



EUROPEAN COMMISSION  
EUROSTAT

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

Luxembourg, 30 August 2013

## **FINAL FINDINGS**

### **EDP dialogue visit to Spain**

**24-25 January 2013**

## Executive summary

Eurostat undertook an EDP dialogue visit to Spain on 24-25 February 2013 as part of its regular visits to Member States and with the aim to assess the existing statistical capacity, to clarify the issues relating to EDP tables raised in the context of previous notifications, to discuss in detail the restructuring of the bank sector and the impact on National Accounts, to review the implementation of ESA 95 methodology - such as sectorization of units and the accrual principles (taxes) -, to review the recording of specific government transactions, and to assure that provisions from the ESA 1995 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the Spanish EDP tables and national accounts.

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

First, the follow-up of the Upstream Dialogue Visit action points and sources were reviewed, and the Spanish statistical authorities were asked to provide a progress report on the implementation of the action points.

Next, Eurostat informed the Spanish statistical authorities about the new Eurostat decision on *The statistical recording of low interest rate loans*. In line with this decision, the Spanish statistical authorities will stop imputing a capital transfer, with an impact on government deficit and will accordingly revise 2008-2011 government deficit downwards by about 0.1 % of GDP per year.

As regards the delimitation of general government, a detailed discussion took place on the public corporations controlled by state and local government. Eurostat took note that there were no major changes since the last visit. The Spanish statistical authorities informed Eurostat that several public companies will be re-classified inside the general government sector, with the implementation of the new ESA2010.

Regarding the recording of taxes and social contributions, Eurostat took note that a statistical model based on assessments and declarations with a subsequent adjustment of the amounts unlikely to be collected, was adjusted in 2011 due to the economic crisis. Eurostat asked the Spanish statistical authorities to monitor closely the coefficients used for taxes and social contributions unlikely to be collected in the context of the financial crisis, and invited the Spanish statistical authorities to reflect on whether the model would need to be adjusted when the economic crisis is over.

Government interventions into financial institutions in the context of the financial turmoil were discussed in detail, in particular the sector classification of SAREB (an Asset Management Company) and capital injections undertaken by government into banks. As regards the sector classification of SAREB, some characteristics of SAREB were discussed and it was agreed that before reaching a final decision on the sector classification of this unit, the new business plan of SAREB should be provided to Eurostat. As regards the capital injections into banks, the capital injections into Group 1 banks, that already took place in December 2012, was discussed, as well as the 2013 planned capital injections in Group 2 banks. Several aspects and specifics of capital injections were discussed in detail, in particular how Eurostat rules should be applied when deciding on the recording in national accounts. As

at the time of the meeting, the 2012 accounts were not yet available, it was agreed that the Spanish statistical authorities would wait for the 2012 accounts, and then propose an appropriate recording to Eurostat, including detailed information, by bank, on the nature of the capital injections, as well as the precise amounts. In addition, Eurostat and the Spanish statistical authorities agreed that the notes transferred from ESM to FROB used for the recapitalisation would increase the government debt by about 3.7 % of GDP in 2012.

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

In relation to capital injections, Eurostat asked the Spanish statistical authorities to monitor the sector classification of those public corporations receiving repeated capital injections from government. Furthermore, dividends were discussed in detail. In order to clarify some technical aspects, Eurostat asked the Spanish statistical authorities to provide a note, explaining the method used for the recording of dividends paid by the Bank of Spain to government.

Due to the implementation of the new Eurostat decision on trade credits in 2012, the increase of government debt is estimated to be about 0.5 % of GDP.

Concerning the Public Private Partnerships (PPP), Eurostat welcomed the work of the Working group on the classification of the PPP projects. The majority of the PPP projects are observed at the level of regional governments. The Spanish statistical authorities expressed their concern about the treatment of the construction risk, namely in the event of expropriations and their impact on risk assessment. In order to clarify this issue, Eurostat proposed the Spanish statistical authorities to send Eurostat an official request for clarification as regards land appropriations and their possible impact on the risk assessment performed in the context of PPPs. This issue might also need to be addressed to the FAWG.

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

Finally, the implementation of ESA2010 was discussed, in particular when Spain will move to the new ESA 2010. The Spanish statistical authorities explained that they will not start publishing ESA2010 based data nationally before 1<sup>st</sup> September 2014.

# Final findings

## Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the Excessive Deficit Procedure, Eurostat carried out an EDP dialogue visit to Spain on 24-25 January 2013.

The delegation of Eurostat was headed by Ms Lena Frej Ohlsson, Head of Unit D2 (Excessive Deficit Procedure I). The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. Spain was represented by the Instituto Nacional de Estadística (INE), Intervención General del Estado (IGAE), Banco de España (BE) and Fondo de Reestructuración Ordenado Bancaria (FROB).

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to assure that provisions of the Eurostat ESA95 Manual on Government Deficit and Debt are complied with and to make sure that Eurostat decisions are duly implemented in the Spanish EDP and Government Finance Statistics (GFS) data. The main aims of the dialogue visit were: to clarify the issues relating to EDP tables raised in the context of previous notifications, to discuss in detail the restructuring of the bank sector and the impact on National Accounts, to review the implementation of ESA 95 methodology, such as sectorization of units and the accrual principles (taxes), and to review the recording of specific government transactions.

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

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

## 1. Review of the Upstream Dialogue Visit action points and data sources

### 1.1. Follow-up of the Upstream Dialogue Visit

#### *Introduction*

Eurostat carried out a technical visit to INE on 24 May 2012 and an Upstream Dialogue Visit (UDV) to Spain during 18-22 June 2012 to clarify, in particular, the issue of previously unreported arrears by Autonomous Communities (AC) and local governments. A further follow-up UDV took place between 11 and 14 September 2012. Eurostat enquired about the progress report of the UDV action points (AP).

## *Discussion and methodological analysis*

INE explained that they had not been able to meet the January 2013 deadlines set in the report of September 2012 and earlier UDV visits, since that report addressed several complex issues on which it was difficult to react in the short-term. In addition to some Action Points (AP) relating to EDP organisation, the report also contained recommendations which related to external audit and assessment, and so to the role of the Court of Auditors. Concerning the latter, INE has supposed to meet with the national and regional Courts of Auditors at the beginning of February 2013. The Court was aware of the updated UDV report and the Action Points. INE agreed to provide a progress report covering all of the APs contained in the UDV report by 15 February 2013. Taking into account that the updated report of the UDV visits in part replaced and superseded the earlier UDV report, which is already available on Eurostat's website, Eurostat planned to issue the updated UDV report on its website by the end of February 2013.

INE further explained that the AP1 (independent assessment or audit of the completeness of Autonomous Communities' reporting), was considered impossible to complete at this time. Concerning AP4 (review of data reporting arrangements for ACs and municipalities during the first quarter of the year, for the April notification), INE considered that it needed the support of the FFPC<sup>1</sup> and asked for this issue to be put on the agenda of the next FFPC meeting. In the meantime, they engaged in a continuous dialogue with the Autonomous Communities during February and March 2013. Moreover they recalled that, from January 2013, the ACs would be reporting data on both a cash and accruals basis. Regarding health expenditure in Valencia, the reporting authorities had been requested to transmit the same data as they transmit to their Regional Court of Auditors. Eurostat stressed the importance of addressing AP7 (reporting procedure for data provided directly by Central Government project managers) in the report to be provided by mid-February 2013.

## *Findings and conclusions*

**Action point 1:** The Spanish statistical authorities were asked to provide a progress report on the follow-up of the Upstream Dialogue Visit (UDV) action points by 15 February 2013, with a view of Eurostat publishing the final report on its website by end-February 2013.<sup>2</sup>

**Action point 2:** Eurostat asked the Spanish statistical authorities to ensure the inclusion of all extra-budgetary accounts in the context of the April 2013 EDP reporting.

## **1.2. Data sources and EDP inventory**

### *Introduction*

The current EDP inventory is published on the website of Eurostat as well as nationally on the website of IGAE. Discussions focused on the new EDP inventory format.

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<sup>1</sup> Consejo de Política Fiscal y Financiera (Council of Fiscal and Financial Policy)

<sup>2</sup> Follow-up of the AP 4 and 7 was sent to Eurostat on 12 March 2013.

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

Data sources were exhaustively discussed during the 2012 Upstream Dialogue Visits.

#### *Discussion and methodological analysis*

The Spanish statistical authorities informed Eurostat that the new EDP inventory is still under preparation and agreed to provide the first draft by end-February 2013. A timetable for completion of the full EDP Inventory by November 2013 will be agreed with Eurostat.

Eurostat enquired about the revision policy, in particular about reporting of data of year n-2 in April notifications. Data of the year n-2 (half-finalised data) are maintained from the October t notification to the April t+1 notification, and become final only in the October t+1 notification. The Spanish statistical authorities explained that this revision policy is in line with the revision in national accounts, in particular with the revision of GDP. No further information is received from providers of data in the April t+1 notification for n-2 data. Nevertheless, the Spanish statistical authorities assured that all big revisions or implementations of Eurostat decisions relating to n-2 data would be reported already in the April t+1 notification. Eurostat welcomed this approach and encouraged the Spanish statistical authorities to take into account the most recent data available for year n-2, in the April notifications, especially if amounts are non-negligible

#### *Findings and conclusions*

**Action point 3:** The Spanish statistical authorities will provide a draft of the new EDP inventory and agree with Eurostat on a timetable for the completion of the full EDP Inventory by November 2013. Deadline: end-February 2013<sup>3</sup>.

**Action point 4:** In relation to revisions, Eurostat encouraged the Spanish statistical authorities to take into account the most recent data available for year n-2, in the April notifications, especially if amounts are non-negligible.

## **2. Follow-up of the EDP dialogue visit of 21-22 February 2011**

### *Introduction*

All action points from the 2011 EDP dialogue visit have been duly implemented by the Spanish statistical authorities. Nevertheless, there was still one action point pending from the 2007 EDP dialogue visit, for Eurostat to produce a guidance on the *Recording of government loans granted at zero or low interest rate*.

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<sup>3</sup> The first draft of the EDP inventory was provided to Eurostat on 14 June 2013.

### *Discussion and conclusions*

Eurostat informed the Spanish statistical authorities about the results of the CMFB consultation and Eurostat's decision on *The statistical recording of low interest rate loans*. In line with the results of the CMFB consultation, Eurostat published its decision on *The statistical recording of low interest rate loans* on 16 January 2013. The decision says that for low interest rate loans granted by a government unit, in the context of its public policy activities, the interest has to be recorded on the basis of the contractually agreed interest rate. Consequently, no implicit benefit for the debtor is recorded in national accounts.

In line with this decision, the Spanish statistical authorities will stop imputing a capital transfer, which will decrease government deficit. The Spanish statistical authorities explained that 2011 data will be revised in the October 2013 EDP notification while the years 2008-2010 will be revised only in the next revision of national accounts. The estimated impact (decrease in the deficit) on government is about 0.1 % of GDP per year.

### *Findings and conclusions*

Eurostat took note of the explanations provided by the Spanish statistical authorities and of the foreseen revisions due to the application of the Eurostat decision on *The statistical recording of low interest rate loans*.

## **3. Follow-up of the October 2012 EDP reporting – analysis of EDP tables**

### *Introduction*

Eurostat thanked the Spanish statistical authorities for their timely and accurate transmission of EDP tables and the relating questionnaires.

The discussion focused on several issues concerning the October 2012 EDP notification tables, in particular sector re-classification of some units. All revisions on deficit and debt were explained and documented in the Questionnaire relating to the EDP notification tables.

### *Discussion and methodological analysis*

In the October 2012 EDP notification, several public corporations were re-classified inside the central and regional government sub-sectors. As a follow-up of the April 2012 EDP notification, the Spanish statistical authorities had analysed the sector classification of several public corporations, which received repeated capital injections from government in the past four years (recorded as capital transfer in national accounts). On the basis of the analysis of the market / non-market test (50 % criterion), two units were re-classified inside the general government sector as they were below the 50 % threshold (BILBAO exhibitions centre and REGSEGA). Nevertheless Eurostat noted that two units, i.e. *Ferrocarrils generalitat Catalunya* and *Ciudad de las artes y de las ciencia (CASCA)* were just above the 50 % criterion in the recent years. The Spanish statistical authorities explained that these two units are expected to be re-classified inside the general government sector in 2014, when the new ESA2010 will be implemented<sup>4</sup>.

As a follow-up of the April 2012 EDP notification, the sector classification of the regional water company *Agencia Balear de Agua y de la Calidad Ambiental* was also discussed.

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<sup>4</sup> In the new definition of the market/non-market test (50 % criterion) in ESA2010, the net interest charge (EDP D.41) will be taken into account in the production costs.

Eurostat noted that almost all regional water companies are classified inside the general government sector while the above mentioned unit is classified outside the general government sector. The Spanish statistical authorities explained that this unit is just above the 50 % criterion and confirmed that sales exclude all payments received from government (*subventions de exploitation* and *subventions de capital*). This unit showed negative own funds for several years. Eurostat recommended that the sector classification of this unit should be closely monitored by the Spanish statistical authorities. The Spanish statistical authorities further explained that as this unit has a high debt, it will most probably be re-classified inside the general government sector in 2014, when new ESA 2010 will be implemented (see footnote 3).

#### *Findings and conclusions*

Eurostat took note that some public corporations, i.e. *Ferrocarrils generalitat Catalunya*, *Ciudad de las artes y de las ciencia (CASCA)* and *Agencia Balear de Agua y de la Calidad Ambiental*, will most probably be re-classified inside the general government sector in 2014 due to the new definition of the market/non-market test in ESA2010.

### **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*

The creation of a new public unit has to be endorsed by the Cabinet or by the Parliament, in the case of central government or by the equivalent regional or local bodies for the remaining general government sectors. The Working Group composed by INE, *Banco de España* and IGAE analyses and decides on the sector classification of these units.

##### *Discussion and methodological analysis*

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

The classification process is composed of three main phases:

1. The Working Group composed of INE, IGAE and the Bank of Spain is responsible for sector classification of units;
2. The control of government is examined (to define whether the unit is controlled by government);
3. If the unit is controlled by government, the next step is to perform the market/non market test (50 % criterion). All public units are analysed:
  - In the case of newly created units or change of business activity: business plans are examined;
  - In the case of existing units: annual accounts of the last four financial years are examined.



The 50 % criterion test is generally being implemented every 5 years. The last systematic check was done in 2011. However, in the case of big companies, with liabilities more than 0.01 % of GDP and the units close to the threshold of 50 %, the market / non market test are implemented on a yearly basis.

Prior to the meeting, the Spanish statistical authorities provided to Eurostat a list of units classified in the general government sector, by sub-sectors. Eurostat enquired about some units that were removed from the general government sector. The Spanish statistical authorities explained that the main reason was that the units did not exist anymore or they were merged with other government units. It was confirmed that none of the units were re-classified outside the general government sector.

Eurostat further enquired about the estimated impact on the calculation of government deficit and debt of the ESA2010 provisions related to the market / non-market test to be applied in 2014. The Spanish statistical authorities explained that the assessment will be made in 2013/2014. However, the large public units have already been analysed and no big impact is expected. As already discussed under item 3 of this meeting, a number of public units will be re-classified inside the general government sector, notably because of net interest charge (*Ferrocarrils generalitat Catalunya, Ciudad de las artes y de las ciencia (CASCA) and Agencia Balear de Agua y de la Calidad Ambiental*). Eurostat asked the Spanish statistical authorities to provide the assessment on the impact of ESA2010 on the sector classification of public units.

#### *Findings and conclusions*

Eurostat took note on the sector classification procedures in Spain.

**Action point 14:** Eurostat asked the Spanish statistical authorities to provide an assessment of the impact of ESA2010 on the sector classification of public corporations and takes note that a number of companies will be re-classified inside the general government, notably because of net interest. Deadline: May 2013<sup>5</sup>.

#### **4.1.2. Government controlled entities classified outside government (public corporations)**

##### *Introduction*

The list of public corporations controlled by government and classified outside general government is available publicly on the website of the Bank of Spain.

##### *Discussion and methodological analysis*

The method of identification and classification of public units has not changed since the last EDP dialogue visit.

In the case of the State, identification of new units is done mainly through analysis of the annual Budget Act. In addition, IGAE manages the inventory of *State Public Sector Bodies (INVESPE)*, which lists all units depending on or associated with the State Administration. This inventory is publicly available on the website of IGAE and it is used as a complementary source to identify new public units or any changes of the existing ones.

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<sup>5</sup> The information was provided on 14 June 2013.

There are 17 *Comunidades Autónomas* (CCAA) and more than 9000 local government units (CCLL) that have the right to establish new dependent entities. IGAE requests information on the creation of such new entities from the CCAA and the CCLL at least once per year in order to classify them.

In the last years, the competence of the Ministry of Finance has been strengthened by law. The CCAAs and the CCLLs are obliged to create an inventory of such units and provide it to the Ministry of Finance. Consequently IGAE is obtaining additional information directly from the CCAA and the CCLL in order to have all the necessary information for their classification. In addition, *Budgetary laws* of regions are being regularly analysed in order to identify any creation of a new public unit. The responsibility for the classification of these units is within the Working Group.

The existing Working Group analyses the sector classification of these units and determines which units are to be classified inside the general government sector according to ESA95. In fact, it is IGAE or, in the case of financial units, the Bank of Spain, which analyses public units and proposes the sector classification of each unit to the WG.

The list of government controlled units classified outside general government, was provided to Eurostat prior to the meeting. However, this list was not exhaustive, as required by Eurostat, and included only those public corporations exceeding 0.01 % of GDP. The Spanish statistical authorities agreed to provide the exhaustive list of all government controlled units classified outside general government.

In addition, the Spanish statistical authorities provided prior to the meeting data on debt and net lending / net borrowing of the government controlled unit not included in the government sector, as well as on those which are classified in the government sector. Eurostat enquired about the significant increase of debt of public companies controlled by the central government classified in the government sector in 2011. The Spanish statistical authorities explained that big increase of debt incurred in the FROB.

#### *Findings and conclusions*

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

**Action point 15:** The Spanish statistical authorities will provide to Eurostat the completed questionnaire on government controlled entities classified outside general government. Deadline: mid-February 2013<sup>6</sup>.

### **4.1.3. Sociedad Estatal de Participaciones Industriales (SEPI)**

#### *Introduction*

The *Sociedad Estatal de Participaciones Industriales* (SEPI) is a public entity, which activities follow the private legal system and which is attached to the Ministry of Finance and Public Administrations. It was created in 1995. Its creation took place with the main aim to manage the industrial shareholdings owned by the State.

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<sup>6</sup> The questionnaire was provided to Eurostat on 12 February 2013.

SEPI has a direct and majority participation in 18 companies, which make up the Group SEPI. It also has competences on the *Corporación Radiotelevisión Española* and on the *Ente Público RTVE*, which is attached to this state-owned enterprise, as well as on 2 controlled public foundations. Equally, it has minority direct shareholdings in 7 companies, and indirect shareholdings in more than 100 companies.

#### *Discussion and methodological analysis*

SEPI is a State holding classified in the non-financial corporations sector. A majority of the companies in which SEPI participates are classified in the non-financial corporations sector (S.11).

The Spanish statistical authorities were of the opinion that SEPI is a real holding company and according to the Manual on Government deficit and debt, the sector classification of SEPI is defined by the market / non market test. The 50 % criterion was above 90 % for all years 2008-2011. Nevertheless, the flows relating to the restructuring of loss-making companies and the flows relating to the social liabilities of failed companies are re-routed via government accounts, with an impact on government deficit.

SEPI does not receive any capital injection from government and no dividend is being paid by SEPI to government.

#### *Findings and conclusions*

Eurostat took note on the sector classification of SEPI.

## **4.2. Implementation of accrual principle**

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

#### *Introduction*

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

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

In 2011, the statistical model was adjusted due to the implications of the economic crisis on the method used for taxes and social contributions. The new model took into account the implications of the economic crisis; i.e. assuming that the current recessionary economic cycle would increase the adjustment for unlikely collection or, at least, affect the parameters with which this adjustment is estimated in a period of economic stability. This was achieved with a second adjustment that took into account the entitlements accrued but still not collected in relation to the Gross National Income of Spain. This second adjustment, in the form of a regression, has provided significant results for taxes, but not for social contributions. Consequently, the second adjustment has only been applied for taxes. As a result of applying

the second stage of the method, the adjustments for unlikely collection of taxes has increased. This method has been approved by Eurostat, as a follow-up of the 2011 EDP dialogue visit.

#### *Discussion and methodological analysis*

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

The method applied varies across the government sub-sectors. Time adjusted data are used in the local government sub-sector while - in the case of the state government sub-sector - the majority of taxes are managed and collected by the central government, and therefore included in the taxes of the central government.

The Spanish statistical authorities confirmed that the second adjustment (see above) had been applied from 2010 onwards for taxes, and further explained that this adjustment would be abolished when the economic crisis is over.

Eurostat asked about the significant increase of social contributions unlikely to be collected in 2011. The Spanish statistical authorities explained that this increase reflected a part of social contributions not being recognised in the past and which would never be paid (about 1 billion euro or 0.1 % of GDP).

The Spanish statistical authorities informed Eurostat that there had been tax amnesties in 2012. About 1.2 billion euro of taxes were not recognised (and not declared) in the past, and as they were recognised only in 2012, and the tax base of that year will increase.

#### *Findings and conclusions*

**Action point 16:** Eurostat asked the Spanish statistical authorities to monitor closely the coefficients used for taxes and social contributions unlikely to be collected in the context of the financial crisis, and invited the Spanish statistical authorities to reflect on whether the model would need to be adjusted when the economic crisis is over.

### **4.2.2. Accrued interest**

#### *Introduction*

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

#### *Discussion and methodological analysis*

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

#### *Findings and conclusions*

Eurostat took note of these explanations.

### **4.3. Recording of specific government transactions**

#### **4.3.1. Specific government transactions in the context of the global economic crisis**

Under this item of agenda the following issues were discussed:

- Sector classification of the *Asset Management Company* (SAREB)
- Reporting of data, in the context of EDP reporting, by the FROB<sup>7</sup> to IGAE
- European Stability Mechanism (ESM)'s first disbursement of financial assistance to Spain
- Capital injections undertaken by government into banks
- Fund for the Acquisition of Financial Assets (FAFA)

#### Sector classification of the Asset Management Company (SAREB)

##### *Introduction*

INE sent an official letter for ex-ante consultation on the sector classification of SAREB on 7 December 2012. Eurostat analysed the documentation and sent a letter asking for some additional information. In January 2013, INE provided a reply to Eurostat with the requested documentation. On 26 March 2013, Eurostat published its advice for the classification of SAREB on Eurostat website<sup>8</sup>.

SAREB is a company with a majority of private investors. The governance of SAREB follows a standard legal structure, with a Board of Directors that represents the shareholders according to their participation. SAREB is supervised by the Bank of Spain in accordance with Royal Decree Law 1559/2012. In addition to this supervision, a multilateral committee is incorporated with representatives from the Bank of Spain, the CNMV<sup>9</sup>, the Treasury, the Ministry of Finance and International bodies.

The sole purpose of SAREB is the purchase and management of assets from financial institutions that are currently in distress due to the financial crisis. The transfer price of the assets is based on their real economic value, with a haircut. As regards the duration of the vehicle, its lifetime is temporary (15 years) and linked to the financial crisis.

Public institutions (FROB) retain around 45% of SAREB's equity and a subordinated tranche, while the remaining part is retained by private investors (comprising most domestic financial institutions and two foreign banks). The total equity is 8% of total assets (6% subordinated debt and 2% equity). The subordinated debt pays an 8 % coupon only if the net income is positive.

Group 1 banks transferred, in December 2012, 45 billion euros of assets and Group 2 banks transferred 15 billion euros in March 2013. SAREB will have a subordinated tranche estimated at 4 billion euro (subordinated to the senior tranche guaranteed by government). This subordinated tranche will be defined to guarantee the absorption of potential losses over the business plan. The subordinated tranche will also be majority private-owned (around 55%).

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<sup>7</sup> Fondo de reestructuración ordenada bancaria (Fund for Orderly Bank Restructuring)

<sup>8</sup> [http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/documents/ES-Classification\\_of\\_SAREB.pdf](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/ES-Classification_of_SAREB.pdf)

<sup>9</sup> Comisión Nacional del Mercado de Valores

## *Discussion and methodological analysis*

During the meeting some additional features of SAREB were discussed.

Firstly, Eurostat enquired about the reinforced majority in the shareholder`s meetings. It was confirmed that a reinforced majority is required only for amendments of the company by-laws regarding corporate aspects, such as the corporate purpose, duration of the company, definition of the restricted shareholder, etc. In addition, it was underlined that the duration of SAREB is indeed only temporary and it is not in the power of the shareholders to extend the duration of SAREB, as it would need to be approved by the Parliament. The main goal of SAREB is clearly defined and its duration might even be reduced. Eurostat also enquired about the definition of restricted shareholder. The FROB representative explained that this refers only to public shareholders (notably FROB).

The Spanish statistical authorities confirmed that the private shareholders (55 %) are truly private and have all the rights and responsibilities of shareholders.

Eurostat was informed, during the meeting, that the Board of SAREB is now complete. The board has been defined and approved in the General Shareholders Meeting in December 2012. Two executive members are board representatives on behalf of FROB. At least one third of the members (five members) have the status of independent members. The independent members were nominated by government and are indeed independent and none of them have ever held any position in government.

Eurostat further enquired about the purpose and powers of the Supervisory Committee. According to the FROB representative, the supervision of SAREB will be performed exclusively by the Bank of Spain. An additional Supervisory Committee was created in order to perform a regular overview of SAREB activities and has no special powers. The main reason for the creation of such a committee is the unique features of SAREB.

As far as the staff of SAREB is concerned, SAREB has been recruiting personnel and has currently 14 employees. SAREB initially used the services of the participating banks for the management of assets. The participating banks are only in charge of daily management and have only limited powers; for example they cannot decide on capital expenditures. SAREB signed a one-year contract with the banks in this respect, which can be extended.

Then Eurostat also enquired about the dividend policy of SAREB. Dividend payments are permitted only under very limited conditions. Dividends paid will be based on the excess cash flow defined in the Cash Protocol. 92% of the excess cash will be applied to ordinary/early amortization of the senior guaranteed notes. The remaining 8 % will be retained during the first 4 years and then applied either to subordinated debt early amortization and / or to dividend payment, under the condition that the net income is positive. No minimum guaranteed dividend is assured.

As for the transfer of troubled assets of Group 2 banks (Liberbank, CEISS and BMN), it was explained that the amount will be higher than initially estimated and will amount to about 15 billion euro (and not 5 billion euro as previously announced). The transfer will take place in February / March 2013<sup>10</sup>. The transfer price will be below the market price and will be based on the results of the stress tests made by the independent evaluator (Oliver Wyman).

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<sup>10</sup> The transfer took place in February 2013.

Next, Eurostat enquired about the provisional business plan. Eurostat commented that assumptions, as presented in the provisional business plan, seemed to be rather optimistic. The Spanish statistical authorities explained that the provisional business plan was subject to be reviewed and amended by the new management of SAREB. The provisional business plan was based on the model, assuming market evolution forecast on asset prices until 2014 - as defined by Oliver Wyman, while the remaining years are based on a recovery of those prices slightly above the inflation rate. In the meantime there were some developments and changes in the market, which will be incorporated in the new business plan. The Spanish statistical authorities agreed to provide to Eurostat the new business plan of SAREB, in order for Eurostat to take a final decision on the classification of this entity before the April 2013 EDP notification.

### *Findings and conclusions*

**Action point 13:** The Spanish statistical authorities will provide to Eurostat the new business plan of SAREB, in order for Eurostat to take the final decision on the classification of this entity and for inclusion in the April 2013 EDP notification. Deadline: end-February 2013<sup>11</sup>.

## Reporting of data, in the context of EDP reporting, by FROB to IGAE

### *Introduction*

The *Fund for the Orderly Restructuring of the Banking Sector (FROB)* is not an institutional unit and it is classified in the central government sub-sector. It was created to support the restructuring of the banking sector, especially for the saving banks. It also complements the role of the Deposit Guarantee Funds (financed by contributions of banks). In 2011, the Deposit Guarantee Fund was classified in the general government sector.

### *Discussion and methodological analysis*

FROB is integrated in the central government sub-sector. In this framework, and in accordance with Law 2/2012 of 27 April on budgetary stability and financial sustainability, FROB communicates its financial statements to IGAE on a quarterly basis. Furthermore, from 2013 onwards, FROB transmits to IGAE all information necessary for the preparation of the monthly accounts of central government.

In addition, Law 9/2012, of 14 November, obliges FROB to communicate, in advance, a report on restructuring plans (Article 14.7) and financial support (Article 28.1). According to these articles, IGAE receives information on planned activities of FROB, as well as the estimated impact of these planned activities on government deficit and debt, in national accounts terms.

### *Findings and conclusions*

Eurostat took note of these explanations.

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<sup>11</sup> The new business plan was provided on 22 March 2013. Eurostat agreed that SAREB should be classified in the financial corporations sector and published its advice for the classification of SAREB on 26 March 2013: [http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/documents/ES-Classification\\_of\\_SAREB.pdf](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/ES-Classification_of_SAREB.pdf)

## European Stability Mechanism (ESM)'s first disbursement of financial assistance to Spain

### *Introduction*

On 20 July 2012, the Euro-group granted financial assistance to Spain's banking sector following an official request made by the Spanish government. The main objective was to recapitalise the Spanish banking sector.

On 3 December 2012, the Spanish government formally requested the disbursement of about 39.5 billion euro. On 5 December 2012, the ESM launched and priced notes, which were transferred to FROB on 11 December 2012<sup>12</sup>.

### *Discussion and methodological analysis*

Eurostat and the Spanish statistical authorities agreed that the above mentioned notes from ESM to FROB will increase government debt by about 39.5 billion euro (3.7 % of GDP) in 2012. The Spanish statistical authorities further explained that 37 billion euro were used for bank recapitalisation. It was originally estimated that FROB's participation in SAREB would amount to 2.5 billion euro (based on the estimation that FROB would subscribe to 49 % of capital in SAREB). However due to a higher participation of private shareholders, FROB subscribed only to 45 % of SAREB's capital.

### *Findings and conclusions*

Eurostat took note of these explanations.

## Capital injections undertaken by government into banks

### *Introduction*

The Memorandum of Understanding entailed a timetable, according to which state aid can be granted to individual banks with a shortfall based on recapitalisation and restructuring plans to be assessed and approved by the Commission. The aid would be disbursed only after the Commission approval of their restructuring plans.

The capital needs of the banks were determined through a bottom-up stress test and asset quality review conducted by independent consultants. On the basis of the stress test results and the plans to address potentially identified capital shortfalls, the banks were categorised in four groups as follows:

- *Group 0*: banks for which no capital shortfall is identified and no further public action is required. These are Unicaja, Sabadell, Bankinter, Caixabank, Kutxabank, Santander and BBVA.
- *Group 1*: banks already owned by FROB. These are: BFA-Bankia, CatalunyaCaixa, NCG Banco and Banco de Valencia.
- *Group 2*: banks identified by the bottom-up stress test as unable to meet their existing capital shortfalls without having recourse to state aid. This group includes Banco Mare Nostrum (BMN), Banco Caja 3, Liberbank and Ceiss.

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<sup>12</sup> On 5 February 2013 the ESM disbursed 1.865 billion euro to Spain for the recapitalisation of the country's banking sector.



- *Group 3*: banks identified by the stress test as able to meet existing capital shortfalls from private sources without recourse to state aid until the end of December 2012 and having credible recapitalisation plans. Banks in Group 3 are Ibercaja and Banco Popular. These banks will not need any State Aid.

#### *Discussion and methodological analysis*

Eurostat asked to receive the list of all FROB injections into banks in years 2010 – 2012, including their treatment in national accounts. The capital injection into Banca Civica in 2011 is recorded in national accounts as a financial transaction, without impact on government deficit, as the recapitalisation was in the form of preference shares, and it complied with the EU State Aid rules on rates of return. This bank is the result of merging three saving banks in 2011 and has received no other public support. It is merged in the Caixa group and listed on the stock market.

In 2012, capital injections into Catalunya Banc and BFA, previously recorded in national accounts as financial transactions, will be recorded as non-financial transactions with an impact on government deficit (in that year preference shares were converted into ordinary shares.) In the case of CEISS bank and BMN, the conversion of preference shares into ordinary shares is planned for 2013. At that time the normal rules on capital injections will apply in order to decide whether it will be treated as a financial or a non-financial transaction in national accounts. The rest of the capital injections in banks are recorded in national accounts as a non-financial transaction with an impact on government deficit.

Firstly, discussion focused on the capital injections in **Group 1 banks**, which took place in December 2012. The capital injections were implemented through the related operations of capital reduction and increase at NCG Banco, Catalunya Banc, Banco de Valencia and BFA. In the case of Bankia, the recapitalisation is to be undertaken through the issuance of contingent convertible bonds (CoCos) subscribed by BFA which will be transformed into capital after the capital reduction operation that will take place in the beginning of 2013.

The European Commission has concluded that the restructuring plans of the four Spanish banks BFA/Bankia, NCG Banco, Catalunya Banc and Banco de Valencia are in line with EU state aid rules. In the case of BFA/Bankia, NCG Banco and Catalunya Banc, the Commission found that the proposed restructuring measures would ensure that the three banks return to long term viability as sound credit institutions in Spain. As regards NCG and Catalunya Banc, Spain committed to sell the banks before the end of the five-year restructuring period. Regarding Banco de Valencia, it was concurred that the bank's viability could not be restored on a stand-alone basis. Hence, it will be resolved through a sale to another entity, as the total cost of the sale would be lower than the cost of simply winding down the bank. CaixaBank has acquired Banco de Valencia, which will be fully integrated into CaixaBank and will cease to exist as an independent bank.

The capital needs into Group 1 banks were as follows: 18 billion euro for BFA/Bankia, 5.4 billion euro for NCG, 9.1 billion euro for Catalunya Banc and 4.5 billion euro for Banco de Valencia.

The capital injections into the above mentioned banks were discussed further in more details. The Spanish statistical authorities confirmed that all banks belonging to Group 1 banks showed negative own funds in 2011. Eurostat and the Spanish statistical authorities agreed that all capital injections undertaken by government to offset amounts of negative own funds would definitively be classified as non-financial transactions, impacting the deficit. For the part above this amount, the normal rules on capital injections should apply. All Group 1 banks (except Bankia) were nationalised and are owned 100 % by FROB.

As the 2012 annual accounts were not available yet at the time of the meeting, it was agreed that before taking a decision on the nature of capital injection (financial or non-financial), the Spanish statistical authorities would wait for the 2012 accounts to be available and propose then a recording to Eurostat. The Spanish statistical authorities also agreed to provide to Eurostat the exact amount of the accumulated losses of the banks, including the year 2012, as soon as available (probably in February / March 2013). The Spanish statistical authorities agreed to provide to Eurostat a note with detailed information by bank, on the nature of the capital injections, the amounts involved, and on the proposed recording in national accounts, as soon as the 2012 accounts were available.

Eurostat also asked the Spanish statistical authorities to provide to Eurostat an estimate of the foreseen rate of return of the capital injections undertaken by FROB. If the assumption of the business plan were not realised then, a part of or the whole financial transaction would be re-classified as a capital transfer. The Spanish statistical authorities will revise the data if the profits made by banks will not be in line with the amounts foreseen in the business plan. For that purpose, Eurostat and the Spanish statistical authorities agreed that infra-annual accounts should be used as soon as available in order to assess whether the hypothesis of the business plans were met and with a view of revising data as promptly as possible.

As for BFA / Bankia, the Spanish statistical authorities explained that this bank received in 2010 a capital injection in the form of preference shares, which was at that time treated as a financial transaction. In the third quarter of 2012, these preference shares were converted into ordinary shares. As the losses were higher than the capital injection, this capital injection was treated in national accounts as a capital transfer with impact on government deficit.

FROB has adopted the following agreements as regards injection of funds in BFA/Bankia:

- The capital increase in BFA amounted to 13.5 billion euro. This capital increase, which is in addition to that of 4.5 billion euro undertaken on 3 September 2012, was subscribed through the non-monetary contribution of securities of the ESM which will be subscribed and paid by FROB.
- The swap of Treasury bills advanced on 3 September 2012 and which amounted to 4.5 billion euro for securities of the ESM.
- The issuance by Bankia of contingent convertible bonds without a preferential subscription right amounted to 10.7 billion euro, which will be subscribed by BFA.

Eurostat further enquired about the business plan of BFA /Bankia. According to the business plan, BFA would be profitable already in 2013 while Bankia is foreseen to be profitable only in 2015. The Spanish statistical authorities explained that the group BFA would be analysed when deciding on the nature of capital injection, as the group BFA received the capital injection from government and not Bankia. FROB`s stake in Bankia is about 48 % and the rest consists of private shareholders. The main asset of the group BFA is Bankia.

In the beginning of 2013, the contingent convertible bonds that have been subscribed will be converted into ordinary shares. This is considered as a fully internal operation between the BFA group and Bankia.

The nature of the 2012 capital injections (of 13.5 million euro) will be decided when the 2012 accounts will become available in February 2013<sup>13</sup>. The capital injection undertaken in September 2012 for the amount of 4.5 billion euro is to be recorded as a non-financial transaction, impacting government deficit.

Turning to Catalunya Banc, in 2012 the preference shares, subscribed by FROB in 2010, were converted into ordinary shares. As this bank had negative own funds, the Spanish statistical authorities decided to record it as a capital transfer. Eurostat agreed with this recording. FROB became 100 % owner of the bank's share capital. In December 2012, FROB increased Catalunya Banc's capital through the subscription of 9.1 billion euro of the bank's ordinary shares, through the contribution of securities issued by the ESM. The bank is to be sold before the end of the five-year restructuring period. The nature of this capital injection will be decided when the 2012 accounts become available in February 2013<sup>14</sup>.

Then the case of NCG Banco was discussed. In 2012, the preference shares subscribed by FROB in 2010 were converted into ordinary shares of NCG Banco amounting to 1.16 billion euro. This conversion impacted the government deficit in 2012. FROB became 100% owner of the bank's share capital. This bank is also intended to be sold before the end of the five-year restructuring period. In December 2012, FROB increased NCG Banco's capital through the subscription of 5.4 billion euro of the bank's ordinary shares, through the contribution of securities issued by the ESM. The nature of the 2012 capital injection will be decided when 2012 accounts become available in February 2013<sup>15</sup>.

As regards Banco de Valencia, it was confirmed that it was sold to Caixa Bank for 1 euro in an operation involving an estimated cost to public funds of around 5 billion euro. This amount derives from 1 billion euro provided by FROB in May 2012 and the 4.5 billion euro recapitalisation in December 2012, prior to its sale to Caixa Bank. The bank also received liquidity support, which was repaid in 2012. Eurostat agreed with the Spanish statistical authorities that the whole amount of 5.5 billion euro injected by FROB will be recorded in national account as a non-financial transaction, with impact on government deficit.

The FROB representative explained that, in the past, FROB injected capital into banks in the form of preference shares. Whenever the coupon was not paid, the preference shares were converted into ordinary shares. The Spanish statistical authorities further explained that almost all preference shares were already converted in ordinary shares in 2012 or are planned to be in 2013, except in the case of Banca Civica. From now on, increase of capital will always be in the form of ordinary shares.

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<sup>13</sup> The amount of 9.3 billion was recorded as a non-financial transaction with the impact on government deficit and the amount of 4.1 billion euro was recorded as a financial transaction, in the context of the April 2013 EDP notification (in addition to 4.5 billion euro recorded as a non-financial transaction).

<sup>14</sup> The amount of 8.2 billion was recorded as a non-financial transaction with the impact on government deficit and the amount of 926 million euro was recorded as a financial transaction, in the context of the April 2013 EDP notification

<sup>15</sup> The amount of 4 billion was recorded as a non-financial transaction with the impact on government deficit and the amount of 1.4 billion euro was recorded as a financial transaction, in the context of the April 2013 EDP notification

Eurostat took note that, in some cases, preference shares with a fixed rate of return were issued, where the payment of the coupon would in fact depend upon whether profits would incur or not, and would not be cumulative. Eurostat will carefully consider the treatment of these instruments (assess whether this instrument could still be assimilated to normal preference shares) and inform the Spanish statistical authorities about its decision.

Next, **Group 2 banks** were discussed. The European Commission has concluded that the restructuring plans of four Spanish banks; Liberbank, Caja3, Banco Mare Nostrum (BMN) and Banco CEISS, are in line with the EU state aid rules. Spain committed to sell Banco CEISS and to have BMN and Liberbank listed before the end of the restructuring period. Caja3 will be fully integrated into Ibercaja and will cease to exist as a stand-alone entity. The final capital needs to be covered by public funds from the ESM will be: 124 million euro for Liberbank, 407 million euro for Caja3, 730 million euro for BMN and 604 million euro for Banco CEISS. The total amount for the recapitalisation of Group 2 banks will amount to 1.87 billion euro and is expected to be injected in February 2013<sup>16</sup>.

As regards the restructuring plan for Liberbank, it involves a capital support of 124 million euro. The bank's recapitalisation will be formalised by means of the subscription by FROB of contingent convertible bonds (CoCos) and a burden-sharing exercise. The listing of the bank on the stock exchange is envisaged as soon as possible as a measure to provide liquidity to the new holders of ordinary shares arising from the conversion of preference shares and subordinated debt. It was further explained, by the FROB representative, that the coupon will be mandatory (to be paid in cash). If there is no profit, it will be converted into a 'coupon in kind' (ordinary shares of the bank).

As for Caja3, a capital need of 407 million euro was identified. As in the case of Liberbank, the bank's recapitalisation of Caja3 will be formalised by means of the subscription by FROB of contingent convertible bonds (CoCos) and a burden-sharing exercise. The plan envisages the bank's integration into Ibercaja, which is profitable.

Neither Liberbank nor Caja3 have earlier received any public support.

Concerning Banco Mare Nostrum (BMN), the bank's recapitalisation of 730 million euro will be formalised through the subscription of ordinary shares by FROB and a burden-sharing exercise, following the absorption of losses. The bank is planned to be listed before the end of restructuring period.

In 2010, FROB injected capital in the form of preference shares in BMN. According to the explanations of the FROB representative, these shares are paying interest. In 2013, a conversion of these preference shares into ordinary shares is foreseen with a 40 % haircut on the principal amount. Eurostat underlined that, when preference shares are converted into ordinary shares with a haircut on their principal amount, this effectively results into the cancellation of a part of the claim held by FROB and that, therefore, a capital transfer is to be recorded in 2013. The Spanish statistical authorities explained that the accounting implication of this operation would be finally known by June 2013.

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<sup>16</sup> The injection into BMN, Liberbank and Caja 3 took place in March 2013 while the injection into CEISS banco took place in May 2013.

The Spanish statistical authorities further explained that BMN had losses in 2011 due to provisions. These provisions were imposed on banks for the year 2011 by two legal acts and go beyond normal provisions. As the new law imposed these one-off provisions, the Spanish statistical authorities judged that these losses could be considered as exceptional 'one-off' losses according to the MGDD. In addition, the bank's net equity is positive and reserves are big enough to cover losses. The Spanish statistical authorities stressed that the purpose of the capital injection into the BMN is not to cover losses, and as the BMN is a private bank, losses will be absorbed by private shareholders. Eurostat recalled the 2012 Eurostat guidance note on *The impact of bank recapitalisations on government finance statistics during the financial crisis*. According to this note, losses may be considered as exceptional only if they result from unforeseen events which are, by evidence, beyond the responsibility of the financial institutions which incurs them, such as an unanticipated shock on markets under the form of disappearance of significant market counterparts and/or a sudden rise in costs of financing for all financial institutions. This case is extremely rare, even in the financial crisis. On the contrary, losses directly linked to the line of business of the institutions, such as their loans or investment policies should not be considered as exceptional. Eurostat therefore concluded that losses which occurred due to the imposed one-off provisions, could not be considered as 'exceptional losses'.

As regards the CEISS bank, the situation is different from the case of the BMN. The current equity is not big enough to absorb losses. The bank's recapitalisation will be formalised through the subscription of ordinary shares<sup>17</sup> (604 million euro) by FROB and a burden-sharing exercise, following the capital reduction for the absorption of losses. At the end of the process, FROB will be the majority shareholder of CEISS bank.

In 2010, FROB injected capital in the form of preference shares in CEISS bank. At the beginning of 2013, these preference shares will be converted into ordinary shares and will be partially used to absorb losses of the bank. The possible impact on the government deficit is therefore expected in the first quarter of 2013. Spain committed to sell the bank in the future, without any specific deadline.

As regards the recording of the 2013 capital injections into Group 2 banks, the recording will be in line with the method agreed for Group 1 banks; i.e. the part of capital injection (in the form of ordinary shares) to cover negative equity will be treated as a capital transfer with an impact on government deficit while for the part above this amount, the normal rules on capital injections should apply.

It was agreed that before taking a decision on the nature of a capital injection (financial or non-financial), the Spanish statistical authorities will wait for the 2012 accounts to be available, and propose a recording in national accounts to Eurostat, including detailed information, by bank, on the nature of the capital injections, and of the amounts involved, by the end of June 2013.

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<sup>17</sup> On May 2013, it was decided that the public support to CEISS bank will be in the form of subscription by FROB of contingent convertible bonds (COCOs) issued by CEISS bank. This was approved by the DG COMP as CEISS bank might be acquired by Unicaja. However if the owners of CEISS bank do not accept Unicaja's offer, the COCOs will be converted into ordinary shares.

## *Findings and conclusions*

**Action point 5:** Eurostat asked the Spanish statistical authorities to provide a list of all FROB injections into banks (2010-2012) and of their proposed treatment in national accounts<sup>18</sup>.

**Action point 6:** The Spanish statistical authorities will provide to Eurostat an estimate of the foreseen rate of return of the capital injections undertaken by FROB. Deadline: 15 February 2013 for Group 1 banks and end-May 2013 for Group 2 banks<sup>19</sup>.

**Action point 7:** The Spanish statistical authorities will provide to Eurostat the exact amount of the accumulated losses of the banks receiving capital injections from FROB, including the year 2012. Deadline: As soon as possible and not later than by end-February 2013<sup>20</sup>.

**Action point 8:** As far as the classification of capital injections is concerned, the Spanish statistical authorities will revise the data if the profits made by banks will not be in line with the amounts foreseen in the business plan. For that purpose, Eurostat and the Spanish statistical authorities agreed that infra-annual accounts should be used as soon as available, in order to assess whether the hypothesis of the business plans are met and with a view of revising data as promptly as possible.

**Action point 9:** Eurostat takes note that, in some cases, preference shares with a fixed rate of return were issued, where the payment of the coupon would in fact depend upon whether profits would incur or not, and would not be cumulative. Eurostat will consider the treatment of these instruments (assess whether this instrument could still be assimilated to normal preference shares) and inform the Spanish statistical authorities about its decision<sup>21</sup>.

**Action point 10:** Eurostat agrees with the Spanish statistical authorities that all capital injections undertaken by government to offset amounts of negative own funds, must be classified as non-financial transactions, impacting the deficit. For the part above this amount, the normal rules on capital injections should apply<sup>22</sup>.

**Action point 11:** Eurostat considers that, when preference shares are converted into ordinary shares with a haircut on their principal amount, this effectively results into the cancellation of a part of the claim held by FROB and that, therefore, a capital transfer is to be recorded.

**Action point 12:** The Spanish statistical authorities will provide to Eurostat a note with detailed information, by bank, on the nature of the capital injections, on the amounts involved and on the proposed recording in national accounts. Deadline: end-February 2013 for Group 1 banks and end-May 2013 for Group 2 banks. This table will have to be in line with the footnote under point 9 in the main conclusions and action points<sup>23</sup>.

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<sup>18</sup> The requested list was provided during the EDP dialogue visit.

<sup>19</sup> This was provided on 15 January 2013 (for Group 1 banks) and on 14 June 2013 (for Group 2 banks).

<sup>20</sup> This was provided in the context of April 2013 EDP notification.

<sup>21</sup> Eurostat sent a note to the Spanish statistical authorities on 28 January 2013, concluding that such instruments are not to be considered as preference shares but must be assimilated to ordinary shares as far as their treatment in national accounts is concerned. Moreover on 19 March 2013 Eurostat published its decision on the *Clarification of the criteria for recording of government capital injections into banks*: [http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/documents/ESTAT-decision-Criteria\\_for\\_classif\\_of\\_gov\\_capital\\_injec.pdf](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/ESTAT-decision-Criteria_for_classif_of_gov_capital_injec.pdf)

<sup>22</sup> This action point was applied in the April 2013 EDP notification.

<sup>23</sup> The note on Group 1 banks was provided in the context of the April 2013 EDP notification. The note on Group 2 banks has not been provided yet.

## Fund for the Acquisition of Financial Assets (FAFA)

### *Introduction*

The *Fund for the Acquisition of Financial Assets (FAFA)* was already discussed during the last EDP dialogue visits. FAFA is not an institutional unit and it is classified in the central government sub-sector.

### *Discussion and methodological analysis*

The Spanish statistical authorities explained that FAFA had ceased to exist in 2012.

### *Findings and conclusions*

Eurostat took note of these explanations.

## **4.3.2. Fondo de Amortización del Déficit Eléctrico (FADE)**

### *Introduction*

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

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

### *Discussion and methodological analysis*

The issuance of bonds is recorded as an increase in government debt. The purchase of financial claims is recorded as an acquisition of financial assets under '*Other accounts receivable (F.7)*'. The financial assets recorded will be amortised as electricity consumers pay the related surcharge through their electricity tariff during the next 15 years.

The Spanish statistical authorities explained that, if FADE received any financing through the line of credit with the ICO, to cover possible cash flow mismatches, these liabilities of FADE would be recorded as government debt.

FADE's bond issuance programme (without taking interest into account) amounted to about 13 billion euro by the third quarter of 2012. The impact on government debt through the issuance of bonds by the third quarter of 2012 therefore amounted to 13 billion euro (about 1.2 % of GDP). The whole amount is guaranteed by government. It is estimated that the total programme will amount to about 15 billion euro.

#### *Findings and conclusions*

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

### **4.3.3. Guarantees**

#### *Introduction*

The Spanish statistical authorities provided a list of outstanding guarantees for the central government by guarantee called and repaid. Also the list of CESCE<sup>24</sup> operations, i.e. amounts paid by the State to CESCE, was provided.

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

#### *Discussion and methodological analysis*

Eurostat enquired about the individual data on the stock of outstanding guarantees for the state and local government sub-sectors. The Spanish statistical authorities explained that for these two sub-sectors, no individual data is available as the main source of data is the Credit register.

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

It was also confirmed that fees are always collected by government for providing guarantees. Eurostat noted that the percentage of guarantees called is very low.

#### *Findings and conclusions*

Eurostat took note of the explanations on guarantees.

### **4.3.4. Military equipment expenditure**

#### *Introduction*

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

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<sup>24</sup> Compañía Española de Crédito a la Exportación



### *Discussion and methodological analysis*

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

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

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

All research and development (R&D) is related to the future manufacturing of military goods and will therefore be recorded in the non-financial accounts at the time of delivery.

### *Findings and conclusions*

Eurostat took note of these explanations.

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

##### *Introduction*

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

All the transactions carried out by *FAD* are considered as directly carried out by the State, impacting the government deficit, as this unit has no legal personality and it is managed by the Instituto de Credito Oficial (ICO).

##### *Discussion and methodological analysis*

In 2011, *FAD* was reorganised into two new funds, i.e. *Fondo para la Internacionalización de la Empresa (FIEM)* and *Fondo para la Promoción del Desarrollo (FONPRODE)*. Therefore, the line 'FAD Operations' in EDP Table 2 includes the aggregate of these two funds. The Spanish statistical authorities confirmed that the recording of the debt assumptions, debt cancellations and debt write-offs has not changed in national accounts terms.

As regards debt cancellations in the central government sub-sector, IGAE is informed in advance about any planned debt cancellation for the State. The main source as regards debt cancellation in the state and local government sub-sectors is the IGAE Standardised accounting information questionnaire. In addition to this questionnaire, also supplementary information from the budget is being analysed. Debt cancellations have to be approved by the Parliament at the central or regional level of government.

It was confirmed that there were no debt assumptions, cancellation or write-offs at the level of the state and local government.

## *Findings and conclusions*

Eurostat took note that there were no significant changes in the recording of debt assumptions, debt cancellations and debt write-offs.

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

#### *Introduction*

Capital injections are analysed according to the rules established in the MGDD<sup>25</sup> (as financial or non-financial). Only injections to profitable companies or to certain international financial institutions are considered to be equity injections. Most of the capital injections are classified as capital transfers.

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

#### *Discussion and methodological analysis*

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

The list of all capital injections classified as capital transfer by sub-sectors, was provided by the Spanish statistical authorities. The breakdown of equity injections was provided only for the central government sector. Eurostat observed that, however, almost all capital injections in the state and local government sub-sectors were classified as a capital transfer with impact on government deficit. The main data source to identify capital injections is the IGAE Standardised accounting information questionnaire. The Spanish statistical authorities explained that these questionnaires have been recently revised and agreed to provide them to Eurostat. The questionnaire only identifies the capital injections while the classification into non-financial or financial is decided by the Spanish statistical authorities (namely by IGAE and it is confirmed by the Working group, which consists of INE, IGAE and the Bank of Spain).

In the case of the State (S.1311), the analysis is made according to article 66 of Law 62/2003. The data used for this analysis is, in the case of existing companies, the latest available annual accounts of the unit and any other relevant information available or requested for this purpose. As regards injections to newly created units, an economic and financial report is requested, showing the expected rate of return of the injection. Eurostat proposed to the Spanish statistical authorities to monitor the sector classification of those public corporations receiving repeated capital injections from government.

Capital injections in kind are not recorded in the budget. Therefore, their identification is made, generally, by analysing the accounts of the beneficiary institutions.

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<sup>25</sup> ESA 95 manual on government deficit and debt

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

The Spanish statistical authorities confirmed that there are no other public corporations injecting capital on behalf of government. Nevertheless it was agreed to provide to Eurostat a list of all public corporations, acting on behalf of government, by sub-sectors.

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

Eurostat observed that, in the case of the Bank of Spain, almost all benefits are paid to government and for some years dividends are even higher than profits. Eurostat recalled the rule that dividends paid cannot be higher than the profit and that any excess of the distribution of profits is recorded as withdrawal of equity. The Spanish statistical authorities argued that comparison between the profit / loss accounts and the recording in national accounts shows that the dividend paid by the Bank of Spain to government is never higher than the profit. The Spanish statistical authorities explained that the dividend is recorded on a preliminary basis as about 70 percentage of the dividend is paid in advance. In order to clarify this issue, Eurostat asked the Spanish statistical authorities to provide a note, explaining the method used for the recording of dividends paid by the Bank of Spain to government.

In 2011, the State Lotteries (LAE) was reorganised into a corporation. In the same year, also the law on LAE changed, and LAE is no longer obliged to pay all profits to government and can decide to keep a part of its profits in its reserves. In addition, various regulations impose to LAE an obligation to make certain expenses, which reduce its benefit (and the dividend to the State government). For the national accounting purposes, these expenses of LAE are rerouted as costs of the State.

### *Findings and conclusions*

**Action point 17:** Eurostat asked the Spanish statistical authorities to monitor the sector classification of public corporations receiving repeated capital injections from government.

**Action point 18:** Eurostat asked the Spanish statistical authorities to provide a note, explaining the method used for the recording of dividends paid by the Bank of Spain to government. Deadline: end May 2013<sup>26</sup>.

**Action point 19:** The Spanish statistical authorities agreed to provide a list of public corporations, acting on behalf of government, by sub-sectors. Deadline: mid-March 2013<sup>27</sup>.

**Action point 20:** The Spanish statistical authorities agreed to provide to Eurostat the Standardised accounting information questionnaires, sent by IGAE to *Comunidades Autonomas* and local governments, to collect EDP data. Deadline: mid-March 2013<sup>28</sup>.

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<sup>26</sup> The note was provided on 15 February 2013.

<sup>27</sup> The list was provided on 14 June 2013.

### 4.3.7. Trade credits

#### *Introduction*

In July 2012, Eurostat took a decision on the statistical recording related to trade credits incurred by government units<sup>29</sup>. This new decision is to be implemented by Member States from the April 2013 EDP notification onwards.

Eurostat's decision concerns refinancing without recourse of a claim on government held by one of its suppliers and restructuring of trade credits.

#### *Discussion and methodological analysis*

Firstly, the refinancing without recourse was discussed. The Spanish statistical authorities explained that the work concentrated on studying the information available in the *Banco de España's* Central Credit Register (CCR). The aim was to analyse the nature of the transactions recorded in the category trade credit and other accounts payable and not only in the item trade credits, in order to check whether they are affected by factoring transactions. The Spanish statistical authorities also said that the Eurostat decision should not only apply to the sub-category trade credits and advances but to the whole category trade credits and other accounts payable because, in their opinion, the boundaries between these two sub-categories remain unclear.

According to the CCR information and the direct sources available, only the sub-sectors regional (autonomous) government and local government have carried out factoring transactions. In this context, to analyse the CCR information, each transaction of these sub-sector units that is recorded in the category trade credit and other accounts payable has been examined to analyse its economic nature. So far, the analysis has only been carried out for the sub-sector regional (autonomous) government and for the six main municipalities, while for other units included in local government the work has been concentrated in obtaining the total amounts of factoring transactions.

The information obtained for the sub-sector regional (autonomous) government and for the main municipalities related to the end of 2012 will still be cross-checked with the respective government and, after that, included in the 2013 April EDP notification. The reclassification of factoring transactions in EDP debt will affect exclusively the 2012 annual debt, because it is not possible to cross-check historical data with the respective government. The expected impact on government debt due to the factoring without recourse is estimated to be around 0.5 % of GDP for the state government subsector and 0.05 % of GDP for the local government sub-sector<sup>30</sup>.

Secondly, the Restructuring of trade credits and its impact on government debt was discussed. The Spanish statistical authorities explained that the creation of the *Fund for the Financing of Payments to Suppliers* (FFPP), is relevant for the decision of Eurostat as regards the restructuring of trade credits. This fund has facilitated a payment in June 2012 of 26.9 billion euro (2.5 % of GDP) to the suppliers of goods and services of regional and local government.

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<sup>28</sup> The IGAE questionnaires, sent to *Comunidades Autonomas*, were provided on 14 June 2013.

<sup>29</sup> Eurostat decision on *The statistical recording of some operations related to trade credits incurred by government units*, 31 July 2012.

<sup>30</sup> The final impact, as reported in the April 2013 EDP notification, amounted to 4 billion euros in the subsector state (regional) government and 475 million euros in the subsector local government.

This payment led to the cancelation (reimbursement) of most long-term trade credits recorded in regional and local government accounts and, therefore, nowadays there are no negotiations for further restructuring of trade credits granted to government units.

The increase of debt will be therefore around 2.5 % of GDP for the central government sub-sector.

#### *Findings and conclusions*

Eurostat took note of the estimated impact on government debt due to the decision on the statistical recording related to trade credits incurred by government units.

### **4.3.8. Public-Private Partnerships (PPP)**

#### *Introduction*

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

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

#### *Discussion and methodological analysis*

The Spanish statistical authorities explained that the procedure for the analysis and the classification of PPPs has not changed and that individual PPP contracts are analysed in the meetings of three institutions involved in government finance issues (Working Group). The Working group sends letters to the regional governments and enquires about their intention to use PPPs.

Eurostat noted that almost all PPPs in central government and all in local government sub-sectors, are classified on the balance sheet of government. The majority of all PPPs were observed in the state government sub-sector. More than half of all PPP projects are classified off balance sheet of government.

The Spanish statistical authorities expressed their concern about the treatment of the construction risk, namely appropriations, and the impact on the risk assessment. It was explained that the cost of land expropriation is usually borne by government. In some cases, court decision might change the price of land expropriation, which can lead to significant additional costs (borne by the public partner). This might even double or triple the costs of the public partner. The question raised by the Spanish statistical authorities was whether this increase of costs has to be taken into account when assessing the transfer of risk. Eurostat's opinion was that this has to be taken into account. However, Eurostat is also aware that the practice might vary across countries as the MGDD is not specific about this issue. Therefore, Eurostat proposed to the Spanish statistical authorities to send to Eurostat an official request for clarification as regards land appropriations and their possible impact on the risk assessment performed in the context of PPPs. This issue might also need to be addressed to the FAWG.

### *Findings and conclusions*

Eurostat took note of these explanations and the work done by the Working group on the classification of the PPP projects.

**Action point 21:** The Spanish statistical authorities will send to Eurostat a request for clarification as regards land expropriation and their possible impact on the risk assessment performed in the context of Public-Private Partnerships (PPPs)<sup>31</sup>.

#### **4.3.9. Pension reform**

The Spanish statistical authorities informed Eurostat that no pension reform was implemented in Spain that would impact national accounts.

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

##### *Introduction*

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

##### *Discussion and methodological analysis*

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

EU flows are recorded according to Eurostat rules in the public accounts for the state government and social security sub-sectors. For local government, amounts are being recorded on a cash basis as it is not practical to ask all the local communities for an exact reporting of these amounts. The Spanish statistical authorities underlined that the amounts involved are very small for local government. Eurostat stressed that this is not fully in line with the rules and asked the Spanish statistical authorities to investigate on how this recording could be improved for central and local government.

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

As regards swaps, it was noted that there is only a negligible number of swaps undertaken by general government bodies.

##### *Findings and conclusions*

Eurostat took note of these explanations as regards sale and leaseback operations, securitisation, Swaps, Carbon trading rights

**Action point 22:** Eurostat noted that the current cash recording for central and local government for EU funds is not fully in line with Eurostat rules. In this context, Eurostat invites the Spanish statistical authorities to investigate how the recording could be improved,

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<sup>31</sup> The request has not yet been sent to Eurostat.

in particular for central government, and to send a note to Eurostat on the results. Deadline: end June 2013<sup>32</sup>.

## **5. Other issues (including ESA95 transmission tables)**

### *Introduction*

Discussions focused on the implementation of ESA 2010 and the ESA transmission tables.

### *Discussion and methodological analysis*

Eurostat noted that EDP and ESA tables are mainly consistent.

In addition, Eurostat further enquired about the implementation of ESA2010. The approach in the ESA Transmission Programme should be applied to all national accounts-based data, based on ESA 2010. Such data should only be transmitted to Eurostat after the 31 August 2014, and all data transmitted before this date must be on an ESA95 basis. In respect of those Member States who wish to move earlier to ESA 2010 on a national level, these Member States should ensure that they continue to be in a position to transmit ESA95-based data to Eurostat before 1st September 2014.

The Spanish statistical authorities explained that they will not start publishing ESA2010 based data nationally before 1<sup>st</sup> September 2014. It was underlined that the possible changes needed to comply with ESA2010 would be analysed and quantified by mid-2013. They also explained that according to the first rough estimations, the impact on the introduction of the new ESA will be around 1% increase of GDP and more details will be available at a later stage.

### *Findings and conclusions*

Eurostat took note of these explanations.

Eurostat also asked the Spanish statistical authorities to reply to the Questionnaire on quality management and the Spanish statistical authorities committed to send the reply by February 2013.

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<sup>32</sup> This action point has not yet been completed.

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

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