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Directorate D Government Finance Statistics
Unit D-2: Excessive deficit procedure (EDP) I

Luxembourg,

FINAL FINDINGS

EDP dialogue visit to Czechia

22-23 November 2021

EXECUTIVE SUMMARY

Eurostat carried out a standard EDP dialogue visit to Czechia on 22-23 November 2021. The purpose of the meeting was to review the existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, to review the implementation of the accrual principle, to examine the classification of some categories of institutional units and to review the recording of specific transactions, in particular in the context of the COVID-19 pandemic.

First, Eurostat took note that there have been no changes in the institutional responsibilities in the framework of the reporting of data under the EDP. The action points set during the previous EDP dialogue visit in 2019 were also reviewed (with some, e.g. a motorway PPP reviewed more in detail under separate points of the agenda). Regarding the delimitation of general government, a detailed discussion took place on some government-controlled entities classified outside general government. Special attention was paid to the 2021-established National Development Fund (NRF). The classification of public transport operators currently classified as S.11 non-financial corporates was also discussed in detail.

As regards taxes, Eurostat and the Czech statistical authorities reviewed the measures introduced by government in response to the COVID-19 pandemic, tax deferrals as well as some special cases of tax payables and tax credits. The discussion aimed to solve some technical aspects and clarify the data sources used, in particular in April EDP notifications. Moreover, it was agreed that some of the COVID-19 taxes and social security measures will be better explained with the next EDP notifications.

Next, Eurostat confirmed that the method on recording of EU funds appeared to be correct and in line with the rules. Also the recording of EU financial instruments was discussed in more detail and Eurostat asked to receive additional clarification on the recording in national accounts. Eurostat endorsed, given the circumstances, the almost universal recording of capital injections as D.9 capital transfers impacting the government deficit.

Participants discussed the main COVID-19 measures undertaken by government and its recording in national accounts, in particular the impact on government deficit and debt. Special attention was paid also to guarantees issued in the context of the COVID-19 pandemic and their classification as one-off guarantees (vs standardised guarantees, which was the other alternative).

With regard to PPP and concession contracts, Eurostat reviewed the detailed analysis performed by the Czech statistical authorities on the classification of a 2021-closed motorway contract, and requested further information on older concession-type contracts. A specific discussion ensued with regard to the government recording of two special nuclear reserve accounts, one classified within government and the other held by a public corporation classified outside government. The template tables on interest and derivatives were also discussed briefly, with follow-up action points agreed for both.

Eurostat very much appreciated the good co-operation and transparency demonstrated by the Czech statistical authorities during the meeting and the quality of the documents provided beforehand.

Final findings

INTRODUCTION

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Czechia on 22-23 November 2021. Due to COVID-19 restrictions, the EDP standard dialogue visit was conducted via a video-conference.

The previous Eurostat EDP dialogue visit to Czechia took place in 2019: on 13-14 May 2019 in Prague, followed up by a video-conference on 7 June 2019.

The delegation of Eurostat was headed by Mr Luca Ascoli, Director of Eurostat Directorate D: Government Finance Statistics (GFS). Eurostat was also represented by Ms Gita Bergere, Ms Rasa Jurkoniene, Ms Daniela Ilavska and Mr Vassil Georgiev. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) also participated in the meeting as observers.

Czechia was represented by the Czech National Statistical Office (CZSO), the Czech National Bank (CNB) and the Ministry of Finance (MoF). Representatives of the Supreme Audit Office, the Ministry of Transport, and the Czech Fiscal Council also participated for parts of the meeting.

The overall purpose of this EDP dialogue visit was to ensure that the provisions of the European System of National and Regional Accounts (ESA 2010), of Eurostat's Manual on Government Deficit and Debt (MGDD 2019), as well as that of Eurostat's decisions, are duly implemented with regard to production of Czech EDP and GFS statistics.

More specifically, the purpose of the online EDP dialogue visit was to review data sources and compilation procedures for the EDP/GFS data; to review the reporting in National Accounts of the fiscal measures taken in response of the COVID-19 pandemic (including notably special contingent liabilities, e.g. guarantees, as well as the Recovery and Resilience Facility programme (RRF); to review the sector classification of units, including those recently created (notably the National Development Fund, or 'NRF'); to review the recording of PPPs and other public procurement projects, currently under implementation and in future planning; to follow up on the April and October 2021 EDP notifications, and to follow up on the previous EDP dialogue visit.

With regard to procedural arrangements, the Main conclusions and action points would be sent to Czechia for review. Within some weeks, provisional findings would be sent to Czechia for review and comments. After this, final findings would be sent to the Czech authorities and to the EU Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat greatly appreciated the co-operation and transparency demonstrated by the Czech statistical authorities during the meeting, and was grateful for the detailed documents provided before the dialogue visit.

1. STATISTICAL INSTITUTIONAL ISSUES

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

Introduction

The CZSO is responsible for the compilation of national accounts and the reporting of the EDP notification. The cooperation and delivery of relevant data for GFS/EDP statistics between the national statistical authorities are regulated by specific agreements. Official Memoranda of Understanding (MoUs) among the three main institutions—the CZSO, the MoF and the CNB exist since 2007. In 2013, the CZSO also signed an additional MoU with the Supreme Audit Office (SAO). These MoUs stipulate competencies and responsibilities with regard to the preparation of the EDP reports, as well as regulate the data and information exchanges taking place between the institutions. In addition to the MoUs, there is bilateral cooperation, based on the Law on state statistics, with some government units/ministries, e.g. with the ministries of defence, labour, education, interior, health, etc.

Following the previous EDP dialogue visit to Czechia held in 2019¹, annexes to the main MoUs have been added, with the purpose to better articulate responsibilities and task distribution within the national EDP working group.

Discussion and methodological analysis

Eurostat thanked the Czech statistical authorities for providing an explanatory note confirming that there have not been any notable changes in EDP institutional responsibilities since the previous dialogue visit. Eurostat also commended overall Czech EDP reporting, which it considers to be of a very good quality, with no notable statistical capacity issues.

Eurostat opened the discussion by a brief review of the working balances (WB) included in EDP tables 2A, 2C and 2D. It recalled that the WBs in EDP tables 2A and 2C are on a cash basis, while the WB in EDP tables 2D is on an accrual basis. The reason for this is that the former includes the cash revenues and expenditures of the budgetary organisations and state funds, mainly based on centralised accounting data sources, while the latter is derived primarily from annual statistical surveys of accrual-based revenues and expenditures of healthcare organisations.

Eurostat also enquired about the Czech Fiscal Council, which was represented at the meeting, and what its role was. The CZSO replied that the Czech Fiscal Council was established relatively recently, in 2017, and later the CZSO also signed a MoU with the Fiscal Council as well. The setting up of the council was a requirement by Czech law, transposing functions prescribed by EU regulations. The Council serves as a type of an independent ‘advisory board’ and is required to issue comments/ report on the government’s fiscal policy and its execution. The Council is relatively small, in terms of the number of employees. CZSO offered to provide Eurostat with the MoU signed with the Czech Fiscal Council, along with an explanatory note clarifying its role.

¹ The final findings from the 2019 dialogue visit to Czechia are published at ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/eurostat-edp-visits-to-member-states.

Eurostat also enquired about co-operation with the Supreme Audit Office (SAO), as well as the regularity of the meetings of the EDP working group during the COVID-19 pandemic. CZSO replied that cooperation with SAO, as well as virtual meetings by the EDP working group, continued on a regular basis, similar to the general practice before the pandemic. Eurostat asked about the agenda of the latest meeting by the EDP working group.

Findings, follow-up and conclusions

Action Point (AP) 1: The Czech statistical authorities will provide to Eurostat the latest Memorandum of Understanding signed with the Czech Fiscal Council, along with a note on the role of the Fiscal Council, both in general terms and in terms of co-operation with CZSO on EDP and GFS statistics.

Deadline²: 31 January 2022

1.2. Data sources and revision policy in the context of ESA 2010 implementation

1.2.1. Data sources

Introduction

The Czech statistical authorities use a 2-prong system of data sources—main source and auxiliary (or secondary) data sources. The main data source is the 'Central System of Accounting Information of the State' (CSUIS). The CSUIS provides input data to CZSO for budgetary organisations, semi-budgetary organisations and state funds. The system is under the direct responsibility of the MoF and was implemented in 2010 within the accounting reform of the state. For other government bodies, financial statements are delivered directly by the units or via CZSO regional offices.

In 2012, an additional module - the Auxiliary Analytical Overview (AAO) - was launched to adapt the data reporting for statistical purposes. Its coverage is not exhaustive and includes government units over a certain threshold. However, these units' assets/ liabilities represent nearly 90% of the total assets/ liabilities reported in the CSUIS. The CZSO obtains other supplementary data from annual/quarterly statistical questionnaires, money and banking statistics and other information sources. For non-profit institutions (NPIs) or small units, statistical questionnaires are used.

Discussion and methodological analysis

Eurostat thanked the Czech statistical authorities for regularly updating the EDP Inventory³. It also confirmed the main data sources, the CSUIS and the AAO, as well as that the CZSO has the necessary level of access to them.

Eurostat enquired about the system in place and the data sources used to identify transactions by units classified outside government that might need to be rearranged via general government (as prescribed in MGDD 1.2.4.5). The Czech EDP Inventory stated that such transactions are being collected through the AAO. The CZSO replied that the only transactions identified, and included in EDP Questionnaire table 13, are the ones performed by the Czech National Bank (S.12) on

² The MoU was received by Eurostat on 31.01.2022, with the explanatory note following a few weeks later.

³ The latest received EDP inventory of Czechia is published at <https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-inventories>.

behalf of the government, for cash pooling of public corporations. Eurostat then asked the CZSO to send a clarifying note on the subject.

Data sources related to capital injections

Eurostat noted the absence of total capital injections for year (T-1) during the April vs October (2021) EDP notifications. While also recognising the fact that the capital injections total was included in the government deficit/ surplus, as no noticeable revision was observed between the two notifications, Eurostat asked that at least a total amount of capital injections for year (T-1) is shown in EDP Questionnaire tables 10.1 and 10.2, still during the April EDP notification.

The CZSO explained that during the April EDP notifications, for reference year T-1, the total amount of capital injections is available (from the Ministry of Finance) and is included in the general government deficit/ surplus (D.9 government expense). The CZSO also stated that as early as April, it is possible to distinguish this aggregated amount between capital injections into government and non-government units (the vast majority of capital injections in Czechia are recorded as D.9 expense). However, counterpart information in detail is not available until the second EDP notification. This information is based on statistical survey (in accordance with the accounting and tax legislation) and due to this, the first processing of the statements (for the national accounts needs) is carried out in August.

Eurostat also requested the CZSO to fill out already in April EDP notifications the total amounts for capital injections in EDP Questionnaire tables 10, also split into sub-totals for the different subsectors of general government (capital injections included in EDP tables 2A, 2C and 2D).

Findings, follow-up and conclusions

AP2: The Czech statistical authorities will inform Eurostat on the system in place to identify the S.11/S.12 units' transactions which may need to be re-arranged via general government, following the criteria set out in MGDD 1.2.4.5. The Czech statistical authorities will explain what data sources are used for this systematic collection of information.

Deadline⁴: 31 January 2022

AP3: The Czech statistical authorities will include total capital injections for year (T-1) already during the April EDP notification, along with any known individual capital injections. The Czech statistical authorities will also provide a split of the total by subsectors. In general, EDP Questionnaire table 10.2 should not contain 'L's (not available) for the columns/ years (T-2) and older.

Deadline⁵: continuous, the first reporting in the April 2022 EDP notification

1.2.2. Social security system related to pensions (non-healthcare)

Introduction

Government sub-sector S.1314 in Czechia does not contain any entities related to pension contributions and management. Sub-sector S.1314 only contains healthcare related state units. The mandatory social security contribution scheme exists as part of budgetary central

⁴ The clarifying note was received by Eurostat on 31 January 2022.

⁵ The CZSO made the capital injection amendments with the April 2022 EDP notification.

government (S.1311) and has never been separated into institutional units. Voluntary pension management schemes exist as well, but the units dealing with such management are classified outside of general government, as S.12, private financial corporations. The mandatory pension system is based on the ‘pay-as-you-go’ concept.

Discussion and methodological analysis

Eurostat recalled the discussion from the 2019 EDP dialogue visit, when an action point was put for the Czech statistical authorities to consider statistically separating the social security system related to pensions from subsector S.1311 into S.1314. In 2019, the CZSO replied that such separation would not be rational given the lack of institutional units related to pension management, as well as the smoothly functioning system (well established data sources and flows of information, with the intermediation of the Ministry of Labour). The CZSO also stated that the current approach is compliant with ESA 2010. Eurostat took note that this is not a priority for the Czech statistical authorities, at this stage, but stated that this would continue to be a topic of discussion in future EDP dialogue visits because the vast majority of the EU member states have pension-related social security as part of sub-sector S.1314. Eurostat also mentioned that recently one more EU member state added pension funds to establish its S.1314 sub-sector, and that having the system in S.1314 would facilitate harmonisation and comparability among EU member states.

1.2.3. Revision policy

Introduction

Two types of revisions are being undertaken by the CZSO: (i) routine (current) revisions related to the availability of final data (e.g. due to preliminary-final data differences) and (ii) ad-hoc (major) revisions related to specific events or new conceptual requirements. As part of the latter, the CZSO performs benchmark revisions, which should in principle be at 5-year intervals.

Previously, major revisions were done in 2004 (when Czechia joined the EU), in 2011 and in 2014 (the latter related to the implementation of ESA 2010) and 2020. Historical data exist since 1993 (from the time of the dissolution of the former Czechoslovakia) plus for the period 1990-1992, for a few partial data sets. In 2017, there was a limited ad-hoc revision related to the Eurostat guidance note on the treatment of the revenue due to mobile (e.g. 3G/4G) license sales.

Discussion and methodological analysis

Eurostat commended the Czech statistical authorities for the smooth carrying out of the 2020 benchmark revision, and took note of the main data sets which underwent revision: government claims from foreign countries, UMTS mobile frequency licensing contracts (for historical years), ETS allowance recording in the years up to 2015. Eurostat also noted that Czechia is among the EU member state with relatively few revisions between October and April, which is indicative of a high quality of EDP reporting.

The only recent notable revision has been observed for EDP data in 2020, during the first year of the COVID-19 pandemic. This revision was a 0.5%_[GDP] improvement of the 2020 government deficit reported in October 2021 vs. April 2021 and was entirely due to corporate income tax revenues. It was recalled that, in April, corporate income tax is reported based on estimated data, with a system of final settlements that could take sometimes 12 months following the calendar year end. For 2020, corporate income tax was understandably initially (in April 2021)

underestimated, based on some analogues drawn with the aftermath of the 2008 financial crisis. In October 2021, it became clear that the April estimate was too pessimistic.

Eurostat also enquired about the next benchmark revision, and the CZSO replied that it was going to be performed in 2024. The CZSO also confirmed that Czech EDP reporting is in compliance with all the revisions made in the 2019 edition of the MGDD⁶.

1.3. Compliance with Council Directive 2011/85/EU⁷

Introduction

Monthly fiscal data are published⁸ for the State Budget, the state funds and the health insurance companies in the social security funds subsector. In addition, monthly data for major central semi-budgetary organizations, public research institutions, public universities and other major central government units are also available (for the smaller units, monthly estimates are derived from quarterly data). Details on main categories of revenues and expenditures are available in addition to the three compulsory indicators (total revenue, total expenditure and overall balance). Data for local government are complete and estimations are used for other local government bodies. The reconciliation table published together with fiscal data is a descriptive explanation of the primary data sources and their transition to ESA-based EDP/GFS data, as reported to Eurostat. The MoF also publishes on a dedicated website data on contingent liabilities⁹—government guarantees, off-balance-sheet PPPs, liabilities of government-controlled entities and non-performing loans (NPLs), as required under Council Directive 2011/85/EU.

Discussion and methodological analysis

Eurostat commended CZSO for achieving a significant shortening of the timing for submission of the Questionnaire of Public Corporations classified outside government, from T+24 months before the 2019 EDP dialogue visit, to T+12 months currently. Eurostat also asked about the mechanics of how this timing improvement was achieved, to potentially share this as a best practice among other countries that might be struggling with a similar issue. The CZSO explained that this was implemented with a policy change to require submission and processing of data, at least by units above a certain size threshold, earlier than before, i.e. by November/December of each year.

DG ECFIN also intervened to ask a question on transposition checks, regularly carried by the European Commission, aimed at verifying that the Directive is transposed into the national legislation of EU member states. To this end, DG ECFIN and Eurostat were in contact with the Czech EDP statistical authorities over the course of the previous year. The only outstanding point regarding this issue was assurance of the independent audit for central and local authorities. At the time of the EDP dialogue visit, there was a draft act envisaged to broaden the competence of

⁶ The 2019 edition of the Manual on Government Deficit and Debt (MGDD) is published at <https://ec.europa.eu/eurostat/documents/3859598/10042108/KS-GQ-19-007-EN-N.pdf>.

⁷ Council Directive 2011/85/EU <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32011L0085>.

⁸ Nationally published monthly fiscal data <https://www.mfcr.cz/en/statistics/budgetary-frameworks-statistical-information/fiscal-data>.

⁹ Nationally published contingent liabilities data <https://www.mfcr.cz/en/statistics/budgetary-frameworks-statistical-information/contingent-liabilities-and-other-information>.

the SAO, to also carry out audits on certain (smaller) units within local and central government, which until that moment had not undergone regular audits. DG ECFIN understood that the draft act was once rejected in the parliament, but was undergoing a legal procedure for further consideration. DG ECFIN stressed the importance of implementing the draft act by the set deadline of end-2022. The Czech statistical authorities took note of the issue.

Eurostat also made the observation that the contingent liability data published on the Ministry of Finance website (refer to footnote⁹ above), mainly concerning the liabilities of public corporations, was typically still published with the previous time lag, i.e. at the end of November each year, representing a time lag of T+23 months. The main data source used for the national publication was the statistical survey by the CZSO, the results of which are typically available significantly earlier. The Czech statistical authorities undertook to rectify this time lag as well.

Eurostat also enquired about a significant reduction in nonperforming loans from 1.1% of GDP in 2017 to 0.5% of GDP currently. The CZSO replied that this was mainly due to foreign government claims (assets by the Czech Export Bank and by the government directly). A notable part of such claims was written off in 2019, as explained during past EDP notifications, which is also in compliance with the 2019 revision of the MGDD (refer to footnote⁶ above).

Findings, follow-up and conclusions

AP5: The Czech Ministry of Finance will investigate a way to shorten the current T+23-month time lag for publishing the liabilities of public corporations to T+12 months.

Deadline: 30 June 2022

2. FOLLOW-UP TO THE PREVIOUS EDP DIALOGUE VISIT

Introduction

The findings from the previous EDP dialogue visit in 2019 were published on the Eurostat website (refer to footnote¹ above). The various action points (APs) from this dialogue visit have been followed-up continuously—during EDP notifications, as well as in bilateral correspondence. The vast majority of actions points have been closed.

A few of the action points did not contain a specific deadline. Some were marked as continuous, e.g. with subsequent EDP notifications or by the end of each calendar year, while others were subject to the occurrence of specific events.

An example of the latter was action point 28 from the previous EDP dialogue visit, which would be triggered by the financial close on an expected private-public partnership (PPP) contract related to the construction of a new motorway (section). A follow-up on this particular action point is discussed further down in section 4.3.5 on PPPs.

Discussion and methodological analysis

The discussion on the action points from the previous dialogue visit in November 2016 was brief. They have a methodological nature and were therefore merged in Section 4 (Methodological issues and recording of specific government transactions) of the agenda.

3. FOLLOW-UP TO THE 2021 (OCTOBER AND APRIL) EDP NOTIFICATIONS

Introduction

The closing remarks of the October 2021 EDP notification did not identify significant issues. There was one notably issue during the April 2021 EDP notification, namely that there was some misalignment between tax revenues, cash flows and tax receivables, identified from analysing EDP Questionnaire table 5, as well as an ad-hoc table showing tax and social security quarterly flows. This issue was corrected between April and October 2021.

Discussion and methodological analysis

The discussion in this section was not exhaustive, as many specific topics were discussed under section 4. Methodological issues and recording of specific government transactions. Examples of such specific topics are the recording of one-off vs. standardised guarantees, treatment of PPP contracts, or the sector classification of specific units.

Eurostat opened the discussion by thanking the Czech statistical authorities for the good quality of reporting overall, as well as for the multiple additional tables typically submitted with each EDP notification. In 2021, two new tables were added to EDP reporting, i.e. the table on COVID-19 measures tables implemented by the government, as well as the Recovery and Resilience Facility table. In addition, the Czech statistical authorities typically submitted a monthly/quarterly tax flows table (split into main categories: VAT, corporate/ personal income taxes and social security contributions); more detailed EDP tables 3B1, 3B2 and 3Bx (adjustments); as well as detailed adjustments included in EDP tables 2.

Eurostat also mentioned the missing capital injections total (from EDP Questionnaire tables 10.1 and 10.2), which had already been discussed in agenda point 1.2.1. Eurostat also mentioned the main revision between the April and October 2021 EDP notifications, namely the 0.5%_[GDP] improvement of 2020 government deficit due to better than initially estimated corporate income tax revenues. This issue had also already been discussed under agenda point 1.2.3.

‘Other economic flow’ recorded for a public corporation in liquidation (classified inside government)

The public corporation in question had been in liquidation since 2018, when it was reclassified from S.11 non-financial public corporations sector into S.1311 central government. At the time of reclassification, the government took over all the unit’s assets and liabilities by way of recording ‘other economic flows’. In 2021, there was a decision by a Czech court to restructure the unit’s liabilities, by taking certain assets of that unit and putting them in a 2020-established subsidiary unit (classified in S.11). The creditors to this unit would thus receive ownership over the assets of the subsidiary and cease having any recourse to any assets recorded on the consolidated government balance sheet. This latter transaction was also recorded as a sizeable ‘other economic flow’ in 2020. Eurostat also enquired if this is a common procedure for dealing with similar situations, or more of a one-off type of case, and the CZSO confirmed that it was a one-off case. Eurostat then confirmed that the applied recording was appropriate.

Statistical discrepancies

Eurostat confirmed that statistical discrepancies showed in EDP tables 3 were within reasonable limits, and thanked the CZSO for sending a detailed government revenue/expenditure table,

containing also a comparison between B.9 and B.9f (financial accounts), for a number of large units and groups of units inside general government.

Former National Property Fund (FNPF, Fond národního majetku)

Eurostat enquired about the Former National Property Fund as typically gave rise to large adjustments in EDP table 2A (one of the details in section ‘Non-financial transactions not included in the working balance’). In 2019, for example, the FNPF adjustment reached a negative 0.2%_[GDP]. The CZSO recalled that FNPF was established in 1991 for the purpose of privatization and restitutions of the state property (as a part of the transitioning of the Czech economy into a market-based system with less government ownership). Following a successful transition to a market-based economy, FNPF was dissolved at the end 2005, however it continued to exist as a special set of accounts (kept separately from the budget) inside the MoF, maintaining also a special bookkeeping system.

The CZSO also recalled that, despite its dissolution, FNPF continued to receive some dividends, acting as a custodian on behalf of the government regarding certain remaining (mostly minority) ownership stakes, and also paying out certain compensations arising from past privatisation contracts, e.g. compensations related to environmental pollution by formerly state-owned factories, etc. The differences between dividends received and compensation costs accounted for the majority of the sizeable amounts observed as adjustments in EDP table 2A.

Payables/ receivables by non-profit non-financial units included in government.

Eurostat also enquired about the frequent sizeable revisions in accounts payable/ receivable of 109 non-profit non-financial units included in central government as other central/ local government bodies. These units were the state television and radio, public research institutions, public universities, some nursery schools established as parts of the public universities, and others. Eurostat recognised that these payable/ receivable revisions did not affect the general government deficit/ surplus. The CZSO replied that during the April notifications, the data were estimated based on quarterly surveys (which may have been missing some more detailed sub-items and granularity), while by the time of the October notifications, these data were based on verified financial reports, which necessitated the revision.

Outstanding GFS issues

Eurostat thanked the CZSO for providing extended (voluntary data in) ESA tables 2, 25 and 27, and briefly mentioned that there were some minor outstanding GFS questions to be resolved with the January 2022 quarterly reporting, e.g. some unreconciled AF.42L differences between COFOG (Classification of the Functions of Government) and government debt in quarterly debt reporting.

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

4.1. Delimitation of general government sector

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

Introduction

Following the previous EDP dialogue visit in 2019, the CZSO sent an updated market/ non-market 50% test formula, which was confirmed as compliant with MGDD requirements. The formula is detailed in the EDP Inventory³. The numerator represents the sum of P.11 (sales/ market output) and P.131 (payments for non-market output), while the denominator represents the sum of P.2 (intermediate consumption), D.1 (compensation of employees costs), P.51c (consumption of fixed capital), D.29 (other taxes on production) and net D.41 (interest payable minus interest receivable), whereas P.12 (output for own final use) is subtracted/ adjusted in the denominator.

Prior to the meeting, the CZSO provided a list of units classified between the general government sector and other sectors since 2019. These units were mostly a few companies operating in the water sector, municipal sports facilities and S.15 associations.

The Czech statistical authorities also provided a table with the *calculation of market/non-market test* for approximately *one thousand public corporations* classified outside of government, the vast majority of which were classified in the S.11 non-financial corporations sector. Eurostat performed its own analysis on the basis of the latter table, and identified approximately 80 units as potential candidates for re-classification from S.11 to S.13.

Discussion and methodological analysis

Eurostat opened the discussion by presenting the results of its analysis, a shortlisted extraction of approximately 80 units for which the market/ non-market test was below, or just above the required minimum 50% threshold. The shortlist also included units for which data were missing (showing ‘L’s in the table), units in liquidations and inactive units. These units were potential candidates for re-classification into general government. Eurostat commented that ‘L’s were observed with a high frequency, which meant that the public corporations concerned could not demonstrate that they meet the market/ non-market requirement to be classified outside government.

Eurostat also recognized that the majority of the approximately 80 shortlisted units were of a small size, and their hypothetical reclassification into general government was very unlikely to result into any notable revisions of EDP deficit and debt. It also recognized the abnormality of 2020, due to the fact that some units suffered worse than usual financial results with the onset of the COVID-19 pandemic. If some units on this list may have been in breach of the 50% test only in 2020, then this could be a temporary phenomenon due to the COVID-19 pandemic and should not necessarily lead to the need for reclassification.

The CZSO confirmed that units showing ‘L’s in the table are so small that it was very likely that they are not obliged to supply detailed data with the questionnaires they had to fill out. Whenever such detailed data were missing, any bits and pieces of data shown were extracted from the units’ tax statements. Eurostat then recalled the methodological principle that public units should by

default be inside government unless they can demonstrate that they operate on a market basis, and there should be no need to wait until there are three years in a row of breached market/ non-market ratios, or unavailable ratio calculations, before reclassifying the said smaller units (for which scarce data were available).

Eurostat also called the attention to one specific company on the list, namely Svaz VKMO classified as S.11 public corporation, as it had broken the market/ non-market test for three years in a row already. The CZSO explained that Svaz VKMO had a majority of its income in the form of property non-interest income (D.4), e.g. from patents and royalties, which did not count towards the numerator of the market/ non-market test formula (above). If such property income were counted, the company would have been covering its costs, for most of the years.

Findings, follow-up and conclusions

AP6: The Czech statistical authorities will review the identified units, potential candidates for sector-reclassification, and will send a note to Eurostat, detailing their findings, in particular, which of the units will be reclassified to general government, while providing relevant explanations when units in the list will not be reclassified.

Deadline¹⁰: 15 March 2022

AP7: The Czech statistical authorities will provide details on the calculation of the market/ non-market test for the unit Svaz VKMO s.r.o. The CZSO will also explain the nature of the unit and its activities.

Deadline¹¹: 28 February 2022

4.1.2. Sector classification of specific units

4.1.2.1. The 2021-established National Development Fund (NRF)

Introduction

The Czech statistical authorities sent a request for an advice on the classification of the 2021-established Czech National Development Fund (NRF). Eurostat followed with a round of clarifying questions to CZSO. A few days before the EDP dialogue visit in November 2021, additional clarifying replies were received from the CZSO in consultation with the various ministries and the NRB (the Czech National Development Bank, formerly known as the Czech-Moravian Development Bank). The NRB owns 100% of the founding shares of the Fund (the only type of shares existing as of November 2021) and is classified in the S.1311 central government sub-sector.

The main decision taking body of the fund is its Board of Directors (BoD). By statute the BoD takes all major decisions for the operation of the Fund, such as investment/ divestment in portfolio companies, decisions on issuing investment shares or forming sub-funds, etc. In June 2021, the BoD was expanded to comprise three directors (from two before) whereas two of the three directors were appointed by the NRB. These two directors already served as directors on another subsidiary of the NRB. At the time of the dialogue visit, the only people employed by the NRF were the three directors serving on the BoD. The general setting-up and administrative

¹⁰ An explanatory note on the market/ non-market testing was received on 15 March 2022.

¹¹ An explanatory note on Svaz VKMO and water sector public corporations was received on 28 February 2022.

activities had been outsourced, mainly relying on the existing services by the NRB (the Fund's mother company).

Discussion and methodological analysis

Eurostat opened the discussion by recalling the main existing circumstances of the NRF, its ownership structure, governance and sub-funds set-up. Eurostat also thanked the Czech statistical authorities for the preliminary analysis they had presented regarding the Fund's classification.

In its analysis, the CZSO had concluded that the sub-funds of the NRF would not have the character of separate institutional units, as they lacked decision making autonomy, and Eurostat concurred with this conclusion. The sub-funds would only have portfolio managers and investment committees. However, portfolio managers were selected among the three existing BoD directors, while investment committees would only carry an advisory role.

Eurostat also noted that while no sub-funds had been established yet, there were two investment projects under consideration: one was a sports public building to be classified in the S.1313 sub-sector, and the other was equipment acquisition for a public transport corporation classified in S.11. Although the NRF could, at least in theory, finance projects in the private sector, it was widely expected that those projects would always contain an element of public policy perspective. Eurostat mentioned that the main objective of the NRF was not to achieve profitability, and that this was often the case, because of the development nature of such units.

Eurostat undertook to provide an official advice in the near future. It also stressed that one of the major factors behind the decision about the classification would be the Fund's governance. Another follow-on consideration would be to check for any captive nature of the newly created unit. Eurostat also requested that the Czech statistical authorities inform if any of the major NRF setup factors change in the future, reiterating that the advice would be according to the information provided.

Findings, follow-up and conclusions

AP8: Eurostat will provide to CZSO a methodological advice on the sector classification of the Czech National Development Fund (NRF). The latest updated information on the Fund was received from CZSO on 15 November 2021.

Deadline¹²: 15 January 2022

4.1.2.2. Public hospitals

Introduction

The CZSO provided an explanatory note on public hospitals prior to the EDP dialogue visit. Providing health services in the Czech Republic is based on a national legal act. Public hospitals are financed from public (compulsory) health insurance managed by health insurance companies in compliance with the government decree on point value (the amount of payments for health care covered by public health insurance and regulatory restrictions on the volume of health care covered by public health insurance).

¹² The advice on the classification of NRF was later published at <https://ec.europa.eu/eurostat/web/government-finance-statistics/methodology/advice-to-member-states>.

According to the NACE classification, there is a specific code for the hospital activities (861) and for the COFOG classification (731). Public hospitals in the Czech Republic take several legal forms and they are all classified in the general government sector S.13. Sixteen hospitals are classified as central government (S.1311) semi-budgetary organisations and 39 hospitals are classified as municipal (local government S.1313) semi-budgetary organisations. These units have the features of non-profit institutions and they are linked to the State budget through balancing mechanisms for their revenues vs. expenditures. Another 44 hospitals are classified as non-financial corporations established by local budgetary organisations (i.e. limited companies or joint stock companies owned by S.1313 units).

Discussion and methodological analysis

Eurostat thanked the CZSO for providing a detailed explanatory note on public hospitals, all of which were classified in general government, despite taking different legal forms.

Eurostat noted the increase in payments shown in EDP table 2D (S.1314 social security funds subsector deficit/ surplus) in 2020 vs 2019 and confirmed with the CZSO that the reasons for this increase were the increased costs reimbursed by government healthcare units to private clinics, which related to the COVID-19 pandemic.

4.1.2.3. Transport operators classified in S.11

Introduction

The CZSO provided an explanatory note on public transport operators classified in S. 11 (public non-financial corporations) prior to the EDP dialogue visit. These companies have complied with the market/non-market test, in so far as the subsidies they receive from various government authorities are recorded as D.31 subsidies on product, with D.31 adding notable amounts to the numerator of the market/ non-market test formula. This treatment reflects the CZSO's view that compensations paid by clients (including the government) have the nature of payments linked to output (train-kilometres or bus-kilometres for example). All contracts between the government and the S.11 are primarily based on a number of kilometres travelled, at least prior to the COVID-19 pandemic.

The CZSO also provided a detailed calculation for the market/ non-market test for the two major groups of units České Dráhy Passenger operations (CD, or Czech Railways) and CD Cargo. It was evident that CD cargo passes the market/ non-market test, even without any D.31 subsidy receipts. Formerly, Eurostat has also analysed the costs of CD Passenger and CD Cargo, and more specifically the basis for the payment of the infrastructure utilisation fees (from S.11 operators to S.13 CD Infrastructure, the latter classified inside central government). Even though such infrastructure costs seemed lower than what could be expected for CD Infrastructure to maintain a normal level of profitability, it could not be concluded that if the infrastructure costs were increased, that would lead to any material change in the calculation of the market/ non-market ratio for CD Passenger and CD Cargo.

Public bus transport operators are similar to CD Passenger, in terms of the market/ non-market test calculation, and also highly dependent on D.31 revenue from the government.

Discussion and methodological analysis

Eurostat recalled the detailed discussion on public transport operators classified outside government during the previous EDP dialogue visit in 2019. It also noted that a new category of related payments from the government had appeared, namely D.632 social transfer in kind to households, paid directly to the operators in order to compensate them for discounts given on longer term transport cards/ tickets provided to special social groups (e.g. to retired people, to students, etc.). D.632 received by CD Passenger increased gradually.

The CZSO explained that prior to 2018, the said D.632 amounts were part of the larger D.31 subsidy on products cost from the government to public transport operators. The CZSO also clarified that the related D.632 fell in 2020 compared to 2019, due to the COVID-19 pandemic and the fact that many transport services were operating at a largely reduced volume.

Eurostat then made the observation that in 2020, a sizeable increase in payments from regional budgets to public transport operators was observed, which increase seemed to largely balance the shortfall of revenue over costs. The CZSO replied that this increase likely followed some rules/ formulas, but they needed to obtain additional information from Czech railways and other public transport operators, before explaining the observed payments from local government budgets.

Eurostat also pointed out that such payments are likely not linked to the number of passengers travelled, but more to the availability of a public transport service provided. Eurostat also informed of some press articles claiming that the Czech railways (CD Passenger operator) had re-negotiated some of its contracts with certain local authorities, which would have been caused by significantly reduced ticket revenue in 2020, thereby increasing the revenue from local authorities.

Eurostat also observed that capital injections into municipal public transport companies had increased notably in 2020 vs 2019, also in response to the pandemic. Likewise, there were similar increased local authority payments to *non-railway* public transport operators as well.

The Czech statistical authorities undertook to investigate the issue further and inform Eurostat accordingly. Eurostat also made the qualification that it should be investigated if the increased local authority payments to public transport operators are only temporary (for the duration of the COVID-19 pandemic), or a type of a permanent arrangement, e.g. to cover losses of the said operators. Eurostat also wondered if such payments have any upper limits, or are simply designed as compensations for losses by such public transport operators.

Findings, follow-up and conclusions

AP9: The Czech statistical authorities will provide to Eurostat an explanatory note on the payments made from local authorities to *railway passenger operators*, along with relevant data table(s), addressing the two questions above. The note should contain explanation on the changes, if any, to the compensation mechanism, in particular for 2020, and explain if these changes have a permanent nature, as well as clarify their impact on the recording of public service obligation (PSO) payments from government (both central and local).

*Deadline*¹³: April 2022 EDP notification

¹³ The explanatory note of AP9 and AP10 was received on 31 March 2022.

AP10: The Czech statistical authorities will provide to Eurostat an explanatory note on the payments made from local authorities to public transport operators other than passenger railways, along with relevant data table(s), addressing the two questions above. The note should contain explanation on the changes, if any, to the compensation mechanism, specifically for 2020, and explain if these changes have permanent nature, as well as clarify their impact on the recording of PSO payments from government.

Deadline¹³: April 2022 EDP notification

4.1.2.4. Czech National Airline (CSA)

Discussion and methodological analysis

Eurostat quoted press articles informing of CSA (Czech national airline) declaring bankruptcy in March 2021. Eurostat enquired about the existence of any government financial help towards the ailing airline, which continued to operate some flights, however at a very reduced volume.

The CZSO confirmed that the CSA was a S.11 private corporation, and they were not aware of neither any direct government intervention, nor of issued guarantees in favour of the airline. The government did not provide any assistance to the airline during the COVID-19 pandemic.

4.2. Implementation of the accrual principle

4.2.1. Taxes and social contributions

Introduction

Taxes and social security contributions have been continuously and extensively discussed with each EDP notification. The recording for taxes and social security contributions is based on the time-adjusted cash principle and this is well described in the questionnaire on taxes and social contributions. For the major tax categories (VAT, corporate/ personal income taxes [CIT/PIT], and D.6 social security contributions), monthly (pre-)payments are being time-adjusted, while importantly also estimating expected final tax settlements, which could arrive 12 months after the end of the reference year. Final settlement, interest on late payments, fines and penalties are recorded together with taxes.

The basic data sources for taxes and social contributions are the cash financial statements reported by the state budget and local budgets, as well as time-adjusted data collected by the MoF from tax administrations. As noted already in section 1.2.2 above, in Czechia, the sector S.1314 comprises only health insurance companies and subsequently EDP tables 2D and 3E do not contain any data on D.6 social security contributions related to the pension system¹⁴. Stocks and flows related to social contributions of the pension system are recorded as part of the central government sub-sector (S.1311). The MoF is responsible for the compilation of tax accrual data. The social contributions accruals are compiled by the CZSO. For some minor other tax categories, cash is still equated to accrual revenue.

¹⁴ D.6 contributions related to the health insurance system are collected directly by health insurance companies (S.1314)

Discussion and methodological analysis

Eurostat opened the discussion by stating that there were no major outstanding issues related to taxes and social security contributions, an updated copy of which had been submitted shortly before the EDP dialogue visit. Eurostat commended the CZSO for the good progress achieved with the monthly tax monitoring (a special Excel spreadsheet file which is regularly updated).

With the latest EDP notification, at the request of Eurostat, this file was expanded to include all major tax categories (VAT, CIT, PIT and D.6 social security contributions), as well as related F.89 receivables/ payables stocks and flows (additionally reported in EDP Questionnaire tables 4 and 5, as well as in Annex 8, the COVID-19 measures table).

Another important clarification from the October 2021 EDP notification was recalled, namely that in relation to income taxes, the F.89 flows were measured by using two different cash data sources. The first data source was current tax accounts held by the MoF with the Czech National Bank, which accumulated the regular tax pre-payments. The second data source was the ‘financial statements’, which differentiated between D.5 taxes and other possible payments (e.g. D.9 transfers or D.39 subsidies), with a greater degree of precision. In order to receive a wholistic picture of tax flows, the financial statements data source should be used, which differed slightly from the current tax accounts data. The convenience for using current tax accounts data was due to the fact that they were more readily available than the financial statements.

Eurostat stressed that the monthly taxes and social security contributions file was indispensable in clarifying the sizeable upward revision (approximately 0.5%_[GDP]) in EDP government deficit made between the April and the October 2021 EDP notifications. Eurostat thus reiterated its request that the Czech statistical authorities continue to make the distinction between the two cash columns (i.e. the one based on bank accounts, and the one which is based on final statements), for the purposes of estimating corporate income tax revenue.

Eurostat also enquired if the monthly tax template, which is used by the CZSO, was maintained by the CZSO (based on data received by the MoF), or if the entire template was being managed by the MoF. The CZSO replied that the template is defined by the statistical office, but is updated with data from the MoF.

Findings, follow-up and conclusions

AP18: The Czech statistical authorities were encouraged to send the table on monthly taxes (corporate income tax, personal income tax, and value added tax) and social contributions together with the reporting for each EDP notification. The data should include the derived F.89 flows related to these categories of taxes and social security contributions.

Deadline¹⁵: continuous, semi-annually during the EDP notifications

4.2.1.1. Tax payables and tax credits

Discussion and methodological analysis

Eurostat also recalled that F.89 tax receivables are shown net of any payables in EDP Questionnaire table 5, and asked if the Czech statistical authorities could differentiate between

¹⁵ The updated taxes and social security contributions tables were received during the April 2022 EDP notification.

tax F.89 receivables and payables. This question had been discussed in a number of previous EDP dialogue visit.

The CZSO replied that the main reason why payables were not reported in the EDP Questionnaire was the fact that the time-adjusted-cash method was applied universally and within tax cash payments it would be very burdensome to split individual payment data into gross tax payments (related to government tax receivables) minus any tax payable due to different groups of tax-payers.

Eurostat also enquired about tax credits described in the Questionnaire on taxes and social contributions, in particularly related to tax relief given to parents related to births and children. The said tax relief is actually in the form of a bonus that shows up as tax payable, and it was unclear to Eurostat for how many years this tax bonus could be used by tax paying parents. The MoF clarified that this tax bonus could be used in the tax period in which the conditions for its entitlement have been met.

Eurostat also recalled an action point from the previous EDP dialogue visit in 2019, requiring the grossing up of the tax credit between D.5 and D.63, whereas, before 2019, it was all reported as net D.5.

From ESA table 2 it could be observed that the amount of the tax credit was identical for both 2019 and 2020. The CZSO explained that the basis for the calculation of the tax credit was the number of children, and that the availability for the related statistics had a time lag of more than one year in Czechia. Therefore, for the calculation of the 2020 tax credit, the same number of new-born children was used, as for 2019.

This was an estimate-based calculation, which would later be corrected with final data, as they became available. Since the number of new-borns did not change dramatically from one year to another, this revision was not expected to materially affect the government reported on an estimation basis (for new-born children). Likewise, for the April 2022 EDP notification, the final data for 2020 will be extrapolated into 2021. Eurostat took note that the final data for the tax-credit paid for new-born children are available typically at time T+2 years, with an appropriate estimate being used during the interim.

4.2.2. Special COVID-19 measures

4.2.2.1. Measures related to taxes and social contributions

Discussion and methodological analysis

Some of the most important measures affecting EDP deficits were the special COVID-19 measures introduced in 2020, in relation to taxes and social security contributions. Such measures varied across different member states, with almost all member states introducing tax deferrals for the main tax categories CIT and PIT, and some temporary tax reductions, e.g. VAT on items of first necessity.

Discussion and methodological analysis

Eurostat thanked the CZSO for regularly filling out Annex 8 COVID-19 measures table since 2020. It was noted that, in June 2020, advance payments related to CIT and PIT were waived in

Czechia, in response to the pandemic. The amount of these deferrals were approximately CZK 20 billion for income taxes and approximately CZK 2.5 billion for VAT.

A good part of the deferrals, however, were collected later in 2021, with final tax settlements and, overall, the amount of direct tax revenue booked in 2020 was only 1% lower than that of 2019. The 2020 amount thus turned out to be significantly higher than initially estimated (in April 2021).

Eurostat enquired about new tax measures implemented in 2021 (non-existing in 2020), in relation to the COVID-19 pandemic. The Czech statistical authorities replied that, in 2021, tax deferrals would continue, overall, having similar characteristics with the tax deferrals in 2020. A number of tax payment deadlines had been extended, and these extensions were valid for both 2020 and 2021. Thus, for 2021, lower advance payments could be expected during the year, similar to the pattern observed for 2020.

Eurostat also enquired about taxes and social security contributions forgiven during the pandemic, and the MoF clarified that forgiven amounts mostly related to social and health insurance premiums. Eurostat asked if other forgiven amounts could exist, such for example as forgiveness for late payment of penalty interest. The CZSO replied that such amounts were already added, but they were negligibly small.

Accelerated Depreciation Allowance

Eurostat also recounted some of the other tax measures introduced in response to the pandemic. For example, in 2020, an accelerated depreciation allowance (for tax purposes) was introduced, in order to stimulate investments and growth, which led to lower reported corporate profits, and consequently to lower CIT revenue for the government.

The CZSO confirmed that the accelerated depreciation allowance would be applicable for both 2020 and 2021. It clarified that two categories of long-term assets were established, for the first category the accelerated depreciation allowance would be over a period of 1 year (for full tax depreciation), and for the second category, the tax depreciation period would be 2 years. The application of the accelerated depreciation allowance was voluntary, depending on the corporations.

While recognizing that the accelerated depreciation allowance represented a lost revenue for the government, the CZSO stated that it was still difficult to estimate these amounts and therefore they might have been underestimated in amounts presented with the Annex 8 COVID-19 Measures tables. The best estimate that existed at the time was for CZK 7 billion lost CIT revenue in 2020 and CZK 17 billion in 2021, due to accelerated depreciation measures.

Corporate Income Tax Loss Carry-back

The government also introduced corporate income tax loss carry-back arrangement in 2020, recorded as D.9 expense of the government. Eurostat recalled that the effect of these CIT loss carry-back for 2020 was negligibly small. It enquired about the expected effect for 2021. The CZSO replied that, up to October 2021, it was estimated that the negative effect from this measure would be approximately CZK 1.7 billion.

The CZSO explained that, according to the new tax loss carry-back rules, it was possible to deduct any losses realized in 2020 from the tax base, for up to two preceding years, i.e. from the tax base of 2018 and 2019. In addition, this measure had a cap amount of CZK 30 million per

individual corporate tax payer. In such cases, specifically since CIT had already been paid for 2018 and 2019, the adjustment in payment would be made for the tax due for the year 2020, i.e. D.9 cost for the government was recorded for 2020 (not affecting previous years' taxes). The same principle would apply for 2021, with regards to the possibility to carry-back tax losses to 2020 and 2019.

Eurostat also enquired if this measure would be permanent or if it would have a temporary character. The CZSO undertook to further investigate the reply to this question. Eurostat clarified that if the measure was to become permanent, then D.9 recording in government accounts would seem inappropriate.

Findings, follow-up and conclusions

AP15: The Czech statistical authorities should report in EDP Annex 8 "*Supplementary tables for reporting measures taken in the context of the Covid-19 pandemic*" the impact from the cancellation of penalties and fines relating to taxes and social contributions under foregone revenue.

Deadline¹⁶: 31 January 2022

AP16: The Czech statistical authorities should report in EDP Annex 8 "*Supplementary tables for reporting measures taken in the context of the Covid-19 pandemic*" extraordinary effect from lost tax revenue due to accelerated depreciation, which was introduced in the aftermath of the COVID-19 pandemic. The Czech statistical authorities will also provide comments on the validity of this measure (whether it is considered a permanent measure, or it is only valid during the COVID-19 aftermath).

Deadline¹⁷: 31 January 2022

AP17: The Czech statistical authorities will provide a note on the existing loss carry back measure. In particular, its validity, whether it is prolonged and for how many years, and its recording in national accounts and potential impact from the carry back losses for the year 2021 and beyond.

Deadline¹⁸: 31 January 2022

4.2.2.2. Recovery and Resilience Facility (RRF)

Introduction

Launched in 2021, the aim of the Recovery and Resilience Facility is to mitigate the economic and social impact of the COVID-19 pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. The facility is a major part of a wide-ranging sustainable economic growth policies promoted by the EU.

RRF is a temporary recovery instrument. It allows the European Commission to raise funds to help Member States implement reforms and investments that are in line with the EU's priorities

¹⁶ The updated table was received on 31 January 2022, and later updated with the April 2022 EDP notification.

¹⁷ An explanatory note on the measure of accelerated depreciation was received on 31 January 2022, along with the updated COVID-19 Measures Tables from the previous AP.

¹⁸ An explanatory note on the measure of tax-loss carry-backs was received on 31 January 2022.

and that address the challenges identified in country-specific recommendations under the European Semester framework. It makes available more than EUR 385 billion in loans and EUR 335 billion in grants to all the 27 EU member states.

Discussion and methodological analysis

Eurostat thanked the Czech statistical authorities for sending the special Recovery Resilience Facility table in October 2021. According to the RRF table, CZK 16.4 billion of expenditure was to be financed by RRF grants, out of which approximately 15.1 billion related to the gross fixed capital formation (investment in fixed assets).

Eurostat enquired about the other ‘unspecified’ part of the expenditure, amounting to approximately CZK 1.2 billion. The Czech statistical authorities replied that details about this unspecified expenditure were still missing and undertook to investigate and provide comments by the next EDP notification.

Eurostat also enquired about the main beneficiaries of RRF grants. The MoF replied that three ministries, in particular, were given the task of co-ordinated investment funded by RRF grants, and these were the ministries of *transportation, environment and industry*.

Eurostat also enquired about the missing split of COFOG data, recognising that such data were voluntary, but they would have most likely already been supplied to DG ECFIN, as part of the draft budgetary plan (i.e. the data would have been readily available). The CZSO undertook to expand the RRF table with the COFOG data, to the extent possible. The MoF also confirmed that the main data source for RRF flows were newly introduced specific expenditure codes within the main budgetary system of reporting. The Czech statistical authorities also confirmed that for 2021, there would be no RRF loans.

Eurostat stressed that, for 2021, it would be important to know if RRF flows would be included in the working balance, or via other central government bodies in EDP table 2A.

Findings, follow-up and conclusions

AP19: In the next reporting of the RRF table (April 2022), the Czech statistical authorities should provide a further split by expenditure category of ‘other’ capital expenditure. The benefiting sub-sector (e.g. Budgetary Central government or an entity of “Other central government bodies”) will be identified under comments in RRF tables 1.3 and 1.4.

Deadline¹⁹: April 2022 EDP notification

4.2.2.3. COVID-19 Guarantees

Discussion of special guarantees provided in the context of the COVID-19 pandemic was shifted to agenda item 4.3.1.1 “Guarantees” below.

¹⁹ CZSO sent updated RRF tables both on 31 March and 14 April, in the context of the April 2022 EDP notification.

4.2.2.4. Other measures related to COVID-19

Discussion and methodological analysis

Eurostat discussed the furlough scheme introduced during the first months of the COVID-19 pandemic. The furlough expenditure by the government was recorded in the form of D.39 subsidy to employers and amounted to some 0.5%_[GDP] in 2020. Eurostat also took note of CZK 26 billion of expenditure as direct support for self-employed persons, recorded as D.99.

During the EDP notifications, Eurostat carried a comparison between the increased expenditure observed in ESA tables, from 2019 to 2020, on one side, and the increases to the amounts of special COVID-19 related expenditures reported in the COVID-19 Measures Tables (Annex 8 to the EDP notification reporting), on the other side.

For example, according to the ESA tables, social benefits spending in 2020 increased by more than CZK 100 billion in comparison to 2019. At the same time, the amount shown in EDP Annex 8 was notably lower. The Czech statistical authorities explained that the difference was due to the so called ‘automatic stabilisers’, i.e. when increased government spending is based on objective factors, like e.g. people voluntarily leaving their employment and being compensated by the government for a pre-set maximum period of time, or skills re-training courses, etc. While it was recognized that some of the increased government spending not shown in the Annex 8 COVID-19 Measures tables might relate to the COVID-19 pandemic, this relation is not always direct, and the increased expenditures not shown in Annex 8 are based on rules that existed prior to the COVID-19 pandemic.

Additionally, the CZSO explained that, in December 2020, there was a one-off increase in spending on pensions, which was not the case during 2019 and the years before. In December 2020, the majority of the retired people received an additional pension premium, which had the effect of adding several billions CZK to government expenditure, not directly related to the COVID-19 pandemic. This was a notable explanation for the differences observed between the ESA tables and the COVID-19 Measures Tables (Annex 8).

4.2.3. Interest

Agenda point delayed until the end of the EDP dialogue visit / transformed to point 4.3.9.1 (see below). It was discussed alongside financial derivatives.

4.2.4. EU flows

Introduction

Prior to the EDP dialogue visit, the CZSO provided an explanatory note on EU flows and a template table on EU flows. In accordance with ESA 2010 and MGDD rules, the impact of EU flows is neutralized through an adjustment in other accounts receivable/ payable (F.89) and reported in EDP Questionnaire table 6. The adjustment is calculated as the difference between total proceeds received from the EU minus total expenditure made on behalf of EU. Cash-based financial statements provide data on the amounts of receipts and expenditure included in the working balance, including the information on source, i.e. national funds/ EU flows/ pre-financing on behalf of EU. EU grants provided to final beneficiaries outside general government are excluded from ESA government revenue and expenditure.

Removed projects: removal of projects from EU-financing is made upon a decision of the responsible authority. The reasons could vary from, for example, amounts exceeding the maximum eligible expenditures (inadequacies in public procurement), to preventative reasons (risk of failing to meet EC requirements, delay in realization of the project etc.). Removed projects are financed by the national budget. In some cases further investment on removed projects has been discontinued, following removal decision by the responsible authority.

Over-commitment is the amount of expenditure approved to be co-financed by the EU budget, but which amount would not be refunded from EU sources, due to excessive commitment beyond the capacity of a given EU programme (allocation) in EUR. Over-commitment is used due to an effort to maximise allocations under different programmes. In such cases, a correction of over-commitment is made whenever programme amounts are confirmed final.

Discussion and methodological analysis

Eurostat opened the discussion by mentioning some minor project amounts initially marked for EU funding and later excluded, which caused a revision to EU flows in 2020 for approximately 0.02%_[GDP] between the October and April 2021 EDP notifications. Eurostat also recalled the discussion during the previous EDP dialogue visit in 2019, which focused mainly on the EU financial instruments. It enquired about potential non-financial transactions related to EU financial instruments, such as, e.g., a default by a final beneficiary.

The CZSO explained that the majority of the EU financial instruments are being managed by the NRB (National Development Bank), and any potential defaults on NRB's portfolio are recorded as expense by the NRB, which is classified in the S.1311 central government sub-sector. Two other units also manage EU financial instruments—the Environmental Fund and the Fund Supporting Investment. The appropriate recording for EU financial instruments is implemented at the level of the unit, i.e. recording and neutralizing F.4 / F.8 receivables/ payables.

Eurostat also reviewed the detailed table on revenue and expenditure by main groups of units, which was provided by the CZSO prior to the EDP dialogue visit, and stated that it expected to see EU financial instruments as part of the B.9f of the NRB and the extra budgetary funds (two separate columns in this table, in terms of F.4 / F.8 assets and liabilities). Eurostat asked some questions about the specific recording at unit level of the three units managing EU financial instruments. For the NRB, Eurostat observed F.8 payables on the balance sheet amounting to approximately CZK 6 billion, and wanted to know the composition of this amount, specifically referring to EU financial instruments.

Eurostat also reviewed removed project amounts and over-commitments. It wanted to know how often, in general, such over-commitments and project-removals took place, and whether they were somehow related to the end of the EU Multiannual Financial Framework programming cycles. The CZSO explained that it was normal to have some cases of (partially) discontinued projects financed by the EU, and that they were receiving information about such disruptions with some delay, which caused regular revisions. They also explained that larger projects were being monitored more closely, which is why any experienced revisions usually had only negligible effect on the recorded government deficit.

Eurostat noted that there may be some room for improvement in bi-lateral communication between the Czech EDP statistical authorities and the authorities responsible for the management of the EU flows, but also agreed that the related revision amounts were relatively small.

Findings, follow-up and conclusions

AP20: The Czech statistical authorities will provide further details on the recording of flows associated to the EU financial instruments in the EDP tables, as well as in the table on revenue and expenditure of the other central government bodies (provided before the EDP dialogue visit). Information will be provided separately as regards the EU financial instruments managed by the NRB (formerly Czech Moravian Development Bank), as well as by the other two state funds – the Environmental Fund, and the Fund in Support of Investment.

Deadline²⁰: 28 February 2022

4.2.5. Military expenditure

Introduction

Data on acquisition of military equipment are provided by the Ministry of Defence. In 2015, a long-term contract on the acquisition of fighter aircrafts was prolonged by another 10 years for the period 2015-2025. The acquisition was recorded as a financial lease, impacting deficit and debt for the years since 2015. At the end of 2019, Czechia also joined five other countries in the Multinational Multirole Tanker and Transport programme (MRTT), aimed to increase air-to-air refuelling capabilities in Europe. The first MRTT airplane was delivered in June 2020. By the end of 2021, a total of five aircraft had been delivered.

Discussion and methodological analysis

Eurostat recalled that in the period since the last EDP dialogue visit in 2019, there had been some minor changes, e.g. advances paid for military equipment were re-classified from F.8 receivables to F.42 claims, due to the long-term nature of the contracts.

Eurostat also briefly discussed the Czech participation in the MRTT air-tanker joint military acquisition programme. It recalled that the capital expenditure was being shared among the participating countries in proportion to flight hours taken by each of the countries. Eurostat confirmed that the MRTT capital expenditure costs were properly being shared among the participating countries, as well as that the CZSO had appropriately apportioned the costs over the years of MRTT asset acquisitions.

A fighter aircraft acquisition contract denominated in a foreign currency was also briefly discussed, noting a negligible statistical discrepancy (marked in EDP Questionnaire table 7). This topic was also briefly mentioned in the subsequent agenda point of financial derivatives (foreign currency swaps utilized as hedges by the Czech Treasury), referring to section 4.3.9.2 below.

Eurostat also inquired about future military acquisitions. The CZSO confirmed that there were future equipment acquisitions in planning, and that the data flow between the Ministry of the Defence and the CZSO operated smoothly, so that any future acquisitions would be reflected in EDP statistics accurately and on a timely basis.

²⁰ The explanatory note on EU instrument recording was received on 31 January 2022.

4.3. Recording of specific government transactions

4.3.1. Guarantees

Introduction

Prior to the EDP dialogue visit, the CZSO provided a template Excel file containing list of guarantees, as well as a separate list showing guarantee cash calls and repayments.

Guarantees increased notably in 2020, because the Czech Export Guarantee and Insurance Corporation (EGAP, classified in S.1311) started to provide special COVID-19 related programmes. According to an analysis performed by the CZSO in cooperation with the Czech National Bank, the COVID-19 guarantees provided did not have the characteristics of standardised guarantees (large number of similar guarantee contracts for fairly small amounts), and are therefore recorded as one-off guarantees shown in EDP Questionnaire table 9.1 and the annual questionnaire on contingent liabilities.

Discussion and methodological analysis

Eurostat thanked the CZSO for sending a list of guarantees called and repayments over the period 2017-2020. Eurostat enquired about the treatment of guarantee calls and the CZSO replied that there have been some relatively low amounts called (as shown in EDP Questionnaire table 9.1), which are treated as government expenditure and are included in the working balance of EDP table 2A.

The CZSO clarified that a notable part of the cash calls related to loans taken by the Czech railways, which are guaranteed by the government. There had been guarantee calls concerning debt already considered as part of the EDP government debt.

Eurostat made the remark that the pre-dialogue-visit template on guarantees, which was sent to the Czech EDP statistical authorities, was designed in such a way as to establish reconciliation with the total stocks of guarantees shown in EDP Questionnaire table 9.1.

Eurostat noted some deficiencies in filling out the annex table on guarantees, provided before the EDP dialogue visit. The coverage seemed not exhaustive; guarantee calls for some years, evident from EDP Questionnaire tables 9, were missing from the annex table on guarantees. Eurostat inquired if any guarantees are provided by other government entities, as the annex table only showed guarantees provided by the central government, which produced a bit of confusion (not including for example guarantees by some banking units included in S.1311). Eurostat thus requested that the Czech EDP statistical authorities resend the table on the guarantees in order to also include the missing line(s) for guarantees/guarantee schemes granted by other central government bodies.

Findings, follow-up and conclusions

AP11: The Czech statistical authorities will amend the table on guarantees along the lines discussed in the meeting and, in particular the guarantees provided by CEB, EGAP and NRB (formerly Czech Moravian Development Bank) will be shown (as one line or more disaggregated by specific programmes, if data source allows).

Deadline²¹: 31 January 2022

²¹ The amended guarantee table was received on 31 January 2022.

4.3.1.1. COVID-19 guarantees

Discussion and methodological analysis

During the discussion, it transpired that part of the cash calls made in 2020 (a small amount of approximately CZK 350 million) were for guarantees underwritten by the NRB (National Development Bank) in the context of the COVID-19 pandemic. These guarantees had been recorded as one-off (not standardized) guarantees.

Eurostat confirmed that the COVID-19 guarantees provided by EGAP seemed to have the nature of one-off guarantees (EGAP guarantees were under a small number of contracts with larger ticket-size, as explained in the CZSO note received prior to the dialogue visit), but questioned the nature of those COVID-19 guarantees provided by the NRB, because these were many guarantees provided in favour of small and medium sized enterprises.

Eurostat inquired also about the future expiration of the COVID-19 guarantees launched in 2020. The Czech statistical authorities replied that many of the COVID-19 guarantee programmes started in 2020 were still active (at the time of the EDP dialogue visit), and it was not known if and when they were going to expire.

Eurostat elaborated on two aspects, when considering the recording of the COVID-19 guarantees provided by the NRB: one was until when would the COVID-19 guarantees continue to be provided, and the second one was until when would guarantees already provided be valid. The CZSO replied that such information was not known at the time, as the pandemic was continuing. The CZSO undertook to monitor the situation and inform Eurostat if any definitive answer as to the end of the COVID-19 guarantee programmes (by the NRB) is received in the future.

Eurostat recalled that there is an ongoing methodological discussion in the EDPS working group about the distinctive features between one-off and standardised guarantees. And there were a number of factors that should be considered when deciding between one or the other guarantee types. For example, it should matter if the guarantee programmes are run over a shorter or longer period of time.

Therefore, Eurostat requested that the period for which COVID-19 guarantees are being provided by the NRB be monitored. If that period was only limited to the time of the pandemic, then it could be argued that the guarantees have the nature of one-off guarantees.

Eurostat also referred to a May 2020 decision by DG COMP stating that guarantees could be considered one-off if they were being provided over a limited period of time, since it was more practical to base any guarantee call amounts on actual calls, rather than attempting to estimate losses over a limited period of time (e.g. 3 years). The Czech authorities had clarified (with DG COMP) that the COVID-19 guarantee programmes discussed could only run for maximum 36 months. As a result Eurostat agreed that COVID-19 guarantees provided by the NRB could be treated as one-off guarantees, at least over 2021 and up to 2022, and lacking any material changes in the validity of the programmes.

Findings, follow-up and conclusions

AP12: The Czech statistical authorities will provide to Eurostat an explanatory note of whether the guarantees provided by NRB, in the context of the COVID-19 pandemic (in 2020 and 2021), could be considered as standardised. These guarantees seemed to comply with at least one feature

of standardised guarantees, i.e. smaller size and large number of guarantees provided. The Czech statistical authorities will also confirm the term/ duration of these guarantees.

Deadline²²: 28 February 2022

4.3.2. Debt cancellations, debt assumptions and debt write-offs; government claims

Introduction

The most significant debt cancellations over the most recent EDP reporting period occurred in the Czech Export Bank (CEB). Prior to the EDP dialogue visit, the CZSO sent a debt cancellations table.

A majority of the issues related to foreign government claims had been resolved following the previous EDP dialogue visit in 2019. Notably those included some foreign government claims from Cuba and some of the countries of ex-Yugoslavia, which were not being serviced regularly by the debtors. By the 2019 EDP dialogue visit, the CZSO had already ceased accruing interest on those claims. In 2020, together with the benchmark revision, the CZSO also removed a substantial part of these claims, which had accumulated by 2015.

Previously, such claim cancellation was in the form of ‘other change in volume’ [OCV] types of transactions booked in 2015. With the 2020 benchmark revision, the OCV transactions were removed, and compensated by appropriate corrections in non-financial transactions over the years 1992 to 2015. The latter was also in order to bring the recording into compliance with the revised 2019 edition of the MGDD.

Discussion and methodological analysis

Eurostat enquired about *debt cancellations* by the Czech Export Bank., citing some specific amounts, for example a sizeable debt cancellation in 2019 related to Turkey. The CZSO confirmed that the amounts in question referred to exports of power plant equipment from Czechia to Turkey.

Eurostat also pointed to a technical error in the debt cancellations table sent by the CZSO prior to the dialogue visit, which the CZSO undertook to correct (the total 2020 amount in the table was calculated incorrectly).

Debt assumptions: prior to the EDP dialogue visit, the CZSO sent an explanatory note confirming that no significant debt assumption transactions were recorded over the past four-year period. A few negligibly small debt assumption transactions had been recorded, an example was given with a municipal debt assumption amounting to approximately 0.0005% [GDP].

Debt write-offs: The CZSO had explained prior to the EDP dialogue visit that there are strict budgetary rules for write-offs, in the sense that such operations are only booked on the asset side in the case of legal termination of the debtor.

²² An explanatory note on guarantees was received on 28 February 2022.

4.3.3. Capital injections in public corporations

Introduction

Data sources for capital injections were extensively discussed in agenda point 1.2.1.

The vast majority of capital injections recorded over the preceding four-year period has been accounted for by way of D.9 capital transfers, i.e. with a negative impact on government deficit, which Eurostat considers appropriate.

There was just one sizeable transaction in 2018, which also involved an F.5 equity recording of a capital injection. This transaction had been recorded as a capital increase in kind, into an S.11 water sector public corporation, and was B.9 neutral for the government. It involved a symmetrical decrease in gross fixed capital formation of the government (the in-kind contribution of buildings owned by the municipal government), and an increase in capital transfer costs.

Discussion and methodological analysis

Eurostat noted that according to EDP Questionnaire tables 10 in 2020, losses by certain public corporations have increased, alongside increases in capital injections, as compared to 2019, which was an expected effect due to the COVID-19 pandemic. More notably, increased losses were observed among municipal water and public transport companies.

Eurostat also recalled that it was a general practice to provide capital injections to profitable companies as D.92 investment grants, targeting specific capital (mostly infrastructure) investment projects. In its explanatory note, the Czech statistical authorities included some differentiation between D.92 and D.99 recording of capital transfers. The CZSO clarified that data for investment grants (D.92) were based on information collected with statistical questionnaires, as financial statements and other centralised data sources contained only aggregated D.9 data.

Eurostat then observed a substantial difference, for 2020, between EDP Questionnaire table 10.2 and the special table on capital injections sent prior to the EDP dialogue visit. The CZSO explained that this was due to a technical error, namely to missing D.92 investment grants in the special table on capital injections sent prior to the EDP dialogue visit, and undertook to correct it.

Findings, follow-up and conclusions

AP4: Eurostat also noted that the total capital injections for 2020, as reported in EDP Questionnaire table 10.2 during the October 2021 EDP notification, was considerably higher than the total capital injections for the same year, reported in the note on capital injections sent by CZSO prior to the EDP dialogue visit. The Czech statistical authorities will send the updated note on capital injections.

Deadline²³: 31 December 2021

²³ The updated note on capital injections was received by Eurostat on 16.12.2021.

4.3.4. Dividends, super dividends

Introduction

Prior to the dialogue visit, the CZSO sent a table of dividends paid to government in the period 2017-2020, as well as a note on the super dividend testing, with special focus on cases where paid dividends exceeded the operating profits recorded by the concerned public corporations. Among dividend paying public corporations, by far the largest dividend income was received by the CEZ energy company (the second largest dividend received was more than 6 times lower compared to the one paid by CEZ).

Discussion and methodological analysis

Eurostat thanked the Czech statistical authorities for providing a detailed explanatory note and table on dividends and super-dividend calculations. Eurostat examined the presented calculation of super-dividends for two larger instances, where the dividends paid by the public corporations were higher than their previous year's operating profit. In both of the instances the excess dividend payment was appropriately recorded as a super-dividend (financial transaction).

Eurostat also enquired about the existence of cases where dividends might be paid with higher frequency, e.g. quarterly or semi-annually (interim dividends), or if there were any extraordinary dividends paid. The CZSO replied that all dividends were being paid only on an annual basis (referring to the table of dividend-paying public corporations).

Eurostat also enquired about dividends paid to the S.1313 local government sub-sector, and if the amounts of dividends shown for public corporations owned by local governments were being reported on a unit-by-unit basis, or were somehow being estimated based on certain assumptions. The CZSO confirmed that even outside of central government the dividend data received was on a unit-by-unit basis, and these data were also reconciled with information from statistical questionnaires, including both dividend payments, as well as profit and loss statement data (i.e. allowing for comparison between dividends and company profits).

4.3.5. PPPs, concessions and energy performance contracts (EPCs)

4.3.5.1. Public-Private Partnership (PPP) contracts

Introduction

As of the end of 2020, there were no existing PPP contracts in Czechia, and EDP Questionnaire table 11 has been empty over the years. During the 2019 EDP dialogue visit, the CZSO informed Eurostat of a planned PPP transaction. This PPP achieved financial closing at the end of April 2021, and was signed between the selected partner (VINCI Concessions + Meridiam) and the Czech Ministry of Transport.

The contract covers 9 motorway sections, of which 5 are greenfield (the stretch between Hájce and Radobyčce totalling 32km) and the remaining 4 are brownfield (16km). The PPP part of the contract is designed in accordance with the DBFOM (Design, Build, Finance, Operate and Maintain) PPP model. Following Eurostat's advice provided shortly after the 2019 EDP dialogue visit, the project has been divided between two parts for statistical purposes, whereby the

brownfield part will be treated as a regular expenditure of central government, and only the greenfield part will be considered as PPP, for EDP purposes.

CZSO prepared a comprehensive analysis on the main PPP topics relevant for classification based on the Eurostat-EIB Guide to the statistical treatment of PPPs²⁴. This analysis concluded that the greenfield (32km) part of the contract should be classified off-balance. From all the 15 chapters included in the guide, only the topic under 5.5 ('Third party revenues') was deemed to have a *moderate effect*, all other topics were considered not contributing for any on-balance classification.

According to the analysis, the project authority "will generate revenues from charging for the primary use of the assets (drivers for using the motorway – tolls and vignettes). The Partner will not be responsible for the collection of tolls or the collection of time charges (vignettes). The obligation of collecting toll is performed" essentially by the state authorities. The toll revenue is calculated in a relatively straight-forward manner.

"The calculation of time charges – vignettes is a little bit more complicated. All vehicles with four wheels and a maximum weight of 3.5 tons have an obligation to purchase a vignette for the motorway. The float 1-year vignette offers flexible validity so it is valid for the entire year, starting any day of the year. Moreover, vignettes are valid for most of the motorway network in the Czech Republic (on small parts of the network there is an exemption from the necessity to have a vignette). Thus, the determination of estimated revenues for time charges specifically aimed to this PPP project depends on many variables." The presented analysis projected that, during the PPP project operation phase, the vignette revenue would account for approximately 30% of the revenue, while the toll income would account for remaining 70%.

Discussion and methodological analysis

For this part of the agenda, representatives of the Czech Ministry of Transport (MoT) joined the EDP dialogue visit, and made interventions to answer the questions asked by Eurostat.

Topic 5.5 of the Special 2016 PPP Guide²³ was identified as the only topic with potentially moderate impact on the classification of the D4 motorway PPP. As described in the analysis by the Czech statistical authorities, revenue for the greenfield part (motorway sections still to be constructed) would come mainly in the form of tolls and apportioned vignette payment revenue.

Eurostat inquired about a clarification on how exactly the tolls and/or vignette revenues were being calculated, and the MoT clarified that tolls were being charged only to trucks (vehicles that weighted above 3.5t). For the remainder of the vehicles passing through the greenfield part of the D4 motorway (32km), a calculated estimation was made.

Eurostat then enquired further about the calculation of the vignette revenue to be allocated to the PPP 32km section. Eurostat suggested that vignette revenue could be pro-rated, i.e. vignette revenue equal to annual km-car usage of the D4 greenfield part divided by the km-car usage of the entire road network covered by the vignettes times annual revenue from vignette sales. Eurostat also inquired if the normal vignette prices would be increased because of the construction of the greenfield D4 motorway sections.

²⁴ Guide to the statistical treatment of PPPs <https://doi.org/10.2867/64196>.

The MoT replied that, at the time, the price of the (annual) vignettes were limited by law, and the actual prices stood at the maximum afforded by the Roads Act. They were not sure, however, if the government may amend the said Roads Act in order to increase vignette prices in the future, as this was a political decision. Some indexation according to expected CPI inflation was factored in the PPP financial model. The MoT also clarified that the calculation presented with the PPP analysis was only a projected estimate, and it was based on a coefficient multiplied by the total 2020 vignette revenue, extrapolated in the future.

The MoT further added that in Czechia, the road network covered by vignette revenues amounted to some 1200km of roads, which brought approximately CZK 5 billion revenue in 2020. The actual calculation for the new D4 PPP stretch was more complicated, as the D4 project had been selected due to expected heavier traffic, and the fact that, once constructed, the new sections were expected to alleviate substantial mobility bottlenecks in the southern part of Czechia. The MoT clarified that, since January 2021, there had been a new system for electronically checking the vignettes of vehicles passing by multiple check-points. These check points contained license plate scanners, and could in theory calculate what proportion of the kilometres travelled by a given vehicle would be via the new PPP motorway stretch.

Eurostat stated that the percentage calculated as of section 5.5 of the PPP guide may actually increase, if it were calculated by using a simpler pro-rated system. Therefore, even if it turns out that the risk calculated for topic 5.5 was high and not moderate, that would still not mean that the project would need to be reclassified on balance sheet, as the ratio of third party revenues to availability payments would still be below 50%. Eurostat thus only advised that the ratio calculated as per topic 5.5 of the PPP Guide be monitored regularly.

The MoT also mentioned that, at the end of 2021, the opening of another 32km motorway stretch, in another part of the country, was expected, and they could monitor if the opening of these new 32km at the end of 2021 led to an increased vignette sales (i.e. increased volume, not unit prices, of vignette revenue). A simple pro-rata way of calculation was recommended, because it was a pragmatic estimation approach. If the calculation were to be precise, it would depend on many factors which are difficult to measure (i.e. how many vignettes are bought only because a new stretch has become operational).

Eurostat thus preliminarily agreed with the analysis by the Czech statistical authorities for off-balance classification of the D4 motorway PPP part of the contract (32km), subject to the clarification in the action point below and to any potential future changes in the analysis (as might be necessitated by specific clauses in the PPP contracts). Eurostat also asked the Czech statistical authorities to send updates, if they become aware of new expected PPP contracts in planning.

Findings, follow-up and conclusions

AP13: The Czech statistical authorities will justify and clarify the calculation of the ratio for topic 5.5 of the Special 2016 PPP Guide. In particular, Eurostat would like to know how the vignette revenue part is being calculated, and wondered whether a simple pro-rated (per km) coefficient could not be more appropriate.

Deadline²⁵: 31 January 2022

²⁵ An explanatory note along with a recalculated ratio (as per topic 5.5 of the Special 2016 PPP Guide) was received on 31 January 2022.

4.3.5.2. Concessions and energy performance contracts (EPCs)

Introduction

With regard to signed EPC transactions, prior to the meeting the CZSO sent an explanatory note based on information updated by APES (the Czech Association of Energy Service Providers). This information confirmed that the amount of EPCs signed in 2017 was insignificant as a percentage of GDP. In the explanatory note, the Czech statistical authorities also confirmed that there were no concession contracts in Czechia.

Discussion and methodological analysis

Eurostat confirmed that all the EPC contracts were recorded on the government balance and that the actual amounts were negligibly small, with a total of approximately CZK 50 million signed.

Eurostat enquired about the lack of such concession contracts, and stated that such contracts were a normal practice in other countries. Eurostat recalled the findings of the 2012 EDP dialogue visit, which mentioned the existence of concession contracts, the predominant majority of which were in the water sector (operation and maintenance of existing infrastructure). The CZSO clarified that this was most likely referring to pure service concession contracts which did not involve the construction of new assets. The CZSO also undertook to provide a link to a website providing more information on such existing ‘service’ concession contracts.

Eurostat also enquired about the ongoing development of a database encompassing large long term procurement contracts (of amounts higher than CZK 300 million per contract), of which the CZSO had informed previously. The CZSO undertook to carry a check with the responsible units of the MoF (not present at the dialogue visit) about the development of such a database.

Findings, follow-up and conclusions

AP14: The Czech statistical authorities will investigate further about the existence of concession-type contracts in Czechia. It was noted that, during the 2012 EDP dialogue visit, there were a few concession contracts mentioned, mostly in the municipal water sector, not involving the acquisition of assets. During the 2019 EDP dialogue visit, The Czech statistical authorities informed Eurostat of the development of a new public procurement database (including all contracts of CZK 300 million, or more). The Czech statistical authorities will provide an update on the progress of this database.

Deadline²⁶: 31 January 2022

4.3.6. ETS (emission trading permits) carbon tax revenue

Introduction

The Czech statistical authorities account for revenue resulting from the auctioning of ETS allowances on a time adjusted cash basis. Data for the auctioning of ETS allowances are derived both from national sources (Ministry of Environment) and central EU sources, such for example as the reports by the EEX commodity exchange in Germany. The latter exchange has been

²⁶ A detailed clarification on concessions along with contract lists was received on 31 January 2022.

selected as the only “common ETS market” where all the 27 EU member states perform their ETS allowance auctions.

Prior to the EDP dialogue visit, the CZSO also sent some additional (national accounts) data (ETS matrix), showing the consequential effects of ETS issuance over the other sectors of the economy and the balance of payments (S.11, S.12, S.2) beyond the limits of government finance statistics, in terms of multiple affected ESA accounts (K.1, K.2, K.7, AN.2 and NP.2).

Discussion and methodological analysis

Eurostat briefly recalled that ETS cash revenue is being unwound into a D.29 carbon tax by utilizing the simple time adjusted cash method (time lag of +12 months). Eurostat also briefly mentioned the changes and revisions implemented since the last EDP dialogue visit in 2019, namely that NP recording of ETS allowances was discontinued (previously existing for some historic years). The latest revisions were carried during the 2020 benchmark revision. It also thanked the CZSO for providing a more detailed ETS table showing also the effects of carbon taxes in the other sectors of the economy, notably S.11, S.12 and S.2. Eurostat also thanked the Czech statistical authorities for following the discussion on the treatment of ETS revenue in the EDPS working group, as well as in other international forums (e.g. for the purposes of the SNA review).

4.3.7. Nuclear energy accounts recording

Introduction

There are two nuclear power plants operating six nuclear reactors in Czechia. Both of the power plants are owned and operated by CEZ, a public corporation classified in the S.11 sector. In order to tackle current and future costs related to the nuclear waste management (storage and disposal), as well as the ultimate gradual decommissioning of the reactors, two special accounts/ funds have been created.

One of these accounts is held by SÚRAO, a special central government authority responsible for the organization and operation of facilities for the final placement of radioactive waste and spent nuclear fuel. By the end of 2020, SÚRAO had accumulated CZK 43.4 billion. The second nuclear account is established by the S.11 operator itself, i.e. by CEZ. The amount accumulated in the CEZ account was CZK 39 billion by the end of 2020.

In 2021, there have been press publications showing intentions to build two more nuclear reactors in Czechia, within the larger of the two existing plants.

Discussion and methodological analysis

Eurostat noted that the CEZ reserve account had grown substantially between the years 2017 and 2020 and enquired as to the responsibilities for the replenishment of this account (i.e. if it was being fed by CEZ, or by special transactions by or on behalf of the government). The CZSO replied that the account was the sole responsibility of CEZ and that the government had no involvement in its management, neither has the government guaranteed any future hypothetical shortfalls from this account, e.g. if the amounts in this account are insufficient to cover actual future nuclear waste management and/ or reactor decommissioning costs.

Eurostat also enquired about the reasons for the observed notable increase over the period between 2017 and 2020 (the account balance almost doubled), but the CZSO replied that they

would need to investigate further. The CZSO also confirmed that the CEZ account is intended to finance the ultimate decommissioning of nuclear reactors operated in Czechia.

For the other nuclear reserve account, held by SURAO (essentially by the MoF), it was also observed that the amount accumulated in the account increased substantially between the years 2018 and 2020. The CZSO explained that this was the only nuclear account inside the government, and also committed to investigate as to the reasons for the notable increase over the period 2018-2020.

Eurostat enquired about the recording of the SURAO nuclear account in EDP table 2A, and more specifically if flows for this account were included in the working balance line. The CZSO confirmed that indeed flows related to this account were being recorded within the working balance of the central government. The (in)flows to the account were being treated as financial transactions, with positive transactions in the working balance line compensated by negative adjustments in the ‘financial transactions included in the working balance’ lines of EDP table 2A.

The CZSO also explained that, out of the accumulated balance in the account, some current expenditure was being paid for the storage and disposal of nuclear waste. Such expenditure flows affected the government deficit (i.e. they were not included in the ‘financial transactions included in the working balance’ adjustments). The CZSO also informed that there was some investment income, as the account funds had been invested in F.3 government bonds, which also affected the government B.9.

Eurostat stressed that there should be a clear differentiation between current expenditure financed from this account, and the balance which is being accumulated for future nuclear costs (storage, disposal and decommissioning)

Findings, follow-up and conclusions

AP21: The Czech statistical authorities will clarify the recording of two nuclear accounts in national accounts. Regarding the account managed by the MoF, the analysis will determine whether the income covers the costs currently incurred on storage of nuclear waste or whether it is rather aimed at cumulating the assets for future decommissioning. The Czech statistical authorities will explain how inflows received from contributors are recorded in government accounts and EDP tables. The CZSO will also consider whether it is appropriate splitting the inflows between revenue (matching the currently on-going waste-storage related costs) and financial advance (building reserves for future reactor decommissioning).

Deadline²⁷: 28 February 2022

4.3.8. Others: mobile license contracts, sale/ leaseback operations, privatizations, securitisations

Introduction

Auctioning of UMTS (3G and higher) frequencies started in the early 2000s, with 4G auctions following in the years 2014-2016 and, most recently, 5G auctions carried out at the end of 2020.

²⁷ The clarifying note was received on 28 February 2022. Further clarifying updates were made during the April 2022 EDP notification.

During the previous EDP dialogue visit in 2019, the CZSO confirmed that the new guidance on the treatment of proceeds as D.45 lease-like income had been applied since 2015. The 2020 benchmark revision applied this method also to the years prior to 2015.

Discussion and methodological analysis

Eurostat recalled some of the revisions made during the 2020 benchmark revisions regarding the treatment of mobile license contracts (as a rent type revenue spread over the lifespan of the licensing contract, rather than as one-off government revenue in the year of auctioning). With the latest revisions, all revenue from former 2G/3G/4G licensing contracts had been appropriately apportioned among the years covered in the respective contracts.

Eurostat inquired about the recent auctioning of 5G contracts in Czechia, and the CZSO confirmed the information (also sent in an explanatory note prior to the EDP dialogue visit), that three contracts had been signed at the end of 2020. The CZSO clarified that the 5G contracts came into effect only in January 2021, and subsequently there was no observable effect over EDP figures in 2020. The amount raised by auctioning three 5G contracts amounted to approximately 0.1%_[GDP] and was going to be spread over a period of 15 years (i.e. from 2021 to 2035).

Eurostat briefly confirmed the insignificant or lacking amounts recorded under the other three categories:

Sale-leaseback operations: this kind of transactions are being surveyed by the statistical questionnaires for government institutions (surveyed by statistical questionnaires under the analytical overview AAO, VI 1-01). Some values had been indicated by respondents in past years (several millions of CZK). However, further investigation and consultations with respondents showed that the questionnaires were incorrectly filled due to misinterpretation by respondents. Relatively small amounts have been indicated by respondents in past years.

Privatisations: privatization is largely a closed process, which occurred in the past (mainly during the 1990s). No significant privatization has been recorded for nearly 10 years. To a limited extent, there exist privatizations of small real estates (apartments and land) at municipal level.

Securitisations: Prior to the dialogue visit, the Czech statistical authorities confirmed that no securitization operations have been undertaken.

4.3.9. Accrual Recording of Interest & Derivatives

4.3.9.1. Interest

Introduction

Shortly before the EDP dialogue visit, the CZSO sent a filled-out template table on interest. The table is intended to explain differences between debt at nominal values and EDP debt, which is largely at face value (nominal value adjusted for accrued interest).

In general, interest data for entities included in the working balance are collected from budgetary classification and adjusted to accrual figures using information supplied by the MoF. For the other central government bodies, accrual interest is obtained from accrual-based financial statements. Other adjustments to interest flows are mainly related to FISIM (financial intermediation services indirectly measured: charges and fees included with interest), financial

leasing (including the interest relating to military fighter jets) and interest related to church restitutions.

Discussion and methodological analysis

Eurostat opened the discussion by making a comparison between EDP debt reported in the table on interest and EDP debt reported in ESA table 28. The CZSO explained that the latter is slightly higher than the former, because ESA table 28 covers the entire general government sector, whereas the table on interest is limited to central government.

Eurostat noted that a number of sign conventions (although not all) in the received table on interest seem to be reversed, i.e. negative sign figures showing in places where typically positive sign figures were expected and the other way around. These reversed sign conventions most likely led to technical errors in some formula results. The MoF replied that they needed to further investigate the table before being able to answer specific line-item questions asked by Eurostat.

Eurostat offered to send an additional document, at the time of the sending of the main actions and conclusions²⁸ following the EDP dialogue visit, pointing to specific lines of the table on interest, which seemed to have reversed sign conventions. The Czech statistical authorities undertook to then resend the corrected and recalculated interest template.

Eurostat also reiterated a question previously asked during the April EDP notification, namely why the interest accrued shown in EDP table 3B decreased notably in 2020 vs the previous three years (2017-2019). Eurostat also asked for more details on the repayment of government bonds in 2019 (CZK 82.9 billion repurchase, quoted as one of the reasons for the decrease in accrued interest above), such as e.g. premiums and discounts on the repurchase, whether there were related coupons bought back, etc.

Eurostat also requested from the CZSO to explain in the EDP notification explanatory notes whenever such notable repurchases/ issuances would take place in the future.

Findings, follow-up and conclusions

AP22: The Czech statistical authorities will amend and resubmit the template table on interest, which was sent to Eurostat only shortly before the EDP dialogue visit, tackling the inaccuracies discovered during the meeting and some further questions raised on a bilateral basis.

*Deadline*²⁹: 28 February 2022

4.3.9.2. Financial derivatives

Introduction

Prior to the meeting, Eurostat received a filled-out MS Excel template on financial derivatives. It also reviewed the annual structure of government debt survey received from all EU member states. One of the few forms of derivative instruments used by the central government are foreign currency swaps. Such FX swaps have been for the purpose of FX risk hedging, for liquidity management and are predominantly short-term.

²⁸ This document was sent by Eurostat to the CZSO in December 2021.

²⁹ The amended table was received on 28 February 2022.

Other central government bodies (Railway Infrastructure Administration, Support and Guarantee Agricultural and Forestry Fund, the National Development Bank and the Czech Export Bank) are also using different swaps. Local government units (budgetary organizations) use interest rate swaps. Only the largest municipalities use such instruments. Social security funds (health insurance companies) do not use financial derivatives. The recording of derivatives follows ESA 2010 rules.

No cancellation of swaps before their original maturity has occurred in Czechia since the early 2000s. The main data source for recording derivatives are the concerned units' financial statements, and the analytical overview (for local governments). For the central government (main unit), data is provided by the MoF.

Discussion and methodological analysis

Eurostat thanked the Czech statistical authorities for providing the table on financial derivatives, which was analyzed in tandem with the Structure of Government Debt Survey, submitted annually in the context of GFS reporting.

Eurostat opened the discussion by recalling a previously identified technical error in the Structure of Government Debt Survey, corrected shortly after the 2019 EDP dialogue visit, whereby CZK debt held by non-domestic persons was wrongly counted as foreign-currency debt.

The MoF informed that the general strategy of government was not to have more than 15% of overall government debt denominated in foreign currencies, whereas at the end of 2020, this percentage actually stood at 8.5%. This naturally decreased the need to hedge against foreign exchange risk and volatility.

Eurostat noted some foreign currency state debt, namely the Euro, Japanese Yen and Swiss Francs, and at the time of the EDP dialogue visit, no foreign currency state debt was hedged. The MoF explained the CHF-denominated government bond had been fully redeemed in 2016 and the last hedged EUR-denominated government bond had been fully redeemed in 2021.

Interest derivatives were also discussed. Eurostat enquired about some parts of the table on financial derivatives which were not filled out, e.g. bloc 3 (off-market swaps and collaterals on derivatives). The MoF confirmed that where parts were not filled, that meant that there were no such instruments.

Eurostat also enquired about a reconciliation of bloc 5 of the table on financial derivatives (hedging of foreign currency debt) against EDP table 2A (line 'adjustment for settlements under swap contracts'). The CZSO explained that there was a relation from bloc 5 to bloc 4 of the table on financial derivatives, and that bloc 4 provided the requested reconciliation to EDP table 2. A few clarifications were marked for a follow-up on the derivatives table.

Findings, follow-up and conclusions

AP23: The Czech statistical authorities will provide an explanatory note on the table related to financial derivatives (data sources, institutional responsibility), which may be followed by further clarifying questions by Eurostat. The Czech statistical authorities will clarify the nature of the adjustment line "*net settlement of swap contracts*", reported in EDP table 2A and its link (if any) with the interest flows reported in the Derivative table, including in Block 5 items 25-26.

Deadline³⁰: 31 January 2022

³⁰ Table received in December 2021. Clarifying Q&A followed in the first months of 2022.

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5.2. List of participants

CZSO (National Statistical Institute)

Jaroslav Sixta, Vice-President
Petr Musil, Director of Macroeconomic Branch
Vladimír Kermiet, Director of National Accounts Department
Helena Houžvičková, Director of Government and Financial Accounts Department
Jakub Vincenc, Head of Financial Accounts Unit
Jaroslav Kahoun, Head of Government Accounts Unit (GAU)
Alena Tokošová, GAU
Kateřina Šimová, GAU
Marie Laštovková, GAU
Lucie Smejkalová, GAU
Marie Trejbalová, GAU
Zdeněk Skalák, Head of Non-market Economy Unit
Antonín Buš, Non-market Economy Unit
Ludmila Vebrová, Government and Financial Accounts Department

Czech National Bank

Lenka Marková
Rudolf Olšovský
Adéla Kohoutková
Marcela Čejková

Ministry of Finance

Marie Frýdmanová, Head of Government Financial Statistics and Analyses Unit
Vojtěch Čížík, Government Financial Statistics and Analyses Unit
Tereza Havelková, Government Financial Statistics and Analyses Unit
Zdeněk Hrdlička, Director of Strategy of tax policy, cooperation and administration

Iveta Červenková, Head of Tax Analysis
Adéla Kelnerová, Tax Analysis
Helena Doktorová, Director of Budget policy of socially important industries
Jakub Novák, Head of Social Affairs, Employment and Support of Non-state Units
Alena Myšičková, Social Affairs, Employment and Support of Non-state Units
Michal Týfa, National Fund - Methodology of financial management and payments
Irena Válková, State budget - General budget relations

Supreme Audit Office

Jan Prosecký
Jarmila Schmidtová
Luboš Rokos

Other Czech institutions

Richard Hindls, Czech Fiscal Council
Jan Pavel, Czech Fiscal Council
Martin Janeček, Ministry of Transport

Eurostat

Luca Ascoli
Gita Bergere
Rasa Jurkoniene
Daniela Ilavska
Vassil Georgiev

DG ECFIN

Lucian Albuлесcu

ECB

A representative of ECB could not join the meeting