired about a downward correction in government debt in October 2014 in relation to the electric tariff debt, which was not linked to the introduction of ESA2010. The Portuguese statistical authorities explained that a bank had identified government as the counterpart of a loan where the counterpart was in fact the households. The mistake was identified thanks to the Credit Register existing in Portugal, which provides information by counterpart and by institution.

¹⁸ (partially implemented)

Eurostat requested INE to provide detailed amounts instead of aggregated amounts in table 3 of the questionnaire related to EDP, at least for the most relevant units.

Main findings and conclusions

Action point 10: The Portuguese Statistical Authorities will provide more disaggregated information in table 3 "*Adjustment for sector delimitation in EDP tables*" of the questionnaire related to EDP. This applies also to the autonomous regions and municipalities.

*Deadline: April 2015 EDP Notification onwards*¹⁹

3.2 Reporting of EU flows in EDP tables

Introduction

In Portugal there are a number of agencies managing EU funds. The agencies receive the funds and are responsible for promoting the specific programmes and for the financial coordination of these funds, by transferring them to beneficiaries. All the units managing EU funds are classified in the government sector.

However, the agencies do not receive the funds directly from the EU. Amounts coming from EU funds are deposited in an account in the Portuguese Debt Agency (IGCP) from where they are transferred to the managing units.

Regardless of the beneficiary being outside or inside government, the amounts related to EU flows should not impact government B.9. These are transparent in EDP table 2, where all amounts included in the working balance or in the B.9 of other government bodies need to be cancelled by including amounts in the adjustment lines (payables/receivables). The amounts reported in EDP table 3 under F.89 correspond to the difference between “accrual transfers” and “cash transfers”.

In the October 2014 EDP notification there was a significant revision in the amounts of EU flows reported under accounts receivable in EDP table 3. However, there was no revision as concerns the amounts for EU flows reported in EDP table 2. During the mission, Eurostat inquired on this revision as well as on the general procedure followed in Portugal for the reporting of EU flows.

Discussion

For EDP table 2, INE receives on a monthly basis the accounts of all the units²⁰ managing EU funds. In EDP table 2A, no amounts for EU funds are included in the working balance. Amounts are included in the B.9 of other government units, where INE makes the correction directly in order to have the correct B.9 for central government. In EDP table 2D, amounts for the European Social Fund are included in the working balance and corrected in the line for other accounts receivable. Contributions for the GNI-based own resources to finance the amendment are recorded in EDP table 2A as an adjustment in other accounts payable.

¹⁹ This action point was implemented.

²⁰ Agriculture, European Social Fund, Cohesion fund, regional development, etc.

EDP table 3 is compiled by BdP. The source used for this data is balance of payments. In the previous balance of payments methodology, the source used was information from the Treasury account on the amounts received by PT from the EU (cash data). An adjustment was done by using the amounts compiled by INE for the non-financial accounts.

It was explained that, in October 2014, the source data for balance of payments was changed and is now equal to the data compiled by INE for the non-financial accounts, which is on an accrual basis. This explained the revisions in EDP table 3.

Eurostat inquired on the decrease in the other accounts payable related to EU flows in table 4.1.2 for year 2013, which had been revised as compared to the amount provided in April 2014. The Portuguese statistical authorities explained that it was not linked to the contribution to the EU budget, and that the amount could be linked to the offsetting of liabilities at the end of the program for the period 2007-2013.

Eurostat inquired on the sector classification of the unit AICEP (Agency for investment and external trade), which is related to EU funds. It was clarified that AICEP is currently classified in the government sector.

Main findings and conclusions

Action point 11: The Portuguese Statistical Authorities will check the origin of the revision of the EU flows reported in other accounts payable in table 4.1.2 "Breakdown of other accounts receivable/payable reported in EDP tables" of the questionnaire related to EDP for year 2013.

Deadline: April 2015 EDP Notification²¹

3.3 Recording of dividends

Introduction

Although the total amount of dividends transmitted in the October 2014 notification was correct, Eurostat identified some issues concerning the breakdowns provided in tables 10.1 and 10.2 of the questionnaire related to EDP, as well as the dividends related to Parpública and Banco de Portugal.

In an updated version provided before the mission, INE had provided additional detail for dividends received by the ports, Parpública, the other public holdings, local government and social security. Eurostat welcomed this detail also for the future notifications.

²¹ This action point was implemented. Eurostat takes note that EU flows are recorded net, as the information available does not allow for a breakdown between receivables and payables (gross recording). The recording of EU flows will continue to be monitored by Eurostat and a more transparent reporting would be welcomed.

Discussion

Eurostat requested the Portuguese statistical authorities to provide in table 10.2 the details for dividends received by the ports, Parpública, the other public holdings, local government, social security and BdP.

Eurostat inquired whether the super-dividend test had been implemented for the dividend paid by CTT (Correios de Portugal, S.A.) to Parpública as, according to the annual report of CTT, out of the EUR 50 mn paid, EUR 11 mn were paid out of reserves. The Portuguese statistical authorities explained that, because of a lack of time with the implementation of ESA2010, their analysis had focused only on big amounts and the dividend paid by CTT had not being analysed.

Eurostat recalled the rules for the time of recording of dividends and pointed out a few cases where dividends seemed to have been paid at the same time that a public unit was privatised (or even later). INE explained that although the dividends may be actually paid after the sale of the shares, they refer to profits obtained in the previous year and approved in a shareholder's meeting. In the cases of EDP and REN, shares were sold in 2012 and the dividend was paid after the shares were transferred. Eurostat pointed out that sometimes privatisations can be done with private deals and suggested that such deals undertaken at conditions different than those from the market should be carefully checked.

Concerning the super-dividend test for BdP, Eurostat explained that the item "*net result of pooling of monetary income*" in the accounts of BdP should be carefully checked, as it could contain reversal of provisions and reversal of risks. In the case of BdP these amounts were not material for the years under analysis. Eurostat added that miscellaneous items (as other income or sundry income) should also be checked, especially in cases where amounts reported constitute an outlier, and any capital gain/loss and provision/reserve effect must be deleted for the estimation of the operating profit/loss.

Eurostat inquired on the increase in dividends received by the local government in 2013. INE explained that, although the amount included in B.9 was correct, there was a mistake in the amount reported in table 10.2 of the questionnaire related to EDP. The correct amount should be EUR 30 mn instead of EUR 70 mn, which would be correctly reported in the following EDP notification.

Main findings and conclusions

Action point 12: Concerning the payment of dividends reported in table 10.2 of the questionnaire related to EDP, the Portuguese Statistical Authorities will provide information on the amounts paid by BdP as well as on the total amount of dividends received by the local government and social security subsectors, Parpública, as well as other government units.

*Deadline: April 2015 EDP Notification onwards*²²

²² This action point was implemented.

Action point 13: The Portuguese Statistical Authorities will check whether part of the dividend paid by CTT (Correios de Portugal) to Parpública in 2013 should be recorded as a super-dividend.

Deadline: April 2015 EDP Notification²³

Action point 14: Eurostat encourages the Portuguese Statistical Authorities to undertake the super-dividend test on a regular basis for the dividends received from all corporations.

Deadline: Ongoing²⁴

Action point 15: The Portuguese Statistical Authorities will check whether the dividends paid to government in the context of privatisation operations in 2012 should, under ESA 2010 rules, be classified as financial or non-financial operations. The Portuguese Statistical Authorities will also establish a procedure for the analysis of such payments for future years.

Deadline: April 2015 EDP Notification²⁵

Action point 16: Eurostat recalled that the reversal of provisions cannot be included in the calculation of the net operating profit of public entities (including BdP) and encourages the Portuguese Statistical Authorities to undertake any correction if needed. In the case of BdP, the amounts included in the net result of pooling of monetary income should be closely monitored.

Deadline: Ongoing²⁶

Action point 17: INE will correct the amounts of dividends received by local authorities in the year 2013.

Deadline: April 2015 EDP Notification²⁷

3.4 Reporting of statistical discrepancy (SD) in EDP tables

Introduction

In Portugal, the statistical authorities, INE and BdP, compile a single net lending (+) / net borrowing (-) of general government for the non-financial and the financial accounts. By construction, B.9 equals B.9f and the difference is added to the other accounts payable (F.89).

²³ This action point was implemented. In April 2015, EUR 11.4 mn of the amount paid by CTT to Parpública in 2013 were considered as a super-dividend and recorded as a withdrawal of equity (decrease of F.5).

²⁴ This is an ongoing action point.

²⁵ This action point was implemented.

²⁶ This is an ongoing action point.

²⁷ This action point was implemented.

As discussed on previous occasions, without any progress being achieved, the Portuguese statistical authorities report statistical discrepancies in EDP tables, differently from the practice followed by most of the other Member States and recommended by Eurostat. Although some amounts were reported in the line for other statistical discrepancies in EDP tables 3, the difference between B.9 and B.9f was reported under other accounts payable, and therefore it was not visible in EDP table 3. Eurostat considers that the discrepancy between the financial and non-financial accounts should be reported in the appropriate separate line in EDP tables 3 instead of under other accounts payable.

Besides, the total statistical discrepancy ("B.9-B.9f" plus "other SD") accumulated over the period 2010-2013 added up to EUR -3.7 bn (2.2% GDP), which is extremely high. Eurostat recalled that a high statistical discrepancy with negative sign could be seen as an indicator that the deficit might be overestimated or the debt underestimated and urged the Portuguese statistical authorities to investigate the reason for the high accumulated discrepancies.

Discussion

In Portugal, the non-financial and financial accounts have different compilers (INE and BdP respectively) and different data sources.

It was confirmed that INE has access to data sources on both on a cash and accrual basis. INE relies on such data sources for the calculation of B.9 and some of the amounts are reconciled by looking at the adjustments between cash and accrual data. The reconciliation is done at quarterly and annual basis.

On the other hand, BdP has access to sources mainly on a cash basis and takes the B.9 compiled by INE as the best value for the B.9f and uses it to calculate F.89 as a difference.

Although by construction B.9 equals B.9f, it was confirmed that the original figures would not be the same, as the data sources are different and timing differences may occur.

According to BdP, the discrepancies should be mainly due to timing differences between the sources used (i.e., from the difference between cash and accrual). BdP confirmed that the coverage for the financial accounts was good, with complete coverage existing for securities, credit register, money and banking statistics, balance of payments and balance sheets. The Portuguese statistical authorities explained that efforts are made in a continuous manner in order to have a consistent treatment of operations between non-financial and financial accounts as well as to have a consistent classification of entities.

Eurostat recalled that timing differences should be offset over time and that this was not the case in the latest data reported by Portugal in October 2014 (before the mission).

Concerning the reporting of B.9-B.9f in EDP tables, BdP expressed its disagreement with showing this item explicitly. The reason for this is that the B.9 is used by BdP as the best value for the B.9f and therefore it is considered by BdP that there is no discrepancy.

Main findings and conclusions

Action point 3: Eurostat takes note that the aggregated statistical discrepancy between 2010 and 2013 was equal to EUR -4.1 bn (2.4% of GDP). The Portuguese Statistical Authorities will analyse the origin of this statistical discrepancy and report to Eurostat.

*Deadline: February 2015*²⁸

Action point 4: Eurostat recalls that the discrepancy between financial and non-financial accounts should be correctly reported in the appropriate line of EDP table 3 and that only explained payables/receivables should be reported under the item other accounts payable/receivable.

*Deadline: April 2015 Notification onwards*²⁹

4. Methodological issues and recording of specific government transactions

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

Introduction

In Portugal, the statistical office is responsible for the sector classification of units. All public corporations are tested once a year. The test is normally performed at the beginning of each calendar year and a time horizon of at least three years is used for deciding on the classification of a unit.

In order to identify new units created, information is received from two different sources at the beginning of each calendar year:

- FUE (statistical units file) managed by INE and updated using multiple data sources, notably from the Ministry of Justice. It contains all active units in Portugal and their respective identification number.

- Information concerning autonomous services and funds and government agencies lacking financial autonomy is provided by the Ministry of Finance and the Directorate-General for Administration and Public Employment.

Entities exhibiting a nature of Government Autonomous Services and Funds as well as General Government Agencies lacking financial autonomy are classified inside General Government.

²⁸ This action point was implemented. Following the analyses by the Portuguese statistical authorities, in April 2015 the aggregated discrepancy was reduced to EUR -0.5 bn and it was further reduced to EUR -0.4 bn in October 2015. However, the discrepancy is still high for some individual years and needs to be further investigated.

²⁹ This action point was partly implemented. Since April 2015, statistical discrepancies are no longer reported under the other accounts payable (F.8) in EDP table 3. However, B.9-B.9f continues to be reported as nil (despite not being zero) and the total discrepancy is reported aggregated in the line for "Other statistical discrepancy" in EDP table 3. Eurostat considers that the real figure for B.9-B.9f should be shown to users in EDP table 3.

Units in which General Government either owns more than 50% of the shares or has the ability to appoint the directors are considered as public institutional units and hence are subject to the market-non-market test (if they are not involved in financing).

Units which register their activity as belonging to NACE 841 are studied with a greater detail, as this can be an indicator that their activity does not have a market nature.

The sales of certain public units are examined in depth in order to evaluate the nature of their clients (whether the clients are private or public entities).

In order to keep an updated record of all the units controlled by General Government, INE receives information from the Ministry of Justice and the Tax and Customs Authority on a monthly basis, which is used to maintain the above mentioned FUE up-to-date.

Most of the data used to conduct the market-non-market test is available through the Simplified Corporate Information (IES) dataset. This dataset contains the business accounts of all corporations in Portugal on an annual basis. When these are not available via the IES dataset or the website of the unit, Statistics Portugal requests them directly to the corporation. The information referring to year N is available in the second half of N+1.

The list of units classified in the general government sector is published in the website of INE.

A total of 268 units were reclassified in the general government sector in September 2014 due to the implementation of ESA 2010. Most units were reclassified because of non-compliance with the updated 50% test or the qualitative criteria. A number of NPIs, public holdings and market regulatory bodies were reclassified as well.

Questionnaire on government controlled entities classified outside the general government sector

Introduction

Before the EDP mission, INE provided an update of the Questionnaire on government controlled entities classified outside the general government section for year 2013 in line with ESA 2010.

The questionnaire included data for 381 units. Out of these units, 37 were classified in S.12 and the rest classified in S.11. The units that remain classified outside are involved mainly in the following activities: transport, energy, water and waste management, financial services and municipal services.

The questionnaire provided on government controlled entities classified outside the general government sector was analysed in the meeting.

Discussion

Eurostat requested to receive data for the profit & loss account, the number of employees and the subsector for the few units classified in S.12.

Eurostat inquired on the additional analysis undertaken for cases where the 50% test provides results between 50% and 60%. Eurostat stated that the result of the 50% test for those units should be closely monitored and underlined that the calculation of the amortization cost (as provided in the accounts of corporations) should be checked for those cases. INE explained that for cases close to 50%, special calculations were done for the consumption of fixed capital (CFC) but that it is not feasible to do the calculation for all corporations.

Eurostat inquired on the following units for which the sales to production costs ratio reported in the questionnaire was close to 50% and the units remained outside S.13:

- Sociedade de Transportes Colectivos do Porto (STCP). INE explained that the calculation of CFC was done for STCP, for which the ratio of sales to production costs was close to 50%. However, the calculation of CFC did not change the ratio, which remained above 50% and therefore the unit is classified outside the government sector. INE mentioned other cases where the calculation of the CFC had on the contrary changed the ratio in the past, for instance Refer, Metro Lisboa and Metro Porto.

- Sata Air Azores. INE explained that the unit had been analysed in detail and that indemnizações compensatorias (not linked to volume) were not included as part of the sales. INE explained that the subsidies provided to this unit are related to the number of tickets sold and are therefore linked to volume. It was clarified that the decrease in the ratio observed was linked to strikes which took place in 2013 and to the opening of new routes and that the ratio was expected to increase in the near future.

- Geoterceira. This unit, producing electricity in Açores, showed results well below 50% in two years and then recorded a result above 700%. INE explained that the unit was incorporated in a bigger public corporation compliant with the 50% ratio and that they had decided to leave the unit outside government instead of moving it inside government for two years and then outside again.

- Empresa Pública de Urbanização de Lisboa (EPUL). INE explained that this unit was in the process of being liquidated. The liquidation process had started officially in 2014. It was agreed that the sector classification of this unit should be checked.

In addition, Eurostat requested clarification on Sagesecur, for which only two employees were reported and seemed to operate in the real estate sector. Eurostat asked whether Sagesecur could be an accounting tool of Parública and INE agreed to check the sector classification of the unit.

Eurostat requested clarification concerning the following public corporations in Açores which are classified outside the government sector:

- The corporation managing the ports. Eurostat asked whether the test to identify a head office from a public holding had been undertaken. INE confirmed that the number of employees of the entity is significant and that it is not a public holding.

- Lotteries in Açores. INE explained that although the 50% test fluctuates for the 3 years reported, the sector classification outside government was justified.

As concerns public corporations in Madeira, Eurostat requested information on HF Horários do Funchal Transportes Públicos S.A., which sales to production costs ratio is around 60%. INE explained that the entity received indemnizações compensatorias and is in the process of being privatised.

Apart from the public holdings reclassified, no other cases of units with the features of captive financial institutions have been reported by PT. Eurostat asked whether the public units in the questionnaire reported under S.12 had been analysed to identify whether they could have features of captive financial institutions. In particular, Eurostat asked about PME Investimentos, SPGM Sociedade de Investimento and Sofid. INE explained that no in-depth assessment was made for these units, as they do not have debt and their B.9 is close to zero. It was mentioned that the three units are foreseen to be integrated in the new development bank (Instituição Financeira de Desenvolvimento, IFD) and their sector classification would be reassessed in that context.

Main findings and conclusions

Action point 18: Eurostat takes note that INE will analyse the Empresa Publica de Urbanização de Lisboa (EPUL, line 29 of the questionnaire on public corporations) and Sage secur (line 31) and will take a final decision on the sector classification of these units as well as on other possible borderline cases.

*Deadline: April 2015 EDP Notification*³⁰

Analysis of specific cases

- **Instituição Financeira de Desenvolvimento (IFD)**

Introduction

The Portuguese development financial institution was created by Decree Law 155/2014, published on 21 October 2014 in the Portuguese official journal. On 28 October 2014, the European Commission concluded that the Portuguese plans for setting up this institution were in line with EU state aid rules.

Eurostat opened a discussion on the statistical classification of this new unit.

³⁰ This action point was implemented. EPUL and Sage secur were reclassified in the general government sector from 2013 onwards in the April 2015 EDP Notification.

Discussion

From the Decree Law approved, it seems that the unit is foreseen to assume a twofold task:

- It will manage specialised funds with co-investment from private investors (multilateral financial institutions and national development banks) with the objective to support SMEs' access to debt, equity and quasi-equity funding.
- It will manage and channel EU Structural and Investment Funds (ESIF) allocated to Portugal for the period 2014-2020, as well as the reimbursements from these programmes.

The unit is not allowed to take deposits. It has a licence to operate as a financial institution (and not as a credit institution).

The starting capital of this unit will be EUR 100 mn, fully subscribed by the Portuguese State (Ministry of Finance), which will be in charge of appointing the members of the board. In order to increase the equity of this unit, a government decision is needed.

It is foreseen in the law that some existing public units in Portugal dealing with financial instruments in the perimeter of the State will be integrated in the IFD and will allow for the provision of the initial equity. Some of those units seem to be Sociedade de Investimento S.A. (SPGM) and Fundo de Contra Garantia Mútuo (FCGM), currently classified in S.12 outside the general government sector.

The daily management of the unit as well as the conditions in which the funding will be received (from ESIF, multilateral and development banks) and channelled to SMEs are not sufficiently detailed in the legislation approved.

The issue to be assessed is the sector classification of the unit in S.12 or in S.13. Eurostat pointed out a number of elements that should be checked before taking a decision on the classification of the unit, such as the following:

- The shareholder structure and whether government will be the only shareholder.
- The daily management, the degree of independence from government and the degree of involvement of government as concerns the main decisions of this unit.
- The share between the management of EU funds and the funding of SMEs with funds that are not coming from EU funding.
- The existence of a state guarantee

Eurostat recalled that the management of EU funds is a government task and that this unit is a unique case of combining the management of EU funds with the funding to SMEs from other non-EU sources.

INE explained that the unit had been recently created and no transactions had taken place. Furthermore it was stated that due to lack of information a detailed analysis was not yet possible, it would be carried out after the visit.

Main findings and conclusions

Action point 19: The Portuguese Statistical Authorities will analyse the sector classification of the recently created Portuguese development bank (IFD, Instituição Financeira de Desenvolvimento), providing a note to Eurostat including information on a number of elements (degree of government involvement in decision making, predominant activity, government shareholding, existence of government guarantees) which were raised during the discussion.

*Deadline: February 2015*³¹

- **Carris**

Introduction

Carris is a public corporation that provides public transport service of passengers for urban surface vehicles in the city of Lisbon and is 100% owned by the State. Carris is financed with direct revenue from passengers and with subsidies granted by the state ("indenizações compensatórias" and operating subsidies). Carris is highly indebted, it had accumulated losses over the past years and had negative own funds at the end of 2013.

It operates under a state guarantee and is classified in S.11, as the market test is above 50%. The calculation of the 50% test was provided by INE prior to the mission.

Until 2013 Carris financed its operations through bank loans. From 2011 Carris started to have difficulty in having access to financing and had to replace long term loans with short term loans with a higher cost. In 2014 Carris had no access to bank loans anymore and the State undertook a restructuring of the financing, as foreseen in the MoU signed with the Troika (this applies also to STCP and CP). This consisted in the State progressively substituting banks in providing financing to public transport corporations. In the case of Carris and STCP, the consequence in national accounts was the recording of a debt assumption for the full amount of debt held by the two corporations (around EUR 1.100 mn) impacting both government deficit and debt of 2014.

Eurostat requested clarification on the sector classification of this unit and on the calculation of the 50% test.

Discussion

It was confirmed that subsidies on production and interest related to swaps had not been considered for the calculation of the 50% test. INE explained that a restructuring had taken place in the company and, as a result, there had been an increase in the sales (due to the suppression of tariff reductions and an increase in the price of tickets) and a decrease in the costs (due to wage cuts and a reduction in the services provided), leading to an improvement in the result of the 50% test.

It was confirmed that Carris was involved in swap transactions and, according to the data provided, it seems that in 2013 some swap contracts were cancelled or restructured improving the position for Carris (although this had no effect for the 50% test).

It was confirmed that any additional loans provided by the State to Carris should be recorded as capital transfers (D.9) with an impact on government deficit.

³¹ This action point was implemented. The Portuguese statistical authorities have concluded that IFD has features of a captive financial institution controlled by government. IFD was classified in the government sector in October 2015 since its creation (year 2014).

- **Comboios de Portugal (CP)**

Introduction

CP was reclassified in the government sector following the implementation of ESA 2010 because of non-compliance with the 50% rule. Similarly to Carris and STCP, CP also received financing from the State in 2014. However, in the case of CP, there was no impact on government deficit, as the unit was reclassified in S.13 (contrary to the cases of Carris and STCP, that were classified in S.11 and a debt assumption was recorded).

Eurostat inquired on the sector classification of this unit and the calculation of the 50% test during the period 2010-2014.

Discussion

INE explained that CP was reclassified in the government sector from the year 2010. Eurostat inquired on the interest related to swaps for this unit and INE agreed to provide the 50% test with the detailed calculations.

Eurostat inquired on the sector classification of the unit in case its result of the market test would go above 50% in the future. It was explained that being the unit financed from government, it would be unlikely to consider it as a market producer.

Main findings and conclusions

Action point 20: The Portuguese Statistical Authorities will provide the calculation of the 50% test for Comboios de Portugal (CP).

*Deadline: February 2015*³²

- **The financial and insurance supervisors (CMVM and ISP)**

Introduction

The Portuguese Securities Market Commission (CMVM), has the task of supervising and regulating securities and other financial instruments markets, as well as the activity of all those who operate within those markets.

The Instituto de Seguros de Portugal (ISP) is the national authority responsible for regulation and supervision of the insurance, reinsurance, pension funds and their management companies and insurance mediation.

Both units CMVM and ISP are classified in S126 - financial auxiliaries, as they are considered as institutional units having autonomy of decision. The fees collected are recorded as taxes received by the State and rerouted to the entity as fees for the provision of services and therefore do not impact government deficit, but the account of these units.

³² This action point was implemented. The results of the 50% test were slightly below the 50% threshold for the years 2011-2013.

Discussion

Eurostat asked whether these units act independently from government and whether they had the power to impose sanctions. INE explained that both units can apply fines and that they do not have the nature of auto-pilots in national accounts.

Eurostat recalled that the market test is applicable to financial auxiliaries, notably when they do not undertake activities close to financial intermediation, and expressed some doubts on the current recording followed for the fees. If the two units were deemed to be institutional units, it should be considered that they render a service to financial institutions and the amounts collected should be recorded as service fees. However, if the amounts collected are recorded as taxes, the units would not comply with the 50% test and it would be difficult to classify them as financial auxiliaries in S.126.

It was concluded that further reflection was needed on this issue.

Main findings and conclusions

Action point 21: The Portuguese Statistical Authorities will reflect on the sector classification of CMVM and ISP (financial and insurance supervisors-regulators) as well as on the nature of the payments received by the two units.

*Deadline: February 2015*³³

- **Banco Efisa**

Introduction

Banco Efisa is classified in the financial sector (S.12). It is an investment bank mainly operating in the project finance sector for infrastructure projects and it acts sometimes as an advisor to the Portuguese State.

Banco Efisa was part of the group Banco Português de Negócios (BPN). In December 2010 it was acquired by Parparticipadas SGPS SA, which is classified in S.13 following ESA2010.

According to the note provided by INE before the mission, in 2014, Parparticipadas intended to recapitalize Banco Efisa with the objective of selling it until the end of the year 2014.

At the end of 2013 the unit had negative own funds and had accumulated losses over the past years.

Eurostat inquired on the plans to recapitalise and privatise the unit and the statistical treatment foreseen.

³³ This action point was implemented. According to the note provided by INE, both units are correctly classified in S.126 as financial auxiliaries. However, further discussions are needed concerning the fees charged to the supervised entities. The issue will be addressed in the framework of the Eurostat EDP methodological task force.

Discussion

INE confirmed that, according to the accounts of Parparticipadas, a capital injection of EUR 37.5 mn had taken place in 2014Q3. Concerning the possible privatisation of the entity there was no information at the time of the mission. INE explained that this operation, which may have an impact on government deficit, was currently being analysed. It was confirmed that, as the unit had negative own funds, in the absence of a privatisation, the full amount would be treated as a capital transfer impacting government deficit.

Main findings and conclusions

Action point 22: The Portuguese Statistical Authorities will provide information on the capital injection that Parparticipadas undertook into Banco Efisa in 2014, with the view to assess the amount and treatment of the operation, also taking into account the possibility that the company could be privatised before the end of December 2014.

*Deadline: February 2015*³⁴

• Aguas de Portugal

Introduction

Aguas de Portugal is a unit managing participations of the Portuguese State in the water and waste sector with the objective of defining, building, exploiting and managing water and waste systems in Portugal. It controls more than 30 holdings and subsidiaries, which have total staff over 4,000 people.

It was considered by INE to be a head office exercising managerial activities over its subsidiaries and therefore it is classified as a public corporation outside government (S.11) also with ESA 2010.

The parent holding Aguas de Portugal has staff of 63 members, it is a profitable unit and has debt liabilities which are non-negligible. 81% of the shares are held by Parpública SGPS (S.13) and the remaining 19% by Parcaixa SGPS (S.13).

Discussion

INE explained that the parent company provides services related to management and accounting to its subsidiaries and that the company received revenue from the services provided. INE further explained that most of the subsidiaries operate in the municipalities and that the parent company has the power to appoint the board of the subsidiaries. INE explained that the subsidiaries currently supply services directly to consumers and that the prices are fixed by the national water regulator.

Eurostat inquired whether there was a stock of water debt, similar to the electric tariff debt and it was agreed that the issue should be investigated.

³⁴ This action point was implemented. The recapitalization of EUR 37.5 mn undertaken in 2014Q3 was recorded as a capital transfer for its full amount in the April 2015 EDP notification. Further transactions in relation to this unit (recapitalisations or possible privatisation) will be monitored by Eurostat.

Eurostat inquired whether the foreseen reform in the water sector could have implications for the sector classification of the parent company and the subsidiaries and it was agreed that the issue should be closely monitored.

INE agreed to analyse potential loans or capital injections that could be provided by the State to Aguas de Portugal as well as possible loans provided by Aguas de Portugal to its subsidiaries.

It was confirmed that EFG (Empresa Geral do Fomento, a subsidiary related to waste,) was privatised in 2014 up to 95% for a total of EUR 150 mn and that the proceeds would be channelled to Aguas de Portugal.

Main findings and conclusions

Action point 23: The Portuguese Statistical Authorities will monitor the changes foreseen in the plan to restructure the water system and will reassess the sector classification of Aguas de Portugal and its subsidiaries, if needed.

*Deadline: As soon as the information is available*³⁵

Treatment of units in liquidation

Introduction

According to the note provided by INE before the mission, units in liquidation are analysed on a case by case basis. Units classified in the government sector maintain that classification until their formal extinction. For the units classified outside government, the sector classification is determined by the nature of their activity and the role of government in the liquidation process.

Eurostat inquired on the state of play of the liquidation process of Parque Expo and the sector classification of this unit.

Eurostat made a remark on the fact that the Treasury, in its annual report on State owned enterprises, publishes a list of units in liquidation and inquired on the comparability of this list with the data reported in the framework of EDP.

Discussion

INE explained the formal procedure followed in Portugal for public units in liquidation, which consists of the following three steps:

1. Government takes the decision and announces it in the official journal.
2. The liquidation is approved in the shareholder meeting and the liquidator is appointed.
3. Normally, the approval of the liquidation and the appointment of the liquidator are published in the official journal.

³⁵ This action point is still outstanding.

INE clarified that, for national accounts purposes, a liquidation process is not considered to have started until it is approved in the shareholder meeting and the liquidator is approved. Therefore, until the decision is taken by the shareholders, INE continues to analyse the 50% test.

Government announced the liquidation of Parque Expo in 2012. However, the decision by the shareholders to start the liquidation was taken only in October 2014. With ESA95 Parque Expo was compliant with the 50% rule and was classified outside government for the period 2010-2013. INE explained that, with ESA2010 and the inclusion of net interest cost for the calculation of the 50% test, the ratios for Parque Expo decreased. Although the corporation was slightly above 50% in year 2012, it was decided by INE to reclassify the unit in government from 2012 onwards. Eurostat expressed some doubts on the reclassification of the unit from year 2012. INE explained that the decision was based on the fact that government had announced their intention to liquidate the corporation and there was no evidence that the corporation would improve its result.

Concerning the list of units in liquidation published by the Treasury, INE confirmed that it does not follow the same criteria followed by INE in national accounts and that therefore, the results are not comparable. As an example, the unit Silopor, which is in the list of the Treasury, is not considered by INE as a unit under liquidation as it continued its normal activity.

4.2 Implementation of the accrual principle

4.2.1 Taxes and social contributions

Introduction

Information on taxes is collected by the Tax Authority (MoF) and information on social contributions is collected by the Social security funds and the civil servants' pension scheme (CGA). EDP data for both taxes and social contributions are compiled by INE. Final data for taxes and social contributions for year T become available in June t+1.

For VAT and excise duties collected by central government, the time adjusted cash (TAC) method is used with a time lag of two months³⁶ and one month respectively. Income taxes (CIT and PIT) and excise duties at local/regional level are recorded using a pure cash method. For social contributions, a TAC method with a one month lag is used.

As concerns tax refunds, they are recorded using a pure cash method (when the amounts are paid back).

Discussion

It was confirmed that the deadline for reimbursing tax refunds corresponding to year T is normally within year T+1 for the taxes concerned with refunds (income taxes).

³⁶ In the case of VAT, $\frac{3}{4}$ of the revenue of January and February of the following year is added and $\frac{3}{4}$ of the revenue of January and February of the current year is deducted.

The Tax Authority explained that there are three prepayments for the corporate income tax (CIT) of year T: July, September and December and that by May T+1 the final adjustment should be done.

For the personal income tax (PIT) there are monthly prepayments during year T and the final assessment and refunds are done by August T+1.

The Tax Authority clarified that tax credits are granted exclusively in relation to the CIT and that no tax credits are granted in relation to the PIT.

It was confirmed that the amounts related to tax amnesties correspond to amounts actually paid and are recorded when the payment occurred (pure cash). The last tax amnesty had taken place in 2013. It seems that some taxpayers applied to the tax amnesty and paid, but continued with a court case.

Eurostat asked the Portuguese authorities to follow-up any ruling on amounts already paid by tax payers. According to the information provided by the Tax Courts to the Tax Authorities, no final ruling in favour of the taxpayer was made until now on amounts collected under the tax amnesty of 2013.

Eurostat pointed out that the cash data published in the website of the Tax Authority seem to be published with certain delays (the latest data published were for 2011 or 2012 by the end of 2014) and there are no monthly data available by tax.

It was explained that cash data on taxes broken down by categories are published in the monthly bulletin of DGO (execution of the budget). However, in this publication there is no information on monthly time series or tax refunds.

4.2.2 Deferred tax assets (DTAs)

Introduction

In 2014, Basel III introduced changes for the calculation of the Core Tier 1 capital ratio of financial institutions and deferred tax assets (DTAs) that rely on future profitability are to be gradually deducted for the calculation of such ratio. This has induced some countries to enact specific changes in legislation allowing the conversion of DTAs into tax credits that constitute a direct claim on government and which would not need to be deducted for the calculation of the Core Tier 1 capital ratio.

On the 29th of August 2014, Eurostat published a guidance note on the treatment of deferred tax assets (DTAs) in national accounts and on the recording of tax credits related to DTAs under ESA2010.

In Portugal, the Law n°61/2014 of 26th August approved the special regime applicable to DTAs (REPID). Eurostat inquired on the details of the recently enacted law in Portugal in order to agree with the Portuguese authorities on the impact of such legislation on the EDP figures.

Discussion

Main features of the law

All corporations (financial and non-financial) that undertake commercial activities and that are subject to the corporate income tax (CIT) can apply to this special regime (REPID).

Those units interested in joining the REAID were requested to inform the tax authorities within a period of 10 days after the publication of the law. According to the Portuguese statistical authorities, 27 financial corporations and 162 non-financial corporations have declared their intention to use this special regime. It seems however that some of the corporations that applied are not eligible, as they do not have DTAs.

The aim of the law is to convert certain DTAs into tax credits that constitute a direct claim on government (payable tax credits). This would allow that the DTAs are used even if the corporation bears losses, which was not the case before the law.

The DTAs that can be converted are those originated from:

- a) Provisions for credit insolvency and
- b) Provisions for future expenditure related to pensions or long term employees' benefits.

DTAs can be converted into tax credits in the following circumstances:

- a) In case the corporation reports losses in the annual financial statements. The percentage of (losses/own funds) is applied to the stock of DTAs to determine the amount to be converted. In case of negative own funds, the whole stock is converted.
- b) In case the corporation enters into a liquidation process. The whole stock of DTAs is converted.

The amount of DTAs to be converted related to the losses incurred in year T is to be reported in the CIT annual declaration, which can be submitted to the tax authorities until May of year T+1. The conversion takes place only when the tax declaration is validated by the tax authorities. It was confirmed that the first conversions of DTAs will be related to losses occurred in the year 2015, which will be reported until May of the year 2016 and validated within the year 2016. In case of liquidation, the deadline is different from the case of losses; the declaration will be submitted when the activity of the corporation stops.

The tax credit generated can be used to offset past tax liabilities of the corporation or other corporations within the same group. The part not offset is immediately repaid by the tax authority. From this, it is evident that the tax credit generated is payable.

Other more specific features of the law are the following:

In the case of payable tax credits converted because a corporation reports losses (this does not apply to conversion because of liquidation), the Portuguese State will get conversion rights entitling it to receive new ordinary shares of the corporation.

When a corporation reports losses and the relevant DTAs are converted into payable tax credits, the corporation is obliged to constitute a special reserve in the amount of the payable tax credit plus a 10% premium, exclusively aimed at being incorporated in the capital of the corporation. This implies the simultaneous issuing of conversion rights (for ordinary shares with a nominal value equal to the payable tax credit plus 10%), which are attributed to the State. At the time the conversion rights are issued, they can be repurchased by the existing shareholders. The state can also sell this right on the market.

Therefore, if DTAs are converted into payable tax credits because the corporation has incurred accounting losses, the State receives, as compensation, a right convertible into new shares of the corporation. In case the State exercises the right, the shares received will have a nominal value equal to the tax credit plus a 10% premium.

The number of conversion rights (one conversion right = one ordinary share) to be received by the State is determined by the payable tax credit plus a 10% premium and a "reference value" of the shares, which is defined in article 9 of the law. For quoted shares, the reference value is obtained using an average value of the quoted shares over a determined period. For unquoted shares, the reference value is obtained by dividing the own funds by the number of shares and it is considered to be 0.01 in case the own funds are negative or zero.

The use of the conversion rights by the holder implies the increase in the capital of the corporation by the issuance of new ordinary shares, which are attributed at no cost to the holder of the conversion rights. The holder gets shares for a nominal value equal to the payable tax credit plus a 10% premium.

The deadlines for converting the shares, for repurchasing the conversion rights or for selling them in the market are not specified in the legislation and are important for the analysis.

Preliminary discussion on the statistical treatment

It was agreed that the Portuguese regime is more complex than the previous cases involving other countries analysed by Eurostat and that a lot of relevant details are still open in the law enacted. It was confirmed that an implementing act was foreseen to be approved by government at a later stage providing more detailed information and fixing the deadlines. It was agreed that in the absence of the implementing act it would not be possible to reach conclusions concerning the statistical treatment to be applied.

Eurostat made some remarks and opened a preliminary discussion based on the following arguments:

In case of liquidation, it seems reasonable that the total amount of the payable tax credit would impact government deficit, similarly to cases in other member states.

In case of a public corporation 100% owned by government, it is arguable whether the granting of additional shares would make a difference. It seems reasonable that the total amount of the payable tax credit would impact government deficit.

In case the conversion of DTAs is related to losses incurred by a corporation which is not 100% owned by government, a different analysis should be undertaken. A case by case analysis may need to be undertaken taking into account whether the rights have been repurchased, sold or converted and in what conditions. It was mentioned that it could be useful to consider certain provisions of options and derivative instruments in the analysis.

The Portuguese statistical authorities confirmed that the totality of DTAs of Banco Espírito Santo had been transferred to the new entity Novo Banco.

Main findings and conclusions

Action point 24: In relation to the special regime on deferred tax assets (DTAs) recently enacted in Portugal, Eurostat shared with the Portuguese Statistical Authorities its view

concerning the accounting consequences. INE will provide to Eurostat its own analysis on the case, as well as the list of corporations which have expressed their interest to apply to the special regime and any other information available, including the implementing act.

*Deadline: Upon agreement on the implementing act*³⁷

4.2.3 Recording of interest

Introduction

The Portuguese government issues a number of debt instruments which are classified for national accounts purposes as other deposits (F.29). Such instruments are the saving certificates, the treasury certificates and the special certificates (CEDIC and CEDIM).

In the case of saving certificates, interest is capitalised and the instrument is non-negotiable. However, despite this fact, the capitalised interest is not included in government debt, leading to significant differences (around EUR 4bn, over 2% GDP) as reported in EDP table 4 between face value and present value. Eurostat inquired on the reasons for such recording.

Discussion

It was confirmed that interest is capitalised for some of these non-negotiable instruments and that capitalised interest is accrued and correctly recorded in B.9. The Portuguese statistical authorities confirmed that capitalised interest is currently not included in government debt.

Eurostat expressed doubts on the recording followed for saving certificates and asked the Portuguese authorities to investigate the characteristics of the different instruments and to provide the rationale for the face valuation followed in each case.

The Portuguese statistical authorities stated that the recording should be compared with the practice followed in other countries for similar instruments and confirmed that the treatment of capitalised interest was consulted with Eurostat in 1997, under ESA79 methodology, and was followed in the Portuguese accounts since then.

Main conclusions and action points

Action point 26: The Portuguese Statistical Authorities will provide a note on the rationale of the treatment of accrued interest related to Saving and Treasury certificates in order to agree on a final recording for the April 2015 EDP Notification.

*Deadline: February 2015*³⁸

³⁷ This action point is still outstanding. According to INE, no information on the adoption of the implementing act is available. The statistical treatment of the special regime of DTAs in Portugal is still to be assessed. The list of corporations applying for the regime has not been provided to Eurostat.

³⁸ This action point is still outstanding. There have been several exchanges of information between INE and Eurostat concerning this issue. Eurostat considers that, in principle, the interest capitalised related to saving certificates should be included in the government debt of Portugal. The Portuguese statistical authorities claimed that capitalised interests on saving certificates in Portugal are being recorded under the current MGDD rules and previous Eurostat guidance. Eurostat is investigating whether similar instruments exist in

4.3 Recording of specific government transactions

4.3.1 Government transactions in the context of the financial crisis

- **Banco Espírito Santo**

Introduction

On 3 August 2014, the Portuguese authorities provided support measures to Banco Espírito Santo (BES). A capital injection of EUR 4.9 bn (3% GDP) was provided by the Portuguese Resolution Fund (classified in the government sector) to Novo Banco, a new bridge bank taking up most of the activity of BES. Most of the assets and liabilities of BES were transferred to Novo Banco as well as the employees and other material resources. Novo Banco will carry out the normal activity of the former BES and is under Banco de Portugal's supervision. The problematic assets stayed in the former BES, which became a bad bank.

This is the first resolution measure undertaken by the Portuguese Resolution Fund since its creation in 2012. The resolution measure foresees that shareholders and junior creditors will bear the losses first, while the Portuguese Resolution Fund would bear any further loss. This is the first time that a bail-in type measure is applied in Portugal.

The main issue is to determine the impact of this measure on government deficit and debt, which should be reflected in the accounts of 2014Q3, as well as the sector classification of the two units created from former BES. Eurostat asked a number of questions for this purpose.

An expert from the Resolution Fund and staff from the Cabinet of the Minister of Finance joined the discussion for this point.

Discussion

Analysis of facts

The EUR 4.9 bn capital injection by the Resolution Fund in Novo Banco was financed as follows:

- EUR 377 mn were provided from the own resources of the Resolution Fund, resulting from the contributions paid by the participating financial institutions since its creation in 2012. This amount was not enough to meet the financial needs of the new bank and further financing was required.
- EUR 3.9 bn took the form of a loan provided by the Portuguese Treasury to the Resolution Fund. This cash was already available from the credit line for financial institutions (bank solvency support facility, BSSF) that was set aside as part of the European funds provided to

other Member States (MS) and the face valuation of such instruments is being discussed in the EDP Task Force on methodology and in the EDPS WG with the goal of clarifying the current MGDD rules. In the April and October 2015 Notifications, Eurostat included in its press release a footnote concerning the ongoing discussions on the valuation of certain debt instruments and mentioned a potential increase foreseen in the government debt of some MS. A similar footnote is also included by the Portuguese Statistical Authorities in the national press releases. INE tends to agree with Eurostat and pointed out the need to ensure homogeneous treatment across Member States.

Portugal in 2011 (out of the EUR 12 bn especially earmarked for the private banking sector in case of difficulties, EUR 6.4 bn are still available).

- EUR 700 mn took the form of a loan provided to the Resolution Fund by eight of the banks participating in the Resolution Fund.

Novo Banco should be sold in the short/medium term. DG Competition decided that Novo Banco shall be sold up to 24 months after the date of resolution, but Banco de Portugal made public its intention of selling it ahead of that deadline.

Banco de Portugal, as resolution authority, is responsible for the sale of Novo Banco. The auditor in the process will be PWC and BNP Paribas Corporate Finance shall act as a financial advisor.

After the sale of the bridge bank, the Resolution Fund would repay the loan to the Portuguese Treasury in the first place and the loan to the eight financial institutions in the second place. Any proceeds above the repayment of the loan, if any, would be transferred to the bad bank. It was underlined that in case of shortfall, banks were expected to bear the losses.

The Portuguese statistical authorities confirmed that the process to sell Novo Banco had been launched already and that it could last around nine months. They informed Eurostat that a preliminary balance sheet of the entity had been provided, but that there were not sufficient details on the assets transferred. A report by PWC was expected to be available by the end of November, after which the preliminary balance sheet could be corrected.

It was confirmed that Banco de Portugal has the right to transfer assets between Novo Banco and the bad bank and that further transfers of assets between the two units were expected.

Analysis of the statistical treatment

According to the analysis of INE, Novo Banco should be classified in S.122 as a public deposit-taking corporation outside the government sector and the bad bank remaining with the problematic assets would meet the features of a defeasance structure to be classified outside government, as it is not controlled by government.

Eurostat pointed out that the analysis of the resolution measures applied to BES should be done with the rules in force at that time (August 2014) and independently of the treatment to be applied to the European Single Resolution Fund, which will start its activity in 2016. Given that Novo Bank is a public corporation, the MGDD rules for capital injections into public corporations as defined in Part III.2 should be followed.

Eurostat underlined that the sector classification of the Resolution Fund is a key point for the analysis. The Resolution Fund in Portugal is classified inside the general government sector. Eurostat provided informal advice on the issue in December 2013 and by formal letter to INE in March 2014.

Therefore, the equity injected by the Resolution Fund in Novo Bank is considered as injected by government and the potential cost of the resolution measure would be borne de facto by the Portuguese government.

It was agreed that the loan provided by the Portuguese Treasury to the Resolution Fund should have no impact on the accounts, as this transaction consolidates and the Treasury did not raise further debt in order to provide the loan (the amounts were already available from the BSSF received in 2011 in the context of the Adjustment Programme). However, the loan

provided by the eight financial institutions to the Resolution Fund is to be recorded increasing government debt by EUR 700 mn in 2014Q3.

Eurostat and INE agreed that the impact on the deficit needed closer consideration and that the main issue was to assess whether the capital injection of EUR 4.9 bn should be treated as a financial transaction or as a capital transfer impacting government deficit.

In this respect, there were two possible cases leading to different analyses:

a) The case where the capital injection would be followed by the sale of Novo Banco (within a year after the application of the resolution measure) to a unit outside government and

b) The case where the sale would not occur within one year.

In case Novo Banco would be sold in less than one year, the rules for capital injections in public corporations made as part of a privatisation process within a short term perspective should be followed. This implies to record as a financial transaction (F.5) the amount that government is expected to get back (within the limit of the amount of the privatisation proceeds), while the difference between the amount paid by government and the amount to be received from the privatisation would be recorded as a capital transfer (D.99) impacting government deficit. The above would apply if the privatisation was undertaken before August 2015.

In case Novo Banco would not be sold in the short term, it should be analysed if the funds were provided expecting a sufficient rate of return on investment, usually above the average borrowing cost of GG (for example, the one of long-term 10 years government bonds rates). If a sufficient rate of return was expected, the recapitalization should be recorded as increase in shares and other equity (F.5), with no impact on government deficit. Otherwise, the capitalization should be recorded as a capital transfer for the full amount. In order to undertake this analysis, the existence of a business plan is crucial.

Eurostat pointed out that a business plan for Novo Banco was not available at the time government undertook the capital injection, and therefore it may be difficult to argue that the capital injection was undertaken seeking profitability. However, it was stated by INE that a business plan is normally not established for such short term banks.

It was agreed that a practical decision on how to treat the capital injection should be taken for the accounts of 2014Q3 and for the April 2015 EDP Notification, on the basis of the information available in case the privatisation process was not completed by then.

Eurostat pointed out that the following issues should also be analysed:

- It should be checked whether any bad assets have been transferred to Novo Banco. In this sense, a thorough analysis of the assets transferred to both banks should be undertaken.

- It should be checked whether the residual entity keeping the bad assets will receive any support from government or from the Resolution Fund. Any support from them to the bad bank should be treated as a capital transfer impacting government deficit.

Sector classification of the Resolution Fund

Eurostat provided its advice on the statistical classification of the Resolution Fund earlier in 2014 and the classification inside government had already been implemented in the April 2014 EDP Notification, before the support measures to BES took place. Although this point was not in the agenda of the mission, the representative of the Cabinet of the Minister of Finance raised the issue of the statistical classification of the Portuguese Resolution Fund and expressed its disagreement with the advice provided by Eurostat.

INE confirmed that it had already classified the Resolution Fund in S13 and thus it agreed with the decision of Eurostat but expressed some concerns about the general rules for the classification of these entities, which could be further clarified in the EDP working groups³⁹.

Main findings and conclusions

Action point 25: The Portuguese Statistical Authorities will provide to Eurostat the PWC report on the valuation of assets and liabilities of Novo Banco at the time of the support measures as well as the detailed balance sheets. Based on the information available, INE will provide a note on the proposed recording for the third quarter of 2014. INE will provide an updated note in case of new developments before the compilation of the annual accounts for 2014.

Deadline for accounts of the third quarter of 2014: Mid December 2014⁴⁰

Deadline for annual accounts: 15 March 2015⁴¹

- **Follow-up of previous government interventions**

The information on this point was based on a note prepared by INE before the mission. There were no outstanding issues identified and therefore, there was no explicit discussion on this point during the visit.

The Financial Assistance Programme to Portugal of 2011 included a bank solvency support facility (BSSF) which amounted to EUR12 bn. This facility was earmarked to recapitalise Portuguese private banks.

The BSSF was not used in 2011 and the full amount was kept by the Portuguese state in deposits. In 2012 and 2013, the State undertook the following capital injections, using funds of the BSSF in all the cases except CGD:

³⁹ EDP Statistics Working Group (EDPSWG) and EDP Task Force on Methodological issues.

⁴⁰ This action point was implemented.

⁴¹ This action point was implemented. In the April 2015 EDP Notification, the privatisation process was still ongoing and the capital injection was provisionally treated by INE as a financial transaction, without impacting the deficit of 2014 as INE publicly stated in its press release on that notification. Eurostat expressed a reservation on the Portuguese data because of the lack of information to decide on the treatment of this transaction and the high likelihood of revisions in the deficit of Portugal in the October Notification. In September 2015, the Board of Directors of Banco de Portugal decided to stop the privatisation process. The sale did not take place within one year time and the normal rules for capital injections became therefore applicable. Thus, in the October 2015 EDP Notification, INE recorded the transaction as a capital transfer for its full amount, impacting the deficit of 2014.

- EUR 1.5 bn in hybrid securities (CoCos) were injected in BPI (Banco Portugues de Investimento). The full amount was recorded as a financial transaction.

- EUR 3 bn in hybrid securities (CoCos) were injected in BCP (Banco Comercial Portugues) The full amount was recorded as a financial transaction.

- EUR 1,650 mn were injected in CGD (Caixa Geral de Depositos), of which EUR 900 mn in CoCos and EUR 750 mn in the form of ordinary shares. The EUR 900 mn in the form of CoCos were recorded as a financial transaction and the EUR 750 mn in the form of ordinary shares were recorded as government expenditure.

- EUR 1,100 mn were injected in Banif, of which EUR 400 mn in CoCos and EUR 700 mn in the form of ordinary shares. The EUR 400 mn in the form of CoCos were recorded as a financial transaction and the EUR 700 mn in the form of ordinary shares as government expenditure.

The BSSF was not used entirely and some amounts were still available in 2014 when BES was nationalised.

Before the mission, INE provided information on the state of play concerning the repayment of the CoCos. According to this information, by September 2014 the situation was the following:

- BPI had already repaid the full amount.

- BCP had repaid EUR 2,250 mn and had an outstanding liability of EUR 750 mn

- CGD had not repaid any amount as concerns the principal and the total amount of EUR 900 mn received was still outstanding.

- Banif had repaid EUR 275 mn and has an outstanding liability of EUR 125 mn.

4.3.2 Capital injections in public corporations, dividend, privatization

Introduction

The only sizeable capital injection in 2014 was undertaken in Novo Banco. A smaller injection took place in Banco Efisa. Both transactions were discussed in previous points of the mission. Dividends were also discussed in a previous point of the agenda. Eurostat asked some questions on the privatisation of a number of units.

Discussion

In the privatisation of ANA in 2013, the amount received by the State was around EUR 3 bn. However, the amount reported in table 10.2 of the questionnaire related was EUR 564 mn. Eurostat requested INE to investigate the difference.

As concerns privatizations in 2014, the following were confirmed:

- The remaining 30% that Parpublica held in CTT (Correios de Portugal) was privatised in September 2014 by an amount of EUR 343 mn.

- The privatisation of the 9.9% share of Parpublica in REN was concluded by an amount of EUR 139 mn.
- The privatisation of EGF (Empresa Geral do Fomento, S.A.) was concluded by an amount of EUR 150 mn.
- The sale of Fidelidade (subsidiary of BES) was concluded by an amount of EUR 1,256 mn.
- INE confirmed that there had been no progress concerning the privatisation of TAP⁴² S.A. in 2014.

Main findings and conclusions

Action point 27: The Portuguese Statistical Authorities will check the amounts related to the privatisation of ANA in 2013 in the EDP tables and the EDP related questionnaire.

*Deadline: February 2015*⁴³

4.3.3 Public Private Partnerships and concessions

Introduction

No PPP/concession issues have been discussed with INE since the last EDP mission, when the Portuguese statistical authorities informed Eurostat about the reclassification of three PPPs inside general government in 2011, as tolls were introduced in a revision of the contracts and the revenue from tolls accounted for more than 50% of the cost for GG.

Prior to the mission, INE provided a document on PPPs including a table with the existing projects for central government and Açores. On the contrary, the document requested on concession contracts undertaken by government in the period 2010-2014, notably on the water and transport sector, was not provided.

For the PPPs in Portugal mainland, the information is received from UTAP – Unidade Técnica de Acompanhamento de Projetos (MoF) and for the PPPs in the regions, the information is received from the regional statistical offices.

Discussion

Before the mission, INE provided information on the new projects in the pipeline, out of which the main one is the Hospital de Lisboa Oriental. INE explained as well what had been the ongoing contracts terminated, out of which the main one is the Concessão Túnel do Marão. In June 2013, the State decided to terminate this PPP contract due to failure of the private partner in finalising the construction under the agreed conditions. The termination of the contract led to the integration of the assets in the accounts of Estradas de Portugal (S.13).

⁴² As a reminder, TAP SGPS was considered as a public holding and reclassified in the government sector with the implementation of ESA 2010. However, the main subsidiary, TAP S.A., is classified outside government, as a public corporation undertaking a market activity.

⁴³ This action point was implemented. A correction to reflect the market value was included in the April 2015 EDP Notification in table 10.2 of the questionnaire related to EDP.

However, the early termination had no impact on government accounts, as the assets were already classified on-government balance sheet.

Eurostat took note, since January 2013, a commission is engaged in the renegotiation of several PPP contracts on roads, aiming at reducing the payments by the State. Traffic had diminished considerably in all motorways with tolls and the fees paid by government to the partners are considered by government to be too high. The renegotiations are targeted at: reducing the Internal Reference Rate of the shareholders; reducing the operating costs of the private partners; changing the structure of the payments made by the State concerning big repairs as well as using the reserves' accounts of the private partners for reducing those payments.

According to UTAP, the renegotiations will not change the risk assessment of the contracts and no changes in the classification are expected on the basis of risks. However, UTAP has pointed out that the revised contracts will have new baseline scenarios, with updated traffic assumptions. In the case of Concessão Algarve, the new traffic assumptions point out to a ratio of tolls revenue on total payments by the State lower than the 50% threshold. According to UTAP, the analysis of the revised contract based on the new traffic assumptions may lead to the reclassification of this contract from on balance to off-balance sheet.

Eurostat inquired on the availability of information on the renegotiation of contracts. INE explained that the contracts are finalised, but the approval of the Court of Auditors is needed before signature. It was confirmed that the revised contracts will be analysed by INE as soon as they are made available.

Eurostat underlined that in PPP/concession contracts, assumptions can be used only for the first assessment, as in the absence of actual data at inception the only option is to establish a forecast. Eurostat made clear that under no circumstance the statistical treatment of contracts could be reclassified during the exploitation phase based on assumptions. During the exploitation phase, the statistical treatment of contracts can change based on factual data which may prove that the initial assumptions were incorrect, but not based on assumptions.

Eurostat stressed that the updated contracts should be analysed as new contracts and that a new analysis would be required based on the latest rules in place. Therefore, the fact that the payments from the state can go below the 50% threshold would not be enough by itself for the reclassification of the assets off-government balance sheet. A new detail analysis of the contract is to be undertaken and elements reducing the risk exposure of government as well as any element of rewards sharing should be assessed in the updated contracts, as this could point to the classification of the infrastructure assets on the balance sheet of government.

Eurostat informed INE that the updated contracts should be transmitted to Eurostat and that no off-balance sheet reclassification should be undertaken without previous discussion with Eurostat.

Main findings and conclusions

Action point 28: Eurostat and INE agreed that, in case of renegotiation of PPP contracts, the new contract should be assessed according to the latest set of accounting rules described in the MGDD.

*Deadline: Ongoing*⁴⁴

Action point 29: INE will check the existence of energy performance contracts (EPC) and energy efficiency measures in Portugal.

*Deadline: February 2015*⁴⁵

4.3.4 Financial derivatives

Introduction

Before the mission, the Portuguese debt agency (IGCP) provided a document on the derivatives portfolio of the State, the state owned enterprises (SOEs) and the region of Madeira. The IGCP also filled in different tables with details on swaps as requested by Eurostat.

Several swap cancellations were undertaken for swap contracts of the State and SOEs in 2013, involving cash disbursements (mainly for SOEs). According to the Portuguese authorities, there had been no swap renegotiations at the time of the mission.

Two representatives of the IGCP attended the discussion for this point.

Discussion

The representatives of IGCP explained that, from year 2012 onwards, the management of swaps of SOEs classified in government was transferred to the IGCP. However, it was clarified that the risks stayed with the SOEs. The management provided by IGCP comprises the signature of new swap contracts and the cancellation of existing contracts.

Eurostat inquired whether the swaps of SOEs classified outside government were also managed by IGCP. It was confirmed that although IGCP provides advice, it does not manage the swap portfolio of such entities.

IGCP explained that the swap contracts entered by the State are normally simple plain vanilla with a fixed leg and a floating leg. On the contrary, the swaps transferred from SOEs were more structured. IGCP explained that they had tried to cancel the complex swaps, but that some complex contracts still existed.

Eurostat remarked that some of the swap contracts cancelled were profitable at the time of cancellation and IGCP explained that the strategy followed was to undertake the cancellations before rates would start to increase.

Eurostat inquired on the Credit Valuation Adjustment (CVA) followed by banks, according to which, swaps contracts would be adjusted by the credit rating of their counterpart. It was

⁴⁴ This is an ongoing action point. It should be noted that a number of contracts have been recently renegotiated and that the renegotiation of others is ongoing. Eurostat has requested information in order to agree on reassessment of the projects and the treatment of the infrastructure assets after the renegotiations.

⁴⁵ INE reported having no evidence of EPC contracts in Portugal. INE confirmed the existence of energy efficiency measures without providing details. A more comprehensive note on the measures and the statistical treatment of energy efficiency measures has been requested by Eurostat.

confirmed that government had sometimes succeeded to negotiate swap cancellations not on the basis of expected future flows, but with discounts.

Eurostat inquired on the state of play of the ongoing court case for the cancellation of certain structured swap contracts and the IGCP reported no progress on this issue. Eurostat recalled that the issue needs to be closely monitored. In case the state wins the case, the swaps contracts will disappear. However, this will not be the case if the counterpart of the State wins. In this case, the contracts (in which the Portuguese government has a very negative position) will probably continue or will be restructured, with the subsequent accounting consequences.

4.3.5 Guarantees

Standardised guarantees

Introduction

In the October 2014 notification, no adjustments related to standardised guarantees were undertaken in the Portuguese accounts and INE explained during the clarification round that there were no standard guarantees granted by government in PT.

Discussion

Eurostat remarked that, according to the Portuguese EDP inventory and to the press, there are guarantees on student loans granted by government (with non-negligible amounts from 2007) and that these schemes are currently treated as contingent liabilities (same treatment as one-off guarantees).

INE explained that guarantees provided on student loans were not considered standardised because the guarantees were considered to be granted by banks and not by government. INE clarified that, in any case, every year some amounts are recorded as expenditure of the Ministry of Education, as the State seems to be paying small amounts for these loans. Eurostat asked whether a link could be established between the amount of loans not repaid and the amounts paid by government. INE explained that the existence of an explicit guarantee cannot be concluded from the existing legislation and agreed to investigate the issue.

Main findings and conclusions

Action point 30: INE will investigate the existence of possible standardised guarantees in relation to student loans.

Deadline: February 2015⁴⁶

⁴⁶ This action point was implemented.

Other issues related to guarantees

Discussion

Eurostat recalled the rules for the recording of guarantee calls on borrowing. INE explained that guarantee calls are normally analysed on a case by case basis.

Four guarantee calls took place in 2013 for a total amount around EUR 52 mn. The units concerned were Europarques, Parque Expo'98, Fundo Contragarantia Mútuo and Seguros Cossec. INE explained that there had been no guarantee calls in the first two quarters of 2014.

INE informed Eurostat that they planned to change the recording in national accounts for the amounts related to Seguros Cossec. Although these amounts are reported as guarantee calls in public accounts (and in EDP/GFS data), according to INE they are related to insurance and should be treated as such. INE intends to correct the reporting from the April 2015 EDP Notification onwards.

Eurostat asked different questions on the Fundo de Contragarantia Mútuo, on the guarantee calls from this unit, on the total stock of debt guaranteed and on the rationale for the sector classification of this unit outside the government sector. INE agreed to analyse the sector classification of this unit in the context of the analysis of the Instituição Financeira de Desenvolvimento (action point 19).

Main findings and conclusions

Action point 31: Eurostat recalled the rules for the recording of guarantee calls on borrowing, implying that when a guarantee is called, a debt assumption by government should always be imputed in the absence of collateral, if the "claim" is held on the guaranteed unit and not on a third party. In parallel, any future repayment of the debt assumed by government should be considered as government revenue.

*Deadline: Ongoing*⁴⁷

Action point 32: INE will investigate the sector classification of the Fundo de Contragarantia Mutuo in the framework of the new unit IFD.

*Deadline: February 2015*⁴⁸

4.3.6 UMTS and LTE

Statistics Portugal recorded EUR 372 mn as government revenue in the third quarter of 2012 in relation to the sale of UMTS licences regarding the 4th mobile generation. This treatment

⁴⁷ This is an ongoing action point.

⁴⁸ This action point was implemented. The Portuguese statistical authorities have concluded that the FCGM has features of a captive financial institution controlled by government. FCGM was reclassified in the government sector in October 2015. This action point is linked to action point 19 on IFD. In the context of action points 19 and 32, the Sociedade de Investimento (SPGM) was also analysed and reclassified in S.13 from October 2015.

did not change with the implementation of ESA2010. The issue was discussed during the last EDP mission. No new contracts regarding UMTS or LTE licences have been signed or have been foreseen since then.

4.3.7 Disposals of non-financial assets by general government. Sale and leaseback operations

Discussion

With ESA95, some amounts related to sale of assets were recorded as government revenue, improving B.9. Under ESA2010, no sale of assets have impacted government B.9 and Eurostat inquired whether the treatment for some transactions had been changed. INE clarified that there was no reclassification of transactions. However, most transactions had as a counterpart Estamo, a public corporation which has been reclassified in the government sector following the implementation of ESA2010.

4.3.8 Re-routing of transactions, assets and liabilities through government accounts

Discussion

The table provided by INE for re-routing is empty. According to the Portuguese Statistical authorities, there are no transactions, assets or liabilities re-routed through government accounts impacting government deficit and debt.

4.3.9 Carbon trading rights

Discussion

In Portugal, emission trading rights were auctioned for the first time in 2012.

INE expressed some concerns on the fact that in 2012 and 2013, the number of surrendered licenses is persistently below the number of licenses allocated to corporations. This leads to an imbalance between the cash payments received by government and the calculation made for the accrual recording of the tax. If the surrendered licenses continue to be always below the issued licenses, this difference will persist in time and increase.

Eurostat recalled the existing rule for carbon trading rights and agreed to discuss the issue in the EDP Task Force on methodological issues.

4.3.10 Electric tariff debt

Introduction

The Portuguese law regulating electricity prices explicitly stipulates that price increases reflecting increased costs applicable under the pricing formula may be introduced with delay, possibly spread over 15 years. In any given year, a ‘tariff deficit’ emerges that represents the difference between the final electricity tariff paid by users and the sum of the corresponding costs borne by energy corporations (producers and distributors) occurred in the year. A ‘tariff debt’ merely represents the cumulated “tariff deficit” over the years. The majority of the

Portuguese tariff deficits emerged in 2007-2008 (reflecting a steep oil price increase not immediately passed to customers), and 2012-2014 (reflecting high prices paid to renewable energy producers and not fully passed to customers). In 2014 the tariff deficit was estimated to reach EUR 1 bn, and the cumulated tariff debt EUR 4.4 bn.

Each year, the electricity regulator (ERSE) compiles the figures for what is actually paid by customers and makes a split between the part which represents repayment of the 'tariff debt' (including interest) and the part which represents payment for the deliveries in the year. The difference between the latter and the reimbursable costs and regulated profits constitute new 'tariff deficit'.

The electricity companies book as revenue the reimbursable costs and regulated profits, which are considered as already earned. Thus, they book a flow of additional receivables for the difference with the tariffs actually paid. Electricity companies have followed the practice of selling these receivables (called regulatory receivables), including via securitisation schemes.

The financial assistance programme for Portugal included several measures on the tariff debt, aiming at eliminating it by 2020, notably concerning increases in final electricity tariffs paid by users and the creation of a new tax collected by the newly created Fundo para a Sustentabilidade Sistémica do Setor Energético (FSSSE), partly dedicated to paying down the 'tariff debt'.

Prior to the mission, the Portuguese statistical authorities provided a note analysing the treatment of the electric tariff debt in national accounts and the newly created FSSSE.

Discussion

In national accounts, the tariff debt in Portugal is considered by INE as a debt of the users of electricity, and no impact on government deficit or debt has been recorded so far. This means that the gross operating surplus of producers takes into account the economic sales (as cost plus regulated return, and not the cash sales), which sounds reasonable. However, the counterpart recorded to this transaction is not a government subsidy but an inflated household consumption at present (and, as a consequence, reduced household savings).

INE explained that, based on the information currently available, the tariff debt seems to be a responsibility of the users of electricity in Portugal. This is because electricity corporations will be compensated in the future by higher electricity tariffs, for the additional costs incurred in the past.

Eurostat inquired on the existence of government guarantees, and INE confirmed that no government guarantees exist, notably in cases where electricity corporations sell their credits to third parties. However, INE admitted not having analysed the contracts, as those are not easily available. INE confirmed that all the banks (with exception of BCP) were recording households (and not government) as counterpart in such securitization operations undertaken. BCP recently sold the claims with a loss as, in the context of the stress tests, the claims were considered risky.

Eurostat wondered to what extent it could be considered that households have a genuine payable, because no household has an obligation, if considered individually. It was considered somewhat surprising that banks and securitisation entities could acquire claims without any government guarantee and with no obligated party identified, but simply with the promise that higher tariffs in the future would be granted by the regulator.

Finally, INE explained that the creation of the FSSSE will play just a minor role in reducing the tariff debt and will thus not change the above analysis concerning the treatment of the

tariff debt. Until 2020, the elimination of the tariff debt will still have to be mainly achieved through increased electricity tariffs paid by the users. According to legislation, contrary to cases in other countries, the FSSSE will not buy the claims sold by electric operators. The only role of government (ERSE) is to reroute the relevant components of the tariffs paid by electricity users to the entities owning the claims.

INE confirmed that the expenditure to be incurred by the FSSSE from 2014 onwards, both on the energy efficiency measures and on reducing the tariff debt, will have a corresponding impact on the deficit and debt of government – although the tax will be recorded as government revenue.

Main findings and conclusions

Action point 33: In the context of the existing electric tariff debt, the Portuguese Statistical Authorities will investigate the possibility of obtaining a copy of one of the contracts signed by EDP with one of the financial institutions which acquired the existing claims of EDP Serviço Universal and will provide it to Eurostat.

*Deadline: When available*⁴⁹

4.4 Important issues for year 2014 relevant for the April 2015 EDP Notification

The information on this point is based on a note prepared by INE before the mission. During the discussion, Eurostat inquired on the state of play of transport concessions.

One-off measures foreseen in the budget of 2014

The one-off measures foreseen in the budget of 2014 such as the transfer of the CTT health fund, the concession of ports, the concession of Silopor and the dividend distribution by ENMC did not occur yet. According to the information received from the Ministry Finance, none of the above measures will take place in 2014 and in the State budget for 2015 only the concession of ports is included.

Transactions recorded as capital transfers increasing government deficit

The net borrowing of general government for 2014 transmitted in the planned data in the October notification included the amount of approximately EUR 1,289 mn (0.74% of GDP) for the recording of loans provided by the State to the public enterprises “Carris” and “STCP” (both with negative own funds, losses and government guarantee) and to the write-off of nonperforming loans by BPN Crédito, held by Parvalorem, SA.

These operations were already registered in the general government accounts for the 2nd quarter of 2014, compiled and published by INE.

⁴⁹ This action point was implemented. The Portuguese statistical authorities provided to Eurostat a copy of one of the contracts signed by EDP with one of the financial institutions purchasing claims. After some exchanges with INE, Eurostat took note of the treatment currently applied to the tariff debt in Portugal and decided to continue to follow the developments on this issue.

State of play of transport concessions

According to information received by INE, the public tender for the concession to private entities of public transport services in Porto was launched by the Government in August. Potential candidates will have to submit proposals at the beginning of December, and it is expected that the new operators start functioning during the first quarter of 2015.

The model designed for these concessions foresaw a 10-year term and established a compensation model technically known as "gross cost", with the inclusion of a mechanism to stimulate demand in order to align the interests of all the parties.

A public tender for the concession of public transport services in Lisbon will be launched by the Government, in similar terms, before the end of November. The new operator should start its functions during the first semester of 2015.

Dividends received by the State in 2014 (see also point 3 of the agenda)

Dividends received by the State from Banco de Portugal amounted to EUR 202.4 mn and were recorded in the 2nd quarter 2014, as well as dividends received by Parpublica, which amounted to EUR 74 mn.

Main findings and conclusions

Action point 34: Concerning concession contracts in the transport and water sectors, INE will inform Eurostat on the latest developments occurred, including an analysis of the treatment of the operations in national accounts.

Deadline: Upon signature of the contracts⁵⁰

⁵⁰ This is an outstanding action point. No information has been provided to Eurostat at this stage.

Annex 1

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Annex 2

Agenda

(1) Statistical capacity issues

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

- 1.1.1. Institutional cooperation and EDP processes
- 1.1.2. Quality management framework
- 1.1.3. Audit and internal control arrangements
- 1.1.4. Follow-up on the misreporting of expenditures in the Autonomous Region of Madeira

1.2. Data sources and revision policy

- 1.2.1. EDP data availability at the different government levels
- 1.2.2. Bridge table between public accounts and ESA data. Flowcharts.
- 1.2.3. Calculation of the working balance in EDP tables
- 1.2.4. Changes in data sources and revision policy
- 1.2.5. EDP inventory

(2) Follow-up of the EDP dialogue visit of 22-23 November 2012

(3) Follow-up of the October 2014 EDP reporting – analysis of EDP tables

- 3.1. EDP tables
- 3.2. Breakdown of other accounts receivable and payable
- 3.3. Reporting of statistical discrepancy in EDP tables

(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
- 4.1.2. Changes in sector classification resulting from the introduction of ESA 2010
- 4.1.3. Questionnaire on government controlled entities classified outside the general government sector and Questionnaire on implementation of ESA 2010 general government delimitation
- 4.1.4. Discussion of specific cases
 - Carris
 - The financial supervisors
 - Instituição Financeira de Desenvolvimento (IFD)
 - Banco Efisa

4.2. Implementation of the accrual principle

- 4.2.1. Taxes and social contributions
 - Tax amnesty

4.2.2. DTAs

4.2.3. Interest

4.3. Recording of specific government transactions

4.3.1. Government transactions in the context of the financial crisis

– Banco Espírito Santo

– Follow-up of previous government interventions

4.3.2. Capital injections in public corporations, dividends, privatization

4.3.3. Public Private Partnerships and concessions

4.3.4. Financial derivatives

4.3.5. Guarantees

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

4.3.7. UMTS and LTE

4.3.8. Disposals of non-financial assets by general government. Sale and leaseback operations

4.3.9. Re-routing of transactions, assets and liabilities through government accounts

4.3.10. Carbon trading rights

4.3.11. Electric tariff debt

4.3.12. Others: EU flows, military expenditure, securitisation, and pension issues

4.4. Important issues for year 2014 relevant for the April 2015 EDP Notification

(5) Other issues

5.1. ESA2010 Transmission Programme relating to the GFS tables

5.2. Any other business