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Unit C-3: Statistics for Excessive Deficit Procedure I



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- FINAL FINDINGS -

EDP dialogue visit to Spain
17-18 February 2011

Executive summary

Eurostat undertook an EDP dialogue visit to Spain on 17-18 February 2011 as part of its regular visits to Member States and with the aim to assess the existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to clarify the issues relating to EDP tables raised in the context of previous EDP notifications, to review the progress achieved in implementing ESA 1995 methodology and to assure that provisions from the ESA 1995 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the Spanish EDP tables and national accounts.

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

First, Eurostat enquired about the institutional arrangements and division of responsibilities with respect to the reporting of data under EDP. It was confirmed that there have been no changes since the last EDP dialogue visit. The *Intervención General del Estado (IGAE)* is responsible for the general government sector accounts and compiles data relating to government deficit. *Banco de España (BE)* has responsibility for financial accounts and for compiling data relating to general government debt. The *Instituto Nacional de Estadística (INE)* is responsible for methodological issues relating to national accounts. Eurostat congratulated the Spanish statistical authorities for the cooperation between the three organisations, i.e. INE, Bank of Spain and IGAE, on sector classification issues. Eurostat also pointed out that such good co-operation sets high best practice standards for the European statistical system.

Next, the characteristics of data sources for government statistics reporting were discussed. Eurostat took note that the data sources have not changed since the last EDP dialogue visit and that a detailed description of data sources is available in the EDP inventory. As regards revisions, Eurostat invited the Spanish statistical authorities to investigate the reasons for repeated upward revisions in the state government sub-sector.

Eurostat welcomed the progress achieved from coordinated work between IGAE, INE and *Banco de España* on improvements of *Other accounts receivable / payable* and *Acquisition of financial assets*. In particular, Eurostat welcomed the study to clarify the nature of the transactions recorded as *Other accounts payable* or *Trade credits*. Eurostat will include a discussion on this issue at the next Financial Accounts Working Group (FAWG) and the Spanish statistical authorities agreed to present the issue on Trade credits.

As regards the delimitation of general government, a detailed discussion took place on the public corporations controlled by state and local government and public corporations acting on behalf of government. Eurostat took note that there were no major changes. The classification of public regional government finance institutes was discussed in detail, in particular those that are provisionally classified outside general government sector.

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, is used. Eurostat expressed some concerns about the implications of the financial crisis on the method used and, in particular, on how the model is functioning in

such exceptional circumstances. The assessment of the model showed that there are some implications of the financial crisis on the method used for taxes and social contributions. As regards the taxes, time - adjusted cash receipts on taxes are lower than the assessed tax data, but on the other hand, in the case of social contributions the situation is the opposite and the time - adjusted cash receipts are higher than the accrued social contributions. According to the Spanish statistical authorities the impact on the accounts of general government is however not significant due to the compensation of these two effects. The main conclusion of this point was that the Spanish statistical authorities will improve the statistical model for the recording of taxes and social contributions, in particular modifying it in such a way that it would take into account also short term "exceptional" circumstances.

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

The issue of the electricity tariff deficit and the establishment of the *Fondo de Amortización del Déficit Eléctrico (FADE)* were discussed in detail, in particular the classification of this unit and the recording of its transactions.

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. Some projects were discussed in more detail and the Spanish statistical authorities agreed to provide to Eurostat the reports of the Working Group of some PPP projects that had not yet started.

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

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 17-18 February 2011.

The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of Unit C3 (Statistics for the 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) and Banco de España (BE).

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to assure that provisions of the ESA95 Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in the Spanish EDP and Government Finance Statistics (GFS) data. In detail, the main aims of the dialogue visit were: to clarify the issues relating to EDP tables raised in the context of previous notifications, to review progress on Other accounts receivables / payables, to review the implementation of ESA 95 methodology, such as sectorization of units (Public corporations controlled by local and state governments) and accrual principles (Taxes) and to review the recording of specific Government transactions.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, indicating that within days the Main conclusions and action points would be sent to the Spanish statistical authorities, who may provide comments. The Provisional findings would then be sent to the Spanish statistical authorities in draft form for their review. After amendments, 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 and comprehensive approach by the Spanish statistical authorities to the EDP related work. Eurostat appreciated the documentation provided by the Spanish statistical authorities prior to the EDP dialogue visit.

1. Statistical organisational issues

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

Introduction

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

Discussion and methodological analysis

The Spanish statistical authorities confirmed that there have been no changes since the last EDP dialogue visit. The *Intervención General del Estado (IGAE)*¹ is responsible for the

¹ Government Audit Office

general government sector accounts and compiles data related to government deficit. The *Banco de España (BE)* has responsibility for financial accounts and for compiling data related to government debt. The *Instituto Nacional de Estadística (INE)* is responsible for methodological issues relating to national accounts. The three institutions meet regularly to discuss and resolve methodological or classification questions which may arise. The EDP tables are transmitted to Eurostat by INE, as its role is to coordinate the compilation process.

Findings and conclusions

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

Eurostat welcomed the cooperation between the three organisations, i.e. INE, Bank of Spain and IGAE, on sector classification issues. Eurostat also pointed out that such good co-operation sets high best practice standards for the European statistical system.

1.2. Data sources, EDP inventory

Introduction

The EDP inventory is published in the website of Eurostat as well as nationally in the website of IGAE. The data sources and methods used for the general government deficit and debt compilation are described in the EDP inventory and were discussed during the last EDP dialogue visit.

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*).

Discussion and methodological analysis

Eurostat enquired about any changes in data sources compared with the situation during the last EDP dialogue visit. The Spanish statistical authorities confirmed that the situation remains unchanged.

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

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

During the meeting, the Spanish statistical authorities provided to Eurostat the *Standardised accounting information questionnaire*, sent to regional and local governments.

Eurostat enquired about revisions, in particular for the state (S.1312) and local (S.1313) government sub-sectors. The Spanish statistical authorities explained that the main reason for

revisions is the update of data sources. At the time of verification of data for the April notification, the budget is not yet closed and the accounts of private and public companies close only at the end of March. It was stressed that all the necessary information need to be provided to the statistical authorities already in January.

The Spanish statistical authorities further explained that revisions also occur due to some inconsistencies in data in the IGAE questionnaires, which are then clarified and corrected for the October EDP notification. Another impact on revisions is due to updated data on Public - Private Partnerships (PPP), in particular in the State government sub-sector (S.1312).

Eurostat took note of these explanations and commented that the level of the revisions is not especially high; however revisions almost always increase the deficit. The only exceptional year of rather high revisions was noted in the year 2008. In this context Eurostat asked the Spanish statistical authorities to investigate the reasons for such upward revisions and to contact the regional governments in order to obtain reliable data on PPP for the April EDP notification.

Eurostat further enquired about the reports on compliance with ESA95 rules, prepared by the regional court of auditors. The Spanish statistical authorities explained that they are aware of these reports. However, it was stressed that not all recommendations of these reports are taken into consideration as they might be beyond the ESA95 rules. The Spanish statistical authorities undertook to send these reports regularly to Eurostat in the future.

Findings and conclusions

Eurostat took note that the data sources have not changed since the last EDP dialogue visit and that a detailed description of data sources is available in the EDP inventory.

Eurostat invited the Spanish statistical authorities, in the context of repeated upward revisions until the October notification n+1 for the State government sub-sector (S.1312), to investigate the reasons for such revisions and to urge regional governments to obtain reliable data on Public-Private Partnerships (PPPs) from private companies before the April notification of year n for year n-1 (**Action point 2**).

Eurostat took note that regional Courts of auditors in Spain are producing reports on compliance with ESA95 rules in the regions. Eurostat invited the Spanish statistical authorities to provide these reports regularly to Eurostat (**Action point 1**).

2. Follow-up of the EDP dialogue visit of 15-16 June 2009

Introduction

Eurostat noted that a majority of action points have been implemented by the Spanish statistical authorities or information on their progress has been received.

Discussion and conclusions

As regards the Action point 3 (Recording of government loans granted at zero or low interest rate), Eurostat undertook to produce a guidance note on the statistical recording of government loans granted at zero or low interest rate. The guidance note has not been finalised as the Financial Accounts Working Group (FAWG) has not reached an agreement and it seems that there will be a need for CMFB² consultation on this issue.

As regards the Action point 4 (Ongoing works by the *Banco of Espana* on the improvements of the financial accounts, notably the breakdown of receivables and payables), the Spanish statistical authorities made a progress report on this issue, which will be further discussed under item 3 (EDP tables 3) of this report.

3. Follow-up of the April 2009 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. Several issues concerning the October 2010 EDP notification tables and the Questionnaire relating to the EDP notification tables were discussed.

All revisions on deficit and debt were explained and documented in the Questionnaire relating to the EDP notification tables.

EDP tables 2

Discussion and methodological analysis

The working balances in tables 2A-D are on a mixed basis and correspond to the balance of non-financial transactions of each sub-sector. These are on an accrual basis and the only exception is for interest, which is recorded on a cash basis.

The Working balance as such is not published and audited, however total revenue and expenditure are approved by the Parliament and audited by the Court of Auditors.

² The Committee on Monetary, Financial and Balance of Payments statistics

EDP tables 3

Discussion and methodological analysis

The Spanish statistical authorities confirmed that *Currency and deposits (F.2)* refers to the cash in bank accounts.

During the last EDP dialogue visit, a coordinated work was discussed between IGAE (non-financial accounts), *Banco de España* (financial accounts) and INE to improve the breakdown of *Other accounts receivable / payable* and *Acquisition of financial assets*.

In the last two years, the Working Group (IGAE, *Banco de España* and INE) has stepped up its work on clarifying the categories of the general government financial accounts in which transactions on *Other Accounts Receivable, Payable and Trade credits (F.7)* are recorded. The study aimed to clarify the nature of the transactions recorded as *Other accounts payable* or *Trade credits*, in order to include in these categories all the available breakdowns, and to improve the reconciliation between non-financial and financial accounts, avoiding duplication in the recording of transactions.

As regards the *central government sub-sector*, work focused on the State and was already finished. The results led to a significant reduction of *Statistical discrepancies* and these were already incorporated in the quarterly general government accounts in the October 2009 EDP notification. The study showed that there is no need to change the measurement of the EDP debt of the *social security funds sub-sector*, since it includes only a loan from the *Banco de España* to the social security funds, reimbursed in 2007, and a loan from the State, which is consolidated in the general government sector.

Further work concentrated on the state government (S.1312) and local government (S.1313) sub-sectors, analysing the information available in the *Banco de España's Central Credit Register (CCR)* on the various types of risks of governments. The main aim was to analyse the nature of the transactions of these two sub-sectors recorded in the category *Trade credit* and *Other accounts payable* and to check whether they are properly classified. The analysis has only been carried out for the state government sub-sector, leaving for the future the study of local government. It was confirmed that the amounts of trade credits are much lower at the level of local government than at the level of the state government sub-sector.

According to the Spanish statistical authorities, trade credits have been part of the normal financing of general government. In certain periods, state and local governments have increased the maturity of trade credits granted to them by their suppliers and in some cases they have entered into factoring transactions with the intervention of financial institutions. While these transactions have been usual in the periods of stability in the financial markets, the amounts of these transactions as well as the maturity have increased in recent years.

The question is if the nature of the transactions recorded in the category "*Trade credit and other accounts payable*" (F.7) changes because the maturities of these liabilities have been lengthened and, in addition, financial institutions are intervening in transactions in which general government had previously dealt directly with its suppliers. This has given rise to methodological questions on the delimitation of the categories *Loans (F.4)* and *Trade credit and Other accounts payable (F.7)*.

Prior the meeting, the Spanish statistical authorities prepared a methodological document called "*Delimitation of the categories Trade credits and Other accounts receivable and payable (F.7) and loans (F.4) of the general government financial accounts*", describing the methodology applied in ESA95 and in the ESA95 Manual on government deficit and debt regarding the categories F.4 and F.7.

The Spanish statistical authorities confirmed that the trade credits were granted to regional governments from 1 to maximum 5 years.

The Spanish statistical authorities explained that this work has not led to any changes yet due to the lack of a complete methodology in the current manuals (ESA 95 and Manual on Government Deficit and Debt) to distinguish in all cases between trade credit and loans. The Spanish statistical authorities underlined that they would need methodological recommendations on how to treat trade credits. Eurostat agreed that this is an important issue that would need to be discussed with the Financial Accounts Working Group (FAWG); and if necessary also at the level of the CMFB. Eurostat welcomed the work undertaken by the Spanish statistical authorities on *Trade credits* and proposed to include a discussion on this issue in the agenda of the next FAWG, and asked the Spanish statistical authorities to present this issue. The Spanish statistical authorities agreed to this proposal.

The ECB supported the proposal of Eurostat to discuss this issue at the FAWG and informed the participants at the meeting that the issue of trade credits between non-financial corporations was also discussed at the Working Group on Euro-Area Accounts. This discussion showed that some countries do not have any data sources on Trade credits due to the non-existence of Credit registers.

The participants in the meeting agreed that firstly, the methodological part would have to be clarified and, on a second step the availability of data sources would have to be discussed. It was also added that the ESA2010 does not provide further clarifications on this issue.

As a result of the work already undertaken in the central government and social security sub-sectors, the Spanish statistical authorities presented tables with a detailed ***breakdown of Other accounts receivable and payable*** for these two sub-sectors.

Eurostat welcomed this additional breakdown and asked the Spanish statistical authorities to provide the sub-sector breakdown of *Other accounts receivable / payable* of the Table 4.1 of the Questionnaire relating to the EDP notification tables in the following EDP notifications.

Eurostat commented on some of the breakdown items and asked for additional clarifications. It was agreed that the Spanish statistical authorities would improve the presented breakdown of Other accounts receivable / payable.

In particular, Eurostat further enquired on the item "*Ranking adjustments*" in Other accounts payable. The Spanish statistical authorities explained that this adjustment is necessary due to the use of different data sources and it related to the time of recording. Eurostat was of the opinion that this adjustment should be part of the Statistical discrepancy rather than part of Other accounts payable. Accordingly Eurostat asked the Spanish statistical authorities to re-classify this item under Statistical discrepancy.

The Spanish statistical authorities also confirmed that considerable amounts of *Other accounts payables* mainly relate to the trade credits.

Findings and conclusions

Eurostat welcomed the work undertaken by the Spanish statistical authorities on *Trade credits* and will include a discussion on this issue in the agenda of the next Financial Accounts Working Group (FAWG). The Spanish statistical authorities kindly agreed to make a presentation on this issue (**Action point 3**).

Eurostat asked the Spanish statistical authorities to provide the sub-sector breakdown of *Other accounts receivable / payable* of the Table 4.1 of the Questionnaire relating to the EDP notification tables from the April 2011 EDP notification onwards (**Action point 4**).

Eurostat asked the Spanish statistical authorities to improve the breakdown of *Other accounts receivable / payable* for central government and social security sub-sectors in Table 4.1 of the Questionnaire relating to the EDP notification tables in the next EDP notifications (**Action point 5**).

The ECB agreed to send to Eurostat the information, gathered and discussed by the Working Group on Euro-Area Accounts, on *Trade credits* between non-financial corporations (**Action point 6**).

The Spanish statistical authorities agreed to include from the April 2011 EDP notification onwards, the item "*Ranking adjustments of sources*", previously included under *Other Accounts receivable / payable*, in the *Statistical discrepancy* for the relevant government sub-sectors (**Action point 7**).

3.1 Study on the Public units controlled by Regional governments granting loans to government units

Introduction

Some regional governments set up entities to manage their finance policy and economic activity. During the October 2010 EDP notification, the Spanish statistical authorities informed Eurostat that it was discovered that some public units controlled by regional governments were granting loans to entities classified in the state government and local government sub-sectors, which had not been previously included in government debt. These loans were included in the government debt in the October 2010 EDP notification.

Discussion and methodological analysis

The Spanish statistical authorities presented the issue. The main methodological question was the classification of these entities in national accounts. One option would be to include them in the general government sector, in which case their debt and deficit would be part of government debt and deficit. The other two options would be to classify them as public non-financial corporations or as public financial corporations. In both cases, their debt and deficit would not be part of government debt and deficit, although the financing by such entities to the different units in the general government would have to be included in government debt. In addition, if they would be classified outside the general government sector, any transaction they would perform on behalf of general government would be re-routed in national accounts via general government.

During the meeting, the Spanish statistical authorities presented in more detail all regional government finance institutes and their current classification. Currently, there are eight such entities, of which five of them are already classified inside the general government sector. The classification of the three units classified outside general government sector was discussed in more detail: Instituto Valenciano de Finanzas (IVF), Instituto Catalan de Finanzas (ICF) and Instituto de Finanzas de Cantabria (ICAF).

The *Instituto Valenciano de Finanzas (IVF)* had been provisionally classified by the Spanish statistical authorities in the financial corporation sector – Other financial intermediaries (S.123). During the meeting, the Spanish statistical authorities expressed some doubts regarding its classification. This unit is currently under investigation and the Spanish statistical authorities are still in the process of collecting all necessary information before taking a final decision.

Eurostat also expressed several doubts on the provisional classification of this unit and considered that this unit would be more appropriately classified inside the government sector.

The main arguments of Eurostat that this entity should be classified inside general government sector were as follows:

- IVF is *acting on behalf of government*. The annual reports of IVF revealed many references to the operations which are carried out on behalf of the regional government and its public corporations. It provides financial support to firms in difficulties and participates in the restructuring process of the companies. One of the competences of IVF is to coordinate and provide advice to various autonomous bodies and companies on financing instruments and on the effective management of financial risks of their debt operations. This would point out to the unit mainly being used as an instrument of the public policy of the regional government of Valencia;
- IVF *manages government debt*;
- IVF seems *not to be profitable* without subsidies from government;
- IVF is being *limited by legal act* (budget documents). The budget documents specify each year the limit of its debt and guarantees, which are then referred to in the Official Journal;
- All financial obligations of IVF are *guaranteed by government*;
- *Composition of board*. This unit is attached to the Department of Economy, Finance and Employment of the Generalitat and the General Council of IVF includes, among seventeen members, five members of the regional government and notably the Chairperson of the Council is the head of the Department of Economy, Finance and Employment of the Generalitat.

As a result of all the above-mentioned features of the entity considered, Eurostat considered that the IVF would be more properly classified inside the state government sub-sector (S.1312). It was agreed that Eurostat would send to the Spanish statistical authorities a note, which would detail all the elements pointing to a possible re-classification of IVF inside the government sector. The Spanish statistical authorities agreed to provide to Eurostat their final decision on the classification of this unit by the time of the April 2011 EDP notification³.

Then, the sector classification of the *Instituto Catalan de Finanzas (ICF)* was discussed. The ICF is a publicly owned financial institution whose aim is to provide companies with long-term financial support, thus complementing private market financing.

³ The IVF was finally re-classified inside general government sector.

The different affiliates composing the Group support the public finance policies of the Catalan Government, mainly through two activities developed in recent years: providing capital and financial advice and promoting and maintaining public facilities.

The activities carried out as a financial agency of the regional government (such as financing of the activity of *ICF Equipaments* and the management of the debt of the regional government) are recorded in the accounts of the regional (autonomous) government. The ICF is currently classified as an Other financial intermediary (S.123).

Eurostat expressed some doubts on the classification of ICF and pointed out some elements that would indicate a possible re-classification of some of the units of the ICF group inside the government sector and / or rerouting of any additional operation undertaken by the ICF group on behalf of government.

In particular, it was underlined that the legislation of the ICF explicitly says that it may exercise the financial management of public debt or other instruments of the regional government. In addition, examination of the consolidated accounts of ICF showed that this entity received repeated capital injections from government and that loans are being guaranteed by government. It also seems that ICF is acting on behalf of government, such as investing in loss-making companies, anticipating the subventions, etc. It can also manage the equity investments of the regional government. This might point out that this unit is being used as an instrument of the public policy of the regional government of Catalonia. At this point, Eurostat also pointed towards some similarities with the IVF.

The Spanish statistical authorities explained that ICF group consists of five affiliates, of which one is already classified inside government sector (*ICF Equipaments*). The main arguments, which determined that this entity remained classified outside government sector, was that in the past, ICF was always profitable and capital injections into profitable companies, are recorded as financial (equity) injections. As regards the possibility that ICF can manage public debt of regional government, it was stressed that ICF has never exercised the financial management of public debt as this have always been performed directly by the Generalitat (regional government of Catalonia). In addition, all activities undertaken on behalf of government by ICF are already recorded in the government accounts. In general, the link to private activities has been bigger than the one to the public activities.

The Spanish statistical authorities agreed to send to Eurostat a note, including all relevant information on this unit together with full accounts of its affiliates. The Spanish statistical authorities will also analyse some of the issues raised by Eurostat during the meeting and report to Eurostat by the time of the October 2011 EDP reporting⁴.

The *Instituto de Finanzas de Cantabria (ICAF)* is classified in Other Financial Intermediaries (S.123) due to the nature of its activity, which is financial intermediation. It was established in 2008 and it has not carried out any transactions on behalf of general government.

The Spanish statistical authorities also explained that the *Instituto de Crédito y Finanzas de la Región de Murcia* is provisionally classified inside government sector and its final classification will depend on the decision taken for the classification of the IVF, as it is a similar entity.

⁴ Four entities of the ICF Group are now classified inside general government: ICF Equipaments, ICF Holding, ICF Capital and IFEM.

Findings and conclusions

Eurostat expressed some doubts on the provisional classification of the *Instituto Valenciano de Finanzas (IVF)*, which is currently under investigation by the Working Group. Eurostat will send to the Spanish statistical authorities a note, which will detail some of the elements pointing to a possible re-classification of IVF inside the government sector. If the result of the first analysis by the Spanish statistical authorities would indicate the need to re-classify IVF inside the government sector this will have to be undertaken by the time of the April 2011 EDP notification, even if this would introduce a lack of coherence between EDP figures and other national accounts indicators (unless the effect on deficit and debt would be negligible) (*Action point 12*).

Eurostat expressed some doubts on the classification of *the Instituto Catalan de Finanzas (ICF)*. The Spanish statistical authorities will send to Eurostat a note, including all relevant information on this unit together with full accounts of its affiliates. The Spanish statistical authorities will also analyse some of the issues raised by Eurostat during the meeting and report to Eurostat. If as a result of this further analysis there would be a need for the re-classification of any of the units of the ICF group and / or rerouting of any additional operation undertaken by the ICF group on behalf of government, this would be done by the October 2011 EDP notification, unless the effect on deficit and debt would not be negligible (in this case the re-classification should be undertaken by the time of the April 2011 EDP notification) (*Action point 13*).

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 the 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 the sector classification of these units, determining which are the units that according to ESA95 are to be classified inside general government.

A database (Sectorisation of Institutional Units Database) is available on the website of the Bank of Spain. The Spanish statistical authorities provided an updated exhaustive list of all general government units by sub-sector.

Discussion and methodological analysis

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

Eurostat enquired about the sector classification of the railways companies and the Spanish statistical authorities explained that at the level of the State, there are 3 companies, of which one is classified inside the general government sector (Feve).

Findings and conclusions

Eurostat took note that there were no changes since the last EDP dialogue visit.

4.1.1. Public corporations controlled by state and local government

Introduction

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

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

The Spanish statistical authorities provided data on the debt and Net lending / net borrowing of public corporations controlled by government and not included in the government sector as well as on those which are classified in the government sector (and reported in the EDP tables).

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

Discussion and methodological analysis

The Spanish statistical authorities confirmed that the identification and classification of public units have not changed since the last EDP dialogue visit. It was also explained that, due to the financial crisis, fewer companies were established in recent years. In addition some companies were also merged.

Eurostat observed that the debt of public companies controlled by state and local government classified outside the government sector is increasing more than the debt of those public companies classified inside the government sector. The Spanish statistical authorities explained that it is cheaper for government to provide money (subsidies) to public companies classified inside the government sector than oblige them to raise money on the financial markets. On the other hand those companies which are not part of the government sector have to borrow money on the financial markets, which consequently increases their own debt.

Government also provides guarantees to the public companies although the amounts are rather small. However the Spanish statistical authorities assured that such a guarantee has never been called.

All capital injections into the loss making public companies are being recorded as a capital transfer with an impact on government deficit. It was confirmed that most of the capital injections into public corporations are recorded as capital transfers.

The Spanish statistical authorities also said that the 50 % rule is usually being checked every 5 years.

Findings and conclusions

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

4.1.2 Public corporations acting on behalf of government

Introduction

The Spanish statistical authorities provided prior the EDP dialogue visit, the list of all public corporations acting on behalf of central and state governments.

Discussion and methodological analysis

The Spanish statistical authorities explained that those public corporations which are considered to be market producers are included in the non-financial (S.11) or financial (S.12) sectors. In line with the procedure, the IGAE annually checks the accounts of these units. If the analysis shows that some operations were undertaken on behalf of government than those operations are re-routed via government accounts (shown as Other adjustments in the EDP tables 2). In addition, also the classification of this unit is being checked again.

The Spanish statistical authorities confirmed that there were no major changes in the two main public corporations acting on behalf of central government; i.e. ICO and CESCE. Eurostat took note that those two units had been discussed in more detail during previous EDP dialogue visits.

Findings and conclusions

Eurostat took note of the explanations on the identification of public corporations acting on behalf of government.

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. This econometric model for the estimation of the amounts unlikely to be collected was developed by INE and it is based on a system of accumulated averages.

There are two types of assessments:

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

The model estimates the part of pending entitlements for each fiscal period that are unlikely to be collected; i.e. due pending payments for each fiscal period 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.

Discussion and methodological analysis

As a follow-up of the last EDP dialogue visit, the Spanish statistical authorities provided to Eurostat data on total revenue from assessment and declarations, cash received and amounts of taxes and social contributions not collected.

Eurostat observed that cash data on taxes are lower than the assessed tax data for all the years, in particular for the years 2008-2009. In this context, Eurostat recalled that the Regulation (EC) No 2516/2000 on taxes and social contributions of 7 November 2000 states the general principles of tax and social contributions recording in national accounts: "(...), *the impact on general government net lending/borrowing of taxes and social contributions recorded in the system on an accrual basis shall be equivalent over a reasonable amount of time to the corresponding amounts actually received*".

On the contrary, cash data on Social contributions are slightly higher than accruals for all the years.

This analysis showed that there seem to be some implications of the financial crisis on the method used for taxes and social contributions and that the model might not be suitably functioning in exceptional circumstances such as the financial crisis.

The Spanish statistical authorities explained that the model has been assessed and they confirmed the above-mentioned findings of Eurostat. The assessment of the model showed that it overestimates the social contributions unlikely to be collected. The information now available indicated that social contributions actually received in year t and the following years ($t+1$, $t+2$... until 2010) are bigger than the "net" social contributions recorded (social contributions less adjustments for social contributions unlikely to be collected) in year t . This pattern has been observed since 1998. On the other hand, it seems unlikely that the amount of taxes actually received will reach the "net" taxes recorded (taxes in accrual basis - adjustment for taxes unlikely to be collected).

However the opinion of the Spanish statistical authorities was that the impact on general government accounts is not significant due to the compensation of the two above-mentioned effects.

The Spanish statistical authorities said that short-term implications are not taken into account in the model. The model is backward oriented and self-corrects / adjusts over time. It was also explained that in the past, neither positive nor negative short-term movements were taken into account. All these implications are neutralised over time in the model.

The overall opinion of the Spanish statistical authorities was that the model used works rather well under normal conditions. Nevertheless it needs to be modified in order to take into account also exceptional circumstances, such as the financial crisis. The Spanish statistical authorities informed Eurostat that different models are already being studied.

Eurostat welcomed this ongoing work and suggested to compare cash data with the accrual data (obtained by the model) and to re-adjust the model in such a way that it can quickly react to changed circumstances.

The Spanish statistical authorities agreed to improve the statistical model for the recording of taxes and social contributions and report on this issue to Eurostat by the October 2011 EDP notification.

The Spanish statistical authorities assured that, so far, there were no cancellations of taxes from government to enterprises (tax amnesties).

In addition, the table 1 on *Other receivables/payables relating to taxes and actual social contributions of general government* of the EDP related questionnaire was examined. Eurostat noted that the amounts of transactions in *Other accounts receivable relating to total taxes* are rather high in 2009. The Spanish statistical authorities agreed to check this issue.

Findings and conclusions

The Spanish statistical authorities agreed to improve the statistical model for recording of taxes and social contributions and report on this issue to Eurostat by the October 2011 EDP notification (**Action point 8**).

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

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

The Spanish statistical authorities said that they are in the process of applying the "security-by-security" method for calculation of accrued interest also in the State government sub-sector. The Spanish statistical authorities also confirmed that, most probably, the final results will not differ much from the currently available figures.

The Spanish statistical authorities also confirmed that the slight difference between cash interest in the EDP tables 2 and 3 occurs due to the swaps.

Findings and conclusions

Eurostat took note of these explanations and welcomed the ongoing work on the application of the "security-by-security" approach for the State government sub-sector.

4.3 Recording of specific government transactions

4.3.1 Specific government transactions in the context of the global economic crisis

Introduction

To tackle the effects of the international financial crisis, the Spanish government adopted a series of measures in October 2008 which envisaged:

- acquisition of financial assets through a purpose-designed vehicle (Fund for the Acquisition of Financial Assets - FAAF);
- granting State guarantees on new financing operations by credit institutions residents in Spain; and
- acquisition of securities suitable for reinforcing the capital of credit institutions, by the State.

In June 2009 government adopted a second series of measures:

- search for a private solution by credit institutions themselves;
- adoption of measures involving the participation of the Deposit Guarantee Funds in credit institutions; and
- restructuring with the intervention of the Fund for the Orderly Restructuring of the Banking Sector (FROB).

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

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

Discussion and methodological analysis

Firstly, Eurostat enquired about the situation of the *Fund for the Acquisition of Financial Assets (FAAF)*. According to explanations of the Spanish statistical authorities, government debt increased by 0.9 % of GDP in 2008 and by an additional 0.9 % of GDP in 2009. It was also confirmed that no securities have been sold yet.

Secondly, the Spanish statistical authorities explained that the *Fund for the Orderly Restructuring of the Banking Sector (FROB)* was created in response to the need to restructure the banking sector, in particular saving banks. Specifically, these support measures take the form of purchasing preference shares, qualifying as Tier 1 capital, which must be bought back within five years (extendable to a total of seven years) and must be remunerated in accordance with the criteria established by the European Commission (at a minimum of 7.75%). The institutions involved must draw up a merger plan, which must be approved by the *Banco de España*, detailing the specific undertakings and measures envisaged to meet the efficiency-enhancing objectives and keeping with the principle of the most efficient use of public resources.

The FROB participates in these merger processes when requested to do so by the institutions concerned. Not all mergers agreed, have needed or requested aid from the FROB.

It was confirmed during the meeting that all operations by the FROB have been integrated into the general government accounts. Specifically, the debt issued by the FROB for 6 billion euro has been recorded as government debt; the contribution of the State (6.75 billion euro) has been recorded as an inter- general government transfer and the contribution of the Deposit Guarantee Funds (2.25 billion euro) as a financial operation under shares and other equity (F.5) in general government liabilities.

As regards the *Restructuring of the Spanish saving banks*, the Spanish statistical authorities said that the restructuring of the saving banks sector is almost complete. The savings bank sector is being restructured through 12 integration processes involving 38 of the 45 Spanish savings banks. Of the 12 processes, 7 requested aid from the FROB totalling 10.19 billion euro and 5 were undertaken without public aid.

Then, two specific cases of saving banks were discussed in more detail, i.e. *Caja Castilla La Mancha* and *Cajasur*. The case of *Caja Castilla La Mancha* was already discussed during the last EDP dialogue visit. The Spanish statistical authorities confirmed that the loan by the *Banco de España* to this bank has been repaid. This bank is now participating in one of the merger processes. It was also confirmed that the European Commission authorised under EU state aid rules, the aid for the restructuring of *Caja Castilla La Mancha*.

As for the *Cajasur*, the *Banco de España* approved the action plan requested jointly by *Cajasur* and *Unicaja*, which envisaged the merger of these two savings banks and the application for aid from the Deposit Guarantee Fund. In May 2010 the Board of Directors of *Cajasur* communicated to the *Banco de España* its non-approval of the merger project. Accordingly, the *Banco de España* Executive Commission resolved that the institution's situation required its orderly restructuring with the intervention of the FROB, which was appointed as provisional administrator. The FROB granted temporary aid of 800 million euro in non-voting equity units, although it also provided 1.5 billion euro in liquidity support, which has not been necessary to use so far.

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

The Spanish statistical authorities also confirmed that there were no other special support schemes of government to support any other sector.

Findings and conclusions

Eurostat took note of the specific government transactions undertaken by the Spanish government in the context of the global economic crisis and their recording in national accounts.

4.3.2. Relations between government and power utility companies (Iberdrola, Endesa, Gas Natural and others)

Introduction

In the past decade, a significant mismatch has arisen between electricity production costs and the revenue received by electric utilities from electricity consumers through the 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 2009 and 2010, a new procedure was introduced in order to:

- Cap the increase in the tariff deficit and define a course for the progressive sufficiency of electricity tariffs. The legislation stipulates that from 2013 onwards, the tariffs shall be sufficient to meet the total costs of regulated activities, and hence from that date a tariff deficit cannot occur.
- Endow the electricity system with a mechanism for financing the accumulated tariff deficit so that utilities can 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.

Discussion and methodological analysis

The statistical treatment of operations involving the securitisation of the electricity tariff deficit and their impact on the figures of the Excessive Deficit Procedure (EDP) was discussed.

The Spanish statistical authorities explained the main characteristics of the electricity tariff deficit and FADE financing system, relevant for the statistical analysis of the operations.

The *Fondo de Amortización del Déficit Eléctrico (FADE)* is not an institutional unit as it is not a separate legal entity and it does not have autonomy of decision. Given the powers of the Inter-Ministerial Commission (Ministry of Industry, Tourism and Trade), which decides the terms and conditions of most of the operations to be carried out by the FADE, it was considered that the State effectively controls the FADE. Consequently it was concluded that the FADE is to be classified in the central government sub-sector (S.1311).

Then the recording of transactions was discussed. The issuance of bonds is to be recorded as an increase in government debt. Subsequently, the purchase of financial claims from the electric utilities using the funds obtained from the issuance of bonds also has to be recorded. This purchase would be recorded as an acquisition of financial assets under "*Other accounts receivable (F.7)*". The financial asset recorded will be amortised, as electricity consumers will pay the related surcharge through their electricity tariff. In addition, if the FADE receives financing through the line of credit with the ICO, to cover possible cash flow mismatches, these liabilities of the FADE would also be part of government debt.

Findings and conclusions

Eurostat took note of the explanations of the Spanish statistical authorities, in particular of the classification of FADE and 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 guarantees called and repaid. Also the list of CESCE⁵ operations, i.e. amounts paid by the State to CESCE, was provided.

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

Discussion and methodological analysis

The Spanish statistical authorities confirmed that all amounts paid by the State to CESCE are treated as capital transfers.

It was also confirmed that the "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.

Eurostat enquired about the increasing amount of guarantees in the state government sub-sector for the last years. The Spanish statistical authorities explained that these guarantees are mainly given to the public corporations, which are classified in the government sector.

During the meeting it was also confirmed 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 the Eurostat rules. Amounts are being recorded on a delivery basis from direct sources (Ministry of Defence).

Discussion and methodological analysis

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

⁵ Compañía Española de Crédito a la Exportación

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 payables*. 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 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.

Discussion and methodological analysis

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

Findings and conclusions

Eurostat took note that there were no 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 MGDD⁶ (financial or non-financial). Only injections to profitable companies or to certain international financial institutions are considered to be equity injections.

Discussion and methodological analysis

The Spanish statistical authorities informed Eurostat about the coordination between IGAE and *Banco de España* on capital injections, i.e. cross-checking of direct data source (IGAE) with *Banco de España* data on capital injections in order to avoid double counting. Eurostat welcomed this improvement.

⁶ ESA 95 manual on government deficit and debt

It was stressed by the Spanish statistical authorities that the amounts of equity injections are very small, the majority of capital injections being classified as capital transfers.

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 asked to receive also the detailed list of equity injections made by the state government sub-sector.

IGAE further explained that the list of equity injections for the state government sub-sector is available on a quarterly basis and for the local government sub-sector on an annual basis. The data source is the IGAE questionnaire.

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

Findings and conclusions

Eurostat took note of the explanations on capital injections and welcomed the co-ordination on cross-checking data between IGAE and *Banco de España*.

The Spanish statistical authorities agreed to provide to Eurostat the list of equity injections made by regional governments (S.1312) by the April 2011 EDP notification (*Action point 9*).

4.3.7 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 by the Spanish statistical authorities prior the EDP dialogue visit.

Discussion and methodological analysis

The Spanish statistical authorities explained that the procedure 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 observed that there are currently several contracts under study by the Spanish statistical authorities. As explained by the Spanish statistical authorities, these projects have not started yet and the final decision on their classification has not been reached yet. As long as the project is still under study, it is not included on the balance sheet of government.

Eurostat took note that all PPPs in central and 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 on the balance sheet of government.

Eurostat noted that there are currently under study two PPP projects in Galicia that have not started yet and are classified off the balance sheet of government (VAC Carbaio – Berdoias and Nuevo Hospital de Vigo). Eurostat asked to receive the reports of the Working Group on the classification of these two projects.

The PPP contract by the Autonomous Community of Aragon was discussed, which was currently under consultation at Eurostat. It was agreed that the Spanish statistical authorities would further consult Eurostat on some aspects of the PPP contract by the Autonomous Community of Aragon, which were not yet analysed by Eurostat.

Findings and conclusions

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

The Spanish statistical authorities will inform Eurostat about the classification of two PPP projects (VAC Carbaio – Berdoias and Nuevo Hospital de Vigo). In addition, the reports of the Working Group on the classification of the assets will be provided by the April 2011 EDP notification (*Action point 10*).

The Spanish statistical authorities will further consult Eurostat on some aspects of the PPP contract by the Autonomous Community of Aragon, which were not yet provided to and analysed by Eurostat (*Action point 11*).

4.3.8. 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 central and state government sub-sectors. For local government, amounts are being recorded on a cash basis as it is not practical to ask to all the local communities an exact reporting of these amounts. However the Spanish statistical authorities confirmed that the amounts involved are very low.

The Spanish statistical authorities confirmed that there had 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 used by general government bodies. It was confirmed that regional governments also have the possibility to use them and that information is available at the *Banco de España*.

Findings and conclusions

Eurostat took note of these explanations, in particular that EU flows in the local government sub-sector are recorded on a cash basis.

5. Other issues

It was noted that EDP and ESA tables are consistent.

Annex 1: List of participants

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