

Joint Press Release of Statistics Portugal and Banco de Portugal on the Accounts of
the Regional Government of Madeira

Accounts of the Regional Government of Madeira

This press release aims to provide information on the impact of a number of new facts that have recently come to light on expenditure and debt of the Regional Government of Madeira.

This new information will be taken into account in the works relating to the preparation of the Excessive Deficit Procedure (EDP) notification, to be sent to the European Commission (Eurostat) by the end of the current month, and to the compilation of the General Government quarterly accounts, whose figures for the second quarter of 2011 will also be released at the end of September.

Debt Repayment Arrangements

1. The Court of Auditors published in April 2011 a report on “Auditing of charges incurred and not paid by the Direct Regional Government of Madeira – 2009” (*Auditoria orientada para os encargos assumidos e não pagos da Administração Regional Directa of Madeira – 2009*). This report identified Debt Repayment Arrangements (DRAs) concluded between the Regional Government of Madeira and construction companies, to an overall amount of around EUR 184.5 million (of which EUR 141.3 million relate to arrangements concluded in 2008 and the remainder to those concluded in 2009).

In accordance with the same report, these debts were not registered in the list of expenditure incurred and not paid that must compulsorily be filled in by all General Government bodies, and which is an important source of statistical information for the calculation of expenditure and debt of these bodies on a National Accounts basis.

2. The action taken by the statistical authorities after the report of the Court of Auditors, confirmed that the debts contracted since 2004, and which were the object of DRAs in 2008 and 2009, had not been recorded as expenditure incurred and not paid; these debts had not been reported to the statistical authorities either.
3. Following the above-mentioned action taken, between end-August and the beginning of this week, the statistical authorities were provided with a range of information, based on which it is possible to draw the following conclusions:
 - a. In 2010 new DRAs were signed, with the approximate amount of EUR 571 million, relating to debt contracted since 2003, plus interest arrears accrued until the end of 2010 of EUR 290 million (which had not been reported to the statistical authorities either);
 - b. In 2011 DRAs were signed, with an amount of EUR 11 million, relating to debt contracted since 2005, and interest arrears accrued until the end of the first half of 2011 of EUR 32 million were identified;
 - c. Additionally, unrecorded expenditure in the health services which was not the object of DRAs was identified relating to 2008, 2009 and 2010, amounting to EUR 20, EUR 25 and EUR 54 million, respectively.

Impact on deficit

Taking into consideration the national accounting rules and the information available, the table below shows the impact associated with this new set of information on the General Government deficit.

	2008	2009	2010
EUR millions	139.7	58.3	915.3
as a percentage of GDP	0.08	0.03	0.53

It should be noted that DRAs not only refer to expenditure made in 2010, but mostly to expenditure made in previous years that was not reported. If the reporting of such information had been made, the recording in national accounts would have been made in the years in which the expenditure was made (with an annual average impact of around 0.1% of GDP between 2004 and 2009). In the current situation, the DRAs are the formal recognition of the existence of this expenditure made by the Regional Government and its recording is made in the moments in which DRAs were signed.

Impact on debt

With respect to the impact on public debt, part of the expenditure incurred and not paid is estimated to have an impact equivalent to 0.3 percentage points of GDP. This expenditure corresponds originally to trade credits obtained by the Regional Government of Madeira which, according to European regulations, are not recorded in public debt used for Excessive Deficit Procedure (EDP) purposes. Part of these credits was not repaid and was subject to successive renegotiation arrangements after some years. On the above grounds, these amounts assumed the features of a financial debt, with the consequent impact in public debt for EDP purposes.

The correction in debt is lower than the cumulative deficit, as the share of trade credits that was discounted with the financial sector (through operations of factoring without recourse) was recorded over the years in the public debt for EDP purposes.

Guarantees and debt assumption in the first half of 2011

In accordance with the national accounting rules, the full amount of the guarantees provided by the Regional Government to SESARAM, a public corporation, was considered in the calculation of the Regional Government deficit and debt (and, hence of the general government) referring to the first quarter of 2011, published on 30 June 2011. In the second quarter of 2011 the assumption by the Regional Government of debt incurred by ViaMadeira will be entered in the accounts. Overall, the impact on the deficit and on the debt of these two operations amounts to EUR 568 million in the first half of 2011.

Final note

Statistics Portugal and Banco de Portugal, as the national statistical authorities responsible for the calculation of General Government statistics, consider serious the omission of information. The two authorities are not aware of similar situations.

The work currently undertaken relating to the preparation of the EDP is a relevant contribution to an even more accurate assessment of the financial situation of the public entities of the Autonomous Region of Madeira, which is currently being made by the Technical Working Group on the Autonomous Region of Madeira, in which Statistics Portugal participates.

Statistics Portugal and Banco de Portugal remain committed to enhancing the quality of the national statistical system and of the calculation of public accounts and consider that the institutional cooperation between the relevant public entities is indispensable to achieve this goal.

Lisbon, 16 September 2011