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EDP Dialogue visit to Estonia 3 - 4 February 2021

Final findings

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Executive Summary

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 on the Functioning of the European Union, Eurostat carried out an EDP dialogue visit (in the form of a video-conference) to Estonia on 3-4 February 2021.

Mr Luca Ascoli, Director of Eurostat Directorate D 'Government finance statistics (GFS)', headed the delegation of Eurostat. The European Central Bank ('ECB') participated in the meeting as observer. Statistics Estonia ('SE'), the Estonian Central Bank ('BE'), and the Estonian Ministry of Finance ('MoF') represented the Estonian authorities. A list of the meeting's attendees is annexed to the report (Annex 1).

The purpose of the EDP dialogue visit was to review the EDP arrangements in place and 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 (2019 MGDD) as well as Eurostat's decisions are duly implemented as regards the production of the Estonian EDP and the Government Finance Statistics (GFS) data.

The main objectives of the EDP visit were to review the institutional issues and the data sources for the EDP/GFS data compilation; discuss the delimitation of general government in the context of ESA 2010 and the classification of specific units; review the implementation of the accrual principle; review the recording of specific government transactions; and follow up the pending action points from the previous dialogue visit.

With regard to institutional responsibilities in the context of EDP Data reporting, Eurostat suggested formalising the cooperation with the State Shared Service Centre (SSSC) in the form of a Memorandum of Understanding, and considering whether an alert mechanism from the SSSC to SE would be necessary in cases of significant corrections and revisions of the source data and/or the bridge tables from the source data to the GFS.

Moreover, Statistics Estonia agreed to finalise the update of the currently published EDP Inventory (dating back to July 2015).

After discussions, it was agreed that, in the April EDP notifications, Statistics Estonia will provide the initial EDP tables and EDP Questionnaires, based on the January data, but subsequently will provide revised EDP tables and EDP Questionnaires, to the extent possible (especially if non-negligible revisions are observed) and in any case with updated net lending/net borrowing and debt, as soon as the updated, and more complete, end of March data is available.

Regarding classification of units it was agreed that Statistics Estonia will follow the rules concerning the reclassification of the public inactive units and the units in liquidation and reclassify them into S.13 as soon as they fail the quantitative 50% market/non-market (MNM) test; use the Consumption of Fixed Capital (CFC) reflecting the average service lives and the economic depreciation of the assets for the quantitative 50% MNM test; and, regularly do the quantitative 50 % MNM test for subsidiaries. Reclassification should be done as soon as data available. Furthermore, Statistics Estonia will reflect on the sector classification of KredEx Krediidikindlustus AS (KredEx Credit Insurance Ltd) having in mind in particular the government control over the unit; and monitor the sector classification of the Nordic Aviation group, TS Shipping, Green Marine S.A, Tallinna

Soojus AS (Heat of Tallinn), OÜ Võru valla Veevärk (Võru municipality Waterworks) and the other waterworks companies.

Statistics Estonia will aim to differentiate between the F.8 and F.4 flows related to the military equipment.

Moreover, Statistics Estonia will further analyse the measures implemented by the government and the other public units in the context of the COVID-19 pandemic.

In the context of the discussion on whether capital injections should be recorded as financial transactions or non-financial transactions (investment grant or capital transfer), Statistics Estonia will provide Eurostat with a detailed note on capital injections recorded as financial transactions from 2016 onwards.

Statistics Estonia agreed to calculate superdividend tests already in the April EDP notifications based on the partial information available, for the biggest companies, for the companies paying biggest dividends and for the companies for which superdividend payment has been observed in previous period(s).

As a follow up to the Action point 15 from the previous EDP dialogue visit, Statistics Estonia will continue to monitor the new investments in order to identify PPPs, concessions, EPCs and the like. Furthermore, Statistics Estonia will deliver to Eurostat a detailed timetable as well as data about planned and executed GFCF for the Rail Baltic project. The national and the EU financing will be shown.

In addition, Statistics Estonia will monitor the auctioning of the 5G licences and ensure their proper recording in the GFS / EDP.

Eurostat followed-up on a number of unresolved action points from the prior dialogue visit.

Moreover, the participants discussed briefly the main issues raised during the October 2020 EDP notification.

With regard to procedural arrangements, the Main conclusions and action points were sent to Statistics Estonia for comments and thereafter, the Provisional findings were sent to Statistics Estonia for review. The Final Findings were sent to Statistics Estonia and the Economic and Financial Committee (EFC) as well as published on the website of Eurostat.

Eurostat very much appreciated the openness and transparency of the Estonian authorities during the meeting, the extensive documentation provided before the dialogue visit as well as the constructive and fruitful discussions.

Introduction

For the purpose of a dialogue visit and 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 and Statistics Estonia agreed to hold the meeting by video-conference on 3–4 February 2021.

Eurostat was represented by Mr Luca Ascoli, Director, Directorate D ‘Government Finance Statistics (GFS)’; Mr Jukka Jalava; Ms Olga Leszczynska-Luberek; Mr Vassil Georgiev; Ms Gedmine Joniune; and, Ms Catrine Boogh-Dahlberg. The European Central Bank (ECB) and DG ECFIN also participated in the meeting as observers.

Statistics Estonia, the Estonian Ministry of Finance (including the State Shared Services Centre (SSSC)) and the Estonian Central Bank represented Estonia. A full list of participants is provided in Annex 1.

The previous Eurostat EDP dialogue visit to Estonia had taken place on 7-8 September 2017.

The overall purpose of this EDP dialogue visit was to review the EDP arrangements in place and 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 (2019 MGDD) as well as Eurostat's decisions are duly implemented as regards the production of the Estonian EDP and the Government Finance Statistics (GFS) data.

The main objectives of the EDP visit were to:

- review the institutional issues and the data sources for the EDP/GFS data compilation;
- discuss the delimitation of general government in the context of ESA 2010 and the classification of specific units;
- review the implementation of the accrual principle;
- review the recording of specific government transactions; and
- follow up the pending action points from the previous dialogue visit.

With regard to the procedural arrangements, the ‘Main conclusions and action points’ were sent to Statistics Estonia for comments. The provisional findings were sent to Estonia for review and comments. Afterwards, the final findings were sent to the Estonian Statistical Authorities and to the Economic and Financial Committee (EFC) and were published on the website of Eurostat.

Eurostat much appreciated the co-operation and the transparency demonstrated by the Estonian Statistical Authorities during the meeting and the documents and the information provided before and after the meeting.

1. Statistical capacity issues

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

1.1.1. Institutional cooperation and EDP processes

1.1.2. Quality management framework

1.1.3. Audit and internal control arrangements

Introduction

Under the current arrangements, Statistics Estonia (SE) is entirely responsible for the compilation of actual EDP data (both deficit and debt) that it has to transmit to Eurostat under Council Regulation 479/2009. Statistics Estonia is also responsible for the quarterly financial accounts. The Bank of Estonia (BE) is responsible for the annual financial accounts, while the Ministry of Finance (MoF) is responsible for the forecasts (the planned data).

The following four main data sources are used for the compilation of the general government sector accounts:

- Public Sector Financial Statements (PSFS), i.e., accrual accounting information collected by the SSSC, which is a state institution administered by the MoF;
- detailed tax revenue reports compiled by the Estonian Tax and Customs Board (ETCB);
- data on revenue received from sales of the EU Emissions Trading System (EU ETS) permits; and
- European Financial Stability Facility (EFSF) information from Eurostat.

SE has signed a Memorandum of Understanding with the BE. However, regarding cooperation with the SSSC, the exchange of information is mostly based on informal personal contacts between specialists.

The Department of Economic and Environmental Accounts (EESD) of SE is the unit responsible for the preparation of the EDP tables. Five analysts are responsible for the compilation of the GFS data. Two of them are specialised in EDP issues. The Head of the EESD reports to the Deputy Director General of SE responsible for production of statistics. There are no formal sub-units in the EESD and the work is organised in substance teams led by team leaders. The department is responsible for four statistical domains – Consumer Price statistics, Producer Price statistics, Environmental statistics and Macroeconomic statistics.

Discussion

SE made a presentation of the organisational structure; the institutional arrangements; the main data flows; the process flows; the institutional cooperation and the EDP processes; the statistics dissemination channels and the main data sources. Eurostat enquired about the cooperation with the SSSC/MoF and with the BE. SE confirmed that there was an effective cooperation with these bodies. Complicated methodological cases are thoroughly discussed in working group meetings and ad-hoc meetings are organised when needed.

SE has a Memorandum of Understanding with the BE. Moreover, SE is in the process of formalising its cooperation with the SSSC. In that context, it was also discussed whether there should be an alert mechanism in place from the SSSC to SE in cases of significant corrections and revisions of the source data and needs to update the bridge tables from the source data to the GFS. The issue was raised as a follow up of the discussions in the context of the October 2021 EDP notification regarding the large corrections of data linked to the update of the bridge tables concerning the EU Structural funds data.

Furthermore, Eurostat enquired about the cooperation with other bodies such as the National Audit Office of Estonia, the Estonian Parliament and the Fiscal Council. SE confirmed that there was exchange of information with the Audit Office, notably through annual meetings to discuss issues of common interest, although there is not a formal agreement between the two to do so. As regards the Parliament and the Fiscal Council, SE does not cooperate with them on a regular manner. SE does not currently consider it necessary to establish formal and regular cooperation with them.

Eurostat expressed its concern about the relatively small size of the GFS team in combination with the relatively high staff turnover in recent years. SE described that it has been mitigating the risks linked to this by documentation of procedures. Eurostat reminded SE of the possibility of using the courses offered in the European Statistical Training System programme to train newcomers in EDP matters.

Findings and conclusions

Action point 1

Statistics Estonia will keep Eurostat informed about the progress in the formalisation of the cooperation with the State Shared Service Centre (SSSC) in the form of a Memorandum of Understanding, and will consider whether an alert mechanism from the SSSC to SE would be necessary in cases of significant corrections and revisions of the source data and/or the bridge tables from the source data to the GFS. **Deadline: June 2021.**

1.2. Data sources and revision policy, EDP inventory

1.2.1. Revisions of the working balances from April to October

1.2.2. Local government sub-sector, accrual based accounting

Introduction

Accrual based accounting

The Estonian public sector units follow accrual accounting principles, which are consistent with the International Public Sector Accounting Standards (IPSAS). The MoF has the authority to establish the accounting principles applicable to all institutions of the Estonian public sector.

The MoF uses the PSFS for recording all transactions of S.13, except for the majority of taxes and interest on tax liabilities where it uses cash reports about tax revenues, transfers of taxes to other government sector units and interest on tax liabilities obtained from the

Estonian Tax and Customs Board¹. The PSFS is used for the State, for the local governments, for the social security funds and for the other central and local government bodies.

Revisions

The revision policy for the annual GFS is fully compliant with the revision policy for national accounts. The data for the year T is finalised with the publication of the Supply and Use Tables (hereinafter SUT) for the respective year (36 months after the end of the reference year) and thereafter the SUTs are the constraints for the national accounts and GFS.

Discussion

EDP Inventory

On 31 January 2020, SE submitted a new draft of the EDP Inventory² and Eurostat provided comments on this version at the beginning of March 2020. Among others, the new text elaborates on moving from a cash based working balance to an accrual based one in 2017. It was agreed that the EDP Inventory should be updated taking into account the comments sent in March 2020 as well any need for improvement identified in the dialogue visit. The new template of the document is to be used and a new version of the document will be uploaded on Eurostat's website.

Reporting requirements of Council Directive 2011/85

As regards compliance with the reporting requirements of Council Directive 2011/85, Eurostat noted that the nationally published data is detailed and transparent. The MoF publishes fiscal data on its webpage <https://www.rtk.ee/saldoandmike-kasutajad/avaliku-sektori-raamatupidamine/valitsussektori-finantsnaitajad>

Nevertheless, there are differences between the data published at the national and the European level, which could raise questions from users. For example, Eurostat highlighted that the amounts of liabilities for public corporations published at the national level are different from what Eurostat is publishing. This is because the data at national level includes all the liabilities included in the financial reports of the corporations while Eurostat is only publishing the Maastricht liabilities. There are also differences for the treatment of Public-Private Partnerships (PPPs) as the values in the off-balance sheet PPP table published nationally differed from the values sent to Eurostat in Annex 3, of the EDP Questionnaire tables (in particular the EDP Questionnaire table 11). SE agreed to align the table nationally published with the questionnaire tables (on contingent liabilities) submitted to Eurostat in December 2020, see Action point 23.

Moreover, there is a difference between the data SE has transmitted to Eurostat and the data published by the MoF/SSSC concerning guarantees. This difference in the stock of guarantees is due to the reclassification of the Rural Development Foundation (MES). The SSSC does not revise its time series, as they do not change the audited data. Therefore, guarantees issued by the MES are included in the data reported by the SSSC

¹ Taxes (with small exceptions) and tax interests are recorded based on the information presented in the detailed cash receipt report from the Estonian Tax and Customs Board (hereinafter ETCB).

² The previous version is dated 2015.

only in the year 2019 (and will be included in the following years, i.e. 2020 etc.) and not in the years 2016-2018.

Among the documents available on the MoF webpage, there is a note on “Explanations for methodological reconciliation table”³ which has not been updated since 2017 despite the changes implemented to the working balance. It was agreed that this current note would be updated on the webpage.

PSFS

The needs of SE staff to extract data from the PSFS is incorporated in the system, thus reducing the dependency on coding experts. SE participates in the development of the PSFS. SE explained that there are currently improvements to the PSFS in the pipeline.

Revisions

There are challenges linked to the timing of the availability of data regarding sector classifications, superdividend tests and grants, among others, as the data used for the April EDP notification is from January. Although the updated data is available in the beginning of April, it is not used for the EDP reporting. It was agreed that starting with the April 2021 EDP notification, SE will provide the initial EDP tables and EDP Questionnaires, based on the January data, but subsequently will provide revised EDP tables and EDP Questionnaires, to the extent possible (especially if non-negligible revisions are observed) and in any case with updated net lending/net borrowing and debt, as soon as the updated and more complete end of March data is available. This revised submission will preferably take place at the same time as the submission of answers to the first request for clarifications and will be accompanied by an explanatory note.

The revision policy of SE was discussed. In the past, the revisions requested by Eurostat were often postponed to the date of the nationally scheduled revision of national accounts. It was agreed that the revisions agreed with Eurostat should be implemented as soon as possible, i.e. in the next coming EDP notification. If final data or estimates is then not available, a simplified approach, using the data available at the time, further ensuring the correctness of the EDP data, can be applied.

Moreover, as a follow up of discussions in 2017, SE will provide to Eurostat an update regarding the availability, for the April EDP notifications, of data concerning taxes (for example, taxes on land).

Findings and conclusions

Action point 2

Statistics Estonia will finalise the update of the currently published EDP Inventory (dating back to July 2015) in accordance with the new template (sent to Statistics Estonia on 5 May 2020). **Deadline: November 2021.**

³ The methodological reconciliation table published by Estonia is a descriptive explanation of the primary data sources and their transition to ESA-based data reported to Eurostat. The table is comprehensive and provides detailed explanation of methodological adjustments applied to fiscal data for all general government subsectors.

Action point 3

In the April EDP notifications, Statistics Estonia will provide the initial EDP tables and EDP Questionnaires, based on the January data, but subsequently will provide revised EDP tables and EDP Questionnaires, to the extent possible (especially if non-negligible revisions are observed) and in any case with updated net lending/net borrowing and debt, as soon as the updated, and more complete, end of March data is available. This revised submission will preferably take place at the same time as the submission of answers to the first request for clarifications and will be accompanied by an explanatory note. **Deadline: recurrent.**

Action point 4

Following the discussions in 2017, Statistics Estonia will provide to Eurostat an update regarding the availability, for the April EDP notifications, of the data concerning taxes (for example, taxes on land). **Deadline: June 2021.**

Action point 5

The current note on “Explanations for methodological reconciliation table” (from 2017) will be updated on the Ministry of Finance webpage. **Deadline: 15 May 2021.**

2. Follow-up of the previous EDP visit of 7-8 September 2017

Introduction

The 2017 EDP dialogue visit held on 7 and 8 September 2017 led to a list of 15 action points.

Briefly, the situation before the virtual dialogue visit in February 2021 was as follows:

- APs completed and closed: 1, 8 and 14.
- APs evaluated and can be closed: 3 and 13.
- APs in progress: 2, 4-7, 9-12 and 15.

Discussion

Before the dialogue visit, there was a written exchange regarding the pending action points from the dialogue visit in September 2017. Most of the issues linked to the 2017 DV action points were covered under other agenda items of the 2021 visit, whereas some 2017 DV action points were discussed under this agenda item.

All the pending actions points from the 2017 dialogue visit could be closed. In some cases as the necessary work was carried out, and in other cases as the new revised action points from the February 2021 dialogue visit cover the pending issues, see details under each action point below.

In progress:

2017 DV Action point 2:

SE will update the current EDP Inventory in line with the discussions held during the meeting. Deadline: January 2018.

This 2017 DV action point is now covered by the February 2021 DV Action point 2 and was therefore closed.

2017 DV Action point 4:

SE should assess together with the Ministry of Finance the consistency of the information provided at national and European level (as required by Council Directive 2011/85) and any existing difference between the two sets of data should be properly explained. Deadline: January 2018.

This 2017 DV action point is now covered by the February 2021 Action point 5 and was therefore closed.

2017 DV Action point 5:

SE should continue to monitor the status of companies, which are subsidiaries of the Estonian Development Fund (EDF) in order to ensure that MGDD rules concerning classification are promptly applied. Deadline: Ongoing.

This 2017 DV action point was addressed in an exchange before the February 2021 dialogue visit and discussed in the dialogue visit. The EDF was liquidated in 2018. The 2017 Action point 5 was closed.

2017 DV Action point 6:

SE should monitor public units which are inactive or in the process of being liquidated in order to make sure that present MGDD rules are applied. Deadline: Ongoing progress, first progress note by End of January 2018.

This 2017 DV action point was discussed during the dialogue visit. Eurostat reminded that the MGDD rules are to be applied also for the smaller units in liquidation, in particular as there is typically an uncertainty regarding how long the liquidation process will last. It was agreed that SE would follow the rules concerning the reclassification of the public inactive units and the units in liquidation and reclassify them into S.13 as soon as they fail the quantitative 50% market/non-market (MNM) test. This 2017 DV action point is now covered by the February 2021 Action point 6 and was therefore closed.

2017 DV Action point 7:

SE should follow the development of the Rail Baltic project in order to analyse and decide on the possible statistical recording consequences. Deadline: When available.

This 2017 DV action point is now covered by the February 2021 Action point 26 and was therefore closed.

2017 DV Action point 9:

SE will send to Eurostat the English version of the most recent accounts of the Nordic Aviation Group AS. Deadline: September 2017.

This 2017 DV action point was discussed in a written exchange before the dialogue visit and is now covered by the February 2021 DV Action point 12 and was therefore closed.

2017 DV Action point 10:

SE should closely monitor the financial situation of Nordic Aviation Group AS (Nordica) in order to confirm its current classification in S11. Deadline: Ongoing.

This 2017 DV action point was discussed in a written exchange before the dialogue visit and is now covered by the new February 2021 DV Action point 12 and was therefore closed.

2017 DV Action point 11:

SE should monitor the financial situation of OU Transpordi Varahaldus in the context of its envisaged expansion in order to assess the statistical reporting consequences. Deadline: March 2018.

This 2017 DV action point was clarified in the written exchange before the dialogue visit and during the dialogue visit and was therefore closed.

2017 DV Action point 12:

SE should analyse the current classification of AS KredEx Krediikindlustus in the light of the 2014 Eurostat advice for the classification of KredEx Foundation.

This 2017 DV action point is now covered by the February 2021 DV Action point 11 and was therefore closed.

2017 DV Action point 15:

SE should continue its efforts to be involved in the early stage of the preparation of Private-Public- Partnerships (PPPs) and concession contracts, including those initiated by local authorities.

This 2017 DV action point is now covered by the February 2021 DV Action point 24 and was therefore closed.

Evaluated and closed:**2017 DV Action point 3:**

SE will analyse the changes to the working balance for the central government and the consequences for the reporting in EDP Table 2A and provide a note to Eurostat with its conclusions.

This action point is addressed by the submission of a new Inventory, which includes further information about the new working balance. Therefore, the 2017 DV Action point 3 was closed.

2017 DV Action point 13:

SE is invited to seek an ex-ante advice request for the recording of the new road tax to be implemented from January 2018. Deadline: When considered necessary.

Not applicable anymore, as the Estonian politicians decided in October 2019 not to implement the new road tax for cars. Therefore, the 2017 DV Action point 13 was closed.

Findings and conclusions

Action point 6

Statistics Estonia will follow the rules concerning the reclassification of the public inactive units and the units in liquidation and reclassify them into S.13 as soon as they fail the quantitative 50% market/non-market (MNM) test. **Deadline: 15 March 2021 and thereafter, recurrent.**

3. Methodological issues and recording of specific government transactions

3.1. Delimitation of general government, application of market/ non-market rule and the qualitative criteria in national accounts

3.1.1. Changes in sector classification since the last EDP dialogue visit

Introduction

The public sector units classified outside the government sector are tested for their market/non-market character on an annual basis.

According to the note provided by SE prior to the mission:

- Since 2017, 17 units were classified **outside** the general government (GG):
 - o 7 units due to the results of the quantitative 50% market/ non market (MNM) test;
 - o 1 unit due to bankruptcy; and,
 - o 9 units due to loss of government control according to ESA 2010 paragraph 2.38.

- Since 2017, a total of 12 units were classified **into** the GG:
 - o 6 units due to the results of the quantitative 50% MNM test;
 - o 5 units due to changes in the updated 2019 MGDD; and,
 - o 1 unit due to control by GG – the Estonian Rural Development Foundation.

Moreover, there are five small corporations (established by the local government and with over 50% of the revenues received from the government sector) that are going to be classified into the government sector due to the results of the annual market/non-market tests carried out and these will be reported in the questionnaire on government-controlled entities. These changes are going to be implemented in the 2021 revision of the financial and non-financial accounts. The revised data will be published in September and reported in the October 2021 EDP notification.

Name of unit	Year of reclassification	Impact on B.9 (Mio)	Liabilities (Mio)
Kuremaa Enveko AS	2019	7.8	0.1
Narva-Jõesuu Kommunaal AS	2019	0.1	0.1
Alutaguse Haldus OÜ	2019	-2.1	0.4
AS Suure-Jaani Haldus	2019	0.0	0.6
Mustvee Linnavara OÜ	2019	-0.1	0.1

Discussion

SE confirmed that all the public museums and all the Associations and Chambers are now classified in S.13.

It was discussed how SE receives the information about changes in government control over a corporation and whether all the qualitative control criteria, as described in ESA 2010 par. 2.38 and 2.39, are being assessed and not only the ownership criterion. SE described that it receives information about this from the SSSC. The information is based on the international accounting standards, which can be different from ESA 2010. Therefore, it was agreed that, following ESA 2010 par. 2.38 and 2.39, SE will review the reclassification of units outside S.13 due to the loss of government control and the SSSC will provide the relevant information for SE to base such an assessments on, see Action point 9.

As described in the introduction, the Estonian Rural Development Foundation was reclassified to the GG in 2019 but only in 2020 in the non-financial accounts. SE explained that this was an exceptional case and that the reason was that the decision to reclassify was taken late.

3.1.2. Practical implementation of the market/non-market (MNM) test, qualitative and quantitative criteria

Introduction

The government sector in Estonia contains only units, which are deemed to be non-market producers according to ESA2010. The first round of classification decisions is based on the quantitative 50% MNM test. Nevertheless, for some cases, qualitative information is used to determine whether the services provided by the unit are market or non-market services by nature.

Consolidated accounts are used for the quantitative 50% MNM tests. The reason is that in the main data source, the data is already presented at a consolidated level, so the different subsidiaries cannot be distinguished within the group. However, AS Tallinna Sadam Group is an exception. The AS Tallinna Sadam Group has a parent company, AS Tallinna Sadam. In addition, the group has three subsidiaries: TS Laevad OÜ, TS Shipping OÜ and Green Marine AS (a joint venture between Tallinna Sadam and NT Marine). Tallinna Sadam, including its subsidiaries, are in S.11, excluding TS Laevad

which was reclassified to S.13 due to changed recording of maritime subsidies from D.31 to D.39 after a consultation with Eurostat.

The Consumption of Fixed Capital (CFC) used in the quantitative 50% MNM tests is taken from the financial statements from the PSFS and not from the national accounts.

Discussion

SE confirmed that subsidiaries, which are institutional units, are currently tested separately but not as frequently as the consolidated units are tested. The tests of the subsidiaries are not planned but are done ad hoc when there are reasons to believe that the classification may need to be changed. This information is received from public sources, enterprises, business registers or other. Therefore, it was agreed that SE would regularly do the quantitative 50 % MNM test also for subsidiaries, particularly important for larger units and units where the quantitative 50% MNM test was close to the threshold recently, Action point 10.

SE clarified that the depreciation from the public financial statements is used for the CFC in the quantitative 50% MNM tests. It was agreed that SE need to further develop the estimates or alternatively a coefficient is to be used (see more under Action point 7 below) in the quantitative 50% MNM test. This is particularly important and urgent for the companies having a significant stock of fixed assets, notably the railways. SE explained that the calculations available in the national accounts cannot be used, as these are not available at the necessary detailed breakdown (per unit).

In addition, the issue of the sales to the government in the quantitative 50% MNM tests was discussed. SE confirmed that they have this information and can easily identify all sales to the government.

3.1.3. Sector classification of specific units

3.1.4. Government controlled entities classified outside the general government sector

The updated Questionnaire on the government-controlled units classified outside the general government for 2019 was sent to Eurostat on 15 January 2021.

For the main companies discussed under agenda items 3.1.3 and 3.1.4, see below.

- **AS KredEx Krediidikindlustus (KredEx Credit Insurance Ltd)**

Introduction

AS KredEx Krediidikindlustus was established by the Ministry of Economic Affairs and Communications (2/3 of shares) and the Foundation KredEx (1/3 of shares). The aim of the company is to provide solutions to the Estonian enterprises to manage their commercial risks and to increase the export capacity while following the principle of profitability. The main activity of the company is the provision of credit insurance and guarantee insurance services according to the licences granted to the company and taking into account national development plans and policies.

According to SE's analysis, there is no reason to reclassify the unit to the government sector. The company does not fulfil all the conditions for having features of a captive financial institution controlled by government.

AS KredEx Krediidikindlustus did not receive any capital injections the last four years. It paid only EUR 0.1 million dividends in 2018 and had operating losses in 2018 and in 2019 (EUR -0.1 million).

Discussion

SE briefly described the qualitative criteria, in line with chapter 1.2 in the MGDD, in view of the classification of AS KredEx Krediidikindlustus and provided more information about the management of the company (SE confirmed independence of the board members from the government). It was agreed that SE would reflect on the sector classification of KredEx Krediidikindlustus AS having in mind in particular the government control over the unit, the constraints on the assets side and the constraints on the liability side as elaborated in the MGDD chapter 1.6.6. It will, in any case, reroute through the S.13 accounts the operations of the unit, which are performed on behalf of the government and with its guarantee. (Linked to the Action point 11, below).

In addition, SE will check and clarify whether the loss of the unit in 2019 presented in the Questionnaire on government-controlled units classified outside general government for 2019 is correctly calculated.

- **AS Nordic Aviation Group**

Introduction

The Nordic Aviation Group AS (Nordica) was created with the aim to ensure the flight connections to and from Estonia. Nordic Aviation Group AS is owned entirely by the Republic of Estonia and the company is engaged in organising commercial flights to and from Tallinn. In addition to the Nordic Aviation Group AS, the parent company, the subsidiaries Regional Jet OÜ and the Nordic Aviation Advisory OÜ also belong to the group.

SE provided Eurostat with the quantitative 50% MNM test for the Nordic Aviation Group. It shows that the ratio 2 (sales receipts excluding from S.13/total production costs multiplied with the ratio of sales receipts from other sectors than S.13 in relation to total sales) is higher than 50%. Therefore, the unit is considered a market producer.

According to the questionnaire on public companies, the AS Nordic Aviation Group had a loss of EUR 7.1 million in 2019. It did not pay dividends during 2016–2019 and it was loss making the two last years.

Discussion

SE described the financial situation of the Nordic Aviation Group AS, with losses the last two years, and the financial perspectives of the airline, taking into account the exceptional circumstances linked to the COVID-19 pandemic. Based on this, it was agreed that SE would monitor the sector classification of the Nordic Aviation group and check its ability to service the liabilities and the government support for the group (linked to Action point 12).

- **OÜ Transpordi Varahaldus**

Introduction

OÜ Transpordi Varahaldus is a state-owned corporation founded on 30 September 2015 by the Republic of Estonia as a sole shareholder with the objective of operating as an investment firm financing and managing fixed assets in the field of transport (including acquisition and lease).

The quantitative 50% MNM tests for the unit shows results above 50% for 2015–2019, confirming the classification in S.11. At present, there are no public records about planned changes in the activities of OÜ Transpordi Varahaldus. In 2017, the unit issued debt securities for 25 million EUR, in order to acquire additional airplanes. Nevertheless, this event means only that the existing activities of the unit have been expanded. As a result, SE is of opinion, that there is currently no need to change the statistical classification of the unit.

Discussion

SE explained that a private bank listed on the Tallinn Stock Exchange and a Pension fund management company purchased the debt securities issued by OÜ Transpordi Varahaldus.

- **TS Shipping and Green Marine S.A.**

Introduction

TS Shipping was founded in 2012 and is 100% owned by the state-owned company Port of Tallinn. TS Shipping Ltd. is a provider of escort icebreaking, ice management and offshore services. The company's activities are seasonal. During harsh winters, its activities are concentrated on engaging in safe escort icebreaking operations in the Gulf of Finland and in the Estonian coastal waters, while during the summer it renders services to the offshore oil and gas and renewable energy industries throughout the world.

Green Marine Ltd. is a joint venture of the Port of Tallinn Ltd. and NT Marine Ltd. Its economic activity is targeted on the development of environmental services for ports and ships, on sea pollution prevention, localisation and liquidation issues in accordance with the international standards. Green Marine Ltd also coordinates waste management services offering to the ships within the ports of Port of Tallinn (Muuga Port, Old Port, Paljassaare Harbor, Paldiski South Harbor and Saaremaa Harbor). The clients and partners are ports and port operators, shipping companies, the Estonian Defence Forces, the Estonian Railways, Eesti Energia, oil terminals, car and truck workshops, clients from Latvia, Lithuania, and Finland.

SE informed Eurostat that the information available in the Business Register is not sufficiently detailed to exclude the sales to S.13 and therefore the quantitative 50% MNM test results of TS Shipping OÜ and Green Marine AS contain only ratio 1 (sales receipts/production costs, i.e. the usual market/non-market test ratio) and not ratio 2.

Discussion

SE had only provided the ratio 1 for the quantitative 50% MNM test for TS shipping and this ratio includes sales to the government. SE does not currently have the information about the share of sales to the government. Moreover, the ratio 1 varies very much over the last years. Therefore, it was agreed that SE would check the proportion of sales to the government when carrying out the quantitative 50% MNM tests of TS Shipping and Green Marine S.A. (see Action point 13).

- **Tallinna Soojus AS**

Introduction

Tallinna Soojus AS (Heat of Tallinn) is part of the Commercial, Industrial Equipment Rental and Leasing Industry. Tallinna Soojus AS has four employees at this location and generates \$3.39 million in sales (USD). There are 14 companies in the Tallinna Soojus AS corporate family.

Discussion

It was agreed that SE will investigate whether Tallinna Soojus AS with its few employees could be seen as a head office, a holding company or an ancillary unit of the city of Tallinn (Action point 14) as this may have an impact on the classification of the unit (currently S.11).

- **AS Eesti Raudtee**

Introduction

AS Eesti Raudtee (the Estonian Railways Ltd) is a state-owned company and it is responsible for railway administration related tasks. The Estonian Railways Ltd aim to ensure smooth operation, management and maintenance of the railway infrastructure and efficient traffic management. As the owner of the railway infrastructure, the Estonian Railways Ltd holds a central role in the functioning of the transit sector and the responsibility for maintaining a functioning competitive situation both in passenger and cargo transport.

The quantitative 50% MNM test of the unit shows that in 2015-2018 ratio 2 is higher than 50%. Following the sector classification process, the unit is considered a market producer.

The Estonian Railways Ltd. received capital injections (recorded as S.13 expenditure) from the government the last three years.

Discussion

SE confirmed that there are four railway companies in Estonia: AS Eesti Raudtee, AS Operail, Rail Baltic Estonia OÜ and AS Eesti Liinirongid (Elron). The two last are part of S.13.

SE confirmed that they used the depreciation from the financial statements for the quantitative 50% MNM test of AS Eesti Raudtee.

- **OÜ Võru valla Veevärk**

Introduction

The field of operation of OÜ Võru valla Veevärk (Võru municipality Waterworks) is water supply; sewerage, waste management and remediation activities.

The quantitative 50% MNM test of the unit shows that ratio 2 is below 50%. For the units to whom ratio 2 is equal to or below 0.5, the ratio 1 is checked. Ratio 1 is also below 50% so it is clear that the unit does not fulfil the 50% criterion. The unit is only managing the water route mostly operated by the other corporations. Losses are comprised solely of the accumulated depreciation. The annual report of the unit for 2019 states that it is going to be merged with AS Võru Vesi (market producer, ratio 2 in 2015-2019 is on average 64%) in 2020. In addition, the revenues and the expenditures of the unit are very small, amounting to 0.01 million of euro per year, and would have very limited impact on the government sector B.9 and debt. Therefore, SE is of the opinion that reclassification of the unit to the government sector in 2019 would not be cost-effective, although it would be justified, strictly based on the ESA 2010 rules.

Discussion

It was agreed that SE would reclassify OÜ Võru valla Veevärk into S.13 based on the quantitative 50% MNM test (or confirm that the unit has been merged with AS Võru Vesi and therefore reclassification is no longer necessary). Moreover, SE will check the classifications of other waterworks companies. (Action point 15).

- **Riigimetsa Majandamise Keskus (RMK)**

Introduction

RMK is a government-controlled corporation classified in S.11. It manages the forests of Estonia (which covers 2 million hectares, or about 50% of the area of the country) and has adopted a strategy of environmentally-conscious business management, whereby each year approximately 1% of the total forest area is cut and replanted, based on the assumption of a 100-year tree renewability. RMK regularly pays dividends to the government. The company's financial reports are publicly available and audited according to the International Financial Reporting Standards (IFRS). The company has been discussed in a number of EDP notifications, mostly due to the substantial asset re-/de-valuations in the past.

Discussion

Eurostat confirmed that the unit comfortably passes the quantitative 50% MNM test. It also confirmed the current 50% dividend pay-out policy — i.e. approximately 50% of each year's operating profit is paid out as a dividend to the government, with re-/de-valuations of assets excluded from the operating profit. During the meeting, Eurostat reviewed the audited financial reports (income statements) of RMK for the past three years. SE confirmed that the majority of the company's sales are not from other government entities, i.e. that the company sells wood and timber on the open market and charges economically significant prices. The autonomy of decision making by RMK's management was also confirmed. Eurostat concluded that the S.11 classification of RMK is appropriate, and that SE should only monitor for potential superdividend recording (a potential breakout from the current 50% dividend payout policy).

General comment

It was agreed that SE should reclassify units as soon as the relevant information is available to take this decision instead of waiting until the next major revisions. (See more in Action point 8 below).

Findings and conclusions

Action point 7

Statistics Estonia will use the Consumption of Fixed Capital (CFC) reflecting the average service lives and the economic depreciation of the assets, for the quantitative 50% MNM test. In order to develop the proper estimates of CFC, either individual estimates, if available, or a coefficient to be multiplied to the depreciation from the public financial statements will be used. As a priority, the test, taking into account the revised CFC values, will be performed for the units with significant capital stock and gross fixed capital formation (for example, the AS Eesti Raudtee, the Estonian Railways group). **Deadline: simplified estimates for the largest units (making Railways a priority) April 2021 EDP notification and 30 June 2021 for more detailed estimates and thereafter, recurrent.**

Action point 8

Statistics Estonia will reclassify the public non-market units into S.13 or reflect the impact of reclassification on government deficit/surplus (B.9) and debt as soon as the unit meets the criteria for the classification into the government sector. **Deadline: 15 March 2021 and thereafter, recurrent.**

Action point 9

Following ESA 2010 par. 2.38 and 2.39, Statistics Estonia will review the reclassification of units outside S.13 due to the loss of government control and the SSSC will provide the relevant information for Statistics Estonia to base such an assessments on. **Deadline: 15 March 2021 and thereafter, recurrent.**

Action point 10

Statistics Estonia will regularly do the quantitative 50 % MNM test for subsidiaries. As a priority, the quantitative 50% MNM tests will be done for large subsidiaries (with non-negligible potential impact on government B.9 and debt) and for the units where the results of the quantitative 50% MNM test were close to 50 % for the previous years. **Deadline: 15 March 2021 and thereafter, recurrent.**

Action point 11

Statistics Estonia will reflect on the sector classification of KredEx Krediidikindlustus AS (KredEx Credit Insurance Ltd) having in mind in particular the government control over the unit. It will in any case reroute through the S.13 accounts the operations of the unit, which are performed on behalf of the government and with its guarantee. **Deadline: 15 March 2021 and thereafter, recurrent.**

Action point 12

Statistics Estonia will monitor the sector classification of the Nordic Aviation group. Its ability to service the liabilities and the government support for the group will be checked.
Deadline: 15 March 2021.

Action point 13

Statistics Estonia will check the proportion of the sales to the government when carrying out the MNM tests of TS Shipping and Green Marine S.A. **Deadline: 15 March 2021.**

Action point 14

Statistics Estonia will investigate whether Tallinna Soojus AS (Heat of Tallinn) could be seen as a head office, a holding company or an ancillary unit of the city of Tallinn.
Deadline: 15 March 2021.

Action point 15

Statistics Estonia will reclassify into S.13 OÜ Võru valla Veevärk (Võru municipality Waterworks) based on the quantitative 50% MNM test (or confirm that the unit has been merged with another unit and therefore reclassification is no longer necessary). Moreover, SE will check the classifications of the other waterworks companies.
Deadline: 15 March 2021.

3.2. Implementation of the accrual principle

3.2.1. Interest and consolidation of interest

Accrual adjustment relating to interest D.41, as reported in EDP T2

The interests (both the revenues and the expenditures) in the GFS are calculated using the information from the PSFS. According to the rules of the PSFS, the interest is recorded when accrued (when accrued but not paid, a liability (or asset) is recognised).

Based on those rules the recording of the interests in the PSFS is considered to be in line with ESA 2010 guidance, and is recorded based on this data source.

Starting from 2017, when the accrual based WB is used, no adjustment is reported.

3.2.2. EU flows and EU instruments

Discussion

SE briefly described how the EU flows are recorded and the neutralisation of the EU flows. It was agreed that SE would revise the recording of the EU flows in the EDP Table 2A and the EDP Questionnaire table 6 in order to reflect the delays in submissions of the claims for payments (Action point 16). SE explained that museums, hospitals and Rail Baltic etc. provide sufficient information for proper recording of the EU flows. However, SE will further clarify the data available for the neutralisation of the EU flows for the other central and local government units (Action point 17).

Findings and conclusions

Action point 16

Statistics Estonia will revise the recording of the EU flows in the EDP Table 2A and the EDP Questionnaire table 6 in order to reflect the delays in the submissions of the claims for payments. **Deadline: April 2021 EDP notification.**

Action point 17

Statistics Estonia will clarify if data is available for the neutralisation of the EU flows for the other central and local government units. **Deadline: 15 March 2021.**

3.2.3. Military expenditure

Introduction

According to the EDP Inventory, all military expenditures are made by the Ministry of Defence and its subsidiary units. Furthermore, the EDP Questionnaire table 7 clarifies that there have not been any leases with regard to the military equipment. The Questionnaire table also clarifies that the military equipment expenditure does not include R&D.

During the October 2020 EDP notification, it was clarified that the F.81 (assets) related to military equipment show an estimate calculated as a difference between the cash payments and the deliveries since the PSFS data is not detailed enough to distinguish the military equipment trade credits specifically. The PSFS data is also not detailed enough to distinguish between the short-term and the long-term F.8. The SSSC is responsible for verifying accrual accounting of the military expenditure, i.e. that the PSFS corresponds to the General Rules of State Accountancy and the IPSAS. The source data is not detailed enough to distinguish deliveries of the military equipment built over several years.

Discussion

During the meeting, Eurostat discussed the EDP Questionnaire table 7. SE was asked to confirm that the working balance of the EDP Table 2A correctly captures the military equipment spending. SE will correct a recently discovered technical error in the EDP Questionnaire table 7.2, during the next EDP notification, related to the cash basis of expenditure, rather than the accrual-based accounting as required by the rules. Eurostat noted that the working balance in the EDP Table 2A appears correct, while some of the entries in the EDP Questionnaire table 7.2 appear incorrect. SE agreed to correct the technical error in the EDP Questionnaire table 7.2 (in line item 13 of the EDP Questionnaire table 7.2, it was observed that the estimated B.9 impact from the military equipment equals the deliveries in two of the years, namely 2016 and 2019, while it equals the cash outflows for the other two years, 2017 and 2018). At the same time, Eurostat observed notable F.8 military flows in both 2017 and 2018 (F.8 of approximately 0.3% of GDP, in each of 2017 and 2018). The line item 13 therefore appears to be a technical error in the EDP Questionnaire table 7.2 only, for 2017 and 2018, and not in the working balance of the EDP Table 2A (otherwise larger statistical discrepancies would have been observed).

Eurostat also explained that it should be relatively straightforward to distinguish between the short-term and the long-term prepayments made with regard to the military equipment. It recalled that, according to the MGDD, the prepayments for long-term trade credits should be recorded as AF.4, and not as AF.8, as is the current practice. Estonia

agreed to strive to make this differentiation, as per Action point 18 below. Eurostat also noted that a notable pick-up in the government military equipment expenditure was expected in 2020 and 2021 due to impending deliveries.

Findings and conclusions

Action point 18

Statistics Estonia will aim to differentiate between the F.8 and F.4 flows related to the military equipment. Currently, the F.4 military flows do not show any amounts, while it is clear that a notable part of the recent years' build-up in the AF.81 military equipment advances is due to long-term deliveries. Moreover, Statistics Estonia will investigate the availability of data on the deliveries of military equipment under the long-term projects.

Deadline: April 2021 EDP notification.

3.3. Recording of specific government transactions

3.3.1. Recording of specific government transactions

3.3.1.1.COVID-19: Expenditure and non-tax revenue

3.3.1.2.COVID-19: Taxes and social contribution

3.3.1.3.COVID-19: Loans and guarantees

Introduction

In view of the dialogue visit, SE provided a table of the different COVID-19 measures in place.

Discussion

SE described that the measures implemented by the units not being part of the core government (SA Kredex, MES and EAS) are mainly loans and guarantees. Moreover, SE confirmed that according to their knowledge, there was no support to the airlines or other big public or private units, except the general measures listed in the document sent prior to the visit. SE informed that there is currently no intention to report in the voluntary table of COVID-19 measures.

However, it was agreed that SE would further analyse the measures implemented by the government and other public units in the context of the COVID-19 pandemic, as detailed in Action point 19).

Findings and conclusions

Action point 19

Statistics Estonia will analyse the measures implemented by the government and the other public units in the context of the COVID-19 pandemic. In particular, Statistics Estonia will:

- analyse the tax and the social contribution deferrals and, if necessary, implement ad hoc corrections to the time adjusted cash data,

- follow up on the suspension of the pension contribution payments, especially in the context of the discussed compensation of employees,
- estimate, in co-operation with the Ministry of Finance, the losses on the guarantees and loans and reflect on the proper booking in the GFS/EDP,
- analyse the capital injections and the acquisitions of shares in order to assess if the transactions are financial or non-financial,
- analyse the sale and lease back operations,
- ensure a proper recording in the GFS/EDP of the measures implemented by the units other than the core government, in particular by KredEx, MES and EAS.

Deadline: 15 March 2021 and thereafter, recurrent.

3.3.2. Government interventions to support financial institutions

3.3.2.1. Versobank

Introduction

On 26 March 2018, the European Central Bank withdrew Versobank AS's authorisation to operate as a credit institution following the recommendation of the Estonian Financial Supervision Authority.

The Estonian Guarantee Fund started disbursing the compensations through Swedbank and SEB Pank on 5 April 2018 to the bank's customers with funds in the deposits and the bank accounts of up to €100,000.

The compensations above the ceiling were paid by Versobank. All debtors were compensated on an equal basis, with no priority assigned to any specific case in the compensation process.

The Estonian Guarantee Fund recovered amounts paid from the liquidators of Versobank in 2018 and 2019.

Discussion

Based on the note on Versobank, provided before the dialogue visit, SE clarified the situation regarding the actors involved, the payments to and from the government; the impact over the relevant years; and the recording. Moreover, SE explained that the liquidation process is still ongoing although very small amounts are involved now. Finally, SE confirmed that no similar process is currently ongoing for another bank or financial institution.

3.3.3. Capital injections in public corporations

Introduction

In view of the dialogue visit, SE sent Eurostat a list of capital injections for the period 2016 - 2020 3Q by beneficiary and treatment in national accounts.

Discussion

The discussion started from the reporting data. The data of financial transactions (F.51) in the table provided by SE is consistent with the data in the EDP questionnaire table 10.2, but there are differences between the data of capital injections, recorded as expenditure (D.9). SE checked and confirmed that data is correct in the EDP questionnaire table 10.2.

Then the discussion focussed on the timing of capital injection tests. SE explained that they usually perform the capital injection test for the October EDP notification, as the audited financial statements of companies are usually available at the end of June. Eurostat clarified that the capital injection test should be done in time for the April EDP notification. SE can use the partial information available at the time of the April EDP notification. It was agreed that SE should further clarify what was recorded as capital transfers (government expenditures) and superdividends (withdrawal of equities) in the April EDPs notifications, see Action point 20.

Moreover, concrete examples of capital injection tests were discussed such as Elering AS in 2016 and 2018, AS Eesti Energia in 2020, AS Eesti Raudtee in 2020 and AS Operail in 2020.

The government of Estonia made capital injections to **Elering AS** of EUR 32 million in 2016 and of EUR 40 million in 2018. These capital injections are recorded as financial transactions (F.51). Elering AS is an independent electricity and gas system operator in Estonia. All Elering's shares belong to the Republic of Estonia whose shareholder rights are being executed by the Ministry of Economic Affairs and Communications. Elering AS is classified in S.11. The company is profitable and regularly pays dividends to the government. SE clarified that the capital injection in 2016 was related to the acquisition of the natural gas transmission network and that the injection made in 2018 was related to additional investments in gas activity.

The capital injection of EUR 125 million to **AS Eesti Energia** was made in the second quarter of 2020. Eesti Energia is an international energy company owned by the Estonian state. The company operates in the markets for electricity and gas sales in the Baltic States, Finland and Poland, as well as on the international market for liquid fuels. Eesti Energia has been profitable and pays out dividends to S.13 on a large scale almost every year. According to information provided by SE prior to the DV, a capital increase in Eesti Energia is foreseen to co-finance potential investment projects of the company. The capital increase was necessary to start investments for the establishment of the new shale oil plant as well as to ensure the credit rating of Eesti Energia. The credit ratings were at the end of August and September correspondingly S&P BBB- and Moody's Baa3.

Finally, there were capital injections into **AS Eesti Raudtee** (EUR 10 million) and **AS Operail** (EUR 21.9 million) on Q3 of 2020. The sector classification of both companies is S.11. Both companies are state-owned. AS Eesti Raudtee is responsible for railway administration and related tasks. The company is profitable since 2018, but starting 2017, each year, AS Eesti Raudtee receives capital injections from the government: EUR 16 million in 2017, EUR 20.9 million in 2018 and EUR 20.5 million in 2019. AS Eesti Raudtee is not in the list of public companies that paid dividends during 2016-2019. According to the information provided to the Eurostat GFS team by SE prior to the DV, the injection into Eesti Raudtee was made to increase the amount of the entity's own funds in order to receive a loan from EIB to be used for the modernisation of the European railways system, one European Command and Signalling (CCS) system framework. AS Operail is an international railway logistics company whose main areas of business are freight transport, rolling stock rental, and construction and maintenance. The company is profitable only since 2018. Dividends were paid only in 2019 (EUR 1.5

million). SE explained that the capital injection in 2020 was related to the expansion of the company's activities into the Finnish market.

When discussing the concrete examples, it was agreed that SE would provide additional information, including the possible earmarking of capital injections for particular investment projects. Regarding capital injections recorded as financial transactions from 2016 onwards, see Action point 21.

Findings and conclusions

Action point 20

With a view to Action point 3 above and to the fact that it has not been possible to perform capital injection and superdividend tests for the April EDP notifications, Statistics Estonia will explain to Eurostat what was recorded as capital transfers (government expenditures) and superdividends (withdrawal of equities) in the April EDP notifications. **Deadline: 15 March 2021.**

Action point 21

In the context of the discussion on whether capital injections should be recorded as financial transactions or non-financial transactions (investment grant or capital transfer), Statistics Estonia will provide Eurostat with a detailed note on capital injections recorded as financial transactions from 2016 onwards. The note should focus on the following units: Elering AS, AS Eesti Energia, AS Eesti Raudtee and AS Operail and elaborate, among others, on the financial situation of the company, its ownership and sector classification, its freedom to decide about the use of the funds, possible earmarking of the capital injection for gross fixed capital formation purposes, involvement of private partners, business plan, privatization plans. **Deadline: 15 March 2021.**

3.3.4. Dividends, superdividends

Introduction

A list of dividends paid to the government in 2016-2020 by individual company and associated profit (notably the treatment of the corporate income tax) was provided in view of the dialogue visit.

Discussion

The timing of the superdividend tests was discussed. It was agreed that these would be done already in the April EDP notifications based on the partial information available, for the biggest companies, for the companies paying the biggest dividends and for the companies for which superdividend payments have been observed in previous periods, Action point 22.

Moreover, SE clarified why, in some cases, the amount of the dividend received is small (below 0.1 million euros) but still exceeding the distributable income and still has been considered to be property income to the full extent. The reason for this practice is that SE considers the impact on B.9 as insignificant.

Furthermore, SE provided background information about the superdividends regarding AS Tallinna Sadam (2018) and Elering AS (2019). Furthermore, SE clarified that the profit concept used was the operating profit up until 2018 and after suggestions made in the EDP notification in April 2019, SE started using distributable income instead.

Findings and conclusions

Action point 22

Statistics Estonia will calculate superdividend tests already in the April EDP notifications based on the partial information available, for the biggest companies, for the companies paying biggest dividends and for the companies for which superdividend payment has been observed in previous period(s). **Deadline: April 2021 EDP notification and thereafter, recurrent.**

3.3.5. Government guarantees and guarantee calls

Three major government units provide guarantees: the MoF, KredEx Fund (formally a foundation established by the state) and the Rural Development Foundation. The MoF provides one-off guarantees for the other central government units and to public sector enterprises and standardised guarantees for student loans. KredEx Fund provides standardised guarantees for housing loans and for specific loans for enterprises. The Rural Development Foundation is providing standardised guarantees on the borrowing options for enterprises.

The information about the stock of guarantees provided is recorded in the PSFS as off-balance sheet liabilities. The list of one-off guarantees held by the MoF is published on the website of the unit and in the Consolidated Annual Report of the State (which is approved by the Parliament). In the case of one-off guarantees, it is easy to see, whether any new guarantee has been provided or not. In the case of standardised guarantees, only the stock of guarantees could be seen in the PSFS. No information about the amount granted and the amount cancelled could be seen separately. Detailed information about the new amounts granted and cancelled is available only from the financial statement of the Fund KredEx, which has to be published six months after the end of the reporting period.

Until the present time, there were no cases of debt assumption at inception of one-off guarantees.

A list of called government guarantees; their repayments by the original debtor and stocks for 2016-2020, by company and amount; and an update of Annex III was submitted in view of the dialogue visit. SE confirmed during the dialogue visit that there are no guarantees under repeated calls.

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

SE confirmed that there were no debt assumptions, cancellations or write-offs in the period 2016-2020.

3.3.7. *Private-Public Partnerships (PPPs), EPCs and concessions, Rail Baltica*

Introduction

At the end of 2019, Estonia had EUR 20.7 million (0.07% of GDP) in outstanding liabilities related to PPP contracts. There are only two PPP contracts in Estonia. Both are recorded *off government balance sheet*, and related to school renovations in Tallinn. The two contracts were signed by the local government at the end of 2006. The construction phase on both ended in 2008.

Before the meeting, SE informed Eurostat that in 2020 a new PPP competence centre was established within the Ministry of Finance, with the idea to promote more (potentially off-balance) PPP transactions in the future. One pilot project under this new competence centre is planned to start in 2021: Libatse-Nurme 21km motorway section.

Discussion

Eurostat opened the discussion by reviewing the off-balance sheet PPP table published nationally in accordance with Council Directive 2011/85/EU. Eurostat noted that the values in this table deviated from the values sent to Eurostat in Annex 3, the EDP Questionnaire tables (in particular the EDP Questionnaire table 11) and explained that the two sets of PPP data should be aligned, whereby the nationally published PPP table appeared wrong and should be corrected.

Eurostat also discussed how SE receives data and information on new and existing PPP contracts, while also mentioning concession and EPC contracts. Eurostat also asked SE to closely monitor the future developments in this regard, and recalled Action point 15 from the previous EDP dialogue visit in 2017, as the issue is still valid and is now covered by the new action point 24. Eurostat pointed to the fact that the currently published EDP Inventory of Estonia, needs to be updated in reference to sections on PPPs, concessions and EPC contracts, while also recognising that a new draft EDP Inventory was received recently.

As an agenda sub-point, Eurostat discussed the large ***Rail Baltic*** project, a predominant part (80-90%) of which is financed by EU grants (CEF Facility). The discussion focused on the reflection of the project in the EDP data on EU flows. Eurostat recalled that a notable revision was observed between the April and the October 2020 EDP notifications, particularly for EU funds transactions in 2019, and asked SE to investigate if part of this revision also concerned Rail Baltic Estonia. Eurostat also asked for more detailed data on the project, i.e. investments made up to 2020, as well as corresponding financing sources.

SE confirmed that the non-EU-funded part of the project would be carried as capital investment by the Estonian government, while future PPP-type projects may still be considered. The classification of the entities involved in the project was also discussed (some of which are in S.13 general government, while others in S.2, since the project is shared among several countries). Eurostat noted that a large part of the capital expenditure is still to take place in the future, and asked SE to continue to monitor the government transactions related to the project.

Findings and conclusions

Action point 23

Statistics Estonia will align the table published nationally in accordance with the 2011/85 Directive on the liabilities resulting from off-balance sheet PPPs with the questionnaire tables (on contingent liabilities) submitted to Eurostat in December 2020. **Deadline: April 2021 EDP notification.**

Action point 24

As a follow up to the Action point 15 from the previous EDP dialogue visit, Statistics Estonia will continue to monitor the new investments in order to identify PPPs, concessions, EPCs and the like. **Deadline: continuous.**

Action point 25

Statistics Estonia will deliver to Eurostat an analysis of the planned PPP for the construction of the Libatse – Nurme motorway. **Deadline: as soon as the financial close of the project is agreed.**

Action point 26

Statistics Estonia will deliver to Eurostat a detailed timetable as well as data about planned and executed GFCF for the Rail Baltic project. The national and the EU financing will be shown. Moreover, Statistics Estonia will keep Eurostat informed about the progress concerning the Rail Baltic project. **Deadline: May 2021 and thereafter, recurrent.**

3.3.8. Emission trading permits (ETS) and Sale of renewable energy rights

Introduction

ETS

Estonia started to auction the ETS allowances (permits) in 2013. Until 2017, the cash raised from this auctioning activity was relatively moderate, ranging from 0.04% to 0.17% of GDP. In 2018 and 2019, the cash revenues increased considerably. In 2019, Estonia raised EUR 142.8 million from the ETS auctioning (0.51% of GDP). Data available from the EEX commodity exchange shows that in 2020 Estonia raised another EUR 142.4 million in the ETS auctions, expected to be approximately 0.5% of GDP as well.

The significance of the ETS is increasing, also because revenues have increasingly been used to finance green investment funds. Two new EU-wide funds have been created recently: the Innovation Fund in 2020 and the Modernisation Fund in 2021. The two funds have followed the example of the NER300 program set up in 2012-2013 and have

monetised excess ETS allowance issuance quotas to fund example setting greening projects.

Statistical transfers of renewable energy rights

Two European legal acts, known as the first and the second Renewable Energy Directives (REDs), promote the use of energy from renewable sources (RES) and define certain targets on the percentage that renewable energy should represent over the gross final energy consumption by 2020 (RED I) and by 2030 (RED II).

As some countries fell short of their RED I national targets, in 2018 they started buying so called renewable energy rights, from countries like Estonia, which had exceeded their national targets (measured as % of national electricity consumption, which is sourced from renewable energy producers). These transfers take place on paper only, hence the name statistical, as the selling country subtracts certain amount of Gigawatt hours (GWh) from its renewable count and gives it to the purchasing country. Reciprocal amount of non-renewable GWh flows in the opposite direction of this statistical transfer.

The first such contract was signed in 2018, whereby Luxembourg bought renewable transfers from Estonia and Lithuania. Under the contract, Luxembourg committed to buy from Estonia minimum 700 GWh, but with an additional buyer's option to buy a total (maximum) of 2500 GWh, over the period 2018-2020. The negotiated price was EUR 1.5 million per 100 GWh.

In the beginning of 2020, Malta and Estonia agreed to another statistical transfer for a minimum of 100 GWh and a maximum of 140 GWh at a price of EUR 2 million per 100 GWh. In November 2020, another such contract was signed between Ireland and Estonia⁴, whereby Ireland will pay Estonia for 3500 GWh at a price of EUR 1.07 million per 100 GWh.

The positive effect on Estonia's B.9, in the form of D.74 is therefore estimated to have reached 0.2% of GDP in 2020.

Discussion

ETS

Eurostat took note that the carbon tax unwinding method currently utilised by SE is the so called 'fifo' method (from the 2016 edition of the MGDD), which essentially means that D.29 ETS tax in year T+1 equals F.2 ETS cash raised in the auctioning during the preceding year T. This is because, in accordance with the MGDD, the time of surrendering of the ETS permits by polluting installations is assumed to approximate the actual tax event, which is the time of the pollutions, and in practice, surrendering occurs in the first four months of the year following the year of the pollution. Eurostat pointed to some minor discrepancies between cash raised in year T vs. carbon tax in year T+1, for some of the recent years, which would have contributed marginally for the existing statistical discrepancies, while SE undertook to correct these minor discrepancies during the following EDP notifications.

⁴ <https://www.irishtimes.com/news/ireland/irish-news/ireland-to-pay-denmark-estonia-50m-for-statistical-renewable-energy-transfer-1.4418420>

Eurostat noted that the AF.89 payables related to the ETS allowances are reflected in the EDP Questionnaire table 5, while it also asked SE to check if the amounts from the EDP Questionnaire table 5 are also aligned to payable amounts shown in the EDP Questionnaire tables 4. Eurostat also noted that the ETS is an evolving methodological topic of discussion and invited SE to follow the latest developments in this area.

Statistical transfers of renewable energy rights

Eurostat opened the discussion by referring to the EDPS WG (December 2020) meeting agenda point C.6 on the topic of statistical transfers of renewable energy rights. Eurostat pointed to the fact that the WG discussion in December 2020 did not include data on the contract with Ireland, which was signed in November 2020 and which appeared to significantly increase the monetary value of the renewable rights sold by Estonia.

Eurostat estimated that taken together, the three renewable rights transfer/ sale contracts (Luxembourg, Malta, and Ireland) could yield an additional government revenue of 0.2% in relation to GDP in 2020. While noting the one-off nature of this revenue (due to the specific RED I targets for 2020), Eurostat also mentioned the hypothesis that this additional government revenue might be spread out over several years, and asked SE to prepare a simple data table, in order to have more hard data before deciding on its government finance recording. Eurostat also confirmed that the current recording of D.74 revenue is in line with the MGDD rules.

Findings and conclusions

Action point 27

Statistics Estonia will deliver to Eurostat a table presenting the amounts booked as D.74 revenues and as D.39 expenditures, as well as any other amount recorded in the non-financial accounts related to the statistical transfers of renewable energy rights for the contracts signed in 2018-2020. **Deadline: April 2021 EDP notification.**

3.3.9. Others: Mobile phone licenses (UMTS/LTE), sale and leaseback operations etc.

Introduction

The mobile phone (and the digital television) licenses (in the form of frequency rights over a certain period in time) have been awarded in Estonia since 2003. Since 2008, these contracts also cover the ship and aircraft radio licenses and the amateur radio stations.

Estonia has a specific mechanism for awarding mobile phone frequencies, which is different from the typical procedure normally applied by other EU Member States. The main difference is that in Estonia, the length of the contracts awarded to mobile phone operators is undetermined. Such contracts are renewed on an annual basis, with the operators paying a statutory annual frequency use fee. If operators decide to discontinue the use of a certain frequency range, they have the simple option to stop the payment of the statutory annual fee. In addition, when contracts are initially auctioned, the operators also pay a one-off awarding fee, which is usually determined during the auction.

The structure of each per-frequency contract is thus: one-off charge (typically auctioned) and statutory fee paid each year. The three largest mobile operators in Estonia are Telia EMT, Tele2 (subsidiary of the Telenor Group) and Elisa (an Elisa Group company). The one-off charge revenue raised historically has been relatively small (compared to the regular statutory fee).

Over the past decade, the Estonian government raised maximum revenue from one-off charges in 2013 and 2014 (related to 4G mobile licenses), of EUR 6.1 and 5.1 million respectively, both representing approximately 0.02% of GDP.

As discussed during recent notifications, Estonia has changed the recording of mobile contracts signed after 2017 to match the requirements of the MGDD, to record the amounts received as D.45 rental income, spread over the lifetime of the license contracts. However, for contracts signed prior to 2017, the recording remains as one-off lump sums in the year contracts were signed.

Discussion

Eurostat reminded SE that in accordance with the 2017 Guidance and the MGDD rules, one-off charges should not be booked in a single year only. Eurostat also noted that despite the indeterminate length of such contract, it is reasonable to assume that such contracts are concluded with the intention to utilise them for at least a 10-year period, which would enable the calculation of a simple 10-year spread factor. Eurostat also recognised that in the past, the one-off auctioning revenue constituted relatively small amounts of government revenue (not counting the regular revenue from annual statutory fees). Therefore, the estimated potential impact on B.9 for the contracts signed prior to 2017, for which the guidance is not applied, is considered insignificant.

Eurostat also inquired about any information on planned future 5G license auctioning. SE replied that at the time of the meeting, they were aware of plans, but could not say for sure when the auctioning would take place. It was agreed that SE would monitor the auctioning of the 5G licences and ensure their proper recording in the GFS / EDP. Eurostat also asked that the EDP Inventory be updated with clearer description for the treatment of the mobile phone license contracts.

Prior to the meeting, SE confirmed that there were no sale and leaseback operations in Estonia (government selling an asset and leasing it back from the purchaser).

Findings and conclusions

Action point 28

Statistics Estonia will monitor the auctioning of the 5G licences and ensure their proper recording in the GFS / EDP. **Deadline: continuous, with any new information notified during the April and the October EDP notifications.**

3.4. Important issues for year 2020 relevant for the April 2021 EDP Notification

Eurostat reminded SE about two issues, discussed in the October 2020 EDP notification, pending for the April EDP notification: Tallinna Sadam and Eesti Energia (linked to 3.3.3. above).

Tallinna Sadam

SE is requested to provide an update of the investigations regarding the listing of Tallinna Sadam, to be recorded in accordance with ESA 5.150, as described by Eurostat in the email messages sent 17 and 22 September 2020. From the T-accounts for 2018, it appeared that the listing of Tallinna Sadam did not follow ESA 5.150, last sentence: Listing is recorded as an issuance of listed shares, and as a redemption of unlisted shares, while de-listing is recorded as a redemption of listed shares, and an issuance of unlisted shares where appropriate. This implies that the transformation from AF.512 to AF.511 should be done by recording a transaction and not by Other Economic Flows.

Eesti Energia

SE is asked to follow up whether the capital increase of AS Eesti Energia (foreseen to be used for funding a shale-oil plant) could be a possible investment grant. (Point 40 of the request from the April 2020 EDP notification and point 51 in the October 2020 EDP notification). This issue is also linked to point 3.3.3 including Action point 21.

4. Other issues (planned future operations, transmission of GFS data etc...)

4.1. Social taxes

During the validation period of the ESA tables related to GFS (in particular tables 2, 9 and 25) there was a written exchange related to the recording of what in Estonia is called 'social taxes', where general government is paying social contributions on behalf of particular groups of people.

In view of the dialogue visit, SE submitted, as requested, a note on the social taxes in place in Estonia under the Social Tax Act, describing the different types of social taxes and how these are currently recorded in the national accounts. After the visit, SE confirmed the intention to change the recording of social tax into D.62 and confirmed that there will no more be any impact on D.1. This revision is mainly due to a GNI reservation and is foreseen for the end of September 2021 in view of the September submission of GNI data.

4.2. Any other business

Recovery and Resilience Facility

SE submitted a note on the availability of source data for the recording of the Recovery and Resilience Facility (RRF). There is currently no sufficient source data for the RRF recording. Therefore, there would be a challenge to record RRF at required detailed levels, especially the measures proceeded to outside S.13. SE is requested to keep Eurostat up to date about the developments on this issue.

Annex 1 – List of participants to the Dialogue visit

Estonian Statistical Authorities

Statistics Estonia:

Mr Ivar Pae, Head of Economic and Environmental Statistics Department

Ms Evelin Ahermaa, Team leader of Macroeconomic statistics team, Economic and Environmental Statistics Department

Ms Katrin Dulder, Leading Analyst, Macroeconomic statistics team, Economic and Environmental Statistics Department

Ms Pauline Kommer, Leading Analyst, Macroeconomic statistics team, Economic and Environmental Statistics Department

Ms Maria Vassiljeva, Leading Analyst, Macroeconomic statistics team, Economic and Environmental Statistics Department

Ms Reena Undla, Analyst, Macroeconomic statistics team, Economic and Environmental Statistics Department

State Shared Services Centre (SSSC):

Ms Juta Maar, Head of Financial Accounting Department

Ministry of Finance:

Ms Kadri Klaos, Head of Public Finance Unit, Fiscal Policy Department

Mr Margus Täht, Chief Analyst, Public Finance Unit of Fiscal Policy Department

Mr Tarmo Porgand, Deputy Head of State Asset Department

Mr Kaupo Raag, Chief Analyst, State Asset Department

Mr Lennart Lepik, Adviser of Public Governance

Ms Mari Lahtmets, Adviser of EU Policy Unit, Fiscal Policy Department

Central Bank (Eesti Pank):

Mr Andres Lauba, Economist-statistician, Statistics Department, The External Sector Statistics Division

Eurostat:

Mr Luca Ascoli, Director, Directorate D, Government finance statistics (GFS)

Mr Jukka Jalava, Head of Unit, Unit D3 Excessive deficit procedure (EDP) 2

Ms Olga Leszczynska-Luberek, Supervisor, Unit D1 Excessive deficit procedure, methodology and GFS

Ms Catrine Boogh Dahlberg, EDP desk officer for Estonia, Unit D3

Mr Vassil Georgiev, EDP desk officer, Unit D.2 Excessive Deficit Procedure 1

Ms Gedmine Joniune, EDP desk officer, Unit D3

ECB:

Mr. Robert Gadsby, Principal Economist-Statistician

ECFIN:

Mr. Mart Maivali, Economic Analyst - Estonia

Annex 2 – Agenda of the Dialogue visit

Starting at 9:30 on 3 February 2021

(1) Statistical capacity issues

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

- 1.1.1. Institutional cooperation and EDP processes
- 1.1.2. Quality management framework
- 1.1.3. Audit and internal control arrangements

1.2. Data sources and revision policy, EDP inventory

- 1.2.1. Revisions of the working balances from April to October
- 1.2.2. Local government sub-sector, accrual based accounting

(2) Follow-up of the previous EDP Dialogue visit of 7-8 September 2017

(3) Methodological issues and recording of specific government transactions

3.1. Delimitation of general government, application of market/ non-market rule and the qualitative criteria in national accounts

- 3.1.1. Changes in sector classification since the last EDP Dialogue visit
- 3.1.2. Practical implementation of the market/non-market test, qualitative and quantitative criteria
- 3.1.3. Sector classification of specific units
- 3.1.4. Government controlled entities classified outside the general government sector

3.2. Implementation of the accrual principle

- 3.2.1. Interest and consolidation of interest
- 3.2.2. EU flows and EU instruments
- 3.2.3. Military expenditure

3.3. Recording of specific government transactions

- 3.3.1. Recording of specific government transactions
 - 3.3.1.1. COVID-19: Expenditure and non-tax revenue

- 3.3.1.2. COVID-19: Taxes and social contribution
- 3.3.1.3. COVID-19: Loans and guarantees
- 3.3.2. Government interventions to support financial institutions
 - 3.3.2.1. Versobank
- 3.3.3. Capital injections in public corporations
- 3.3.4. Dividends, super dividends
- 3.3.5. Government guarantees and guarantee calls
- 3.3.6. Debt assumptions, government claims, debt cancellations and debt write-offs
- 3.3.7. Public Private Partnerships (PPPs), EPCs and concessions, Rail Baltica (*was initially under item 3.3.9. in the official agenda but has been placed to 3.3.7.*)
- 3.3.8. Emission trading permits (ETS) and Sale of renewable energy rights
- 3.3.9. Others: Mobile phone licenses (UMTS/LTE), sale and leaseback operations, etc.

3.4. Important issues for year 2020 relevant for the April 2021 EDP Notification

- (4) **Other issues (planned future operations, transmission of GFS data etc...)**
 - 4.1. **Social taxes**
 - 4.2. **Any other business**
- (5) **Conclusions**