The impact of PPPs contracting on Portugal’s fiscal position and what can be done about it
Presentation at the 4th Annual OECD Symposium on PPP Working Party of Senior Budget Officials (SBO)

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Introduction

• Portugal’s current Public Finances situation.

• The Portuguese experience with PPPs.

• PPPs in the Memorandum of Understanding with the EU/ECB/IMF (*The Troika*)

• The future of PPPs in Portugal: What solutions?

• The OPPP at the University: Our mission, organization and work.
Public Finances in Portugal
Public Finances in Portugal: current situation

- Significant increase in public spending not followed by economic growth
- Permanent deficits around 5% before 2008 financial crisis
- After 2008, fast fiscal deterioration
- High levels of public debt with an increase in the interest rates
- Unsustainable fiscal situation
Public Finances in Portugal

That have produced significant public deficits

Sources: adapted from the Parliament’s National Budget Technical Unit (UTAO) report, INE data, the 2012 National Budget, and Ministry of Finance reports and OPPP estimates.
Public Finances in Portugal

That lead to a substantial increase in the public debt

Source: INE (Portuguese Statistics Bureau), forecasts from 2012 onwards taken from the Portuguese Government official forecasts
Public Finances in Portugal

• Pro-cyclical deficits, with significant decrease in revenues and increase in automatic stabilizers

• No particular concern with public debt, focus has been mainly on deficit

• Election cycle does not help either, but has consistently enhanced transparency

• Precarious fiscal consolidation recurrently lead to off budget public spending solutions
The PPP Experience in Portugal
The PPP Experience in Portugal

• Intensive use of PPP to close the “infrastructure gap”
• Portugal lead PPP projects when measure by the size of the GDP
• “Off-budget temptation”, and not Value for Money, was the main reason to choose PPP instead of traditional procurement
• Affordability issued due to the high level of future payments.
The PPP Experience in Portugal

Number of Projects (PPP and Concessions)

[Bar chart showing the number of new projects and accumulated projects from 1995 to 2010.]

Source: Adapted from Ministry of Finance PPP reports
The PPP Experience in Portugal

Total Investment

Source: Adapted from Ministry of Finance PPP reports
The PPP Experience in Portugal

Nº1 worldwide in PPP investment (measure as % of GDP)

Source: Andreas Kappeler and Mathieu Nemoz, public-private partnerships in europe before and during the recent financial crisis, Economic and Financial Report 2010/04 July 2010, EIB.
The PPP Experience in Portugal

Annual Payments in Million €

Source: Adapted from National Budget 2012
## The PPP Experience in Portugal

### NPV in % of GDP

<table>
<thead>
<tr>
<th>Sector</th>
<th>Data</th>
<th>R= 6%</th>
<th>YTM 2008 - 4%</th>
<th>YTM 2011 - 13%</th>
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</thead>
<tbody>
<tr>
<td>Roads</td>
<td>Gross payments</td>
<td>10.0</td>
<td>12.1</td>
<td>5.8</td>
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<td></td>
<td>Net payments</td>
<td>5.2</td>
<td>6.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Trains</td>
<td>Gross payments</td>
<td>0.5</td>
<td>0.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Health</td>
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<td>1.6</td>
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<td>Security</td>
<td>Gross payments</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>Gross payments</td>
<td>12.2</td>
<td>14.7</td>
<td>7.3</td>
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<tr>
<td></td>
<td>Net payments</td>
<td>7.4</td>
<td>8.6</td>
<td>4.9</td>
</tr>
</tbody>
</table>

2011 GDP: 171 billion €
The PPP Experience in Portugal: 7 main reasons for concern

1. High levels of investment in a short period of time.

2. Deficit on structure and management skills.

3. Poor public management during the bidder process: PSC only after 2006
The PPP Experience in Portugal: 7 main reasons for concern

4. PPP focus only as off-budget operation.

5. Poor budget control of financial assumptions.

6. Incorrect risk valuation and allocation.

7. PPP renegotiations have systematically increased the payments for public
PPPs in the Memorandum of Understanding with *The Troika*
PPPs in the MoU with The Troika

- 15 references in 8 paragraphs
- 3 lines of actions:
  - “RE-”BUDGETING (3.3 e 3.13.i)
  - MONITORING (3.11, 3.18, 3.19, 3.20 e 3.21)
  - RE-ASSESSING (3.17 e 3.19)
PPPs in the MoU with The Troika

**Troika PPP Guidelines**

1. Avoid engaging in new PPPs before the assessment of the current ones are reviewed and the legal and institutional framework is created.

2. Consider the possibility of *renegotiation* of the existing PPPs with the purpose of reducing State payments.
The future of PPP in Portugal: What solutions?
The future of PPP in Portugal: What solutions?

Buying Back existing contracts
(2\textsuperscript{nd} wave: 7 former shadow toll roads already in service)

- Assumptions:
  - Future payments until 2031 net of O&M expenses
  - Present value of net future payments at 15\% discount rate (average current CAPM): M\€ 3 500.
  - Government funds this amount (about 2\% of GDP) at 6\% interest from the \textit{Troika} and uses it to acquire total asset (\textit{debt} + equity)
The future of PPP in Portugal: What solutions?

Buying Back existing contracts
(2nd wave: 7 former shadow toll roads already in service)

• Consequences:
  
  – Liquidity injection into the banks (debt payment) and into construction companies (equity purchase)

  – Eliminating renegotiation risk

  – Arbitrage opportunity between current 15% CAPM and 6% interest rate on public debt (Troika assistance terms) allows for a yearly saving of up to M€400

The future of PPP in Portugal: What solutions?
The future of PPP in Portugal: What solutions?

Other projects

• Railways:
  – 3 existing contracts:
    » Fertagus is performing well
    » MST under renegotiation
    » High speed rail suspended

• Health:
  – Clinical services in 3 hospitals:
    » Recent experiences (opened in 2009, to soon to evaluate)
    » Risk sharing seems to be better done
  – Construction of several units:
    » Performing well

• Energy:
  – Natural Gas Supply:
    » No public payments
  – Hidrical Powerplants
    » Payments forwarded to consumers´electricity bill

• Other roads:
  – 1st wave:
    » Tolled roads
  – 3rd wave:
    » Under construction
    » Solution could be equity purchase
The OPPP: Our mission, organization and work.
CATÓLICA-LISBON was the first Portuguese School to be amongst the select group of Business Schools accredited with the Triple Crown.

Only 1% of Business Schools worldwide have this accreditation.

These prestigious rankings represent the international recognition of our programs’ academic excellence accredited ensuring that they meet the most demanding international standards.

CATÓLICA-LISBON is the Leading Portuguese School to be ranked amongst the Top European Business Schools according to the Financial Times.

CATÓLICA-LISBON Master program entered FT rankings for Master programs. Occupies the 4th position worldwide for the variable that evaluates employability success.

CATÓLICA-LISBON has been named the only Program Partner in Portugal by the CFA® Institute, the global association for investment professionals that awards the prestigious CFA® designation.
Center for Applied Studies (CEA)

- Applied research and consulting unit of CLSBE.
- Mission: to provide a continuous link between the academic world and companies, offering consulting services in the areas of economics and management to private, public and social institutions.
- These services are mainly driven by the application, to real world situations, of several research topics conducted by CLSBE faculty.
The OPPP

• Created in 2009, the Public-Private Partnerships Observatory (OPPP) is an independent, not for profit, research driven organization, based in CLSBE

• The Observatory develops a systematic approach to PPPs in Portugal, providing rigorous analytical information to its members, and keeping them also informed about relevant market developments.
The OPPP

• Currently (October 2011) the OPPP has 30 paying members, among public entities and regulators, private contractors and concessionaries, banking and finance institutions, consulting companies and law firms.

• The independence of the OPPP is promoted by the balance in the composition of its membership base: every category of players in the PPPs’ contract is always well represented.
The OPPP

- This balanced diversity of members also adds to the expertise, knowledge base, and networking of the OPPP, turning it into the perfect forum for open, frank and insightful discussion on PPPs in the country.

- Each member pays a yearly fee and gets first hand access to all the research produced internally and participates in the discussions and events organized by the OPPP. The fees are used exclusively to cover the research activities of the Observatory.
Research Projects at OPPP

- PPP risk assessment methodology (2008-2009)
- Portuguese PPP risk assessment and Regressions analysis (since 2009)
- Public Sector Comparator (2010)
- Renegotiation and Refinancing (2011-2012)
- Corporate Governance (2012-2013)