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EUROSTAT

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

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FINAL FINDINGS

EDP dialogue visit to Portugal

9-10 November 2016

Executive summary

Eurostat undertook an EDP dialogue visit to Portugal on 9-10 November 2016. The main aim of this dialogue visit was to discuss methodological issues and specific government transactions in the light of the implementation of the ESA2010 methodology and the provisions of the ESA 2010 Manual on Government Deficit and Debt. In addition, data sources for the EDP data compilation were reviewed and some issues raised in the context of the October 2016 EDP Notification were further clarified.

First, the institutional arrangements currently in place were discussed. Eurostat took note of the Memorandum of Understanding update progress, the efforts to strengthen cooperation with the Court of Auditors and the practical functioning of the inter-institutional Working Group on EDP matters.

Second, the progress on the implementation of a new accounting plan for the general government sector (SNC-AP - *Sistema de Normalização Contabilística – Administrações Públicas*) was reviewed. The progress on strengthening existing or creating new data sources was discussed. Eurostat took note of the new reporting system for municipalities, which among others, also has established a data source for PPPs and concessions.

Eurostat expressed its view that, in Portuguese national accounts, discrepancy between the B.9 and B.9f de facto exists. Eurostat stressed the importance of consistency in the EDP and GFS reporting and asked BdP to resolve the issue of reporting different figures of other accounts payables in EDP tables 3 and in ESA quarterly financial accounts.

As regards statistical discrepancies, Eurostat appreciated the progress achieved in reducing overall discrepancies for the general government sector. Further progress is expected on the investigation of the non-negligible statistical discrepancy reported for the year 2014, as well as on eliminating the consolidation effect in statistical discrepancies, currently observable in EDP tables 3.

The few remaining issues from the October 2016 EDP notification were clarified. Further clarifications were asked on the composition of some adjustment lines in the EDP table 2A. The compilation of the B.9 of other central government bodies and the results of the first attempt to compile the voluntary breakdown of EDP table 3B into table 3B1 and 3B2 were also discussed.

Regarding the delimitation of general government, Eurostat appreciated the detailed and well-structured information, as well as the explanations provided on the changes in sector classification since the last EDP visit in 2014. Some practical aspects of the application of the market/non-market test were clarified. The Portuguese statistical authorities explained that, as a general rule, amortisation from business accounts is used as a proxy for the consumption of fixed capital, but that in some specific identified cases, consumption of fixed capital was calculated for some corporations. It was also confirmed that there were no cases of negative interest charge identified.

Eurostat and the Portuguese statistical authorities also exchanged the views on the procedural

aspects of the recent case of the BANIF residual entity sector classification.

On the implementation of the accrual principle, the Portuguese DTA regime was reviewed. The Portuguese statistical authorities informed Eurostat about the recent legislative changes concerning DTAs. It has been agreed that the amended Law and the two implementing acts will be provided to Eurostat together with INE's statistical analysis. Eurostat stressed the importance for INE to receive from government timely information regarding DTAs, including the claimed amounts and the exact time when the Tax authority will certify those amounts.

The discussion continued on the recording of accrued interest. Some issues about the recording of discounts and premiums were clarified. The treatment of prepaid margins relating to EFSF loans in Portuguese national accounts was also clarified.

Concerning transactions undertaken in the context of financial crisis, a foreseen government capital injection into *Caixa Geral de Depósitos* (CGD) was discussed. It has been agreed that INE will send to Eurostat the statistical analysis of the case, once the operation takes place and all the necessary information becomes available.

As regards the specific government transactions, the reporting of government claims, capital injections, government guarantees, debt assumptions, debt cancellations and write-offs was reviewed. As regards concession projects, Eurostat took note of the efforts made to gather full information on the existing and new concession contracts. The situation with the Energy performance contracts (EPCs) was reviewed; Eurostat took note that so far there were no signed contracts at central government level.

On derivative transactions, the use of derivatives in Portugal was discussed. The Portuguese statistical authorities explained that all debt issued in foreign currency is fully hedged. Eurostat recalled the rules on how unwinding of swaps should be reflected in EDP tables 3.

Special attention was given to the recording of the EU financial instruments; in particular those managed by the *Agência para a Competitividade e Inovação, I.P* (IAPMEI). Eurostat proposed that the Portuguese statistical authorities could contribute with the example of IAPMEI to the methodological discussions in the MGDD task-force and asked INE to provide a note on the recording of EU funds in Portugal in relation to the IAPMEI.

Eurostat appreciated the information provided by the Portuguese Statistical Authorities prior and during the EDP standard dialogue visit. Eurostat also thanked the Portuguese statistical authorities for their co-operation during the EDP visit and considers that the discussions were constructive and productive.

Final findings

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Portugal on 9-10 November 2016.

The delegation of Eurostat was headed by Ms Lena Frej Ohlsson, Head of Unit D-2 Excessive Deficit Procedure (EDP) I. Eurostat was also represented by Mr Luca Ascoli, Mr Philippe de Rougemont and Ms Rasa Jurkonienė. Representatives of the DG ECFIN and the European Central Bank (ECB) also participated in the meeting as observers. The Portuguese authorities were represented by the National Statistical Office (INE), the Ministry of Finance (the Budget Directorate General DGO) and the Bank of Portugal (BdP). In addition, representatives from the Portuguese Treasury and Debt Management Agency (IGCP), the Ministry of Finance and the Resolution Fund participated for some of the agenda points.

The previous Eurostat EDP dialogue visit to Portugal took place on 10-11 November 2014.

Eurostat carried out this EDP dialogue visit in order to review data sources for the EDP data compilation and the implementation of the ESA2010 methodology and the provisions of the ESA 2010 Manual on Government Deficit and Debt, as well as to clarify some of the issues raised in the context of the October 2016 EDP Notification.

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

1. Statistical capacity issues

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

1.1.1. Institutional cooperation and EDP processes

Introduction

Eurostat enquired about the cooperation between the institutions involved in EDP and about any changes incurred since the 2014 EDP visit in relation to the division of responsibilities and organisational structure. The division of responsibilities for the compilation of the Questionnaire relating to the EDP notification tables was also discussed under this point of the agenda.

Discussion

The Portuguese statistical authorities confirmed that there have been no changes in institutional arrangements and in the division of responsibilities since the 2014 EDP visit. The responsibilities for compiling actual EDP data are divided between INE and BdP. INE's responsibility is focused on the non-financial accounts and government B.9, whereas BdP compiles financial accounts and government debt. The MoF is responsible for the forecast data. The cooperation among these institutions is formalised via an inter-institutional cooperation agreement. Within the framework of this cooperation agreement, a working group on EDP reporting has been created.

INE informed Eurostat about the progress on the new inter-institutional agreement. The progress achieved was slower than expected; this was mainly due to the fact that the scope of the agreement was expanded, by including also the Court of Auditors (CoA) and the newly created body – the Public Finance Council. There were also other internal and external factors contributing to the delay in the process.

In addition, the Portuguese statistical authorities explained that the cooperation on the preparatory work for the EDP notifications functions smoothly, so there was no urgency to update the agreement. INE explained that now the time is right to restart the process and they intend to re-launch the discussions.

The draft agreement is covering the following areas: access to the data sources, especially coming from the MoF DG for Budget. Also the involvement of some other entities being source data providers is further specified: the Public debt management institute and the statistical offices of the Autonomous regions.

Eurostat stressed the importance to cooperate with the Court of Auditors. Formal agreements with the CoA signed in some Member States have proven to be useful, as some serious issues impacting the EDP headline figures were discovered by the Court of Auditors in the course of its work. INE explained that good cooperation with the CoA has been established while working on the Madeira case.

The Portuguese statistical authorities explained that, for the issues discovered during the audits of the CoA to be useful in the context of EDP, all the information would have to be shared

immediately. The disclosure of findings in the formal report is far too late to be properly used in EDP figures. This aspect was causing some legal difficulties for the CoA. The Portuguese statistical authorities asked Eurostat whether some of the agreements signed with the CoA in another Member States could be provided as examples. Eurostat committed to investigate this possibility.

Eurostat asked about the work undertaken by the inter-institutional Working Group on EDP matters and asked whether it would be possible to receive a copy of this WG's minutes. The Portuguese statistical authorities explained that there are no formal minutes, and that sometimes a memo is being distributed among the members of the group. However in most cases, as a result of these meetings, a note on a specific methodological question, a so called pre-notification explanatory note or, in case of disagreement, a request for formal Eurostat advice is prepared, so that Eurostat sees anyway the outcome of the WG meeting.

Eurostat asked about the division of responsibilities on the tables of the Questionnaire relating to the notification tables. The Portuguese statistical authorities explained that the distribution of work follows the general division of responsibilities between non-financial accounts (INE) and financial accounts (BdP). Accordingly, BdP fills in table 1 on revisions in debt, table 4 on F.8 as reported in EDP table 3, table 5 as relates to stocks of F.8, the financial accounts part of the table 6, table 8 and the financial parts of tables 10. The remaining tables and parts of tables are the responsibility of INE. BdP is also responsible for the *Supplementary table for reporting government interventions to support financial institutions*.

Findings and conclusions

- (1) Eurostat encouraged the Portuguese statistical authorities to progress on the finalisation on the updated and enlarged co-operation agreement on EDP.

Deadline: Progress Report - April 2017 EDP notification¹.

- (2) Eurostat will check whether an EDP cooperation agreement involving the National Court of Auditors of some of the Member States could be shared as an example.

Deadline: April 2017 EDP notification².

- (3) Eurostat invited the Portuguese statistical authorities to investigate the possibilities of formalising the exchange of information with the National Court of Auditors.

Deadline: April 2017 EDP notification³.

¹ An enlarged cooperation agreement (now covering 13 entities) was signed on 27 March 2017. The document was provided to Eurostat on 31/03/2017. AP is closed.

² Information was sent to the Portuguese statistical authorities on 18/01/2017. AP is closed.

³ The Court of Auditors was included in the cooperation agreement. AP is closed.

- (4) Eurostat asked the Portuguese statistical authorities to provide an example of the informal minutes from one of the meetings of the national EDP working group.

Deadline: End December 2016⁴.

1.1.2. Quality management framework

1.1.3. Audit and internal control arrangements

Introduction

Eurostat enquired whether, since the 2014 EDP visit, there have been any changes in quality management framework and audit and internal control arrangements.

Discussion

The Portuguese statistical authorities confirmed that there have been no changes in the existing quality management, or in the audit and internal control arrangements. The procedures are well documented in the Portuguese *Inventory of the methods, procedures and sources used for the compilation of deficit and debt data and the underlying government sector accounts according to ESA2010* (further EDP inventory).

Findings and conclusions

Eurostat took note of the situation.

1.2. Data sources and revision policy

1.2.1. Changes in data sources and revision policy

Introduction

The changes in the data sources and revision policy implemented after the 2014 EDP visit were discussed under this point.

Discussion

Accrual accounting

In 2014 the Portuguese statistical authorities informed Eurostat about the project of implementation of the accounting plan (SNC-AP - *Sistema de Normalização Contabilística – Administrações Públicas*) for the government sector.

Eurostat inquired about the current status of this project. The Portuguese statistical authorities explained that a pilot project is being implemented by the MoF. The accounting plan is drafted, however delays are observed in the actual implementation. The new deadline to start collecting the data has been set for January 2018. The Portuguese statistical authorities clarified further that the aim of the project is to separate budget and financial statements and to produce consolidated accounts for

⁴ AP not yet implemented.

the State, at the level of Ministries and budgetary programmes. Currently, in addition to the main entity – the state, 53 entities participate in the pilot. INE has been involved in discussions on the development of the accounting plan, so it is expected that the additional accrual data source will be useful also for national accounts purposes. Once the project is implemented, accrual accounting will be available for the entire general government sector, as it is already used by autonomous services and funds, the National Health Service, and Municipalities.

Eurostat noted that once the project is over, the use of the data for GFS/EDP purposes could merit a separate discussion. Eurostat also asked whether the new accounting plan foresees cash flow statements. The Portuguese statistical authorities confirmed that this was the case. Eurostat observed that this could have also implications for the financial accounts, where, given a new data source for F.2, the current compilation practice could change. The Portuguese statistical authorities answered that this aspect had not yet been analysed and that it would need further consideration.

Data sources

The improvements foreseen in local government data sources had been discussed in the 2014 EDP visit. The Portuguese statistical authorities presented the recent developments. The improvements in data sources mainly relate to the local corporations. Data on capital injections undertaken by municipalities into their corporations is available and included in the EDP figures. As regards local government entities in liquidation, information is also collected. The Portuguese statistical authorities explained that the information for local government corporations is not available for the first EDP notification (for year n-1 April of year n).

As regards data on PPPs and concessions, a new module for this type of contracts in municipalities was developed and the first data collected in 2015. Currently the information gathered is analysed. Eurostat took note of the situation and asked INE to provide information on the results.

As regards changes in financial accounts data sources, the Portuguese statistical authorities explained that data on loans granted to economic operators by IAPMEI and ITP was collected and incorporated in financial accounts. Also, starting from October 2016, for local government trade credits, the same data source will be used in financial and non-financial accounts.

Revision policy

The Portuguese statistical authorities confirmed that the revision policies applied for non- financial and financial accounts have not changed since the last EDP visit.

Eurostat noted that in the second EDP notification, only data for the year n-1 is considered as half finalised, while the other three years are considered as final. The Portuguese statistical authorities explained that, in principle, the data is considered final, but this label does not mean that revisions are impossible. If some materially

relevant issue is discovered or appears, the appropriate revision will be implemented.

The Portuguese statistical authorities explained that, in addition to regular revisions (mainly reflecting updated data sources) and benchmark revisions, so called ad-hoc revisions are also implemented.

On Eurostat's question whether ad hoc revisions would be implemented for the four years covered by an EDP notification, or also for historical data. The Portuguese statistical authorities explained that it would, among other factors, depend on the magnitude of the revision needed. The Portuguese statistical authorities confirmed that there were cases in the past when ad hoc revisions covered all the historical years.

Findings and conclusions

- (5) INE will inform Eurostat on the implementation of the new reporting system for the municipalities, which will allow having full information on PPP contracts and concessions.

Deadline: Progress Report - April 2017 EDP notification⁵.

1.2.2. Progress on the work reducing statistical discrepancies

Introduction

After the discussions in the 2014 EDP visit (Action point 4), the Portuguese statistical authorities started reporting statistical discrepancies explicitly in EDP table 3, under the item “*other statistical discrepancies*”. The B.9 and B.9f are reported as being equal.

Discussion

Presentation of statistical discrepancy in EDP and ESA tables

Eurostat noted that after the last EDP dialogue visit, other accounts payable (F.8) no longer includes statistical discrepancies and is separately shown in EDP tables. The discrepancies relating to difference in B.9 and B.9f and to other reasons, are now reported in one line in EDP table 3. In ESA table 27 discrepancies are incorporated under F.8, so the issue of presentation is still valid.

Eurostat considers that there is no valid reason why EDP and ESA data should deviate, in fact this should not be the case and data should align. ESA table 27 should show the same figures as in EDP tables and the F.8 reported should exclude statistical discrepancy⁶. Eurostat stressed that the ESA table 27 and EDP are two interlinked

⁵ A note was provided to Eurostat on 21/03/2017. AP is closed.

⁶ BdP explained that the difference between the transmitted amounts for other accounts payable in EDP and ESA table 27 corresponds to the time difference between the non-financial transaction and the cash payment. BdP complied with Eurostat's recommendation, and in EDP table 3 these amounts were reported under other statistical discrepancy and excluded from F.8 other accounts payables. However in ESA table 27, timing differences between non-financial and financial transactions and the corresponding payments, are shown

data sets that are compiled by BdP and it should show the same data, also for the benefits of the users.

BdP explained that in the framework of the Portuguese national accounts compilation only one figure for net lending / net borrowing of the General Government is published by the Portuguese Statistical Authorities. This is supported by the work between Banco de Portugal and INE in terms of discussing methodologies, agreeing on the statistical treatment of major operations and exchanging (micro) data. According to Banco de Portugal, users benefit from using the same number in terms of net lending / net borrowing of the General Government both from the financial side and the non-financial side of the accounts. BdP assured Eurostat that they are making best efforts trying to reconcile the existing data sets (non-financial and financial accounts).

The Portuguese statistical authorities noted that further harmonization in the practices of reporting statistical discrepancies might be needed across the Member States.

Eurostat said that close to zero discrepancy might be seen as an ultimate goal, but however, it cannot be set to zero by convention. Eurostat pointed out that in Portugal, where non-financial and financial accounts are compiled using non-integrated data sources, there are differences between B.9 and B.9f. Eurostat acknowledged that, in fact, the practice of showing statistical discrepancy explicitly also creates an incentive to decrease it.

Eurostat took as an example Portuguese GFS data and asked why transactions in payables (F.8) differ considerably as compared to changes in stocks (this the case in 2012 and 2014). BdP agreed to check what the main reasons for the identified gaps were. BdP explained that, in general, other economic flows in receivables and payables refer mainly to undertaken reclassifications, while in the case of payables this might also refer to the so called convergence to B.9.

Eurostat also noted that from a user perspective, the existence of other economic flows might be interpreted in a way that the gross statistical discrepancies are much higher.

Magnitude of statistical discrepancies

Eurostat recalled that, in the past, there were issues with the magnitude of the statistical discrepancies and that the Portuguese statistical authorities were working to reduce them.

The progress achieved was summarised by the Portuguese statistical authorities. It was explained that the main reason for the decrease in discrepancies were due to further alignment of data sources used to compile financial and non-financial accounts. Information from INE on other accounts receivable and payable is used more

under other accounts payable, in BdP view this is line with ESA 5.244 (a).

extensively; also new source data was incorporated on lending activities of two other central government bodies.

Eurostat acknowledged that the discrepancy for the period starting 2012 has decreased for all the sub-sectors and is now rather small as compared with the historical years. However, the discrepancy for the year 2014 remains high (0.2% of GDP) and some further work is to be undertaken by the Portuguese statistical authorities.

Eurostat recalled that in the 2015 EDP notifications the internal consistency of EDP tables for statistical discrepancies was not fully maintained and a so called consolidation effect in statistical discrepancies was observed, that is a situation when the sum of discrepancies in EDP table 3E, 3D and 3B was not equal to discrepancy reported in EDP table 3A. In the April 2016 EDP notification, the consolidation effect in statistical discrepancies decreased and the Portuguese statistical authorities explained that this was achieved mainly due to the fact that more precise calculations were done for the *issuances above(-)/below(+)* nominal value. The consolidation of issuances above/below par is not directly observable and is estimated by the BdP. It has been decided to change estimation method, making it more precise, the new method estimates the consolidation proportionally to total issuances, on a security-by-security basis.

Eurostat welcomed the progress and noted that, indeed, consolidation effects in statistical discrepancies might be caused by erroneous consolidation in issuance above below par in EDP tables 3. Eurostat recalled that in those cases when one government sub-sector is holding another sub-sector's debt issued above/below par, consolidation entries should appear either in the EDP table 3 line "*issuances above (-)/below (+) nominal value*" or under the line "*redemptions/repurchase of debt above (+)/below (-) nominal value*", depending on whether the securities were bought on the primary or the secondary market. The Portuguese statistical authorities asked Eurostat to specify this further in the *Guidelines for completing the general government deficit and debt notification under the Excessive Deficit Procedure*. Eurostat agreed to introduce this clarification.

Looking into consolidation issues in EDP tables 3, Eurostat noted that for the year 2014, the reduction in debt securities F.3 amounted to around 2 billion EUR, but, however, the debt decreased by 1.7 billion. The difference between the face and market value enters consolidation, so in the Portuguese case, around 300 million are expected to be seen in the consolidation under issuance above/below par in 2014. Following this logic, it is not very clear to what referred 238 million reported under consolidation in "*Issuances above (-) /below(+)* nominal value" for the year 2015. Eurostat thought that this figure might be a net figure of issuances and buy backs and asked the Portuguese statistical authorities to investigate further.

Findings and conclusions

- (6) Eurostat considers that the same amount of payables should appear in the EDP

and ESA tables. This is at present not the case. The Portuguese statistical authorities will reflect at ways in which the problem on having different amounts of payables in ESA and EDP could be solved.

*Deadline: Progress Report - April 2017 EDP notification*⁷.

- (7) Eurostat considers that a discrepancy between B.9 and B.9f exists in Portuguese national accounts and therefore should be reported explicitly in EDP tables 3
- (8) The Portuguese statistical authorities will continue to investigate the reasons behind the non-negligible statistical discrepancies in the year 2014.

*Deadline: April 2017 EDP notification*⁸.

- (9) Eurostat will update the EDP instructions by including a paragraph on the consolidation effect for adjustment for premium and discounts.

*Deadline: April 2017 EDP notification*⁹.

- (10) Taking note of the good practice of calculating consolidation of premiums and discounts on security by security basis, and the resulting consolidating amounts for the year 2014, the BdP will investigate the amounts reported for 2015.

*Deadline: April 2017 EDP notification*¹⁰.

- (11) The BdP will investigate the large other economic flows reported under other accounts payable (F.8) for 2012 and 2014 (ESA table 27).

*Deadline: April 2017 EDP notification*¹¹.

2. Follow-up of the EDP dialogue visit of 10-11 November 2014

Introduction

Eurostat and the Portuguese statistical authorities discussed the follow up on the still open action points from the 10-11 November 2014 EDP dialogue visit.

Discussion

It has been noted that most of the action points have been implemented and that some

⁷ BdP provided their view on 31/03/2017.

⁸ Discrepancy for the sector S.13 was decreased further in the April 2017 EDP notification; The Portuguese statistical authorities note dated 31/03/2017. AP is closed

⁹ The updated *Guidelines for completing the general government deficit and debt notification under the Excessive Deficit Procedure* were loaded on Circa on 21 March 2017. AP is closed.

¹⁰ BdP provided their view on 31/03/2017.

¹¹ A note on the issue was provided to Eurostat on 31/03/2017. AP is closed.

of the still outstanding action points remain such, mainly due to the fact that there were no new developments.

Three outstanding actions points from 2014 EDP visit were discussed under the following agenda points:

- 1.2.2. Progress on the work reducing statistical discrepancies (**Action point 4**),
- 2.1.2. DTAs (**Action point 24**),
- 4.3.3. Public Private Partnerships and concessions (**Action point 34**).

Eurostat noted that **Action point 23** “*The Portuguese statistical authorities will monitor the changes foreseen in the plan to restructure the water system and will reassess the sector classification of Águas de Portugal and its subsidiaries, if needed*” remains open. The Portuguese statistical authorities explained that the restructuring of the water sector took place in 2015. It was done by reorganising *Águas de Portugal* group into five managing corporations. However, the ongoing restructuring plan was stopped and a new restructuring plan will be prepared by the government. INE will monitor the situation and report to Eurostat on the developments.

Eurostat also noted that the Action point 26 “*The Portuguese Statistical Authorities will provide a note on the rationale of the treatment of accrued interest related to Saving and Treasury certificates in order to agree on a final recording for the April 2015 EDP Notification.*” remains open. The situation has to be assessed whether similar instruments exist in other Member States. The face value definition for such specific instruments is under discussion in the Task Force on methodological issues (MGDD). Since April 2015, in each Eurostat *News Release on the Provision of deficit and debt data for the EDP notification*, a footnote concerning this ongoing discussion on the valuation of certain debt instruments is included. The Portuguese statistical authorities confirmed that a similar footnote is also included in INE’s *Press release on the reporting under the EDP*. The Portuguese statistical authorities informed Eurostat that the recent proposal on the changes in the ESA2010 Manual on government deficit and debt is sufficient and clear, as the substance should prevail over the legal form of the certificates.

The Portuguese statistical authorities pointed out the need to ensure homogeneous treatment across Member States.

Findings and conclusions

Eurostat took note of the current situation.

3. Follow-up of the October 2016 EDP reporting – analysis of EDP tables

Introduction

Eurostat and the Portuguese statistical authorities discussed/clarified a few open items following the October 2016 EDP notification.

Before the EDP mission, INE had provided a detailed table on main revenue and expenditure items for groups of units as reported under other central government bodies and under local government bodies. Prior to the visit, the BdP has provided the breakdown of EDP table 3B into table 3B1 for the State Budget (main entity) and table 3B2 for other central government bodies. The aforementioned two tables were discussed during this point of the agenda.

Discussion

Table 2A

Eurostat asked questions on the nature of the accrual adjustments as reported in EDP table 2A. It has been confirmed by INE that “*payments of arrears*” and “*payables relating to expenditure recorded in previous years*” included in the line “*other accounts payable (-)*” in EDP table 2A are derived from the survey conducted by Ministry of Finance's Budget General Directorate and covering all the units. DGO is also collecting data on stocks of arrears.

As regards the adjustment “*Interest on loans granted to Public Corporations*”, included in other accounts receivable in EDP table 2A, INE explained this item refers to loans given by the Treasury to Public Corporations classified inside central government (S.13112EP). In substance, this adjustment represents the difference between the cash revenue recorded in the working balance and the accrued expenditure that was recognised by the corporations in their business accounts.

Eurostat suggested that it would be more appropriate to report the pension related adjustment, which is currently shown under other accounts receivable, under payables. INE agreed to implement this in Questionnaire table 4.2 as well as in EDP table 2A. The Portuguese statistical authorities noted that this adjustment is shown under payables in ESA table 27.

Other central government bodies (OCGB)

In Portugal OCGB comprise Autonomous services and funds (SFA), Public corporations and NPIs. Before the EDP visit, INE provided revenue and expenditure details of the OCGB by units and groups of units. The Portuguese statistical authorities explained that, similarly to the Public corporations, for NPIs the B.9 is compiled from the Profit and Loss statements, whereas the source data for SFAs are administrative/accounting records of the MoF. For each SFA, a separate file on budget execution is available. INE also explained that information on corporation investment is collected from their financial statements table on the acquisition of assets table (where stock of assets at the beginning and the end of the year is available). In the process of compiling B.9 of OCGB general conversion tables are used to convert public accounts codes into ESA transactions. INE explained that certain adjustments, such as FISIM, payment of arrears, R&D and contributions to the Civil Servants' Pension Scheme, are implemented for the whole OCGB group, as they are not available on unit basis.

Eurostat noted that the details on OCGB did not include financial transactions and that B.9f was not shown. INE explained that, indeed, information on financial flows is available in the financial statements of the units; however, as the compilation of B.9f does not fall within INE's responsibility, the data are not reported. The BdP explained that, as financial accounts in Portugal are not compiled from the direct data sources (i.e. balance sheets), there is no direct mapping from financial statements of OCGB into financial accounts balance sheets. According to the BdP, there is no straightforward solution, as there might be difficulties to derive the flows from stocks or to solve the valuation divergences. Eurostat took note of this explanation; nevertheless Eurostat thought that it is not appropriate to completely neglect information which is available. The data from financial statements could at least be used for plausibility checks, to cross check whether the counterpart information is reliable and to identify areas of default or weaknesses.

Breakdown of EDP table 3B in tables 3B1 and 3B2

Prior to the visit, the BdP provided a voluntary breakdown of EDP table 3B into table 3B1 for the main entity and 3B2 for other central government bodies for 2012-2015. Eurostat stressed the usefulness of this type of analytical data. Eurostat appreciated the effort made and asked the BdP for feedback on this exercise. The BdP explained that financial accounts are not compiled following a split of S.1311 (between the State and OCGB) as for the compilation of such tables significant additional data would be needed. As it was the first attempt to compile tables 3B1 and 3B2, some entries were estimated; also, difficulties were identified in the consolidation between the State and OCGB. The BdP clarified that F.2 figures in table 3B1 was taken from IGCP, whereas F.2 in table 3B2 was calculated as a residual after consolidation. The BdP stressed that the figures for discrepancies, as shown in tables 3B1 and 3B2, should be taken with caution, mainly because of the difficulties in consolidating flows between the state and OCGB. Even the Treasury debt could not enter directly into table 3B1, as there are a number of national accounts statistical adjustments to be implemented. Eurostat took note that a reconciliation exercise (to some extent similar to "*the EDP table 2 for debt*") is regularly conducted and a transition from the Treasury debt figure to the definition of the Maastricht debt for the budgetary central government is available. The BdP agreed to provide this reconciliation table to Eurostat.

Findings and conclusions

- (12) INE will move the pension related adjustment currently reported under other accounts receivable to other accounts payable, in the table 4.2 of the *Questionnaire relating to the EDP notification tables*.

*Deadline: April 2017 EDP notification*¹².

- (13) BdP will provide to Eurostat the table used to reconcile the Maastricht debt of Budgetary Central Government with the Treasury debt on one hand, and

¹² AP is closed. Implemented in the April 2017 EDP notification.

the debt at the nominal value on the other hand, using information from the AP 18 (former AP 20).

Deadline: April 2017 EDP notification¹³.

(14) The Portuguese statistical authorities will update the EDP Inventory in line with the discussions in the meeting by explicitly mentioning the survey on payables and the source data used for investment, and describing the composition of the item “*other adjustments/other*” in the EDP table 2A.

Deadline: End December 2016¹⁴.

4. Methodological issues and recording of specific government transactions

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

4.1.1. Practical implementation of the market/non-market test

Introduction

The general practice on the application of market/ non-market test was discussed under this point of the agenda.

Discussion

Eurostat enquired about the practical aspects of the market/non-market test, in particular the composition of the formula. The Portuguese statistical authorities explained that, following the discussion in the 2012 and 2014 EDP visits, the subsidies granted by State or Municipalities are regularly analysed, with the aim to determine whether they should be considered as subsidies on production and, as such, excluded from sales revenue.

As regards the denominator of the formula - production cost, the Portuguese statistical authorities use the amortisation cost from business accounts as a proxy of the consumption of fixed capital (CFC). INE explained that the above principle is not universal and a case by case analysis is conducted in order to identify corporations where the amortisation cost is not a suitable proxy. The example of the rail infrastructure company REFER was given; the company was not recording public assets in their accounts, so no depreciation was recognised, therefore INE calculated the CFC and included it in the cost, which changed the result of the 50% with REFER being reclassified inside general government.

Regarding the possible use of amortization cost multiplied by a certain coefficient, INE asked about the economic rationale and supporting evidence. The use of such a coefficient would mean that amortization costs from financial statements are systematically lower than CCF in national accounts, which is not, in general, our

¹³ AP is closed. Requested table was provided to Eurostat on 31/03/2017.

¹⁴ AP is closed. An updated EDP Inventory was sent on 22/12/2016.

understanding. In any case, INE noted that there would be no cases where the use of amortization cost multiplied by a certain coefficient would change the sector classification of the units.

Eurostat recalled that the issue of the practical application of the market/non-market test was discussed in the June 2016 EDP statistics working group. Eurostat enquired whether any of the aspects identified in these discussions were relevant in Portuguese case.

INE confirmed the information in the EDP Inventory, that net interest charge is used as a proxy for the cost of capital. INE explained that, so far, there were no cases of negative interest charge identified (cases when interest received would be higher than interest paid).

INE also explained that losses on inventories are not included in sales or in production in national accounts.

Findings and conclusions

Eurostat took note of these explanations.

4.1.2. Changes in sector classification since the last EDP visit

Introduction

Changes in sector classification since the 2014 EDP dialogue visit were discussed under this point of the agenda. A detailed table summarising the changes in sectorization was provided by the Portuguese statistical authorities before the EDP mission, was used as an input for the discussion.

Discussion

Eurostat took note that, as indicated in the provided unit list, since the last EDP visit there were 85 units reclassified inside the GG sector (out of which 22 were newly created units). 39 units were classified in the local government, 45 in central government and 1 into the social security funds sub-sector.

As for the reclassifications outside the general government sector, all in all, 181 entities were excluded from the general government sector. Out of this number, 23 correspond to actual reclassification to other sectors, the remaining units had disappeared, either via dissolution/liquidation or integration within the controlling unit. The Portuguese statistical authorities explained that this especially affected the local government sub-sector, where a number of corporations owned by local government were liquidated and their assets and liabilities taken over by municipalities as result of the implementation of a Law (Lei 50/2012 - *Regime jurídico da atividade empresarial local e das participações locais*).

The Portuguese statistical authorities also informed Eurostat that, following the Law 36/2014, eighteen Districts were integrated with Municipalities, and consequently, the local government sub-sector S.1313210 ceased to exist starting from 2015.

Findings and conclusions

Eurostat appreciated the detailed and well-structured information, as well as the explanations provided.

Sector classification BANIF SA

Introduction

The operation of the resolution of *Banco Internacional do Funchal S.A.* (BANIF) was discussed extensively with the Portuguese statistical authorities. In December 2015, the Portuguese State, together with the Resolution Fund, carried out a 2,23 billion EUR capital injection into BANIF. Most assets and liabilities were sold to *Banco Santander Totta*. Problematic assets were transferred to the created “bad bank” – S.A. OITANTE. The remaining assets and liabilities of the group were kept in S.A. BANIF (residual entity). Concerning the sector classification of the residual BANIF and the recording of the corresponding debt, there was no common agreement among the Portuguese statistical authorities – BdP was of the opinion that the residual entity should be classified in S.122 mainly due to the fact that BANIF was on the ECB list of monetary financial institutions, had a credit institution banking licence. INE considered the residual BANIF entity as a public defeasance structure. Eurostat’s opinion was sought and the advice letter was sent to Portugal just before the April 2016 EDP notification¹⁵. In the first set of notified figures, the residual BANIF entity was included in government sector, however its debt was not reported as government debt. During the April 2016 EDP notification, Eurostat asked BdP to correct the debt figure by including BANIF liabilities of 295 million EUR (0.16% GDP). After some exchange, this has been implemented and the respective debt was reported.

BdP challenged Eurostat and INE opinion further and asked for a CMFB consultation on the sector classification on the BANIF residual entity. The CMFB consultation demonstrated that this was a complex issue with divided opinions. A majority of members were supporting the opinion of INE and Eurostat that the residual entity should be seen as public defeasance structure and, as such, should be classified inside the general government sector.

Discussion

The procedural aspects of the decision on the sector classification of the residual entity BANIF, as well as the timing of the implementation, were brought to the discussion by the BdP. The BdP considered that, having in mind the ongoing CMFB consultation, it was unnecessary during the notification period to pressure for an immediate reclassification. In addition, the BdP pointed out that the sector classification is not only impacting EDP figures, but also the other statistical domains.

Eurostat stressed that the advice was given in line with *Eurostat’s ex-ante and ex-post*

¹⁵ [http://ec.europa.eu/eurostat/documents/1015035/7142247/Advice-2016-PT-Consultation-stat-record-resolution- process-BANIF.pdf](http://ec.europa.eu/eurostat/documents/1015035/7142247/Advice-2016-PT-Consultation-stat-record-resolution-process-BANIF.pdf)

advice (clarifications and decision) on methodological issues. In fact, the case was clear for both INE and Eurostat. Also, the final decision of the CMFB supported this view. During the EDP notification, Eurostat had to ensure that the reported debt figures were correct.

Eurostat pointed out that the Portuguese statistical authorities were contacted on the BANIF resolution at the beginning of 2016; however the detailed analysis reached Eurostat only towards the end of March, so clearly there had been delay in providing the information.

INE was of the opinion that, generally, as regards the rules for the MFI list creation, maintenance and the timing for updates, some common principles should be agreed and followed. If the unit is changing its nature, deletion from the MFI list should be promptly done.

Findings and conclusions

Eurostat took note of the views expressed during the meeting.

4.1.3. *Questionnaire on government controlled entities classified outside the general government sector*

Introduction

The Portuguese statistical authorities sent the *Questionnaire on government controlled entities classified outside general government* in November 2016. The questionnaire included data for 371 units. The units classified in S.11 are mainly involved in the following activities: transport, energy, water and waste management and municipal services.

Discussion

Eurostat thanked the Portuguese statistical authorities for providing the *Questionnaire on government controlled entities* earlier and asked whether this version should be considered as final, or, instead, an update could be expected in December 2016. The Portuguese statistical authorities confirmed that, as concerns public corporation data, it is final, and in principle no changes are expected.

The Portuguese statistical authorities confirmed that the so called 50% test is done every year for all public corporations.

Eurostat asked about the “M”- not applicable reported under certain regional water companies 50% test results. The Portuguese statistical authorities clarified that the situation with the head office *Águas de Portugal* and its subsidiaries is being monitored pending decision on the future restructuring of the water system¹⁶.

Eurostat noted that in some cases the so called 50% test showed results of 52-51%. The case of *SATA Air Açores* was brought forward as an example. The Portuguese

¹⁶ See part 2. *Follow-up of the EDP dialogue visit of 10-11 November 2014, AP 23.*

statistical authorities confirmed that for this corporation all government payments were excluded from revenue while conducting the so called 50% test.

Findings and conclusions

Eurostat took note of the situation.

4.2. Implementation of the accrual principle

4.2.1. *Taxes and social contributions*

Introduction

The Portuguese statistical authorities sent the *Questionnaire on taxes and social contributions* in October 2016. It was used as an input for the discussion.

Discussion

Eurostat took note that there were no changes in the recording of taxes as compared to the 2014 EDP visit. Eurostat further noted that the National tax list included a few entries, such as Municipal tax on tourists or Excise duties on lightweight plastic bags, which were highlighted. The Portuguese statistical authorities explained that the ESA classification of these taxes has been already agreed with the GFS colleagues.

Eurostat recalled that the last Tax amnesty took place in 2013 and asked whether another tax amnesty was foreseen for 2016. In the last EDP visit, it was confirmed that the amounts related to tax amnesties correspond to amounts actually paid and are recorded when the payment occurs (pure cash). The Portuguese statistical authorities confirmed that the developments are monitored and, in case a new tax amnesty would be announced, the above recording practice will be followed.

Findings and conclusions

Eurostat took note of the explanations.

4.2.2. *DTAs*

Introduction

The issue of DTAs was discussed with the Portuguese statistical authorities in the 2014 EDP visit. Eurostat explained the main principles for the DTA recording in national accounts. It has been agreed that although the Law No 61/2014 established the main principles of the Portuguese DTA regime, some specific details on the exact conditions of conversion were still to be determined by the implementing acts. In the absence of the implementing act it would not be possible to reach conclusions concerning the statistical treatment to be applied. An action point was given for INE to provide to Eurostat the implementing acts, once they are approved, and to provide Eurostat with their overall analysis of the case.

Discussion

Eurostat enquired whether there have been any new developments as regards the implementing act. Eurostat recalled that it was expected that the DTAs should have been reported for the first time in May 2016 in the corporate income tax declaration. This however did not happen.

The Portuguese authorities explained that following the consultations with DG COMP, the 2014 Law was amended in August 2016 (By Law No 23/2016 dated 19 August 2016). The Portuguese authorities said that the main changes in the law concerned requirements for the tax payers in the DTA regime to supply information to the tax authority and limiting DTAs to the ones that have been created until 1 January 2016.

The Portuguese statistical authorities explained that two implementing acts were foreseen; one implementing act was passed on the 4th of October 2016 (Implementing Order No 259/2016). This implementing act regulates how DTAs should be assessed. Tax payer has to include in their tax file a report on DTAs, and their accounts showing how the DTAs arise. Income statements should be audited by the Tax and Customs Authority, and the amounts confirmed within three months. If reimbursement of tax credits are needed, it should be done within 30 days.

The Portuguese statistical authorities explained to Eurostat that the second implementing act will be published shortly, presumably before the end of 2016. The aim is to define how conversion should be implemented.

Eurostat took note of the explanations and asked the Portuguese statistical authorities to send the amending Law and the two implementing acts.

Eurostat also asked when government will recognize the liability deriving from DTAs, the MoF answered that this would happen at the time when the tax audit ends. In principle an entity has first to claim that it wants to exercise DTAs, and then the tax authority has three months for tax audit. So, for example, if claims are presented, in November, the three month period will end in February 2017. As regards the amount to be claimed for conversion, the maximum is set by Law, however, the tax payer has a choice to claim any amount below the threshold.

Eurostat asked until when claims could be made. The Portuguese statistical authorities explained that the system is such that claims can reoccur but only for the existing stock.

Eurostat pointed out that it is crucial for INE to get the information on the amounts recognized by government and on the exact moment they are recognized.

INE explained that the issue will be analysed further. The stock of DTAs evaluated in 2015 is not increasing any more, it is fixed.

The Portuguese statistical authorities explained that only the total stocks of DTAs will be known when all the tax audits will be conducted. There are rules for

confidentiality, so the names of companies involved will not be available. The information could contain the total amounts and the number of requests.

Findings and conclusions

(15) The Ministry of Finance will ensure that detailed information on the claimed amounts of DTAs, as well as the exact time when they were certified by the tax authority, are provided to INE.

(16) The Portuguese statistical authorities will provide to Eurostat the two implementing acts in relation to the Law on DTAs, as well as any other relevant information relating to the issue.

Deadline: When available¹⁷.

4.2.3. *Interest*

Introduction

Prior to the EDP visit, the Portuguese statistical authorities provided to Eurostat a table on the recording of interest expenditure and revenue, as reported in EDP table 2 and EDP table 3. This table was used as an input for the discussion.

Discussion

The Portuguese statistical authorities explained that part of the table – interest as reported in EDP table 2 was filled jointly by IGCP and INE and that the part on the reporting in EDP table 3 was filled by BdP. The provided figures covered the main entity “the State”.

The Portuguese statistical authorities explained that under interest relating to instruments F.1,

F.2 and F.7, interest on saving certificates is shown. In public accounts, reported cash, the capitalised interest is entering the WB. The line “Difference between interest paid (+) and accrued (-)” in EDP table 2A includes interest accrued but not capitalised.

Eurostat took note that discounts/premiums are not entering the working balance in EDP table 2A and that the amortisation of discounts/premiums are included in the line “*Difference between interest paid (+) and accrued (D.41)(-)*”. The Portuguese statistical authorities confirmed and added that linear spread of discounts and premiums is applied.

Eurostat enquired about the composition of the line “*Issuances above(-)/below(+)* nominal value” in EDP table 3B. The figures reported for 2014 (0.5% of GDP) and 2015 (1.1% of GDP) were particularly high. These amounts were not easily

¹⁷ The legal acts were provided to Eurostat on 31/03/2017. INE’s input on the issue was received on 29/09/2017.

reconcilable with the amortisation of discounts/premiums. The Portuguese statistical authorities explained that the big amounts shown under issuance above/below par in EDP table 3B also include discounts/premiums at redemption. The dynamics follow the changes in stock of Treasury certificates in recent years, which have shown significant increase and almost doubled since 2012.

Eurostat noted that, in such cases, information on the stocks of accrued coupons, accrued discounts and premiums, as well as amortization of discounts and premiums and the reconciliation with associated flows could be very useful. Eurostat will work on the new template which will be provided to the Portuguese statistical authorities for completion.

Eurostat enquired where, in EDP tables, the so called “*coupon sold*” is recorded. The Portuguese statistical authorities clarified that a cash flow associated to coupon sold is not entering the EDP table 2A working balance.

The Portuguese statistical authorities explained that for the F.4 instrument, “EFSF loans discounts” are shown separately as “other adjustments”, as due to limitations of the table template, there were no other ways to explicitly report them.

The Portuguese statistical authorities recalled that two EFSF loans were granted to Portugal back in 2011, the nominal value of the loan (included in Maastricht debt) amounted to 7,1 billion EUR. The cash disbursement received by Portugal was 6 billion EUR, the difference (so called prepaid margin) of 1,1 billion being treated in national accounts as discount, i.e. spread over the life of the loans, impacting negatively government deficit.

Later on, in 2012, the EFSF Board decided retroactively to remove the prepaid margin. Eurostat issued guidance¹⁸ that, following the Board decision, no retroactive revisions to government debt and deficit should be implemented. The rebate of prepaid margin was found contingent on the positive programme implementation. Therefore, the D.9 rec should be recorded for Portugal at maturity of the EFSF loans (in 2016 and 2021), when rebate is established with certainty.

Eurostat noted that amortisation of discount on the EFSF loan, as reported in the table on interest, amounted to around 150 million EUR per year.

Findings and conclusions

- (17) The Portuguese statistical authorities will update the detailed table on interest following the clarifications discussed in the meeting, and adapt the descriptions in the EDP Inventory where necessary.

*Deadline: April 2017 EDP notification*¹⁹.

- (18) The Portuguese Treasury and Debt Management Agency (IGCP) will provide to Eurostat the stocks of premiums/discounts and of coupons accrued and the

¹⁸ <http://ec.europa.eu/eurostat/documents/1015035/2041357/Note-on-statistical-implications-of-summits-updated-12-A.pdf/5eacaf1a-30f3-48e0-81e3-ba14a77b5d7b>

¹⁹ The updated EDP Inventory was provided to Eurostat on 22/12/2016. AP is closed.

reconciliation with associated flows, based on a template to be prepared by Eurostat.

Deadline: End December 2016 (template)²⁰.

4.3. Recording of specific government transactions

4.3.1. Government transactions in the context of the financial crisis

Caixa Geral de Depósitos (CGD)

Introduction

In 2012, the *Caixa Geral de Depósitos* (CGD) was not able to meet capital requirements under the EU-wide stress test exercise and was re-capitalised. The capital injection was split in two tranches, 900 million EUR in the form of convertible instruments (classified as a financial transaction) and 750 million EUR in a form of ordinary shares (recorded in national accounts as D.9).

In the EDP visit it was communicated that another capital injection into CGD was being considered in 2016/2017 by the Portuguese Government. Eurostat asked the Portuguese statistical authorities about the forthcoming operation.

Discussion

The Portuguese authorities informed Eurostat that, since April 2016, they were discussing this operation with DG COMP and the aim was to set up a business plan that would follow private investment economic principles. The Portuguese authorities described the forthcoming recapitalisation operation. The operation is foreseen to be done in two steps. Government intends to transfer assets (Parcaixa shares valued 500 million EUR) and convert CoCos (900 million EUR). As a further step, a capital injection by government amounting to no more than 2.7 billion EUR is foreseen. The equity injection is combined with an issuance of a hybrid instrument. The hybrid instrument, in total amounting to 1 billion EUR, will be executed in two phases- 500 million at the time of government capital injection, followed by another 500 million within the period of 18 months. The Portuguese authorities explained that, according to the opinion of DG COMP (dated 23 August 2016), the operation does not constitute state aid. The Portuguese authorities confirmed that, after the recapitalisation, the ownership will not change and the Bank will still be fully owned by the State.

Eurostat enquired if the recapitalisation plan had started to be executed and whether the business plan could be made available to the statisticians. The Portuguese authorities explained that the business plan still had to be approved by the shareholder meeting; one element that was still missing was the valuation of impairments. As for the timing of the forthcoming operation, the Portuguese authorities explained that the target date was this year (2016), but it could also be done at the beginning of the next year

²⁰ The table on interest recording was sent to the Portuguese statistical authorities on 09/03/2017. The template was provided to Eurostat on 29/09/2017.

(2017).

Eurostat recalled that, as regards the business plan and the so called private investor approach, a rather similar situation was observed in the previous recapitalisation, however the planned return rate had never materialised. The Portuguese authorities noted that the fact that the previous business plan failed should not be of relevance now. The negative result was due to the financial crisis, and it was a phenomenon observed not only in Portugal, with business plans not fulfilling their targets also in other countries for other banks.

Eurostat asked about the characteristics of the hybrid instruments. The Portuguese authorities explained that the work on the term sheet for these instruments was still ongoing; the full details will become available in two – three weeks' time. Nevertheless, already now it was clear that these instruments will not be common equity tier 1 capital instruments. They could be additional tier 1 capital, as investors will face a risk of losing interest and principal on hybrid securities. As regards interest payments, the Bank may decide not to distribute anything, and the principal could be written off due to the fact that certain regulatory thresholds were not reached.

The Portuguese authorities explained that the recapitalisation operation was seen as a package, where if one part fails, the whole operation fails. If there would be no buyer for the first tranche of hybrid instruments (500 million EUR), there would be no government injection of 2.7 million EUR. The same was valid for the second part. Eurostat took note of this explanation.

Eurostat stressed the importance for INE to receive all the details on the CGD recapitalisation, including the business plan, the amounts and the exact timing. This was especially important if the operation, in whole or in part, will take place in 2016, as this will be reflected in the April 2017 EDP notification figures already. The Portuguese authorities were asked to provide the details, once the information would become available.

Findings and conclusions

- (19) The Ministry of Finance will send to INE the Business Plan of *Caixa Geral de Depósitos* (CGD) as well a detailed note on all planned operations in relation to the recapitalization of CGD, in order for INE to analyse the case and provide Eurostat with their statistical analysis.

Deadline: When available²¹.

Follow-up of previous government interventions

Introduction

²¹ The analysis of the case and the supporting documents were provided by INE on 31.05.2017. The case is still under discussion.

The privatisation process of Novo Banco and the situation with repayments of contingent convertible securities (CoCos) were discussed under this point of the agenda. Also some aspects of the reporting of flows and stocks in the *Supplementary table for reporting government interventions to support financial institutions* were clarified.

Discussion

Novo Banco

As regards the status of the privatisation process of Novo Banco, the Portuguese statistical authorities explained that the process was ongoing. Bids for acquisition of the Bank had recently been received and it was now up to Banco de Portugal to take a decision. The Portuguese statistical authorities explained that the commitment to sell 100 percent of the bank was by August 2017. The sale should be seen as a two-step transaction, the signature followed by actual sale. According to the Portuguese statistical authorities, the completion of the privatisation is expected to take place in 2017.

CoCos

Prior to the EDP visit the Portuguese statistical authorities provided to Eurostat data on the repayments of CoCos subscribed by State. Eurostat took note that in the case of two financial institutions, there were no outstanding Cocos. In the case of Banif, the hybrid securities were converted into ordinary shares, and in another case the Cocos were repaid in full. The Portuguese statistical authorities confirmed that all the financial institutions were paying interest on CoCos.

Supplementary table for reporting government interventions to support financial institutions

Eurostat appreciated the fact that BdP had provided the Supplementary table including data on unit by unit basis. Eurostat thanked BdP for filling in the part 3 on transactions (voluntary part of the table) and explained that having stocks and transactions, holding gains and losses could be traceable.

Eurostat asked about the valuation of equity held by government. The Portuguese statistical authorities explained that, in case of unquoted shares, BdP reports nominal value, however following the instructions in the Supplementary table, for tradable securities the market value is shown. Eurostat recalled that ESA foresees that the value of unlisted shares could be estimated following the movement in the own funds.

Findings and conclusions

Eurostat took note of the situation.

4.3.2. *Capital injections in public corporations, dividends, privatization*

Introduction

The reporting of capital injections in EDP table 2A was clarified under this point of the agenda.

Discussion

Eurostat thanked the Portuguese statistical authorities for including in the EDP notification explanatory note, full reconciliation of the capital injections as reported in EDP table 2A line “*Capital injections reclassified to D9*”.

Capital injections are entering the EDP table 2A working balance as an outflow. Eurostat noted that the so called gross recording of capital injections in the EDP table 2A is followed by the Portuguese statistical authorities. That is, firstly all capital injections are eliminated from the working balance (under the line “*Equities, acquisition (+)*”) and, later on, injections that in national accounts are treated as capital transfers (D.9) are added as a separate adjustment line “*Capital injections reclassified to D9*” under “*other adjustments*”. Both amounts include injections into units classified outside the general government sector and those classified inside (and also reported under the other central government bodies in EDP table 2A). The Portuguese statistical authorities confirmed this understanding.

Eurostat noted that due to such reporting arrangement, the figures on capital injections as reported in EDP table 2A are much higher than the ones shown in EDP table 3B (where the figures are, in line with Eurostat’s guidelines, consolidated within the central government sub-sector).

Findings and conclusions

Eurostat took note of the above reporting practice.

4.3.3. *Public Private Partnerships (PPPs) and concessions*

Introduction

The issue of PPP in Portugal was discussed in the 2014 EDP visit. A number of existing PPP contracts were undergoing renegotiations. As a follow up of the EDP visit, INE has analysed the changes to the existing PPP contracts. INE has asked for Eurostat’s ex-ante advice on whether the foreseen changes to the contracts might be seen as substantial changes, implying the treatment of the renegotiated contracts as new contracts and applying the most recent PPP rules. Eurostat agreed with INE’s analysis that the changes introduced in the six PPP contracts are not substantial and therefore the contracts should not be re-analysed based on the latest set of rules. The assets of the PPP contracts in question could remain classified off government balance.

Before the EDP visit, the Portuguese statistical authorities provided to Eurostat notes on the existing PPP contracts and concessions. These documents were used as an input for the discussion.

Discussion

PPPs

Eurostat recalled that the *Guide to the Statistical Treatment of PPPs* (Guide) was recently (in September 2016) published by Eurostat and the EIB. To promote the guide and to explain how it should be applied by the PPP practitioners, the European PPP Expertise Centre (EPEC) at the EIB in coordination with Eurostat will be hosting information sessions in the Member States. Eurostat also explained that, in case Member States would like to translate the Guide into their language, they should address Eurostat.

As regards the renegotiated PPP contracts, the Portuguese statistical authorities informed Eurostat that, as confirmed by the Unidade Técnica de Acompanhamento de Projetos (UTAP), in November 2016, none of the renegotiated contracts were signed.

Concessions

Before the EDP visit, the Portuguese statistical authorities provided to Eurostat a list of concessions starting from 2012. Eurostat took note that existing concessions concern ports, hydropower energy and airports. The Portuguese statistical authorities explained that the case of the two hydropower energy concessions involve building the new assets.

Eurostat recalled that the guidelines regarding concessions were updated in the ESA 2010 Manual on government deficit and debt (MGDD) making them more similar to PPP accounting rules. These new provisions of the MGDD should be implemented by the Member States in October 2016 EDP notification.

The Portuguese statistical authorities explained that efforts were made to gather information on the existing and new concession contracts. Contrary to PPPs, systematically monitored, the concession data collection is at its initial stage. INE has collected some information from UTAP *Quarterly Bulletin on Concessions*, dated first quarter 2016. The UTAP data has been combined with the information from the State Budget. The Portuguese statistical authorities explained that some concession contracts are done and supervised by the field Ministries (e.g. Ministry of Environment, Ministry of Sea, Ministry of Planning and infrastructure) and it is a lengthy process to gather information and to get all the Ministries involved. INE agreed that this issue should be followed up. Eurostat noted that sometimes a legal act obliging to provide data could be seen as an appropriate solution.

In addition, INE informed Eurostat that cases with upfront payments and government revenue recorded in public accounts, are identifiable in the Budget. Such contracts will be checked on a case by case basis by INE.

The Portuguese statistical authorities informed Eurostat that, until today, there have been no upfront payments identified and there were no special guarantees granted by government to the concessionaires.

The Portuguese statistical authorities recalled the case of Oceanário concession. The large public aquarium, Oceanário, S.A. was owned by Parque Expo98 (classified in

S.13112). Oceanário S.A. was privatised in 2015. Before the privatisation, a concession contract of the existing aquarium building was signed. The privatization also included the sale of Oceanário concession. In 2015 there was an upfront payment (10 million EUR) received by Government, which in national accounts was recorded as a financial transaction.

Eurostat recalled that tenders for public transport services concessions in Porto and Lisbon were discussed in the 2014 EDP visit (Action point 34) and enquired whether there had been any developments. The Portuguese statistical authorities explained that the public transport concession contracts that were signed in 2015 were revoked. The situation will be monitored by INE and, once new information becomes available, it will be provided to Eurostat.

EPCs

As regards the availability of information on existing EPCs, INE informed Eurostat that the authorities that are following their implementation: *Agência para a Energia* (ADENE) and *Direção Geral de Energia e Geologia* (DGEG), were contacted and the data source established. The Portuguese statistical authorities explained that, so far, there were no signed contracts at central government level, whereas at the local government level one contract was identified. This contract involved the replacement of stoplights lamps, but amounts were not significant and the foreseen duration of the contract was two years. Eurostat took note of this.

Findings and conclusions

(20) The Portuguese authorities will take steps to ensure INE full access of information on concession contracts.

Deadline: Progress Report – April 2017 EDP notification²².

4.3.4. *Financial derivatives*

Introduction

The usage of derivatives as well as the application of valuation rules for debt hedging was discussed under this point of the agenda.

Discussion

The Portuguese statistical authorities explained that for hedging they are using interest rate swaps (IRS), cross currency swaps, forex swaps and foreign exchange forwards. There have been also occurrences of swaptions (options on foreign exchange swaps). There have been no occurrences of off-market swaps.

Eurostat asked, in addition to the USD, in what other foreign currencies is debt issued. The Portuguese statistical authorities answered that in addition to USD, debt is also denominated in British pounds and Chinese Yuan.

²² AP not yet implemented.

Eurostat asked which part of foreign currency debt is hedged against the exchange rate and/or interest rate risks. The Portuguese statistical authorities explained that IMF loans were fully hedged starting from March 2015. At the time of the EDP visit (November 2016) all debt issued in foreign currency is fully hedged.

Eurostat asked which institution is responsible for the correct application of debt valuation rules. The Portuguese statistical authorities explained that, as regards Central government debt, this compilation is the responsibility of the IGCP.

Eurostat asked about the composition of the EDP table 3B adjustment line “*Appreciation(+)/depreciation(-)(3) of foreign-currency debt*”. Eurostat noted that the 1266 million EUR reported for 2015 do not reflect the foreign currency debt movement, as a majority of the debt is hedged. The Portuguese statistical authorities confirmed that the amount reported for 2015 in fact refers to unwinding of swaps. The swaps used to hedge the IMF loans are matching their maturity, following loan repayments, and swaps are being regularly unwound.

Eurostat recalled that, in EDP table 3, unwinding of swaps result in recording of transaction in derivatives together with matching entry under “*Appreciation (+)/depreciation (-) of foreign currency debt*”.

Swap contracts of State own enterprises (SOE)

Eurostat recalled that, as discussed in the 2014 EDP visit, IGCP took over the management of SOE swaps. Eurostat also recalled that there was an ongoing court case on some of the SOE’s structured swap contracts and asked if there have been any developments on these court cases.

The Portuguese statistical authorities explained that the term “take over management” is not very precise; the IGCP is an agency for the direct State debt. The swaps are on the SOE balance sheets and the IGCP, an entity having expertise in derivatives, acts as a kind of technical adviser to the SOEs.

The Portuguese statistical authorities also explained that SOE had not been paying interests on swaps, with a court case ongoing. The objective of these legal proceedings was to have the Court declare that the swaps are not valid. At the time of the EDP visit, the situation was still not clear, and there was no judgement in the British Court. The Portuguese statistical authorities explained that the decision could be expected in 4-6 weeks’ time. As regards the possible impact on government B.9, the Portuguese statistical authorities noted that, in case of swap cancellations, there will be no impact, but that however, if the court will rule against cancelling swap contracts and will impose some fines, this might have an impact. The Portuguese statistical authorities will monitor the case further.

Findings and conclusions

Eurostat took note of the explanations.

4.3.5. *Guarantees*

Introduction

As discussed and agreed in the 2014 EDP dialogue visit, there are no standardised guarantee schemes in Portugal. Before the visit, the Portuguese statistical authorities provided detailed data on one-off government guarantees, including stock of guarantees, calls, repayments, and guaranteed debt associated debt assumptions.

Discussion

Eurostat took note that full information as regards government guarantees is available. Eurostat appreciated also the fact that all guarantees were listed, including the ones given to the units inside the general government. Eurostat also noted that the detailed data is reconcilable with the guarantee related Questionnaire tables. It has been agreed that a few technical aspects relating to the reconciliation of guarantees, as shown in the detailed table provided for the mission and the reporting of guarantees in EDP table 2A adjustment lines as well as in the Questionnaire table 9.3, will be discussed further on a bilateral basis.

Findings and conclusions

- (21) INE and Eurostat will clarify some technical aspects of the recording of government guarantees in EDP table 2A and in the tables 9 of the *Questionnaire relating to the EDP notification tables*, as well as the ad hoc table.

Deadline: End December 2016²³.

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

Introduction

Before the EDP visit, the Portuguese statistical authorities provided to Eurostat the list of central government claims by institutional sector and a list of debt cancellations/assumptions and write offs. These two documents were used as an input for the discussion.

Discussion

Government claims

Around half of the central government loans are granted to the other government sub-sectors and to the rest of the world (S.2). The remaining amounts refer to loan assets held by the defeasance structures and to the lending activities undertaken in the context of EU supported programmes by IAPMEI (*Agência para a*

²³ The reconciliation of the amounts reported in the Questionnaire tables 9 and the ad-hoc table was provided to Eurostat on 14 November 2016. AP is closed.

Competitividade e Inovação), Turismo de Portugal and IHRU (*Instituto da Habitação e da Reabilitação Urbana, IP*).

As regards the data sources for central government claims, the general data sources used for the compilation of financial accounts are used. This results in the situation that data on government lending on an entity by entity basis is not easily available.

As regards the consistency of the provided information on central government claims with data available in the other data sets, Eurostat noted that information reported is fully reconcilable with the Questionnaire table 8. Nevertheless, some differences in the F.4 assets held by the defeasance structures are observed when the data is compared with the data included in *The supplementary table on government interventions to support financial institutions*. The Portuguese statistical authorities explained that the differences are observed due to the fact that the EDP table 3 and Questionnaire table 8 follow the recording in financial accounts, where market value of loans held by the defeasance structures is reported, whereas in the Supplementary table nominal value of the loans is shown, including impairments, in accordance with Eurostat's guidelines. Eurostat noted that it would be more appropriate to show F.4 assets valued as in QFAGG, also from the user perspective. The Portuguese statistical authorities agreed to change this in the next EDP notification (April 2017).

Debt assumptions/cancellations and write-offs

Eurostat took note that the information on debt cancellations and debt assumptions is available for central government and regions. Municipalities' data are covered by a new reporting system that was recently developed by DGAL.

As regards the reporting in the EDP tables, Eurostat took note that separate lines for debt assumptions are reported under *Other adjustments* in EDP table 2A and 2C. The Portuguese statistical authorities confirmed that central government debt cancellations are included in the EDP table 2A line *Other adjustments/other*.

Eurostat asked to what and which entity refers the 93.5 million reported as debt write off in 2014. The Portuguese statistical authorities explained that this writeoff refers to claims of the Parvalorem defeasance structure. As these claims were not impacting the B.9 at the time of the creation of the defeasance structure, in national accounts it was recorded as D.9 at the time of write off, impacting the B.9 of Parvalorem (classified as OCGB in S.13112).

Findings and conclusions

- (22) Eurostat invited BdP to consider reporting in the *Supplementary table for reporting government interventions to support financial institutions*, the loans held by defeasance structures, applying the valuation used in the ESA table 27.

*Deadline: April 2017 EDP notification*²⁴.

²⁴ Implemented in the April 2017 EDP notification. AP is closed.

4.3.7. *UMTS and LTE*

The Portuguese statistical authorities confirmed that since 2012 there were no new UMTS/4G mobile phone licences sale.

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

No discussion. Eurostat took note of the information provided in the detailed table on government disposals of non-financial assets.

4.3.9. *Carbon trading rights*

Introduction

Prior to the EDP visit, the Portuguese statistical authorities provided a note and quantitative data on the recording of carbon emission allowances in Portuguese national accounts.

Discussion

The Portuguese statistical authorities explained that, contrary to the earlier situation, when emission allowances were allocated for free by the Portuguese Environment Agency (APA), starting from 2013, auctions are being used to allocate emission allowances. The entity responsible for auctions is *Fundo Português do Carbono* (classified inside S.13112).

Eurostat agreed that the formula used to calculate tax revenue (D.29) follows the principle established in the relevant MGDD chapter. The Portuguese statistical authorities explained that the number of permits surrendered includes also the ones that were given for free. This affects the formula and the results in recording of revenue much later as compared to when cash flows are observed. Eurostat noted that, in a way, this delay is caused by the “over issuance in the past” and this problem will diminish with time as less and less permits will be allocated for free. Eurostat also pointed out that another aspect to consider is whether there have been any permits exported or imported. Net exports should be monitored, as this factor might lead to overestimated tax revenue. The Portuguese statistical authorities agreed that there was some room for improvement as concerns data sources. The current main data source is APA.

Findings and conclusions

Eurostat took note of the situation.

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

EU flows

Introduction

The recording of EU flows in EDP tables and the Questionnaire related to the notification tables were reviewed under this point of the agenda.

Discussion

In Portugal, EU fund management is decentralized. A number of units, mostly classified inside the general government and as Autonomous Services and Funds and included in the “*other central government bodies*” in the EDP table 2A, are managing the different EU funds. Consequently, no EU flows related adjustment is reported in the adjustment lines of the EDP table 2A, and, instead, the neutralization is done at the level of OCGB.

The Portuguese statistical authorities explained that, as a general rule for the units that are simply managing EU programmes, all the EU flows are entering financial accounts of the units. No revenue was recognised and there was no impact on B.9.

Eurostat enquired about the nature of the ERDF programme managed by the *Agência para a Competitividade e Inovação, I.P* (IAPMEI). The Portuguese statistical authorities explained that similarly to the previous programming period (2007-2013), also in the new programming period (2014-2020) IAPMEI is responsible for providing support for SMEs (e.g. giving loans).

Looking into IAPMEI non-financial accounts, which showed a positive B.9 in 2015, Eurostat asked how the EU flows are neutralized. The Portuguese statistical authorities explained that in the case of IAPMEI, indeed, there could be a positive impact from the EU flows, especially as refers to the period 2007-2013, as the funds received and intended to be lend out are treated as revenue of IAPMEI.

Eurostat recalled that the recording of the EU financial instruments and the ensuring of the principle of neutrality is being discussed in the methodological Task Force, as well as in the EDP Statistics Working Group.

The Portuguese statistical authorities pointed out that, in their view, the Portuguese economy is having a positive impact from the EU funds as no funds are reimbursed back to the EU. They were questioning in which sector of the economy this impact is to be shown if it is neither recognised for the final beneficiary (when received, these amounts are recorded as loans obtained by the SMEs in their accounts), nor for the managing entity. Eurostat took note of the current recording and asked the Portuguese statistical authorities to provide further information, on whether the IAPMEI programme is different in nature from the Jessica/Jeremie programmes, and

on what exactly is foreseen for the current period 2014-2020. Eurostat explained that this information will be a useful input to the methodological discussions.

EU flows reporting in the Questionnaire table 6

Some issues of the reporting of EU flows data in the Questionnaire table 6 were clarified.

Eurostat asked why the figures for transactions in F.2 relating to EU (Questionnaire table 6 the line 27) were left empty. The Portuguese statistical authorities answered that, in principle, this figure could be available, as it is covered by the Balance of payments statistics. Eurostat noted that, from the descriptions of the EDP inventory, it seems that the data on advance payments from the EU should be also available, and thus reported in the Questionnaire table 6. Eurostat also noted that the stock data could be reported separately for the contributions to the EU budget (items 34 and 36 of the Questionnaire table 6). The Portuguese statistical authorities will look into this issue and, where appropriate, correct the Questionnaire table 6 in the next EDP notification.

Eurostat asked what exactly is reported under F.8 receivables/payables relating to EU. The Portuguese statistical authorities explained that this figure includes receivables/payables of the so called spending units, both classified in S.13 and outside general government, as well as receivables/payables of managing units. As regards the spending units, F.8 recorded in financial accounts represents the difference between the accrual expenditure/revenue as recorded by INE in the non-financial accounts and the cash balance of payments data. The stocks (AF.8) are calculated by adding the flows.

The Portuguese statistical authorities also explained that receivables/payables are reported on a net basis. Some government sub-sectors record EU related flows only as receivables, the others only as payables, so for the whole S.13 the F.8 is moving from assets to liabilities depending on the sign.

Findings and conclusions

- (23) INE will provide a note on the recording of EU funds in Portugal in relation to the IAPMEI, both for the previous and current programming period, as well as for the Jessica/Jeremy programmes.

Deadline: End January 2017²⁵.

- (24) Eurostat and INE will reflect on the appropriate way to record the amounts received by IAPMEI in the context of the new EU financial instruments.

Deadline: End of February 2017²⁶.

- (25) BdP will review the entries in the table 6 of the *Questionnaire relating to the*

²⁵ A Note was provided to Eurostat on 10/02/2017. AP is closed.

²⁶ A Note was provided to Eurostat on 10/02/2017.

EDP notification tables, on stocks and transactions for payables/receivables, as included in the EDP tables 3.

*Deadline: April 2017 EDP notification*²⁷.

4.4. Important issues for year 2016 relevant for the April 2017 EDP Notification

Introduction

A number of issues that might potentially impact the year 2016 figures were discussed under this point

Discussion

The Portuguese statistical authorities explained that one of the issues that might impact the 2016 EDP figures is the recapitalization of CGD²⁸, as at least one part of the foreseen recapitalization could take place in November-December 2016.

The Portuguese statistical authorities also recalled that the 2016 government net borrowing will improve due to the recording as government revenue of prepaid margins related to EFSF lending (amounting to 264 million EUR).²⁹

The Portuguese statistical authorities also informed Eurostat that the short term loans that were given to the Resolution Fund to finance BES and BANIF operations will be extended (it is under discussion). This means that there will be no need for additional contributions from the financial institutions and the loans will be repaid via the regular payments.

Findings and conclusions

Eurostat took note of the explanations.

²⁷ Questionnaire table 6 was updated in the April 2017 EDP notification. AP is closed.

²⁸ See part 4.3.1. *Government transactions in the context of the financial crisis*

²⁹ See part 4.2.3. *Interest*

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Draft Agenda

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

1.1.1. Institutional cooperation and EDP processes

1.1.2. Quality management framework

1.1.3. Audit and internal control arrangements

1.2. Data sources and revision policy

1.2.1. Changes in data sources and revision policy

1.2.2. Progress on the work reducing statistical discrepancies

2. Follow-up of the EDP dialogue visit of 10-11 November 2014

3. Follow-up of the October 2016 EDP reporting – analysis of EDP tables

4. Methodological issues and recording of specific government transactions

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

4.1.1. Practical implementation of the market/non-market test

4.1.2. Changes in sector classification since the last EDP visit

4.1.3. Questionnaire on government controlled entities classified outside the general government sector

4.2. Implementation of the accrual principle

4.2.1. Taxes and social contributions

4.2.2. DTAs

4.2.3. Interest

4.3. Recording of specific government transactions

4.3.1. Government transactions in the context of the financial crisis

Caixa Geral de Depósitos

Follow-up of previous government interventions

- 4.3.2. Capital injections in public corporations, dividends, privatization
- 4.3.3. Public Private Partnerships and concessions
- 4.3.4. Financial derivatives
- 4.3.5. Guarantees
- 4.3.6. Debt assumptions, debt cancellations and debt write-offs
- 4.3.7. UMTS and LTE
- 4.3.8. Disposals of non-financial assets by general government. Sale and leaseback operations
- 4.3.9. Carbon trading rights
- 4.3.10. Others: EU flows, military expenditure, securitisation, and pension issues

4.4. Important issues for year 2016 relevant for the April 2017 EDP Notification

5. Other issues

- 5.1. ESA2010 Transmission Programme relating to the GFS tables
- 5.2. Any other business