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- FINAL FINDINGS -

EDP dialogue visit to Spain

27-29 November 2019

Executive summary

Eurostat undertook an EDP dialogue visit to Spain on 27-29 November 2019, as part of its regular visits to Member States and with the aim to assess the existing statistical capacity, to review the implementation of ESA 2010 methodology, to review the recording of specific government transactions, and to assure that provisions from the ESA 2010 Manual on Government deficit and debt are duly implemented in the Spanish EDP tables and national accounts.

First, the follow-up of the action points of the previous EDP dialogue visit were reviewed, and Eurostat took note that all action points have been implemented. The follow-up of some APs were further discussed under the relevant items of the agenda.

As regards the data sources, Eurostat said that the coverage seemed to be very good in Spain, but recommended to explore also alternative data sources, such as balance sheets.

Then, the implementation of the new MGDD, published in August 2019, was discussed in more detail. Most of the new MGDD chapters had no impact on government deficit and debt or were not relevant in Spain. For example, it was decided to reclassify the CCS (*Consortio de Compensación de Seguros*) in the general government sector due to the lack of autonomy of decision, in line with the new MGDD chapter - Concept of an institutional unit. The impact on government deficit is expected to be negligible and the government debt will be reduced due to the consolidation effect.

As regards the delimitation of general government, a detailed discussion took place on the application of the market / non-market test. In addition, the list of government-controlled units, classified outside government sector, was reviewed. The sector classification of ADIF-AV was discussed in more detail; in particular, whether the purchase of electricity power and the sale of traction energy should be included in the market / non-market test. Further follow-up is expected from the Spanish statistical authorities on this issue.

The discussion continued on the recording of taxes and social contributions and in particular on the new method - time adjustment cash (TAC), implemented in the October 2019 EDP notification in the context of the benchmarking revision. Eurostat acknowledged that the new method seemed to be reliable, as all the necessary information per tax on a monthly basis is available. However, Eurostat also strongly encouraged the Spanish statistical authorities to closely follow-up on any changes in the law, which might impact the time of payment of taxes. In addition, the regulatory tax change in 2019 and its possible impact on government deficit was discussed.

Next, the application of accrual principle was examined, in particular as regards interest, EU flows, military equipment expenditure, Court decisions and Gross fixed capital formation. Eurostat took note of the data source used and asked for some further clarifications, which are not expected to have impact on government deficit and debt. As regards the Court decisions, Eurostat invited the Spanish statistical authorities to promptly provide information to Eurostat on the situation related to the existing Court cases, which might impact, for sizeable amounts, government expenditure or revenue.

Afterward, the government operations relating to financial turmoil were discussed along with the accounting consequences for government. The discussion was mainly focused on the sector classification of SAREB (*Sociedad de activos de Reestructuración*) in line with the new ESA 2010. Eurostat said that almost all defeasance structures in other Member States have been already re-classified in the general government sector. In light of the discussions held during the meeting, Eurostat asked the Spanish statistical authorities to reflect on the sector classification of SAREB by end-2020.

Concerning the Public Private Partnerships (PPP), the discussion was mainly focused on the new feature of the LCSP (*Contratos del Sector Público*) on the duration of the contract and of its possible impact on sector classification of PPPs. In particular, the discussion concentrated on the PPP contract, for which the Spanish statistical authorities asked for an ex-ante advice on the appropriate interpretation of a number of provisions.

Afterwards, the discussion focused on the liquidation process of eight concessionaires of the toll motorways. The State had the responsibility for the RPA, i.e. government has to take over the assets at the current value and not their debt. Eurostat and the Spanish statistical authorities agreed to impute, in the context of the April 2019 EDP notification, 1.8 billion euro in 2018, with impact on government deficit and debt (based on the best possible estimation at that time). The Spanish statistical authorities presented the update of the recent developments.

Concerning the Energy performance contracts (EPCs), the Spanish statistical authorities analysed the contracts in line with the Guide on statistical treatment on EPC and presented the results to Eurostat.

In addition, some other issues were discussed, such as capital injections, guarantees, debt assumptions, debt cancellations and debt write-offs, emission trading permits and decommissioning. The recordings applied are mainly in line with the Eurostat rules. Eurostat took note that the current cash recording for local government for EU funds is not fully in line with Eurostat rules, but that the possible impact on government accounts is negligible.

As regards financial derivatives, Eurostat took note that only currency swaps are used and asked some issues to be clarified.

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

Final findings

Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty on the Functioning of the EU, Eurostat carried out an EDP dialogue visit to Spain on 27-29 November 2019.

The delegation of Eurostat was headed by Mr Luca Ascoli, Director of directorate D (Government finance statistics - GFS). Eurostat was also represented by Ms Rasa Jurkoniene, Mr Philippe de Rougemont, Mr Martim Assunção and Ms Simona Frank. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. Spain was represented by the National Statistical Institute, the National Central Bank, the Ministry of Finance (IGAE) and the Ministry of Economy.

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA 2010 methodology, to assure that rules of the latest ESA 2010 Eurostat Manual on Government Deficit and Debt are complied with and to make sure that Eurostat decisions are duly implemented in the Spanish EDP and Government Finance Statistics (GFS) data.

The main aims of the dialogue visit were: to review the implementation of ESA 2010 methodology, such as the sectorization of units and the application of accrual principle (namely for taxes, EU flows and gross fixed capital formation) as well as to review the recording of specific government transactions, including Public-Private Partnership (PPPs) and concessions. For the latter, to follow-up on the liquidation process of eight concessionaires of toll motorways.

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

Eurostat appreciated the documentation provided by the Spanish statistical authorities prior the EDP dialogue visit. Eurostat also thanked the Spanish statistical authorities for their co-operation during the visit and considered that the discussions were transparent and constructive.

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

Introduction

The Spanish statistical authorities confirmed that the institutional responsibilities in the framework of reporting data under the EDP have not been changed since the last EDP dialogue visit.

The National Statistical Institute (*Instituto Nacional de Estadística – INE*) is the autonomous body responsible for the compilation of national accounts, which includes the non-financial accounts of the general government. Regarding the EDP notifications, INE compiles data for Gross domestic product (GDP) in EDP table 1 and the Gross National Income (GNI) in EDP table 4. INE transmits EDP notification tables to Eurostat.

The Bank of Spain (*Banco de España – BdE*) has the responsibility for financial accounts and for the compilation of data related to government debt. Regarding EDP notifications, BdE compiles the general government debt data EDP table 1 and it is responsible for the compilation of EDP tables 3 and 4, except Gross national income (GNI).

The Audit Office of the Ministry of Finance (*Intervención General de la Administración del Estado – IGAE*) is the management centre for public accounting and is responsible for the compilation of the non-financial accounts of general government, in accordance with article 125 of the General Budget Law 47 of 2003. Regarding EDP notifications, IGAE compiles data on general government deficit / surplus data and on interest in EDP table 1 and is responsible for the compilation of EDP tables 2.

Discussion and methodological analysis

Firstly, the Spanish statistical authorities explained that IGAE is recognised as a compiler of government non-financial accounts in the statistical law and is therefore covered by statistical confidentiality. In fact, IGAE has two main roles:

- Responsibility over the methodology of public accounts;
- Management of the accounting of the State's public accounts.

The Organic Law 6/2013, among others, formally recognized the national *Working group of national accounting*, composed by INE, IGAE and BdE, under the name *Technical committee of national accounts (Comité Técnico de Cuentas Nacionales)*, hereafter called the *Technical Committee*. It recognized the three institutions as competent bodies to compile national accounts of the general government and public corporations, maintaining full professional independence and functional autonomy in the exercise of their respective responsibilities and powers, conferred on the European and national regulation. In the exercise of their duties, they may conduct actions directly aimed at the verification and checking of the information provided by institutional units belonging to the state and local governments.

The Spanish statistical authorities explained that the Rules of procedure, regulating the Technical Committee, have not been adopted yet. The main reason is the pending opinion of

the legal service of the Ministry of Justice on the nature of the Committee and its functions, due to possible overlap with the existing legislation. However, the Technical Committee continues to work under the Administrative Procedure Acts (Acts 39/2015 and 40/2015) which determines the functioning of collegiate organs of government, including the Technical Committee.

The Spanish statistical authorities further explained that the minutes of the Technical Committee were available and would become public when the Rules of procedures of the Committee were adopted. In addition, the reports of the Technical Committee are regularly forwarded to the Fiscal Council (*Autoridad Independiente de Responsabilidad Fiscal*).

Findings and conclusions

Action point 1: As regards the implementation of the provisions of Organic Law 6/2013, the Spanish statistical authorities agreed to provide the Rules of Procedures, by which the Technical Committee will be regulated.

Deadline: as soon as the document is adopted

1.2 Data sources and revision policy, EDP inventory

Introduction

Under this item of the agenda, Eurostat enquired about data sources, calculation of Other accounts receivable / payable, revision policy and the current version of the ESA 2010 EDP inventory.

Discussion and methodological analysis

Data sources

Regarding data sources, the Spanish statistical authorities confirmed that there have been no changes since the last EDP dialogue visit.

The main data source used for the non-financial accounts is the budget. Eurostat questioned why balance sheets are not used as a data source. The Spanish statistical authorities explained that individual ministries are not considered legal units and therefore no separate balance sheets exist for them. Only the State (in S.1311) as a whole is considered as the legal unit, for which financial accounts and balance sheet is available, while the ministries have available only budgets. Hence, it was decided that, the main data source used was the execution of the budget, which is, in fact, considered the best data source. Public financial accounts are available on a yearly basis for the State.

Other government bodies with legal personality have available balance sheets and income statements, on a monthly basis.

The budget is available on a cash and on an accrual basis for expenditure and revenue. For example, transfers (mainly subsidies) are recorded at the time when creditors have the right to

be paid. In the case of pre-payments, expenditure is recorded in the budget (and in the Working balance – WB of the EDP table 2A) at the time when the obligation of government is established, according to the agreement (e.g. contract). The difference between cash and accruals is recorded as *Other accounts receivable / payable* (F.8).

The general account of the State (*Cuenta general del Estado*) is prepared on an annual basis by IGAE and includes information on balance sheet and income statement for the whole scope of public units on a consolidated basis, regardless their sector classification. In addition, public market producers classified in S.11 are part of the general account of the State. It is based on IPSAS.

For example, INE is not included in the WB, as it has a legal personality, and is therefore included under the line *Other central government bodies* in the EDP table 2A. As it has a legal personality, INE has its own balance sheet and financial accounts. The WB includes only government bodies (mainly ministries) without own legal personality.

The annual non-financial accounts are compiled based on the profit and loss accounts of units, which are consistent with budgetary data. In addition, extra-budgetary account 413 is used as a complementary information. As already discussed in previous EDP visits, the account 413 is an extra-budgetary account used to register the expenditure made, which have neither been paid nor included in the budget at the end of the year t. It consist of the following expenditure:

- not imputed in the budget of year t;
- which regards to an expenditure already accrued because in year t the service was rendered, the good was delivered or whatever cause that make a expenditure be accrued;
- impact B.9 of year t.

Moreover, data are also collected on a monthly basis, except for the local government (available on a quarterly basis). The main data source used is the execution of the budget for the units belonging to the core government, while a special template is used for public entities classified outside the core government. This template is designed with the main aim to collect the necessary data, based on income statements and balance sheets. The Spanish statistical authorities agreed to provide this template to Eurostat.

In addition, profit and loss accounts data are used for some other information, such as compensations of employees and intermediate consumption.

Eurostat further enquired on the recording of provisions in public accounts. IGAE explained the three possible cases as follows:

- If the likelihood to be paid is lower than 50 %, it is recorded as a contingent liability;
- If the likelihood to be paid is higher than 50 %, it is recorded as a provision;
- If the likelihood to be paid is 100 %, it is recorded as a liability.

Expenditure is imputed in public accounts only in the cases of the provision and liability, while in the case of contingent liability no expenditure is recorded.

Additionally, IGAE clarified that invoice approach is used in public accounts (budget). However, there are some exceptions, such as for military equipment, when expenditure is recorded at the time of delivery of goods.

IGAE emphasised that, in principle, three data sources are used: budget, extra-budgetary account 413 and liability account.

Eurostat concluded that the coverage of data sources situation seemed to be appropriate in Spain, but recommended to explore also balance sheets as a possible data source.

Next, the time of recording of bonuses paid by government to civil servants for their extra hours worked was discussed in more detail. The Spanish statistical authorities confirmed that expenditure would be recorded, either in 2019 or in 2020, depending on the exact moment when the decision would be taken and the amount reliably determined. Eurostat agreed with this recording.

Revision policy

The Spanish statistical authorities explained that there have been no changes in the revision policy. The basic information of April notifications (year t) is revised and complemented with half-finalised data in October notifications. For the completion of the finalised accounts (year t-1), information is improved with flows of other sub-sectors, additional information supplied by various reporting departments and from annual accounts of foundations and public corporations (October t+1 notification).

The revisions of non-financial accounts are consistent with the revision of financial accounts. The revision cycle refers to the last three years.

Other accounts receivable / payable (F.8)

Prior to the visit, the Bank of Spain (BdE) provided a note on the calculation of F.8, which was discussed during the meeting. In the last years, the BdE and the IGAE worked together on clarifying and improving the categories of the general government financial accounts, in particular the transactions related to *Other accounts receivable and payable* and *Trade credits* (F.8). The main data source used for the calculation of F.8 is the budget. As a first step, F.8 is calculated as the difference between budget accounting (on an accrual basis) and cash data. In addition, some adjustments are made in order to achieve proper accrual figures. This requires close cooperation between IGAE and BdE.

Eurostat asked why the balance sheet data are not used for the calculation of F.8. It was explained that the balance sheet is actually used for trade credits, but not for the total F.8, as it is not available for all sub-sectors. Moreover, the Spanish statistical authorities considered that the budget is a better source data, as more details are available in the budget than in the balance sheet. The stock of F.8 is calculated as the accumulation of flows.

Eurostat acknowledged the arguments pointed by the Spanish statistical authorities and agreed that the method used seemed to be correct. However, on the other hand, it is rather difficult to justify why the balance sheet is not used at all, despite its availability. On this

basis, Eurostat asked the Spanish statistical authorities to perform an exercise, by comparing the stock of F.8 (net) position from the balance sheet of the public financial accounts with the BdE calculation of F.8 for certain grouping of units (core central government and other central government entities).

Once again, the BdE commented to be confident with the current method used and that this exercise would require a significant amount of work. Eurostat underlined that the main reason for this comparison was to verify that the accumulation of flows is coherent with the stock of F.8, as reported in the balance sheet. The BdE clarified that this has not been done, as the coverage of units is not the same in the two data sources and, in addition, the public financial accounts are not consolidated. However, this kind of verification is made for *Trade credits*, in particular, in the cases of re-classifications of F.8 to Loans (F.4), in order to ensure that the impact on government debt is correct.

Next, Eurostat enquired to which data source is given priority in the case of F.8 on interest (D.41) and, in particular, whether this would impact government deficit (B.9). The BdE explained that the priority was given to the State. As the amounts are consolidated, this has no impact on B.9.

Eurostat also asked why in the case of Deposits (F.2), the priority is given to the data from the BdE and not from IGAE (budget). The Spanish statistical authorities explained that it is considered that the BdE is a better data source for F.2. Again, Eurostat questioned why the balance sheet of IGAE is not exploited for F.2. The BdE explained that their database has more information available than the budget. For example, it includes also the so-called *Cuenta de recaudacion*. Payments of taxes, which are not yet due to be paid, are put at the disposal of the Treasury by financial institutions (as deposits of government in these financial institutions). In the financial accounts, these amounts are shown as if they would belong to government (i.e. *Cuenta de recaudacion*) with the counterpart in tax revenue. While in the accounts of IGAE (budget), these amounts are considered as F.8, the BdE records them as F.2 (assets side); because it is considered that, the economic owner of these amounts is government. Most of these deposits are mainly related to public units, classified in the government sector (S.13), but not exclusively. The information on the counterpart is available, i.e. which entities placed money in these accounts.

Eurostat disagreed with this recording and said that this kind of cash pooling was observed and discussed with other Member States, and it was recorded as a liability of government (F.2). Eurostat's opinion is that these deposits are assets of the entity, which gives cash to government and a liability of government. The BdE argued that it was an agreement between the government, and the unit concerned and the government can use this cash. However, there was actually no cash movement.

Eurostat took note that the amounts concerned are most probably not significant as most units involved are classified in S.13 and asked the Spanish statistical authorities to provide a note on this issue, including information on the amounts, which are put at the disposal of the Treasury by the units classified outside S.13. The Spanish statistical authorities agreed to reflect on whether the amounts, which are the object of the cash pooling system, should not be considered as deposit liabilities (or possibly loans) for the Treasury.

Lastly, it was agreed that Eurostat would send additional questions on the note on F.8, by e-mail. The Spanish statistical authorities would clarify a number of details on an ad-hoc table provided by BdE, which link the flow of payables and receivables observed in public financial accounts / budget with ESA flows.

Maastricht debt

Eurostat enquired about the data sources used for the compilation of Maastricht debt. The Spanish statistical authorities explained that the main data source used is the Bank of Spain's database and the database on bonds. Eurostat observed that this part should be adjusted, in the EDP inventory. Once again, Eurostat stressed that the balance sheet data is not used at all, not even for crosschecking data with other data sources. In order to assure coherent data, Eurostat asked the Spanish statistical authorities to conduct a comparison between the information reported in the balance sheet of public financial accounts and the current source data used for Securities (F.3) and Loans (F.4) liabilities and F.3 asset, for the last 4 years, by sub-sectors or other grouping of units.

EDP inventory

Finally, the discussion focused on the EDP inventory. The current ESA 2010 EDP inventory is published on the website of Eurostat as well as nationally on the website of IGAE. The Spanish statistical authorities informed Eurostat that they already started working on the update of the EDP inventory in line with the new 2019 MGDD. Eurostat said that the new template would be provided to all Member States by end-February 2020.

Findings and conclusions

Action point 2: The Spanish statistical authorities agreed to send to Eurostat the monthly template of the information requested to public entities outside the core government.

Deadline: end-January 2020¹

Action point 3: The bonus paid by government to civil servants for their extra hours worked will be recorded, either in 2019 or in 2020, depending on the exact moment when the decision will be taken and the amount is reliably determined.

Deadline: when applicable²

Action point 4: The EDP inventory will be updated, taking into account the changes implemented following the new 2019 MGDD edition, using the new Eurostat template.

Deadline: end-September 2020

Action point 5: The Spanish statistical authorities will do an exercise, comparing the stock of F.8 (net) position from the balance sheet of the public financial accounts with the Bank of Spain calculation for certain grouping of units (core central government and other central government entities). Net comparison would take into account that public financial accounts are not consolidated.

¹ The template was provided on 15 March 2020.

² The bonuses are recorded in 2019.

Deadline: end-December 2020

Action point 6: The Spanish statistical authorities will send to Eurostat a note on the issue of the cash pooling system, including information on the amounts, which are put at the disposal of the Treasury by the units classified outside S.13. The Spanish statistical authorities will also reflect on whether the amounts, which are the object of the cash pooling system, should not be considered as deposit liabilities (or possibly loans) for the treasury.

Deadline: end-February 2020³

Action point 7: The Spanish statistical authorities will clarify a number of details on an ad-hoc table provided by Bank of Spain, which link the flow of payables and receivables observed in public financial accounts / budget with ESA flows. Eurostat will send questions.

Deadline: end- June 2020 (Eurostat questions will be provided by end-February 2020)⁴

Action point 8: More generally, the Spanish statistical authorities will conduct a comparison between the information reported in the balance sheet of public financial accounts and the current source data used for F.3 and F.4 liabilities and F.3 asset, for the last 4 years, by sub-sectors or other grouping of units.

Deadline: end- December 2020

2. Follow-up of the EDP dialogue visit of 27-28 November 2017 and Ad-hoc visit of 16 November 2018

Introduction

All action points (APs), from the 2017 EDP dialogue visit and 2018 ad-hoc visit, have been implemented by the Spanish statistical authorities. The follow-up of some APs were further discussed under the relevant items of the agenda.

Discussion and methodological analysis

Regarding the Action point 1⁵, the Spanish statistical authorities explained that the Rules of procedures have not been adopted yet (see item 1.1 and Action point 1).

Findings and conclusions

Eurostat took note that all APs have been implemented. The outstanding action point one from the 2017 visit remains as an AP one.

3. Actual data October 2019 EDP reporting – analysis of EDP tables

³ The note was provided on 15 March 2020.

⁴ This AP was agreed to be postponed by end-October 2020.

⁵ AP 1 - As regards the implementation of the provisions of the Organic Law 6/2013 of 14 November 2013 creating the Independent Authority for Fiscal Responsibility, the Spanish statistical authorities agreed to provide the Rules of Procedures to Eurostat as soon as the three institutions involved in the committee adopt them.

Introduction

Eurostat thanked the Spanish statistical authorities for their timely and accurate transmission of EDP tables and the related questionnaires. The main issue discussed under this point was related to the consolidation of the *Issuance above / below nominal value* in the social security funds sub-sector (S.1314) in the EDP tables 3.

Discussion and methodological analysis

The Bank of Spain (BdE) explained that premiums and discounts, related to the government securities holdings by sector S13.14, are included in the consolidation amounts in the EDP table 3A under the line *Issuance above / below nominal value*. Eurostat recalled the principle that consolidation under issuance above / below nominal value should be shown in case the securities are purchased on the primary market, whereas when they are purchased on the secondary market (which is most common approach), the consolidation should be done under line *Redemptions / repurchases above / below nominal value*. Eurostat asked the BdE to split the consolidating amounts of premiums/discounts on government securities (issued in the year, reported in EDP notification) bought by S.1314. These amounts should enter net acquisition of financial assets in the EDP table 3E, while in the EDP table 3A these amounts should be consolidated under the line *Redemptions / repurchases above / below nominal value* or in the line *Issuance above / below nominal value*.

The BdE explained that they could not distinguish between transactions on the primary and secondary market and consequently the whole amount was included under the line *Issuance above / below nominal value*. In any case, there was no impact on government debt.

Eurostat further enquired about the large consolidation amounts under *Issuance above / below nominal value* in 2015 and 2016. The BdE explained that it was related to the huge disposals of government securities by S.1314 in 2015 and 2016.

Findings and conclusions

Eurostat took note of the explanations and agreed to reflect on the issues raised by the Spanish statistical authorities.

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. Implementation of the new MGDD⁶ (2019 edition)

Introduction

The updated MGDD was published in August 2019. Eurostat explained the implementation aspects of the new MGDD. Some flexibility is allowed, if the expected impact on government deficit or debt is negligible.

The implementation of the new MGDD was discussed under this item of the agenda, unless discussed under other relevant points of the agenda. Prior to the meeting, the Spanish statistical authorities provided a note the implementation of the new MGDD and on the possible impact on government deficit and debt.

Discussion and methodological analysis

The Spanish statistical authorities explained that most of the new MGDD chapters had no impact on government deficit and debt or were not relevant in Spain. The implementation of the new MGDD chapter 1.2.2 – *Concept of an institutional unit* was discussed under the point 4.1.4 and the new chapter 2.6.3 – *Accounting treatment of so-called EU financial instruments* was discussed under the point 4.2.3.

Regarding the chapter 2.4.3.20 – *Interest accrued on intergovernmental loans unlikely to be repaid*, it was explained that in the cases of intergovernmental loans, the interest is recorded on a cash basis in public accounts. Eurostat agreed that this recording could be acceptable and asked the Spanish statistical authorities to closely monitor these loans, in particular for any cases of sudden accumulated interest. Eurostat took note that the amounts concerned were very small.

As regards the chapter 4.7 – *Income contingent loans*, the Spanish statistical authorities explained that the new rules have not been implemented yet. This kind of loans was granted to students, only in 2007, for a non-significant amount of 50 million euro. These loans are still recorded as loans (F.4). The Spanish statistical authorities agreed to provide additional information on these small amounts of income contingent loans, and record them according to the 2019 MGDD rules in the April 2020 EDP notification.

Eurostat further enquired whether the revised chapter 1.2.4.5 – *Rearranged transactions* would require that some transactions would be re-routed via government account (with an impact on government deficit and debt), in particular in the case of the public corporation ICO. The Spanish statistical authorities explained that up to now, no such cases have been identified.

⁶ Manual on government deficit and debt

As regards the chapter 8.2.2.3 – *Accrued interest*, the Spanish statistical authorities confirmed that no impact on government deficit is expected and that narrow index was never used (in the case of index-linked bonds).

Findings and conclusions

Eurostat took note of the explanations and asked the Spanish statistical authorities to report on any changes.

Action point 11: The Spanish statistical authorities will provide information on the small amounts of income contingent loans granted to students in 2007 and record them according to the 2019 MGDD rules.

*Deadline: mid-February 2020*⁷

4.1.2. Application of the market / non-market test, qualitative and quantitative criteria

Introduction

The market / non-market test (so called 50 % test) is generally implemented on a unit-by-unit basis every 5 years. However, for companies with liabilities higher than 0.01 % of GDP and units close to the threshold of 50 %, the market / non-market test is implemented on a yearly basis. If a public unit has no activity, it is automatically classified inside the general government sector (S.13).

According to ESA 20.25 and 20.27 paragraphs, if more than 50% of the sales of the public unit are provided to the general government without a competition procedure with private corporations, the public producer is classified in S.13 due to qualitative criteria. If it is not the case (sales to general government without competition with private corporations less than 50% of the total sales of the public unit), the whole output of the public unit is included in ratio's numerator as sales and the quantitative criteria is then analysed.

The production costs considered in the 50 % test are the sum of intermediate consumption, compensation of employees, fixed capital consumption, other taxes on production plus costs of capital (ESA2010 §3.33.c). The costs of capital are approximated by the net actual interest payments of the unit. When this value is negative, zero is applied.

Discussion and methodological analysis

Firstly, Eurostat enquired about the general application of the market / non-market test. The Spanish statistical authorities explained that the test is done for all units on a yearly basis, while every 5-years a more in depth analysis is being conducted. Eurostat asked the Spanish statistical authorities to revise this part of the EDP inventory accordingly in the next update in September 2020 (see Action point 4).

⁷ The information was provided on 15 March 2020.

Then, Eurostat asked if any unit has been re-classified in S.13, based only on the qualitative criteria. Recently, in 2018, the public unit *Fábrica Nacional de Moneda y Timbre*, ISDEFE and the *Diario de la Generalitat de Cataluña* were reclassified in S.13 as sales to S.13 accounts for more than 50% of its output.

As regards the practical implementation of the 50 % test, the Spanish statistical authorities explained that the final audited accounts and the accompanying notes are used. A database containing financial accounts of all public units is used for this purpose. They agreed to provide to Eurostat the chart of accounts used for the compilation purposes of the 50 % test and super-dividend test, as well as the formula for the calculation of the 50 % test.

Next, Eurostat enquired about the calculation of the 50 % test in specific industries, such as for real estate activity – *promoter activity*. The Spanish statistical authorities explained that those units, whose activity is the *promoting of buildings*, constructed buildings in the past (in 2006-2007), but that they could not sell them at that time, due to the crisis. Then, these units recorded impairments in their stocks (inventories), giving to losses in those periods. Once the stocks have been sold later, a difficulty arises in computing the ratio sales/cost of production. One possibility (which have been followed) for the valuation of the stocks sold is taking their purchase Price. In this way the margin of the stocks sold have been obtained by subtracting the variation of stocks sold (at purchase prices) to the sales figure.

Another possibility (not used) is taking the impaired value for the valuation of the stocks sold. As this magnitude is fewer than the purchase cost, the margin in sales is higher than in the other case. Eurostat said that in this case, the margin already accrued in the past and it would be more correct to record it as a holding gain/loss. The margin can be used only when additional investment is being undertaken, but in the case described above, there was no construction, only impairment of assets. As the definition of output – P.1 is under the responsibility of the unit within Eurostat - *National accounts methodology; Standards and indicators* (C.1), Eurostat recommended this issue to be consulted with them.

In the case of *Consortio Variante Ferroviaria de Burgos*, unit which is currently classified in S.1313 as a non market public producer, its activity is the promotion of soil for dwelling and industrial purposes. As its inventories are impaired since the years of the financial crisis, currently the unit manages to obtain some profit in their sales, although the market price obtained in its sales is pretty lower than the purchase cost of its inventories.

Both Eurostat and the Spanish statistical authorities agreed to reflect on the appropriate calculation of the 50 % test in the case of units with promoter activity.

Furthermore, the Spanish statistical authorities explained that they did not report any *Changes in inventories* for the whole economy and all buildings were recorded as fixed assets and, for consistency, the recording is similar in those sectors with available information. They do not have information, which would allowed them to report it separately. Eurostat said that Spain is one of those Member States with such a practice.

Then, Eurostat enquired about social housing in Spain. The Spanish statistical authorities explained that the market for social housing is very limited.

Eurostat enquired about government involvement in renting of social housing and explained that across Europe, two models of government involvement were observed, as follows:

- government subsidies are given to companies;
- government subsidies are given directly to tenants.

The Spanish statistical authorities confirmed that in a case when a subsidy is given to public units involved in social housing, it is not considered as a sale in the 50 % test. However, in a case when a subsidy is given directly to tenants, an ad hoc adjustment is made to exclude these subsidies from sales, but only if information is available. Therefore, such subsidies are usually excluded from the 50 % test, whenever they are aware of it (for example when the unit consult them or such information is included in the notes of the unit's accounts). As an example the case of a public unit in Canary Island was given. Nonetheless, as the social housing is very small in Spain, the amounts involved are negligible.

Finally, the Spanish statistical authorities agreed to investigate cases where government subsidize rents of tenants in the context of social housing, to see whether this subsidy amount is included in the 50 % test.

Findings and conclusions

Action point 10: The Spanish statistical authorities will provide to Eurostat the chart of accounts applicable for business accounting as well as for public financial accounts, which is used for the compilation purposes of the 50 % test and super-dividend test. The Spanish statistical authorities will also provide the formula for the calculation of the 50 % test.

Deadline: end-April 2020

Action point 12: The Spanish statistical authorities will investigate cases where the government subsidize the rent of tenants in the context of social housing, to see whether this subsidy amount is de facto included in the 50 % test. Eurostat took note that, when such cases are known (e.g. Canary Islands), transfers to tenants to support the rent are normally excluded from the 50 % test, when earmarked to the rent of the public real estate companies.

Deadline: end-February 2020⁸

Action point 13: The Spanish statistical authorities and Eurostat will reflect on the appropriate calculation of the 50 % test in the case of units with promoter activity.

Deadline: end-February 2020⁹

4.1.3. Changes in sector classification since the November 2017 EDP visit

⁸ This AP was agreed to be postponed and implemented by the October 2020 EDP notification. The impact is expected to be negligible.

⁹ This AP was agreed to be postponed and implemented by the October 2020 EDP notification. The impact is expected to be negligible.

Introduction

The application of the sector classification rules was discussed under this point of the agenda, based on the EDP inventory chapter Sector classification of units. The competent body responsible for the classification of public units is the Technical committee of national accounts, composed of IGAE, INE and the BdE.

Prior to the meeting, the Spanish statistical authorities provided to Eurostat a list of units classified in the general government sector, by sub-sectors, which was discussed during the meeting.

Discussion and methodological analysis

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

The participants reviewed the main changes in the list of units classified in the general government sector since the last EDP dialogue visit in 2017. Most of the units have been re-classified in the general government sector (S.13), as they did not comply with the 50 % test. Eurostat enquired about those units removed from the general government sector. The Spanish statistical authorities explained that the main reason was that some units ceased to exist or that they were merged with other public units. In addition, some units in liquidation have been re-classified in S.13. The Spanish statistical authorities explained that the MGDD rules are followed and units in liquidation are re-classified in S.13 in the first year of non-compliance with the 50 % test.

When the main purpose of a public unit is the redistribution of national income and wealth, the entity is included directly in S.13, and there is no need undertake the 50 % test. Likewise, when a public unit acts as an instrument of the authority that controls it, carrying out actions in the name and on behalf of the latter or providing ancillary services, it is classified in S.13. Eurostat acknowledged that this was good practice.

Findings and conclusions

Eurostat took note on these explanations.

4.1.4. Government controlled entities classified outside the general government (public corporations)

Introduction

The Spanish statistical authorities provided, prior to the meeting, an updated Questionnaire on government-controlled entities classified outside general government, which was discussed under this point of the agenda.

Discussion and methodological analysis

Eurostat thanked the Spanish statistical authorities for providing the updated version of Questionnaire, including the 2018 data (except for liabilities – Maastricht debt, data referred to 2017). The method of identification and classification of public units had not changed since the last EDP dialogue visit. The process of classification of public corporations controlled by government was explained in detail in the EDP inventory.

Eurostat, together with the Spanish statistical authorities, reviewed the list of government-controlled entities and discussed some specific cases.

Firstly, Eurostat noted that the market / non-market test for some units was just above 50 % for the last three years and asked the Spanish statistical authorities to closely monitor these units. In particular, Eurostat asked about the unit *Canal de Isabel II*. The Spanish statistical authorities explained that this is a parent company and that its subsidiary is also classified in the Non-financial corporation sector (S.11). The main source of financing of the parent company comes from dividends. Eurostat noticed that if the parent company is dedicated only to its daughter, then the accounts of both units should have been consolidated. However, both units would still remain classified in S.11. The Spanish statistical authorities agreed to examine the classification of the parent company *Canal Isabel II*, in particular whether it is an ancillary unit of its subsidiary and therefore to be consolidated with the parent unit. More generally, Eurostat proposed to flag in the Questionnaire on government-controlled units classified outside general government all the legal units that in fact constitute a unique institutional unit.

Then, Eurostat noted that many foundations controlled by government are classified in the Non-financial corporation sector (S.11) and enquired about the main source of financing of these units. The Spanish statistical authorities agreed to provide a note on the sector classification of foundations, including some examples of units reported in the Questionnaire.

Public transport companies

All regional railways operators are classified in general government (S.13). This is also the case for the infrastructure manager for conventional infrastructure (ADIF), while the high-speed infrastructure manager *ADIF Alta Velocidad (AV)* and *RENFE Operadora* (passenger and freight transport operator) remained classified in S.11.

As regards Renfe Operadora, the Spanish statistical authorities explained that it consist of three units: the parent company (Renfe Operadora), Renfe viajeros (passengers) and Renfe Mercancias (freight). While the data in the Questionnaire is presented on a consolidated basis, it was confirmed that the 50 % test is done separately for all three units. Eurostat took note of these explanations and asked the Spanish statistical authorities to report, in the Questionnaire, the individual entities belonging to Renfe Operadora by entity, along with the consolidated information provided as a memorandum item.

Regarding ADIF AV, the Spanish statistical authorities explained that its sector classification is mainly based on the market / non-market test. The charges for the use of the rail

infrastructure are set as a result of negotiations. In case of no agreement, the final decision is taken by the infrastructure operator (i.e. ADIF AV). The amounts that the railways operators (currently there is only one in Spain) pay to the infrastructure manager are defined in a legal government act. The Spanish statistical authorities stressed that the EU Directive itself defines that fees are to be set by railway infrastructure operators.

Eurostat said that, in fact, government decides on the infrastructure, and this should have been taken into account as a qualitative criteria.

The Spanish statistical authorities explained that ADIF has just released its 10-year network statement for the “network of general interest” (RFIG), which proposes liberalization of three high-speed packages in 2020. In line with this statement, also foreign companies could compete with Renfe Operadora on the high-speed train service in Spain. This decision was taken by the ADIF’s board. The competition would not be open to all high-speed lines. Eurostat took note of this update.

Then, Eurostat further enquired about the calculation of the 50 % test for ADIF-AV and, in particular on why the purchase of electricity power and the sale of traction energy is included in the 50 % test. Eurostat took note that the traction energy is included on both sides of the test, i.e. as a cost and as a sale. Nevertheless, the exclusion of this item on both sides would still impact the results of the 50 % test and, at first sight, it looks like that the test would fall below the 50 %. Eurostat underlined that, in line with the MGDD and ESA 20.30 and 20.31, the output produced for the own use of an entity should be excluded from the 50 % test, from costs and sale. Therefore, Eurostat asked the Spanish statistical authorities to clarify if ADIF-AV has the nature of a producer or of a trader in this activity, in the light of the legal mechanism in place as well as of the effective production of electricity.

Furthermore, Eurostat took note that Spain makes corrections to the depreciation amounts from the business accounts, by using a coefficient in national accounts. Eurostat acknowledged that the coefficient used seemed to be one of the highest among Member States (MS). On the other hand, most infrastructure operators are already classified in S.13 in other MS.

Eurostat further enquired on the recording of investment grants in the business accounts. The Spanish statistical authorities explained that investment grants are recorded under equity in the balance sheet. These grants are attributed to the period over the estimated service life of the assets and are recorded in the *Attribution of non-financial fixed assets and other*. They enter the profit and loss accounts on both sides, but are excluded, in national accounts, from the 50 % test.

Eurostat explained that the issue of investment grants is currently being discussed in the EDPS Working Group and it is foreseen to be clarified in the next update of the MGDD.

Public holdings

Eurostat took note that the public holding (*Sociedad Estatal de Participaciones Industriales - SEPI*) is classified in the Non-financial corporations sector (S.11), whereas all public

holdings in the Autonomous Communities are classified in the government sector (S.1312). As it was discussed in the 2015 EDP visit, the Spanish statistical authorities explained that SEPI is not a real holding company, but it was considered as a Head Office according to the ESA 2010, as it exercise management control over its subsidiaries. The main income of SEPI comes from dividends.

SEPI has a direct and majority participation in 18 companies. It also has shares in the *Corporación Radiotelevisión Española* and on the *Ente Público RTVE* as well as on two other government controlled public foundations. Equally, it has minority direct shareholdings in seven companies, and indirect shareholdings in more than 100 companies. SEPI also holds capital in ENRESA (20 %).

The majority of the companies in which SEPI participates (including minority stake), are classified in S.11. The flows relating to the restructuring of loss-making companies and the flows relating to the social liabilities of failed companies are re-routed via government accounts, with an impact on government deficit. This was previously agreed with Eurostat.

The whole debt of SEPI is recorded as a government debt since 2015. In 2018, the stock of re-routed debt amounted to 1.2 billion euro. SEPI borrowed on the market in order to be able to provide funds to its subsidiaries, which had incurred losses. Therefore, the whole debt was re-routed via government accounts. Eurostat took note of these explanations.

Units engaged in financial activities and follow-up of the sector classification of *Consortio de Compensación de Seguros (CCS)*

CCS is fully owned by the central government. The functions performed by the CCS in the field of insurance sector are the following:

- Coverage of extraordinary risks and damages derived from extraordinary floods and earthquakes, tidal waves, volcanic eruptions, atypical cyclones, fall of meteorites. It also covers the damages caused by terrorism, riots, rebellion or by the army and the police in times of peace;
- Coverage of damages caused by unknown vehicles, stolen vehicles or by drivers who lack compulsory vehicle liability insurance;
- Combined agricultural insurance;
- Coverage in the field of nuclear power accidents.

The decision-making bodies of the CCS are the president and the Board of directors. The Statute sets that the President is also the Director of Insurance and Pension Funds, and must be a high rank senior official of the Ministry of Economy. The statute gives the President enhanced powers, as the President appoints and removes the Director and the rest of senior managers of the CCS. CCS's highest decision-making body is the Board of directors, which, chaired by the Director for Insurance and Pension Funds, is made up of 14 members (plus the chair), seven of which are senior executives from private insurance companies and the other seven are senior officials from government. In addition, the statute of the CCS establishes that the chair has double voting right in case of an even result.

Consequently, the general director of Insurance and Pension Funds takes on most of the managing powers, due to his double position as a chair of the Board and president of the entity.

A member of the board is appointed and dismissed by the Ministry of Economy, while the general director is appointed and dismissed by government.

The Spanish statistical authorities explained that the first assessment, made by the Technical Committee, concluded that this unit should be reclassified inside the general government sector (S.13) due to the lack of the autonomy of the decision, in line with the new MGDD chapter - Concept of an institutional unit.

Eurostat agreed with the decision taken by the Technical Committee. In addition, Eurostat thought that the activities performed by the CCS seem to have a non-market character. On this basis, Eurostat agreed this unit to be reclassified in S.13 and asked the Spanish statistical authorities to reflect on whether legal surcharges should be considered as taxes.

The Spanish statistical authorities explained that the impact on government deficit was expected to be small and the government debt would be reduced due to the consolidation effect (CCS holds government securities).

Findings and conclusions

Action point 14: The Spanish statistical authorities will examine the classification of the parent company of *Canal Isabel II*, in particular whether it is an ancillary unit of its subsidiary and therefore to be consolidated with parent unit. More generally, the Spanish statistical authorities could flag in the Questionnaire on government-controlled units classified outside general government, the legal units that in fact constitute a unique institutional unit.

Deadline: end-February 2020¹⁰

Action point 15: The Spanish statistical authorities will provide a note on the sector classification of foundations, including some examples of units reported in the Questionnaire on government-controlled units classified outside general government.

Deadline: end-May 2020

Action point 16: The Spanish statistical authorities will report, in the Questionnaire on government-controlled units classified outside general government, the individual entities belonging to *Renfe Operadora*, by entity, along with the consolidated information provided as a memorandum item.

Deadline: end-December 2019¹¹

¹⁰ The follow-up of this AP was provided on 15 March 2020.

¹¹ This AP was implemented end-December 2019.

Action point 17: The Spanish statistical authorities will reclassify in government, the *Consortio de Compensación de Seguros (CCS)* on the basis of the provisions of the new MGDD, in 2019, and will reflect on whether legal surcharges should be considered as taxes.

Deadline: April 2020 EDP notification¹²

Action point 18: As regards ADIF-AV, the Spanish statistical authorities will clarify the reasons for including in the 50 % test, the purchase of electricity power and the sale of traction energy. They will notably clarify if ADIF-AV has the nature of a producer or of a trader in this activity, in the light of the legal mechanism in place as well as of effective production of electricity.

Deadline: mid-May 2020

4.2. Implementation of accrual principle

4.2.1. Accrual taxes and social contributions

Introduction

Under this item of agenda, the discussion focused on the change of the method used for taxes and on the regulatory tax changes in 2019 and its possible impact on government deficit. Up to the April 2019 EDP notification, a statistical model was used, based on assessments and declarations, with a subsequent adjustment of the amounts unlikely to be collected for taxes (VAT, taxes on products, taxes on personal income and corporation taxes) and social contributions.

During the 2017 EDP visit, Eurostat considered that the model used was quite complex. It seemed to produce satisfactory results only under normal circumstances. However, Eurostat thought that it would be more convenient to use the other method, which is also in line with ESA 2010 regarding taxes and social contributions, i.e. time adjustment cash data (TAC). The ESA 2010 Regulation allows that taxes and social contributions, recorded in national accounts, may be derived from two different data sources, either from assessment and declarations or from time adjustment cash data.

In line with Eurostat's recommendation, the new method (TAC) was implemented in the context of the benchmarking revision in the October 2019 EDP notification. It was applied to three types of taxes: VAT, Tax on personal income (PIT) and Corporate income tax (CIT), as well as to social contributions (SC). Other taxes continued to be recorded on a cash basis for different reasons, in particular as cash was considered a reliable proxy for the correct recording of these taxes in national accounts.

Tax reimbursements continued to be recorded at the time of the submission of the tax declaration by taxpayers, as previously agreed with Eurostat in 2013.

¹² The CCS was re-classified in S.13 from 2019 onwards.

The method has been extensively discussed with Eurostat prior and during the October 2019 EDP notification.

Discussion and methodological analysis

Firstly, Eurostat thanked the Spanish statistical authorities for providing all requested documents, such as the note on the change of the tax method, the comparison between the new and prior method and the reconciliation of cash and accrual data on a monthly basis.

The time lag was defined on the basis of the payment deadlines per tax. In summary, putting aside specific cases, the deadlines are as follows:

- VAT: the tax settlement, for VAT accrued for large companies in December (t-1) and SMEs in the fourth quarter (t-1), will be presented during the first thirty calendar days of January (t);
- Withholding of PIT: the tax settlement, for withholding of the fourth quarter/December earnings will be presented during the first twenty calendar days of January (t);
- PIT taxpayers carrying out economic activities: the tax settlements for activities carried out in the fourth quarter (t-1) will be presented during the first thirty calendar days of January (t);
- CIT: the tax settlement, for CIT withholdings accrued for activity of the fourth quarter/December (t-1) will be presented during the first twenty calendar days of January (t);
- SC: the settlement for social security contributions accrued in December (t-1) will be presented during the first thirty calendar days of January (t).

Eurostat thought that the new method used seemed to be closer to the pure accrual principle than to TAC. The average time lag is not used and instead only the accrual amounts are moved backwards, based on the information provided by the tax authorities. For example, in the case of VAT, the amounts, which are moved back, might be from January or February while in the case of PIT, CIT and SC, it is mainly amounts from January that are moved back.

However, Eurostat also took note that all necessary information is available per tax on a monthly basis. The Spanish statistical authorities were asked to provide on a regular basis, prior to April notifications, monthly cash and accrual data per tax. Eurostat also strongly encouraged the Spanish statistical authorities to closely follow-up any changes in the law, which might impact the time of payment of taxes. The time lag should be adjusted, if necessary. Eurostat asked to be informed about such changes.

Eurostat took note that the tax reimbursement would continue to be recorded in national accounts at the time of submission of the tax declaration by taxpayers, in line with the previous agreement. The Spanish statistical authorities confirmed that tax reimbursements are recorded on a cash basis in the budget (and working balance in the EDP table 2), while taxes are recorded on an accrual basis.

Eurostat agreed to continue recording refunds as agreed, even if not yet validated, except for large claims where the tax authorities have evidence that the claim would be rejected. Eurostat referred to the case of refunds to Telefonica. In such cases, a specific treatment should be followed, and they should be closely monitored by the Spanish statistical authorities and be brought immediately to the attention of Eurostat.

Then, some of the most significant regulatory changes in 2019 were discussed, as follows:

- The harmonisation of the maximum rates of the tax on mineral oils, with a positive impact of 342 million euro;
- A temporary exemption of the Tax on production value on electricity (*Royal decree law 15/2018*) was approved for the 2018 fourth quarter and the 2019 first quarter (six months). The VAT exemption was approved for six months. The impact of this measure, which is only a temporary one, is reflected mainly in 2019 with a lower collection of taxes. The Spanish statistical authorities confirmed that the taxes of these two quarters (in national accounts - taxes on products - D.21) would not be paid at all. As these taxes are recorded on a cash basis in national accounts and given the fact that taxes for the two quarters would not be collected at all, no additional adjustments are needed in national accounts. According to the information published on the website of the Tax authorities, the impact in 2018 was negligible while the impact in 2019 was estimated to be about 721 million euro.
- Corporations with employees and self-employed from the provinces recently affected by fires, inundations and other natural calamities, would be able to postpone the payment of social security contributions by six months, starting in September 2019 (corporations with employees) and in October 2019 (self-employed). This delay would not incur any penalties or interest. As Eurostat understood that this measure is only a temporary one, and according to MGDD rules, there should be no impact on government deficit in national accounts. The Spanish statistical authorities said that they do not expect significant amounts of social contributions to be postponed and agreed to clarify the accounting effect.

Finally, Eurostat enquired about the recording of deferred tax assets (DTA) in national accounts. During the last EDP visits, the Spanish statistical authorities confirmed that DTAs were recorded in line with the Eurostat guidelines. It was agreed with Eurostat that the recording of DTAs, submitted by companies in July t+1 would continue to be recorded as government expenditure in the year t+1 and not in year t+2 when the amounts would be finally validated by government, consistently with the recording in public financial accounts.

Findings and conclusions

Action point 9: The Spanish statistical authorities will continue to record refunds on the basis of the submission of claims, even if not validated, except for large claims where the tax authorities have evidence that the claim will be rejected. In this case, a specific treatment will be followed. Such cases, however, should be closely monitored by the Spanish statistical authorities and be brought without delay to the attention of Eurostat.

Deadline: ongoing

Action point 19: The Spanish statistical authorities will clarify the accounting effect of the issue concerning the postponement of social contributions in the areas affected recently by natural disasters.

Deadline: mid-March 2020¹³

Action point 20: The recording of Deferred Tax Assets (DTAs), submitted by companies in July t+1 will continue to be recorded as government expenditure in the year t+1 and not in year t+2 when the amounts will be finally validated by government, consistent with the recording in public financial accounts¹⁴.

Deadline: ongoing

4.2.2. Accrued interest

Introduction

The methodology for the calculation of the accrued interest payable (D.41) was discussed.

Due interest together with premiums and discounts are recorded in the budget on a cash basis. The Working Balance (i.e. budget) thus includes the effect of premiums at issuance and discounts at repurchase, which are then neutralised in EDP table 2A (premiums under adjustment line “*Other financial transactions (+/-)*”, discounts under line “*Difference between interest paid (+) and accrued (D.41) (-)*” and only their spread over the life of the instrument are included in B.9. The repayment of discounts is identifiable from debt repayments. Premiums are recorded in national accounts as negative expenditure.

Accrued interest is valued by the Directorate-General of the Treasury and Financial Policy, per instrument. The interest is accrued over the life of the security.

Prior to the meeting, the Spanish statistical authorities provided an ad-hoc table on the recording of interest. For this point of the agenda, also the Treasury participated in the meeting.

Discussion and methodological analysis

¹³ This was clarified on 15 March 2020. The amounts were negligible.

¹⁴ This point was further discussed during the video-conference with the Spanish statistical authorities on 14 February 2020, and in particular the specific issue related to DTAs requested by a Spanish commercial bank in 2018. The DTAs requested by this bank were initially validated by the tax authorities although not paid pending final audit, and thus recorded as expenditure in 2018 (about 1 billion euro) in line with the previous agreement with Eurostat. However, during the audit process in 2019, the tax authorities rejected the fact that the claim would be paid at once (as foreseen by legislation in case of loss) due to the fact that although Banco Popular (absorbed by the bank mentioned above in 2018) had losses, the consolidated accounts of the this bank had no losses. The bank appealed to the economic court at the end of 2019.

As an outcome of the videoconference, it was agreed between Eurostat and the Spanish statistical authorities that nothing would be imputed as government revenue in the year 2019 and that government revenue, if any, could be imputed only at the moment of the final Court decision.

Eurostat and the Spanish statistical authorities examined the table on interest provided prior to the meeting. The Bank of Spain (BdE) compiled this table, which covers only the State. Only bonds and treasury bills are included in this table while loans and deposits are excluded. Eurostat advised the BdE to include also loans and deposits in the next transmission of this table to Eurostat.

The BdE explained that the coupon is paid once per year. Eurostat noted that line five of the table (*coupon sold*) is empty and said that the coupon sold should be included in the cash flows and consequently this line is expected to be filled in. The BdE explained that the coupon sold is included under the line 11 (*premiums at issuance*), as they cannot distinguish between coupon sold and premiums. The stocks are calculated as an accumulation of flows. Eurostat took note of these explanations and thought that, consequently, the coupon sold was not recorded in the correct line of the EDP table 2 (with no impact on B.9). Eurostat encouraged the BdE to adapt the voluntary table on interest, by considering all the available information, notably reconciling the observed stock of coupons with the relevant flows, including flows of coupon sold and revaluations. The coupon sold should be reported in line five (*coupon sold*) instead of in line 11 (*premiums at issuance*) in the table on interest. Eurostat clarified that coupon sold should not be amortised. Also the EDP tables should be adapted accordingly.

Eurostat asked how the interest on foreign currency debt is reflected in the table. The BdE recalled that all debt issued in foreign currency is swapped, and interest is reported after swap. Eurostat pointed out that the table seemed to be compiled after the swap, as the lines two (*revaluation and other changes in volume- OCV*) and 16 (*revaluation and OCV in discounts and premium*) are empty. This table should be compiled before swap. Eurostat, however, took note that the amounts concerned are rather small.

The Bank of Spain confirmed that line six (*coupon bought back*) is empty, as the Treasury is not buying back its debt.

Eurostat considered that the table on interest seem to be plausible and consistent between stocks and flows, except for the issues raised above.

Next, the Treasury explained that index-linked bonds started to be issued in Spain in 2017 and that up to now, there have been no cases of narrow index as all securities are on broad - CPI index.

Finally, the Bank of Spain provided a document, including graphs, which explained the positive D.41 adjustments in the recent years.

Findings and conclusions

Action point 21: The Spanish statistical authorities will adapt the voluntary Table on interest along the lines discussed in the meeting considering the information available, notably reconciling the observed stock of coupons with the relevant flows, including flows of coupon sold and revaluations. The coupon sold will be reported in the line 5 (coupon sold) instead of

the line 11 (premiums at issuance) of the table on interest. EDP tables will be adapted accordingly.

Deadline: mid-September 2020

4.2.3. EU flows

Introduction

EU flows are recorded according to Eurostat rules, for the central and state government as well as for the social security sub-sector while, for the local government amounts, are recorded on a cash basis. The amounts involved are, however, very small for local government. This issue was already discussed in the context of previous EDP dialogue visits and Eurostat agreed to this recording.

The Directorate-General for EU Funds of the Ministry of Finance and Public Administrations is responsible for managing funds from the European Union. This department closely monitors expenditure settlements, submitted by beneficiaries. The Directorate-General also manages the distribution of EU funds to their beneficiaries. Data are available by fund and by sub-sector on a monthly basis.

EU flows transit through an account in the Bank of Spain with no impact on the government budget. This bank account is deemed to be owned by the Rest of the World in national accounts. The only impact in the budget is when government is the final beneficiary. No advance payments are included in the budget.

Prior to the meeting, the Spanish statistical authorities provided an ad-hoc table on the recording of EU flows.

Discussion and methodological analysis

The Spanish statistical authorities explained that they could not distinguish between advance payments and payments. Thus, additional information is provided by the managers of EU funds. However, they can identify when the government is not a final beneficiary.

When the beneficiary is local government (S.1313), the amounts are recorded on a cash basis, as the amounts involved are very small for this sub-sector. In the case of other sub-sectors, EU flows are recorded on an accrual basis. The main data source used are not the financial statements, but information provided by the managers of EU funds. It was considered that this was a better data source. In line with the established procedure, final beneficiaries have to submit claims to the manager of EU funds. The administrative units provide all the necessary information to the managers, including the information on accrued expenditure. The Spanish statistical authorities underlined that, in line with the EU rules, claims could not be submitted if they were not accrued and paid.

Revenue is recorded, in national accounts, at the time when the claims are submitted by the beneficiary to the managers of EU funds (and expenditure already incurred).

Eurostat emphasised that, according to the MGDD, expenditure and revenue should be recorded at the same time. The Spanish statistical authorities explained that monthly information was available on EU revenue. Therefore, a possible gap between the time when the claim was submitted and the expenditure incurred was rather small. Eurostat said that, indeed, the submission of claims could be accepted as a proxy and that the same approach was used in some Member States. The Spanish statistical authorities underlined again that the managers of EU flows are considered the most reliable source for the accrual recording of EU flows.

Then, Eurostat enquired about the implementation of the new MGDD chapter on *Accounting treatment of EU financial instruments*. According to the MGDD, the EU correction is to be implemented at the level of the beneficiary (fund manager) as follows:

- If the manager is classified outside the government sector (S.13), any funds from EU that transit through government accounts are recorded as a financial transaction – without an impact on B.9;
- If the manager is classified in S.13, cash received is recorded as Other accounts payable (F.89) and not as a revenue. F.89 decreases when funds are considered lost (i.e. the loan granted to final recipient is cancelled or the guarantee is called).

The Spanish statistical authorities explained that the new MGDD chapter was already implemented for year 2018 in the April 2019 EDP notification (the impact on B.9 was about 99 million euro) and in the October 2019 EDP notification (the impact on B.9 for the period 1995-2017 was about 377 million euro).

As a net concept is used, losses are not recorded as revenue. However, Eurostat recommended asking the managers of the funds about losses incurred in previous years.

Eurostat also asked the Spanish statistical authorities to investigate whether the principle of EU flows neutrality was ensured at the level of the beneficiaries (the managers of funds) by imputing revenue of EU at the time of the cancellation of a loan and expenditure in order to neutralise accrued interest receivable.

Findings and conclusions

Eurostat took note that the recording of EU flows seem to follow the Eurostat rules in the central and state government as well as in the social security sub-sector, while cash recording is applied to the local government sub-sector, but the impact on government accounts is estimated to be negligible.

Action point 24: Regarding the recording of EU Financial instruments (FI), the Spanish statistical authorities will investigate whether the principle of EU flows neutrality is ensured at the level of the beneficiaries (the managers of the funds) by imputing revenue of EU at the time of the cancellation of a loan and expenditure to neutralise accrued interest receivable.

Deadline: end-June 2020

4.2.4. Military equipment expenditure

Introduction

The recording of military equipment expenditure follows the Eurostat rules. The expenditure is recorded on a delivery basis, based on direct data sources (i.e. Ministry of Defence- MoD).

Two procedures of recording of the acquisition of military equipment exist in the budget as follows:

- Ordinary procedure is followed for the acquisitions of vehicles and simple equipment, such as light weapons. The expense is recorded in the budget when the goods are delivered to the MoD. The payment is made simultaneously or with a short delay. In national accounts, expenditure is recorded at the time when goods are actually received.
- Special Weapons Programs: this procedure has been used for the main acquisitions of military equipment (combat aircraft, battle tanks and armoured vehicles, warships, helicopters, etc.) since 1997. The supplier delivers the equipment to the MoD, but the expenditure recorded in the budget (WB) and the payment is deferred and split across several years. However, in national accounts, expenditure is recorded according to the deliveries.

Discussion and methodological analysis

Eurostat observed rather big revisions of financial flows related to military equipment (in particular Other accounts receivable / payable (F.8) and cash – F.2), in the October 2019 EDP notification, without impacting government deficit (B.9). The Spanish statistical authorities explained that financial flows were analysed and improved as some payments and repayments of loans and advances were not correctly identified in the past.

Loans provided by the Ministry of Industry for research and development (R&D), were recorded in the budget as loans to provider, but it was not always easy to identify the equipment programs they were referring to. The recording in the budget was very complex and, due to many cash flows, some mistakes have been made. These mistakes were now corrected and had no impact on B.9.

The expenditure is recorded in the budget only when it is certified. The time lag between the certification and acceptance in the budget is about 2 months. Usually, the representative from IGAE is present at the time of delivery of military equipment, depending on the amount involved. IGAE confirmed to receive all the necessary information on the delivery of military equipment by programme.

The Spanish statistical authorities explained that there are currently no cases of long-term trade credits.

Findings and conclusions

Eurostat took note of the good source data information used for the recording of military equipment expenditure.

4.2.5. Gross fixed capital formation

Introduction

Gross fixed capital formation is recorded as expenditure for the amount recognized in the budget or in the extra-budgetary account 413 (*Creditors from transactions awaiting insertion into the budget*), and in the financial statements of the units subject to the General Accounting Plan for Spanish companies.

A special adjustment is made, in national accounts, in line with the MGDD, for leases and construction projects with deferred payment.

The account 413 is an extra-budgetary account, used to register expenditure made, which have neither been paid nor included in the budget at the end of the year. It consist of the expenditure:

- which are not imputed in the budget of the year t;
- for which the obligation to pay has been recognised (invoice received);
- which will be imputed in the budget of the year n+1;
- which will impact government deficit (B.9) of the year t.

Discussion and conclusions

Prior the visit, the Spanish statistical authorities provided a note on the accrual accounting of GFCF.

As regards the purchase of movable property, the general procurement procedure is defined in the *Law on Public Sector Contracts - LCSP*. The expenditure are recorded in the budget when the goods are delivered. The payment is made simultaneously or with a short lag. As concerns the recording of GFCF in national accounts, the expenditure are recorded when the goods are actually received.

Regarding the purchase of real estate (buildings), the LCSP also provides for partial monthly certifications of the executed works, which give rise to partial payments during the construction period. These partial certifications are recorded as expenditure in the budget, which requires, inter alia, that the public administration receives the partial certification of the executed work. Where applicable, the certifications of works, not recorded in the budget (e.g. in December), are included in the account 413. For the recording of GFCF in national accounts, the expenditure recorded in the public accounts (budget and account 413) is used for the estimate of the GFCF.

As regards the project contracts with a single gross payment, although the general rule imposes monthly partial payments, the previous contract legislation provided for the possibility of concluding work contract with a single gross payment. Only one payment was

made at the time of completion of the work. Therefore, in this kind of contracts there were no monthly statements entered in the budget, but only a single payment at the end of the contract. However, this procedure is not used anymore, as the current contract law does not support it. For national accounts purposes, and pursuant to the ESA 2010 paragraph 3.55, the GFCF for these contracts must be recorded during its implementation, without waiting for the registration in the budget. This information was obtained from the project managers, via specific questionnaires.

Internal and external control bodies (Court of Auditors) assure that expenditure are correctly recorded in public accounts.

Findings and conclusions

Eurostat took note of the recording of GFCF in national accounts.

4.2.6 Court decisions

Introduction

Under this point of the agenda, several ongoing court cases were discussed in more detail. Prior to the meeting, the Spanish statistical authorities provided a note on current open court cases with a possible impact on government deficit.

Discussion and conclusions

The Spanish statistical authorities explained that there are currently several open court cases at the level of central and state government with possible impact on government deficit. The recording in national accounts is in line with the MGDD chapter II- *Court decisions with retroactive impact*.

ESA 2010 20.189 states: “*When a Court of Justice rules, as a definitive judgement, that a compensation must be paid, or a transaction reversed, the time of recording of the expenditure or revenue is when the right of one party (and the obligations of the counterpart) is irrevocably established, if the amount to be paid (or retroceded) is precisely fixed*”.

Firstly, the time of recording of the case ACESA (ABERTIS) was discussed. ACESA was the concessionaire of a motorway (part of AP-7 and AP-2) since the 1970s. In 2006, the Ministry of Public Works and ACESA signed an agreement, setting the terms of the extension of the AP-7. The concessionaire has committed to invest over 500 million euro for expanding the AP-7 in Girona and Tarragona. This amended provision intended to solve the existing problems related to the increase in traffic and congestion of vehicles. It was considered that the traffic generated by the third lane would pay for the works. However, the economic crisis caused a drop in traffic for about 30 % and the compensation mechanisms were activated by ACESA. The concessionaire and the Ministry disagreed on the compensation to be paid at the end of the concession in 2021. The Council of Ministers, based on a report of the State Legal Service, interpreted that ACESA had no right to apply the formula due to lower traffic. Thus, ACESA appealed to the Supreme Court.

At the end of March 2019, Eurostat was informed by the Spanish statistical authorities that IGAE had found that ACESA had a certain and incontrovertible claim for 880 million euro against the State. Up to that moment, this obligation had been considered as a contingent liability and no expenditure was imputed in the public accounts. IGAE proposed to impute this expenditure in 2018. In general, Eurostat considered that the fact that the IGAE decided to recognise this liability in its own accounts or in the notes to the financial statement in 2018, some years after the issue started to be the object of a dispute between parties, was irrelevant for national accounts purposes. Eurostat underlined that, whenever some contingent liabilities are the object of a judicial decision, as far as the time of recording is concerned, it does not matter what is imputed unilaterally in public accounts, but only the moment in which the final judicial decision takes place. Government can decide to recognise in its own accounts whatever contingent liability at any moment, and this cannot be considered as the moment in which an expenditure, with an impact on B.9, must be recorded in national accounts, especially in the context of an on-going judicial process. Consequently, no expenditure was recorded in 2018. Eurostat asked to be informed regularly about such important issues well in advance before EDP notifications, and asked the Spanish statistical authorities to assure that similar situations would not incur in the future. The Spanish statistical authorities explained that the extra-budgetary account 413 would be audited from now onwards, so IGAE would be aware of all contingent liabilities. In addition, IGAE held several meetings with the budget managers in order to explain recordings in national accounts.

Finally, the Court issued its ruling in June 2019 and concluded the following:

- at the day of the issuance of the sentence, ACESA hasn't got any acquired right;
- as there were uncertainties concerning the amount of the final compensation, this could be assessed only at the end of the concession contract, i.e. to establish whether ACESA has a credit right against the government.

Therefore, the Supreme Court did not decide about the substance and will not do it until the end of the concession period (end 2021).

The opinion of the Spanish statistical authorities, in line with the Court ruling, was that the accrual time of recording of the compensation to be paid to ACESA, if any, should be in 2021, at the end of the concession contract (August 2021).

ACESA will have to file for the compensation to government, which is to be validated by the Ministry of Transport, in accordance with the terms of the *Royal Decree 457/2006*. The Ministry of Transport has six months to calculate the compensation amounts. ACESA could still appeal to the Court if it would disagree with the amount calculated by the Ministry of Transport.

Most probably, ACESA will ask for a compensation of about 3.5 billion euro (880 million euro are related to the investment undertaken, about two billion euro are related to the compensation due to the loss of traffic and the rest is related to late interest). Most likely government would pay only for the expenditure related to investment and interest.

The Court ruling is expected to be issued in 2021 and the Ministry of Transport should calculate the amounts by February 2022. It was agreed that, in national accounts, expenditure should be recorded in 2021 in the context of the April 2022 EDP notification. Nonetheless, ACESA might disagree with the amount calculated by the Ministry and appeal to the court. If the Court would establish an amount different from the Ministry's calculation, the difference should be recorded as an expenditure/revenue, in the year when the sentence is issued.

Next, other open Court cases were discussed.

As regards the loss of property rights on the land in the Balearic Islands, pursuant to *Law 4/2008 in 2012 on urgent measures for sustainable territorial development in the Balearic Islands*, the Supreme Court issued several judgments relating to appeals in 2018, in favour of applicants. The autonomous community of Valencia was obliged to pay a compensation to the owners of the land. The impact on government deficit in 2018 amounted to 154 million euro while the expected impact in 2019 was estimated to be about 68 million euro.

At the end of 2017, a Court decision required the demolition of a building in the Autonomous Community (AC) of Illes Balears, as well as compensation payment to owners. The appeal of the AC of Valencia was rejected. In 2018, 101 million euro was recorded as expenditure in national accounts while the demolition expenses will be recorded when incurred, as previously agreed with Eurostat.

In 2018, an action was brought before the Court by trade unions in order to respect salary increases, committed by the Basque Country Public Health. The Court issued its ruling in 2018 and obliged the Basque Health Service to pay the salary increase, including arrears. Government appealed this judgment, which was dismissed by the Supreme Court in 2019. Consequently, 134 million euro will be recorded as government expenditure in 2019.

As regards renewable energy disputes, the judgment of the Court of Justice of the European Union (Case C-284/16) established that arbitration clauses included in the treaties between Member States on investment protection are not compatible with EU law. On the basis of this judgment, companies should turn to the national Spanish Courts. So far, all the applications to Courts have been rejected.

Finally, the case of the dispute raised by *Santander Bank*, *La Caixa bank* and *Bankia*, was discussed. The above-mentioned financial institutions submitted a claim of 1.3 billion euro for the damage caused by government, by the declaration of unconstitutionality of certain articles of the Royal Decree-Law No 13/2014.

The complaint was rejected by the administration and therefore an appeal was brought before the Supreme Court. The final judgment is not expected to take place before 2020.

Findings and conclusions

Eurostat took note of the open Court cases and stressed the importance of providing timely information on current open Court cases so that the DG ECFIN can include the amounts at stake in their forecasts.

4.3 Recording of specific government transactions

4.3.1 Government operations relating to financial turmoil

Introduction

The Spanish statistical authorities provided, prior to the meeting, a note on current and planned government operations relating to the financial crisis and the accounting consequences for government. In particular, the Asset protection scheme (APSs)¹⁵ and the sector classification of SAREB¹⁶ were discussed in detail in the light of ESA 2010.

The APSs refer to the guarantees granted by the State to credit institutions and to the guarantees granted to the purchaser, in the context of the sale of institutions, essentially in the form of an asset protection schemes (APSs).

SAREB was founded in November 2012, in the context of the financial crisis, as part of the Memorandum of Understanding signed between the Spanish and International bodies, to assist the restructuration and recapitalization of the Spanish banking sector. SAREB was created with a limited lifespan of 15 years. SAREB is mostly owned by private entities (54 %).

At inception, taking into account the Statute of SAREB, ESA 1995, the 2012 MGDD and the Eurostat Decision “*The statistical recording of public interventions to support financial institutions and financial markets during the financial crisis*”, SAREB was classified as a private financial institution not controlled by government. Eurostat agreed at that time with this classification, subject to certain conditions and an advice letter was published on the Eurostat website.

Between 2012 and 2013, SAREB purchased assets from distressed banks, amounting to 51 billion euro, thereof 78% were financial assets and the remaining 22% real estate (non-financial) assets. As of end-2018, the balance sheet of SAREB showed assets amounting to 34 billion (64% were financial assets and the remaining 36% real estate assets).

SAREB issued debt to finance the purchase of assets for a total amount of 51 billion euro. As of end-2018, SAREB has redeemed senior debt for a total amount of 14 billion euro. Hence, the outstanding senior debt currently amounts to 36 billion euro. Out of the initial total debt of SAREB, 3.6 billion euro was subordinated debt. In 2016, 2.1 billion euro was converted into equity, of which 996 million euro concerned shares owned by government - FROB (45.90%), with the impact on government deficit.

Bonds issued by the SAREB are guaranteed by government.

Discussion and conclusions

¹⁵ The original name in Spanish: Esquemas de protección de activos (EPA)

¹⁶ Sociedad de activos de Reestructuración

Firstly, the time of recording of guarantee calls under the Asset protection scheme (APSs) was discussed. This issue was already discussed during the ad-hoc visit in 2018. In 2011, guarantees were granted in respect of specific credit and foreclosed property portfolios, which may give rise, in certain cases, to losses that cannot be determined precisely until the end of the period over which each of these schemes are in force. In the context of the restructuring plans of the Banco CAM and Unnim, the Deposit Guarantee Fund (FGD)¹⁷ provided guarantees (APS) - to both banks.

Later, Banco CAM was absorbed by the Banco Sabadell while the Unnim Banc was absorbed by the BBVA. Eurostat agreed that the payments made by the FGD under the APS, would continue to be recorded as a capital transfer with an impact on government deficit in the year of the submission of the annual loss statement by the financial institution and after it is verified by the FGD (i.e. when the loss is recognised). The payment is always made in the year of the recognition of the loss.

The grants made by the FGD are not reported in the *Supplementary table for reporting government interventions to support financial institutions*, in line with the Eurostat guidelines.

Next, the sector classification of SAREB was discussed. It seemed that the main strategy of SAREB is to convert loans (some covered by collateral) into assets. Eurostat analysed the latest 2018 annual report and provided its view on the current economic situation of SAREB. It noted that SAREB never paid any dividend to its shareholders and for example, the 2018 cash surplus was used for the repayment of debt. Losses were observed every single year. Only in the last years, losses amounted to about 3 billion euro while the impairment of assets amounted to about 5 billion euro. Eurostat said that a company in such financial situation would normally be dissolved, but in the case of SAREB, government enacted a special regulation only for SAREB (*Real Decreto-ley 4/2016*), in order to prevent its liquidation, by excluding losses. This special regulation, tailor-made only for SAREB, could indicate that it is in fact a public entity.

The Spanish statistical authorities argued that SAREB would not need any new capital injection, as the new debt was issued in order to repay previous debt. In any case, SAREB would cease to exist in 2027, in line with its statute.

Eurostat stressed that the decision on the sector classification of SAREB was made in 2012, in line with the ESA 1995 and the 2009 Guidance note. Eurostat raised concern on whether the conditions, as set in the Guidance note, would still be valid now¹⁸. Firstly, SAREB seems to be involved also in social housing, as stated in its annual report, which might indicate that

¹⁷ It is classified in government sector.

¹⁸ “Majority privately-owned special purpose entities which are established with a short temporary duration (their existence would be for a short period of time strictly linked to the actual duration of the financial crisis) and have a sole purpose to address the financial crisis, even if they receive a government guarantee, are to be recorded outside the general government sector if the expected losses that they will bear are small in comparison with the total size of their liabilities. This latter condition may be determined, for example, by the extent and form of collateral arrangements which are in place”.

its main purpose is not related only to the financial crisis. Secondly, the expected losses of SAREB are rather big (8 billion euro) in comparison to its liabilities (36 billion euro). The Spanish statistical authorities disputed that these are only expected losses. Moreover, the business plan, as presented to Eurostat in 2012, was clearly not fulfilled. In addition, the bad performance of SAREB seemed no longer to be related to the economic situation in Spain. The annual report of SAREB itself indicates that the losses would continue also in the future.

Furthermore, the rules have been changed / clarified in the meanwhile. While the ESA 1995 was not very clear on the distinction between public / private ownership, the ESA 2010, applicable now, is quite clear on this issue in the paragraph 20.309. Paragraph 20.256 also indicates that guarantees expected to be called, are to be recorded as government expenditure at inception. Eurostat emphasized that, if losses would continue, it is most likely that the guarantee would be called in 2027, when SAREB would cease to exist.

Eurostat said that almost all defeasance structures in other Member States have been already re-classified in the general government sector. In light of the above discussions, Eurostat asked the Spanish statistical authorities to reflect on the sector classification of SAREB.

Findings and conclusions

Action point 23: The Spanish statistical authorities will reflect on the sector classification of SAREB given that:

- a. There are sizeable accumulated losses (about 8 billion by end-2018) against the foreseen sizeable profits presented to Eurostat in 2012 in the business plan of the company (internal rate of return of 14 %);
- b. The entry into force of ESA 2010 and in particular para 20.256, which indicates that guarantees expected to be called are to be recorded as government expenditure, as well as para 20.309 on various modalities to assess public control;
- c. Similar entities in other Member States originally classified outside S.13 have, in the meanwhile, been re-classified in S.13 by national statistical authorities;
- d. Government enacted a special regulation only for SAREB (*Real Decreto-ley 4/2016*), which could point to public sector control according to ESA 2010 para 20.309;
- e. Other elements as discussed in the meeting.

A note on this issue is to be provided to Eurostat.

Deadline: end-November 2020

4.3.2 Public-Private Partnerships (PPP), concessions and energy performance contracts

Under this point of agenda, PPPs, concessions and energy performance contracts, were examined.

Public-Private Partnerships (PPP)

Introduction

The legal framework of contracts concluded by government bodies is the Law 30/2007 - *Contratos del Sector Público* (LCSP). LCSP applies directly to all levels of government. Contracts concluded by government bodies must comply with the LCSP, including contracts classified as PPPs. As not all contracts under LCSP are PPPs, as defined in the MGDD, the specific terms of each contract must be examined in order to determine whether it is a PPP or not.

The Technical committee of national accounts regularly sends letters to enquire about PPP operations, with an obligation for government units to report PPPs at least once a year, with a description of contractual arrangements, administrative and technical details.

The updated list of all PPP projects was provided to Eurostat prior to the meeting, including details such as amounts involved and sector classification of PPPs.

Under this point of the agenda, the new law on LCSP was discussed. A new LCSP 9/2017 transposes the EU Directives 2014/23/ and 2014/24/EU into Spanish law, which entered into force in March 2018. In accordance with these EU Directives, the LCSP includes a large number of new features with the main aim to achieve greater transparency and to prevent corruption. The discussion was focused on the article 29 on duration of contracts. This article puts limitation on the duration of public sector contracts, which might impact national accounts analysis and consequently sector classification of PPP.

The Spanish statistical authorities asked for an ex-ante advice on the appropriate interpretation of a number of provisions of PPP contract for the execution, maintenance and operation of the motorway A-7 between Crevillente y Murcia. This particular PPP was discussed in more detail.

Discussion and methodological analysis

Prior to the meeting, the Spanish statistical authorities provided a list of ongoing and planned PPPs. The Spanish statistical authorities explained that the procedure for the analysis and the classification of PPPs has not changed since the last EDP visit and that individual PPP contracts are regularly analysed by the Technical committee.

A majority of PPPs in the central government and all PPPs in the local government sub-sectors are classified on the balance sheet of government. However, the majority of all PPPs were observed in the state government sub-sector, of which about half are classified on the balance sheet of government.

Next, the new law on LCSP was discussed and in particular article 29 on the duration of the contract. Article 29 established the limitations on the duration of public sector contracts by taking into account the nature of services, the nature of their financing and the need to regularly place them on the market, without prejudice to the special rules applicable to certain contracts. In particular, for work contracts, the duration are set to a maximum time span of 5 years. In all other contracts (works, service and service concession), the time limit is determined by the time that the concessionaire is reasonably expected to recover its investments, together with a return on invested capital, taking into account the investments needed to achieve the specific contractual objectives. In any case, the duration may not exceed 40 years. The Spanish statistical authorities stressed that the new law simply transposes EU directives in the Spanish law and it does not put any additional cap on profit.

Eurostat took note of these explanations and stressed that PPP contracts with short duration are always classified on the balance sheet of government, as such short-term contracts cannot be considered as a PPP in national accounts. A PPP can be considered as a contract, which covers a meaningful part of the economic life of the assets.

Then, the PPP on the motorway A-7 between Crevillente y Murcia was discussed in more detail. The Spanish statistical authorities explained that this issue was very important as the contract concerned includes some features never observed previously. In particular, the following provisions of the contract were consulted:

- The duration of the contract, taking into account the investment made by the private partner;
- The interpretation of the indicator based on traffic as one of the indicators reducing the availability payments to the private partner;
- Possible ICO's participation in financing of the investment.

Additionally, the Ministry of Public works and Transport is planning to launch several PPP contracts related to the enlargement of heavy congested tranches of motorways and their subsequent operation and maintenance. All PPP contracts will be tendered and governed under the same terms. The Technical Committee on National Accounts analysed, up to now, only one of such PPP contracts, i.e. A-7 motorway between Crevillente and Murcia.

The duration of the contract is 15 years, including approximately 2 years for the construction. The possibility of extending the duration is not foreseen in the contract. The government will make no payments during the construction period (24 months for sections one and two and 26 months for section three).

Firstly, the discussion focused on the duration of the contract. Eurostat recalled that the MGDD clearly says that PPPs imply a long-term relationship in the framework of specific contracts, where the obligations and rights of each partner are clearly specified. In practice, most PPPs contracts cover at least 20 years. The duration of a PPP contract normally depends on the nature of the assets (on the length of their expected depreciation) but there might be cases with a duration below 15 years or, even, 10 years. In such cases, a specific analysis should be undertaken in order to assess whether such contracts could actually be considered as PPPs in the sense used in the MGDD.

In this context, Eurostat underlined, that the duration of the majority of PPP contracts in the Member States was equal or above to 30 years. Moreover, according to the PPP Guide, Eurostat expects a PPP contract to cover a meaningful part of the asset's economic life. The Spanish statistical authorities explained that the economic life of motorways in Spain was estimated to be about 55 years. Eurostat concluded that 15 years did not cover the majority of the economic life of the motorway and, in such a case, the contract could not be considered as a PPP.

Secondly, the payment mechanism, based on the availability of the assets, was discussed. No demand-based payments are considered in the contract. Nevertheless, one of the deductions is based on traffic (demand), which means that in the case where the actual use of the motorway would be under the level of the forecasted traffic, automatic deductions would be applied.

Eurostat said that the application of deductions, based on demand, was asymmetrical. While the government is entitled to reduce payments if the use of the assets is lower than anticipated, the private partner is not entitled to receive an increase of payments if the use of the assets is higher than anticipated (although more traffic would cause more expenditure to the private partner for the maintenance and reparation of the motorway). As indicated in the PPP guide, Eurostat's view is that provisions aiming to reduce operational payments (that are 100% availability-based), by reflecting a lower than anticipated level of use of the asset, influence the statistical treatment. This issue is considered of high importance. Given that, the payment mechanism is 100 % availability-based and not at all linked to the demand, the deductions based on demand would limit the transfer of rewards to the private partner.

Finally, the financial arrangements of the contract was debated, in particular the possible participation of ICO. Eurostat took note that, at this moment, the funding sources of the private partner were still unknown. According to the PPP guide, financing by a public entity classified outside the general government sector (as it is ICO) is considered government financing if the public entity is considered by Eurostat to be acting on behalf of or under instruction of government. Therefore, the Spanish statistical authorities would have to analyse the conditions under which ICO would participate in the financing of the project, and in particular, whether it was acting as any other private bank would act from a commercial point of view.

Eurostat agreed to provide the formal advice in the coming weeks. As the contract does not cover a meaningful part of the economic life of the assets, it seems that the project cannot be considered as a PPP as defined in national accounts. In addition, there are or there might be issues concerning the payment mechanism and financial arrangements as stated above.

Findings and conclusions

Action point 26: As regards the PPP concerning the Autovia A-7 between Crevillente and Murcia, Eurostat will provide a formal reply to the request for advice covering all the aspects discussed in the meeting.

Deadline: end-December 2019¹⁹

Concessions

Introduction

A list of concessions awarded in years 2018 - 2019 was provided to Eurostat prior the meeting.

Eurostat and the Spanish statistical authorities discussed the follow-up on the reversion of the assets back to government in the case *Aguas del Llobregat - ATTL*. In 2012, the Autonomous Community of Catalonia awarded concession for the supply of water to the company ACCIONA. However, the rival in the tendering process appealed before the Supreme Court. In February 2018, the Supreme Court declared that the award of the concession in 2012 was null and void. During the 2018 ad-hoc visit, the Spanish statistical authorities explained that initially, this contract was recorded as a sale of assets for the agreed price of 996 million euro, with an impact on B.9 in 2012. While about 300 million euro was paid in cash by the concessionaire, the payment of the remaining 697 million euro was deferred. Eurostat disagreed with this recording of concessions, by applying the rules on financial leasing. In line with the rules on concessions, the impact on government accounts should have been spread over the lifetime of the assets and not recorded at the beginning of the concession as a sale of assets. Accordingly, the Spanish statistical authorities revised the recording in national accounts in the context of the October 219 EDP notification; i.e. a sale was no longer recorded in 2012, but it was instead spread over 50 years. In this case, the reversion of assets back to government in 2018 had no impact on government deficit.

Moreover, as in the prior EDP dialogue visits, the discussion focused on the latest development of the liquidation process of the eight concessionaires of the toll motorways. The concessionaires of the toll motorways went bust after failing to attract enough traffic during the economic crisis. The compensation to be paid to the concessionaires has not been established yet due to some legal controversies regarding several aspects that might impact the assessment of the amount to be paid. In 2018, seven motorways reversed to government. Eurostat and the Spanish statistical authorities agreed to impute, in the context of the April 2019 EDP notification, 1.8 billion euro in 2018, with the impact on government deficit and debt (based on the best possible estimation at that time).

Discussion and methodological analysis

Firstly, Eurostat checked the list of the concessions awarded in the last two years. It noted that all service concession contracts were awarded for five years. In one Autonomous Community, a concession contract for the management, operation, maintenance and conservation of the airport, was awarded for a period of 25 years.

Secondly, the discussion focused on the follow-up on the reversion of the assets back to government in the case of ATTL. This issue was already discussed in the previous dialogue visits. The Spanish statistical authorities provided an update on this issue. At the time of the

¹⁹ The letter was sent to Spain end-December 2019 and it was published on the Eurostat website.

reversion of the assets, the *Generalitat de Catalunya* had provisionally fixed 54 million euro to be paid to the concessionaire. The payment of this amount was conditional to the effective justification by the concessionaire of the non-recoverability of certain expenses accounted. At present, the *Generalitat* has paid only 4 million euro to the concessionaire, pending adequate justification for the rest of the payment. Given that the administration received an advance from the concessionaire in 2012, recorded as a financial advance in national accounts (rent spread over 50 years), any additional amount, paid by the government, would be recorded as the cancellation of the financial advance.

The concessionaire appealed to the Court, asking additional compensation from government. It was agreed that, in national accounts, any additional sums for termination of the contract, would be recorded as expenditure or revenue of the government, in line with the final ruling of the court.

The Spanish statistical authorities explained that, following the termination of the contract, the water supply service, previously carried out by the concessionaire, has been taken over by the newly created public entity *Water Supply Authority*, as established by the Decree 4/2018. This entity, attached to the Autonomous Community of Catalonia, began its activity in 2019.

The assets and liabilities were recorded on the balance sheet of the newly created unit. Eurostat and the Spanish statistical authorities discussed different possibilities on how to record the transferred assets and liabilities in national accounts, i.e. as a re-allocation of assets within the public perimeter, such as a capital injection in kind or a sale, etc.

The Spanish statistical authorities explained that the newly created company only took over the assets without having to build anything. In addition, the assets seemed to be profitable and the government expects to receive a dividend.

The Spanish statistical authorities agreed to provide a note describing all relevant operations in order to decide on the sector classification of the newly created entity as well as the transfer of assets and liabilities.

Then, Eurostat enquired about the latest developments of the liquidation process of the eight concessionaires of the toll motorways. The Spanish statistical authorities provided the most recent update. In 2019, the last motorway AP-41 Madrid-Toledo reversed to government. The current estimate of the RPA (*Responsabilidad Patrimonial de la Administración*)²⁰ amounts to 100 million euro and will impact government deficit and debt in 2019.

In addition, in May 2019, the State Official Journal published the government agreement, containing the criteria to be taken into account for the estimation of the RPA. The creditors of the concessionaires companies have already appealed to the Court.

The Spanish statistical authorities explained that the process of determining the RPA was quite a complex process. The book value of the assets was not fixed on the basis of the actual costs incurred, but on the basis of the work units and costs foreseen in the construction

²⁰ Administration's Patrimonial Responsibility

projects, as approved by the *Ministerio de Fomento*, plus the overruns and complementary works considered appropriate. This implies a comprehensive revision of the projects, of the assets and of the works to be carried out. Moreover, also thousands of land expropriations files are currently being reviewed. At present, no RPAs has been established yet. It is expected that two RPAs compensations would be determined by March 2020 while the remaining six RPAs compensation are expected to be settled by end-2020.

Based on the above-mentioned government accord, the RPA compensation is to be paid in three instalments as follows:

- The first payment will be paid as soon as the RPA is determined, and would be equal to the provisional amount calculated, deducted by the expected costs of land expropriations to be paid by the *Ministerio de Fomento*. This came under the responsibility of government due to the bankruptcy of the concessionaires and it should have been paid by the concessionaires;
- The second payment will be paid six months later, taking into account the new provisional liquidation of costs and the expropriation payments made by the *Ministerio de Fomento* as well as the estimated outstanding payments;
- Six months later the *Ministerio de Fomento* would approve the final RPA, taking into account the expropriation payments made and the estimation of the pending ones.

The Spanish statistical authorities further explained that all expropriations of the land (paid and pending), which fell under the responsibility of government due to the bankruptcy of the concessionaire, would be deducted from the RPA. These amounts might be significant. In addition, also the so-called *Deductions for the state of art of the roads* might be higher than initially estimated (i.e. 200 million euro). The RPA did not take into account any accrual interest due to the late payments.

Eurostat took note of the update of events. As the assets were reversed in 2018, the impact on government deficit and debt was recorded in 2018, based on the best possible estimation at the time of the April 2019 EDP notification. Nevertheless, as the final RPA amounts might be different from the provisional amount estimated in 2018, any further imputation of expenditure or revenue would be made at the time when the final amount is determined, unless the concessionaires would appeal to the Court. Eurostat confirmed that possible imputations would be made either via expenditure (if the RPA were higher than the estimated amount in 2018) or revenue (if the RPA were lower).

The Spanish statistical authorities clarified that the concessionaire has three months to decide on whether to appeal. Eurostat took note that government would have to pay also late interest. As regards the expropriations payments, the Spanish statistical authorities explained that some amounts were partially already included in the budget. In such cases, the possible double impact on government deficit should be avoided.

The Spanish statistical authorities agreed to inform Eurostat about any new developments related to the liquidation process of the eight motorway concessionaires.

Findings and conclusions

Action point 27: The Spanish statistical authorities will follow the developments in the liquidation process of the eight motorway concessionaires and will regularly inform Eurostat on the determination of RPA amounts.

Deadline: when applicable

Action point 28: As regards the reversion of *Agua del Llobregat* (ATTL) assets to government and the further transfer to the *Ter-Llobregat* water supply agency, the Spanish statistical authorities will provide a note describing all relevant operations in order to decide on the sector classification of the newly created entity, as well as on how to record the transferred assets and liabilities (re-allocation of assets within public perimeter; capital injection in kind; sale, etc.).

Deadline: end-February 2020²¹

Energy performance contracts (EPC)

Introduction

In 2018, Eurostat published a Guide to statistical treatment of EPCs. The Spanish statistical authorities provided, prior the meeting, a note on the implementation of this guide, which was discussed during the meeting.

Discussion and methodological analysis

As discussed in the 2017 EDP visit, the information on the existence of the EPCs in Autonomous Communities and municipalities was gathered by the Spanish statistical authorities, and in particular on EPCs signed with private contractors. The Spanish statistical authorities underlined that most EPCs appear at the level of local governments and the amounts involved are negligible.

The Spanish statistical authorities analysed the contracts in line with the Guide on statistical treatment on EPC and the following conclusions were drawn:

- a. All observed cases were mixed contracts, involving the supply of energy and maintenance services with the guarantee of replacement of defective parts;
- b. The amounts of contracts and projects are generally rather small. The average investment in these contracts is estimated to about five million euro;
- c. Guaranteed savings are not specified or do not exceed operational payments.

So far, mainly hospitals have been analysed. The Spanish statistical authorities provisionally concluded that the investments implemented under these contracts should be recorded in the government accounts as Gross Fixed Capital Formation (GFCF), and as a government debt, which will be amortised over the duration of the contracts.

²¹ A note was provided on 15 March 2020.

However, when analysing the contracts, some questions arose on the applicability of the Guide on EPCs. As the amounts involved are rather small, it was proposed to apply a threshold of 12 million euro in order to determine how to proceed:

1. In case contracts involve an investment below the threshold, the following criterion would be applied:
 - If the public entity applies the General Plan for Private Accounting (Royal Decree 1514/2007), the recording in national accounts would be the same as in the accounts of the entity, i.e. as a financial or operational lease;
 - If the General Plan was not applied, the costs of the contract would be recorded in accordance with the terms of the contract.
2. In case contracts involve an investment above the threshold, Eurostat's rule would be applied.

As the *Guide* sets the general rule that operational payments should be smaller than savings, the Spanish statistical authorities asked whether maintenance linked to energy savings should be included in the savings or not. Eurostat explained that energy savings have to cover investment and maintenance. In principle, when analysing the EFC contracts, two basic rules are to be examined; that the contract is related only to energy savings and that government is saving energy (i.e. money) in comparison to the situation prior the investment.

Findings and conclusions

Eurostat took note of the explanations and recording in national accounts.

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

Introduction

Prior to the visit, the Spanish statistical authorities provided a table on disposals of non-financial assets by government.

In recent years, there have been six sale and leaseback operations. In these operations, after the buildings were sold, they have been leased to government. Both contracts, sale and leaseback, have been analysed by the *Technical Committee* and were considered being a real sale.

Discussion and conclusions

Eurostat took note that, in recent years 2014-2018, there were very negligible disposals of non-financial assets by government.

As regards sales and leaseback operations, the Spanish statistical authorities confirmed that the option to buy back the assets was not included in any of the contract.

Findings and conclusions

Eurostat took note of the explanations.

4.3.4 Guarantees

Introduction

The Spanish statistical authorities provided a list of outstanding guarantees for the central government, the guarantees called and repaid.

Discussion and methodological analysis

The participants reviewed the data on government guarantees for the years 2015-2018. The percentage of guarantees called was very low. Eurostat took note that government is providing a guarantee to a public corporation, currently classified in S.11, *Bidegui Gipuzkoako Azpiegituren*, a concessionaire of the motorway in the Basque country. As agreed in the 2017 EDP visit, any substantial changes to the activities, governance or government guarantees related to this corporation, should be immediately reported to Eurostat.

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

Findings and conclusions

Eurostat took note of the explanations.

4.3.5 Government claims; debt assumptions, debt cancellations and debt write-offs

Introduction

The participants reviewed the data on government claims and debt cancellation by government for years 2015-2018, provided by the Spanish statistical authorities before the visit. Debt cancellations towards third countries (Paris club) are made by the *Fondo para la Internacionalización de la Empresa (FIEM)* and *Fondo para la Promoción del Desarrollo (FONPRODE)*. All transactions carried out by FIEM and FONPRODE are considered as directly carried out by the State, with an impact on government deficit. These two entities have no legal personality and are managed by ICO, for which ICO receives a fee. As these operations are not included in ICO accounts there is no need to re-route them.

Discussion and methodological analysis

The main data source for debt cancellation in the state and local government sub-sectors is *IGAE Standardised accounting information questionnaire*. In addition to this questionnaire, supplementary information from the budget is analysed on a regular basis.

The time of recording of debt cancellations was discussed in the 2018 ad-hoc visit. The Spanish statistical authorities explained that the cancellation of third party debt linked to a debt conversion programme is recorded at the time when the conditions established in the

conversion programme are met (cancellation is deemed to be irrevocable). However, in the case of debt cancellations not linked to a debt conversion program, but adopted by the Council of ministers, the recording in national accounts is at the time of the approval by the Council.

Eurostat observed that the line FONPRODE and FIEM operations under the line *Non-financial transactions not included in the WB*, in EDP Table 2A, was positive for all years. The Spanish statistical authorities explained that this was due to interest accrued, which more than offsets the negative impact of debt cancellations. Eurostat questioned which would be the probability that the interest would be actually paid and asked the Spanish statistical authorities to verify it in line with the rules on non-performing loans (ESA 7.105) and the guidance on the appropriate treatment for these operations within the new edition of the MGDD. The Spanish statistical authorities verified it and observed that in recent years, and especially in 2018, there were no significant differences between the amount of interest accrued and collected. Eurostat agreed to maintain the current recording of interest (on an accrual basis) in the accounts of FIEM-FONPRODE, but asked it to be closely monitored.

The interest of non-performing loans is recorded on a cash basis and not on an accrual basis.

Findings and conclusions

Eurostat took note of these explanations.

4.3.6 Capital injections in public corporations, dividends, privatization

Introduction

Capital injections are analysed according to the rules established in the MGDD, as financial or non-financial transactions. Only injections into profitable companies or to certain international financial institutions are considered financial (equity) injections. Most capital injections are classified as capital transfer with an impact on government deficit.

The list of equity injections for the central and state government is available on a quarterly basis whereas for the local government it is available on an annual basis. A list of dividends paid to government by individual company and its profit, provided prior to the meeting, was discussed.

Discussion and methodological analysis

Firstly, the Spanish statistical authorities confirmed that the amounts of financial (equity) injections are very small and that the majority of capital injections are classified as non-financial transactions (capital transfers) in national accounts.

The Spanish statistical authorities also confirmed that capital injections made by SEPI on behalf of the State are recorded as agreed during the previous EDP dialogue visits - flows related to the restructuring of loss-making companies and flows relating to the social liabilities of failed companies are re-routed via government accounts. The list of capital

injections by SEPI was provided to Eurostat. The whole debt of SEPI is recorded as a government debt, as already discussed under the item 4.1.4.

In order to identify capital injections made by other public units on behalf of government, in particular at regional and local government level, IGAE regularly checks the annual accounts of public units. There were only a few cases identified, which required re-routing via government accounts.

Then, the dividend policy was discussed in more detail. Budget is the basic source of information for the identification of dividends received. Around 90% of dividends received are obtained from two public companies: Bank of Spain (BdE) and *Loterías y Apuestas del Estado* (LAE). In recent years, dividends were also received from AENA, Canal de Isabel II, and BFA. The Spanish statistical authorities provided to Eurostat, prior to the meeting, a list of dividends paid to government by corporation and their profits.

After dividends are identified, it is ensured that they are paid from the ordinary profit of the unit distributing them. With particular regard to the BdE, dividends are checked to ensure that they do not include capital gains from the extraordinary sale of assets, routine intervention in foreign exchange markets, or operations to revalue monetary gold and reserves. For other companies, corporate reports are used to verify that the distributed dividends are result of ordinary profit, and not of extraordinary profit or accumulated reserves.

As regards the dividend paid by the BdE, payments are made in three instalments in line with the Royal Decree 2059/2008 as follows:

1. The first instalment is paid in December and corresponds to a payment corresponding to 70 % of the profit generated until September of the same year.
2. The second instalment is paid in March of the following year and corresponds to 90 % of the benefit generated over the previous year, minus the first payment on the account made in December.
3. Finally, in August, the third instalment (at the closure of the financial year) corresponds to 10 % of the remaining income.

However, when comparing the sum of dividend paid and the profit of the BdE in 2016-2017, it appeared that in some years the dividend paid was higher than the profit. Eurostat explained that the detailed rules for the interim dividends are explained in the 2019 MGDD chapter 3.5 on Dividends, super-dividends, interim dividends, as follows: “*An interim dividend payment is recorded as property income (D.42) in national accounts if two conditions are fulfilled. First, the amount of dividend paid is based on short-period accounts available to the public, covering at least two quarters (thus, there must be evidence that the distributable/entrepreneurial income (or operating surplus in business accounting as a proxy) would be able to fund the dividends). Second, the interim dividend should be consistent with the level of distribution of dividends observed in previous years, taking into account the trend in profitability of the company. If both conditions are not met, the interim payment is to be recorded as a financial advance ...*”

The Spanish statistical authorities agreed to clarify the application of the super-dividend test for the amounts received by government from the Bank of Spain and report back to Eurostat.

The Spanish statistical authorities also explained that AENA might change their dividend policy by starting paying interim dividends. Currently about 80 % of the profit is paid as dividend. They enquired about the recording in the first year. Eurostat said that the dividend paid should be based on evidence, i.e. six-monthly accounts. Indeed, the problem often lies in the first year, and the dividend can be recorded in the same year, given that the same level of distribution of dividends would continue also in the future (i.e. 80 %).

Findings and conclusions

Action point 25: The Spanish statistical authorities will clarify the results of the application of the super-dividend test for the amounts received by government from the Bank of Spain.

Deadline: mid-March 2020²²

²² This was clarified on 15 March 2020.

4.3.7. Emission trading permits

Introduction

The amounts collected from emission permits sold should give rise to revenue (taxes on production) according to ESA 2010 paragraph 15.40. The appropriate time of recording is the triggering of the event, i.e. at the moment emissions of Carbon dioxide (CO₂) are made and are approximated by the time when permits are surrendered.

Prior to the meeting, the Spanish statistical authorities provided a voluntary questionnaire on emission permits.

Discussion and conclusions

The method used to calculate taxes (D.29) basically spreads cash over the last three years, for example D.29 in 2018 corresponds to 1/3 of cash received in 2016, 1/3 of cash received in 2017 and 1/3 of cash received in 2018. Eurostat agreed that it was a good proxy, pending the new MGDD rules.

Findings and conclusions

Eurostat took note of the explanations

4.3.8. Decommissioning

Introduction

The main decommissioning costs are borne by the *Empresa Nacional de Residuos Radiactivos* (ENRESA). The activity of ENRESA comprises:

- the decommissioning of nuclear installations and activities;
- the management and handling of radioactive waste, activity that occurs both in dedicated facilities owned by ENRESA and in plants already dismantled.

ENRESA is financed by payments from the nuclear operators (mainly electricity companies (Endesa, Iberdrola, Naturgy) and from other entities generating radioactive waste such as hospitals and industries. ENRESA does not receive funds from the State.

As a follow-up of the 2017 EDP visit, the Spanish statistical authorities concluded that ENRESA does not have autonomy of decision and the unit was re-classified in the general government sector from 2010 onwards.

Considering that levies finance the entire activity of ENRESA, it was considered appropriate to record it as Miscellaneous current transfers (D.75r), an amount equivalent to the current expenditure in the profit and loss account related to the day-to-day management of waste; and as Other capital transfers (D.99r), for the amount needed to balance the B.9 of ENRESA.

On this basis, ENRESA submits a B.9, which is balanced every year.

Discussion and conclusions

The Spanish statistical authorities confirmed that the new 2019 version of MGDD has been already implemented. The only outstanding issue refer to the recording of interest as a revenue (on assets) and expenditure (on liabilities). The impact on B.9 is expected to be negligible.

The Spanish statistical authorities explained that ENRESA had profits in the last years, but for national accounts, proposes this would be balanced (no impact on government deficit), as agreed in the 2017 EDP visit. Therefore, surplus over expenditure incurred in the year is recorded in national accounts an advance received (F.8). Revenue is recorded as Other capital transfers (D.99) for the dismantling or investment and as Current transfers (D.75) for ordinary activities.

The accumulated assets, which should cover future decommissioning costs, amount to about 4-5 billion euro. The current provision for the future decommissioning amounts to about 5.6 billion euro.

The Spanish statistical authorities explained that the *Jose Cabrera* Nuclear Power Plant was in the process of being dismantled and it is foreseen to be finished by 2020.

Findings and conclusions

Eurostat took note of the explanations.

4.3.9. Financial derivatives

Introduction

The only type of derivative used is currency swaps. These transactions are recorded as financial transactions in national accounts in the item F3 - *Securities other than shares*

There are no occurrences of lump sum payments on swap cancellations, swaptions and/or options on interest, off-market interest rate swaps (IRS), FOREX swaps, off-market currency swaps or swaps with embedded options.

Prior the meeting, a voluntary table on derivatives was provided to Eurostat.

Discussion and conclusions

The table on derivatives was examined during the meeting. The Spanish statistical authorities explained that it refers to the complete general government sector. Eurostat noted that the table was rather empty and that no breakdown on the nature of derivatives was provided. The Bank of Spain confirmed that only currency swaps are being used and explained that the main data source used was the Treasury and the Autonomous Communities (S.1312).

Eurostat enquired whether any collateral was received on swaps, and if yes, what kind of collateral, cash or securities. If cash was received as a collateral, it should be recorded in debt. The Spanish statistical authorities agreed to adapt the table on derivatives. In particular,

the amounts and nature (cash or debt securities) of collateral received for the last four years will be clarified, as well as the reporting in the public financial accounting of these transactions and reflect on the statistical implication of the collateral, notably on debt.

The Spanish statistical authorities provided, prior the visit, also a table on individual swap transactions. Eurostat observed the unwinding of swaps related to hedged debt, for the dollar bond in 2017 for 1.3 billion euro. The Spanish statistical authorities agreed to investigate and report to Eurostat.

Findings and conclusions

Action point 22: The Spanish statistical authorities will adapt the Table on derivatives in line with the discussions held in the meeting. They will notably clarify the amounts and nature (cash or debt securities) of collateral received for the last four years, and will also clarify the reporting in the public financial accounting of these transactions and reflect on the statistical implication of the collateral, notably on debt. The Spanish statistical authorities will also report on the accounting of unwinding of swaps related to hedged debt, notably for the dollar bond in 2017 for 1.3 billion euro.

Deadline: mid-September 2020

4.3.10. Others: UMTS / ETS, etc.

Introduction

The implementation of the Eurostat guidance note on mobile phone licenses, explorations and other licenses was discussed under this item of the agenda.

Discussion and conclusions

The above-mentioned guidance note has been applied for all licences in the context of the October 2017 EDP notification.

Findings and conclusions

Eurostat took the note of these explanations.

5. Other issues

5.1 ESA 2010 Transmission Programme

Due to the lack of time, it was agreed that Eurostat would send questions related to the Government finance statistics (GFS) by email, in particular on issues related to the allocation of taxes (previously discussed in the 2018 ad-hoc visit). However, this issue has no impact on general government deficit.

EDP dialogue visit to Spain, 27-29 November 2019

Draft Agenda

1. Statistical organisational issues

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

1.2. Data sources and revision policy, EDP inventory

2. Follow-up of the EDP dialogue visit of 27-28 November 2017 and Ad-hoc visit of 16 November 2018

3. Actual data October 2019 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

4.1.1. Implementation of the new MGDD (2019 edition), state of play

4.1.2. Application of the market / non-market test, qualitative and quantitative criteria

4.1.3. Changes in the sector classification since the November 2017 EDP visit

4.1.4. Government controlled entities classified outside the general government (public corporations)

– Public transport companies

– Public holdings

– Units engaged in financial activities and follow-up of the sector classification of *Consortio de Compensación de Seguros (CCS)*

4.2. Implementation of accrual principle

4.2.1. Accrual taxes and social contributions

4.2.2. Accrued interest

4.2.3. EU flows

4.2.4. Military expenditure

4.2.5. Gross fixed capital formation

4.2.6. Court decisions

– Supreme court decision in the case of ACESA

4.3. Recording of specific government transactions

4.3.1. Government operations relating to the financial turmoil

– Follow-up on the *Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (SAREB)*

4.3.2. Public Private Partnership, concessions and energy performance contracts

– Follow-up of the bankruptcy of the eight concessionaires

– Follow-up on the reversion of the assets back to government (*Aguas del Llobregat - ATTL*)

- Concession and PPP contracts – duration of the contract and calculation of the fees

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

4.3.4. Guarantees

4.3.5. Government claims; debt assumptions, debt cancellations and debt write-offs

4.3.6. Capital injections in public corporations, dividends, privatization

4.3.7. Emission trading permits

4.3.8. Decommissioning

4.3.9. Financial derivatives

4.3.10. Others: UMTS / ETS, etc.

5. Other issues

5.1.1. ESA 2010 Transmission Programme

5.1.2. Any other business

EDP dialogue visit to Spain, 27-29 November 2019

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