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FINAL FINDINGS

Eurostat EDP dialogue visit to Finland

8 - 9 February 2021

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Executive summary

Eurostat carried out an EDP dialogue visit to Finland on 8-9 February 2021 accompanied by observers from the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB). The list of participants is provided in the annex.

The aim of the visit was to review several technical and methodological issues related to the EDP reporting. The discussions between Eurostat and the Finnish statistical authorities (FSA) focused on the sector classification of public housing companies/corporations, the recording of government measures undertaken in the context of COVID-19, interest recording and derivatives and the issue of unreported dividends.

Concerning the sector classification of units, Eurostat discussed with the FSA several cases, mainly transport companies, in addition to the main issue of sector classification of the public housing companies and corporations. It was agreed that the transactions and balance sheets of so-called 'housing companies' owned by government will be reclassified in the general government sector while further investigation of the ARA housing scheme is needed regarding the sector classification of 'public housing corporations'. Specifically, the FSA will investigate whether government support in the form of interest subsidies on loans and government guarantees on ARA debt, together with the issue of government regulation on rent, tenant selection criteria and other factors, would require reclassification of the latter in the general government or, alternatively, a rerouting of their debt to the general government accounts.

Eurostat and the Finnish statistical authorities further discussed the impact of the COVID-19 pandemic on national accounts, including the accounting consequences of some individual measures taken already in 2020 and foreseen in 2021 by the Finnish government. One of these individual measures regards Finnair and requires further follow up. It was agreed that the hybrid loan provided by the government to Finnair in 2020, and which might be drawn down in the course of 2021, has the characteristic of a capital injection to be treated as a capital transfer at time of drawdown. Eurostat paid close attention to the estimations of the collectable part of the deferred taxes, which will be further followed-up in the upcoming EDP 2021 notifications.

Eurostat verified the table on interest recording provided by the FSA before the EDP dialogue visit. It was agreed that the FSA would introduce a number of corrections in the table, notably concerning the exchange rate used for the accrual of interest on bonds issued in foreign currency and the associated revaluation effects on the stock of coupons and of discounts/premium accrued on those bonds to be introduced in the table.

Eurostat and the FSA discussed, in detail, the table on derivatives. Eurostat welcomed the gross reporting provided by the Treasury for the stocks of derivatives at market value and encouraged a similar gross reporting of the notional values and, if possible, of transactions. It was agreed that the impact of the unwinding of swaps would be reported in the table.

Unreported dividends attributable to collective investment fund shareholders received from the rest of the world triggered a discussion between Eurostat and the FSA on a quality issue of databases used and on methods to avoid including the holding gain component in property income attributable to collective investment funds. It was agreed that the FSA will revise the data in order to include, among property income attributable to collective investment funds (D.443), those amounts accruing to two government units and payable by selected foreign private equity funds that were up to now not included among D.443. However, as a necessary pre-step, the FSA will establish a method to avoid including within D.443 the holding gain component, which is likely to be a significant part of the overall gains, notably arising from these private equity placements.

Eurostat appreciated the documentation provided by the Finnish statistical authorities prior to the EDP dialogue visit. Eurostat also thanked the Finnish statistical authorities for their cooperation during the visit and considered that the discussions were transparent and constructive.

Provisional 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 and Statistics of Finland agreed to hold an EDP dialogue visit meeting by video-conference on 8-9 February 2021.

Mr Luca Ascoli (Director, Directorate D ‘Government Finance Statistics (GFS)’), Mr Jukka Jalava (Head of unit, Unit D3 ‘Excessive Deficit Procedure 2’), Mr Philippe De Rougemont (Unit D1 ‘Excessive Deficit Procedure, Methodology and GFS’), Mr Stylianos Pantazidis (Unit D3 ‘Excessive Deficit Procedure 2’), and Ms Galjinka Dominic (Unit D3 ‘Excessive Deficit Procedure 2’) represented Eurostat. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meetings as observers.

Statistics Finland (SF), the Ministry of Finance of Finland (MoF) and the Bank of Finland (BOF) represented Finland. Representatives from the State Treasury also participated for the relevant agenda items.

The overall purpose of this virtual 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 Eurostat's decisions, are duly implemented in the production of Finnish EDP and Government Finance Statistics (GFS) data.

The aim of the visit was to review several technical and methodological issues related to the EDP reporting. The discussions between Eurostat and Statistics Finland (SF) focused on the sector classification of public housing companies, the recording of government measures undertaken in the context of COVID-19, interest recording and derivatives and the issue of unreported dividends.

Eurostat greatly appreciated the co-operation and transparency demonstrated by the Finnish Statistical Authorities during the meeting and the documents provided before the dialogue meeting.

Regarding procedural arrangements, the main conclusions and action points were sent to SF for review after the visit. Thereafter the provisional findings were sent to SF for comments. Once these were agreed between Eurostat and the Finnish statistical authorities, the final findings would also be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

1. Statistical institutional issues

Introduction

Eurostat reviewed the institutional responsibilities in the framework of the reporting of EDP and GFS data, data sources used and current revision policy.

Statistics Finland (SF) is responsible for all actual and statistical data relating to EDP statistics. SF has the responsibility for underlying national accounts (both non-financial and financial accounts) and the sole responsibility for applying national accounts methodology and making classification decisions. The Ministry of Finance (MoF) is responsible for planned data.

EDP statistics are one of the responsibilities of the Government Finance Statistics team, which belongs to the unit Government Finance and Sector Accounts in the Economic Statistics directorate in Statistics Finland.

Discussion

In this context, Statistics Finland informed Eurostat about the changes in its organisation from September 2020. Concerning the compilation of national accounts, government finance statistics and balance of payments, the new organization did not change the responsibilities between the existing groups. However, the compilation of financial accounts was moved into the same group with balance of payments (BoP) statistics with the aim to better integrate BoP with the total national accounts compilation and diminish discrepancies between these statistics.

The Finnish statistical authorities (FSA) informed Eurostat of improvements in the data sources since the latest EDP dialogue visit. The improvements concern the local government data that include new data sources such as the supplementary data collection for local government units and the Ålands Pension Fund. In addition, there were updated data sources for Preliminary financial statement for public entities, Balance of Payments micro survey and Employment Pension Scheme Quarterly Survey. Since a new tax item, Contributions to the Deposit Guarantee Fund was added in June 2020, it entailed also a new data source, the Financial Stability Authority.

The FSA informed Eurostat of the work on the supplementary data collection for municipalities and joint-municipal authorities. A new annual data collection for municipalities and joint-municipal authorities starts with the statistical year 2021 and will include information on guarantees, public-private partnerships, energy performance contracts, capital injections, distributions, cash collateral related to derivative contracts and more.

The FSA also informed about changes regarding publication of the quarterly GFS statistics. Starting from June 2019, preliminary data on annual national accounts for the previous year have been published at the same time as the quarterly publications, in March, June, September and December.

Eurostat enquired on any development on the bilateral Memorandum of Understanding (MoU) between SF and the Ministry of Education and culture. SF informed that there is a draft agreement concerning the data deliveries from the Ministry of Education and culture to Statistics Finland, which needs to be finalized and signed.

In addition, Eurostat enquired whether the FSA examined the opportunity to expand the scope of the activities of the Finnish EDP co-operation group, in order to include the National Audit Office (NAO) in its cooperation group. The FSA explained that the purpose of the Finnish EDP co-operation group is to take care of the bi-annual EDP reporting process. Its task is to ensure proper co-operation and exchange of information in the process.

The main responsibility for EDP reporting lies with Statistics Finland, which also compiles the data for past periods. The Ministry of Finance is responsible for forecasting the current year data. The Bank of Finland also participates in the co-operation group due to its responsibility to report GFS statistics to the European Central Bank. Since the purpose of the co-operation group is to discuss sources, including individual units, and methodology of ongoing EDP reporting, the group can consist only of organisations that are involved in the process. The main reason for this is the Statistics Act (280/2004) which states that data obtained by a statistical authority for statistical purposes may only be released to a third party on terms laid down in the Act Section 13 - 24.5.2013/361 and therefore only the parties of the statistical process can be involved. Therefore, SF considers that the National Audit Office of Finland[1] cannot be involved in these discussions where data on individual units is treated before publication to the public at large.

There are regular annual triparty meetings with Statistics Finland, the Ministry of Finance and the National Audit Office of Finland. The issue of expanding the EDP co-operation group was discussed in a meeting in 2019 and the mutual position was that the National Audit Office of Finland should not be included in the EDP co-operation group. Issues of mutual interest can be covered in these triparty meetings.

Regarding changes in the revision policy, the FSA confirmed that there are no plans to change the revision policy. The current revision policy was released to the public in 2019 at the same time in which the development project was finalized.

Prior to the mission, the FSA provided an updated version of the EDP Inventory[2] in line with the 2020 template. It was agreed that Eurostat would provide the FSA with final comments on the draft before publication.

Findings and conclusions

Eurostat took note of the information provided and of the SF opinion on the involvement of the National Audit Office of Finland in the EDP co-operation group.

2. Sector classification of Housing companies

Introduction

[1] VTV - Valtiontalouden tarkastusvirasto.

[2] The Finnish EDP Inventory was published in April 2021 following the April 2021 Notification. Inventory of the methods, procedures and sources used for the compilation of deficit and debt data and the underlying government sector accounts according to ESA2010 (europa.eu).

Under this item of agenda, Eurostat and the FSA discussed the remaining action point from the last dialogue visit, Action point 36. SF will ensure that all buildings owned by government sector units are included in S.13 if justified by sector classification rules and taking into account practical constraints, and are therefore excluded from the questionnaire on public corporations.

In order to discuss this action point, Statistics Finland provided Eurostat, prior to the mission, with a detailed document on the state-subsidized housing system and public housing corporations.

The general practice in the Finnish system of national accounts is that transactions, assets and liabilities of housing companies are recorded in the owner sector instead of the Housing corporations sector[3] (S.112), based on recognising the principal party[4] with an exception of housing companies owned by general government. The housing companies owned by employment pension schemes (S.13141), have already been recorded in the government accounts from 2019.

There are two main instruments for supporting housing in Finland. The first instrument is a housing benefit for households not depending on whether the apartment is owned privately or publicly. The second instrument is a state-subsidized housing scheme, managed by the Housing Finance and Development Centre of Finland[5] (ARA).

The State-subsidized housing scheme[6] is used for supplying subsidized public and private rental houses to the housing market in order to increase and balance the supply of rental houses to the demand and to provide rental houses for a reasonable rental price.

The instruments of the state-subsidized system are interest-subsidies and state guarantees. As a balance for state support, there is a regulation for rental determination, restrictions for transferring the assets, and provisions for the selection of tenants.

State-subsidized housing scheme

> The ARA system provides interest subsidies for loans for new building construction, acquisition and renovation of rental dwellings. A municipality, a municipal or publicly owned company, another public entity or a non-profit organization can obtain an interest-subsidy loan covered by a state subsidy. The interest-subsidy loan is taken from the financial markets, from either commercial, monetary or credit institutions, insurance companies, pension institutions or municipalities. Government sets up the amount and the term of the interest subsidy. The lender may charge the interest

[3] The Finnish national sector classification. S.11211 - Public housing companies, or S.11221 - Other public housing corporations.
[4] ESA 2010 paragraph 1.78 "When a unit carries out a transaction on behalf of another unit (the principal) and is funded by that unit, the transaction is recorded exclusively in the accounts of the principal."
[5] A government agency operating under the supervision of the Ministry of the Environment and manages the Housing Fund of Finland, which is a non-budgetary fund in the central government sector.
[6] The current form of public housing support system came into force in 2008. The old one was the ARAVA scheme. The Housing Fund of Finland currently manages the ARAVA loans that are still maturing. (EUR 4 billion remaining in ARAVA-loans).

subsidy loan no more than the interest rate corresponding to the loan with the same risk and terms in the markets.

ARA approval of the loan as an interest subsidy loan is based on social and economic impacts. Likewise, the selection of tenants for rental housing is also based on these factors. The ARA system imposes restrictions on the rents charged by rental companies to residents.

The interest-subsidized rental houses and flats may be transferred to an owner who meets the conditions for obtaining an interest-subsidized loan. This makes the sale of a rental house and apartments conditional subject to a restriction period[7].

The subsidized loans are guaranteed by the state, in which case the state is liable to the lender. The duration of the state guarantee liability is 45 years.

The state also provides guarantees for loans used to build rental housing without interest subsidy. The guarantee period is a maximum of 30 years and a guarantee fee is charged for the provision of the guarantee.

According to ARA, the owner of a rental house must select residents for state-subsidized rental housing in accordance with the relevant laws and decrees. The criteria for selecting a resident are the need for the property, wealth and income. Priority will be given to the homeless and other applicants in the most urgent need of housing, the poorest and the lowest income persons. There are no income limits, except for short-term subsidized housing.

Another instrument of the scheme is a short-term interest subsidy loan that can be obtained by public or private limited liability companies, a housing company or a mutual real estate limited company, the sole business of which must be the construction, ownership and rental of rental housing. The amount of the interest subsidy is regulated by a government decree. Short-term interest subsidy houses are regulated by rental, tenant selection criteria and transfer restrictions. Restrictions are valid for 10 years. The transfer restrictions mean that the company's shares can only be sold to a buyer who qualifies for an ARA interest-subsidy loan.

Discussion and methodological analysis

Firstly, Eurostat enquired about the potential effect on debt figures of the sector reclassification of public housing companies and corporations into the general government sector. As regards the so called ‘public housing companies’, the estimated effect on debt would be less than 0.1% of GDP while the FSA expects quite a substantial impact for the ‘public housing corporations’ of around 2% of GDP. The FSA recalled that that the impact of public housing companies owned by employment pension schemes (S.13141) is already included in the government accounts.

[7] The interest-subsidized object of property is subject to a usage and transfer restriction period of 45 years, which is calculated from the approval of the loan. Restrictions on rents will end when the loan is repaid, but the restrictions will last for at least 35 years.

Eurostat sought a clarification of the terminology used in the document, namely the difference between public housing units referred to as “public housing companies” and ‘public housing corporations’. ‘Public housing corporations’ directly own the residential buildings while ‘public housing companies’ own shares in a building/ or buildings.

A housing company is a form of residential real estate organization where a shareholder owns a share in a limited company and the share gives the right to the shareholder to own the dwelling. In publicly owned housing companies in general, the public owner owns the entire housing company and use the apartments for rental purposes. According to the Tax Administration data, there are 178 units whose legal form was a housing company where the owner was either central government or municipality.

Eurostat agreed with the FSA view to follow the principal party rule in the case of public housing companies and to transfer all assets and liabilities to the owner – the general government.

On other hand, housing corporations as limited liabilities companies for rental housing are organized so that the entity directly owns the residential buildings without any housing company sub-structure. There are 75 such units that are controlled by municipalities operating in the local rental housing markets.

These units are able to draw up a complete set of accounts and financial statements and, according to provisions of ARA, they are obliged to keep separate accounts for the ARA subsidized residential buildings because not all public corporations operating rental housing are taking part in the state-subsidized ARA-regulated system.

In national accounts, public rental housing corporations generate a net operating surplus despite their non-profit character, on the basis that ARA-regulations allow a surplus of cost rentals to be accumulated to prepare for renovations in the future, to cover loan interest costs and to undertake further investment.

The FSA stated that, in general, it is challenging to get a full understanding of the activities and contents of institutional units in question for the reason that public corporations for rental housing can be acting in different kinds of businesses and differ in their participation in the state-subsidized ARA-regulated housing system. A single institutional unit can have simultaneously a mixed set of businesses, as it can carry out ARA-regulated rental housing, or be exempt of ARA restrictions on rental housing and non-subsidized rental housing.

More information is needed on the division of rental housing in public companies into subsidized ARA-regulated (exempt of ARA restrictions) and non-subsidized ones. The possibility of obtaining detailed information from ARA will be explored.

Furthermore, Eurostat enquired on whether the guarantees for loans are recorded as one-off or as standardized guarantees. The FSA argued that this type of guarantee is not made under the same terms and they consider it as not being a standardized guarantee while Eurostat considers that it should be a standardized guarantee taking into account the nature of the

ARA scheme guarantee that seems to be acting like insurance. Calls on guarantees are minor but interest subsidies are a major part of what is shown in the deficit of the Housing Fund[8].

Eurostat enquired whether collaterals cover some of the ARA loans. The FSA confirmed that usually this is the case. For ARA loans, there is no financial institution involved. The ARAVA loans[9] and ARA loans are also shown in the EDP Questionnaire table 8.1 under claims, entirely of central government.

Finally, Eurostat and the FSA discussed the level of government influence/control on housing corporations through the ARA system and rental pricing, with the aim to conclude whether to keep public housing corporations in the sector 'other housing corporations, public' (S.11221) or to reclassify them in general government (S.13).

Findings and conclusions

Action point 1. The Finnish Statistical Authorities (FSA) will investigate the issue of ARA housing in order to determine whether government support in the form of interest subsidies on loans and government guarantees on ARA debt, together with the issue of government regulation on rentals, tenant selection criteria and other factors mentioned during the meeting, would require either a reclassification of the 'public housing corporations' and possibly similar NPIs in the general government (S.13) or, alternatively, a rerouting of debt. The FSA will examine whether the characteristics of the ARA scheme would have consequences on the criteria of economically significant prices and on the control of NPIs.

Deadline: September 2021

Action point 2. It was agreed that the transactions and balance sheets of all government owned 'housing companies' will be reclassified in general government (S.13) – consistently to an approach already carried out by the FSA traditionally for privately owned 'housing companies' and more recently for social security owned ones. FSA will further study data sources for a compilation of financial accounts/debt.

Deadline: September 2021

Action point 3. The Finnish Statistical Authorities (FSA) will determine whether guarantees on housing loans should be treated as one-off or standardized guarantees according to ESA rules.

Deadline: September 2021

3. Follow-up of the October 2020 EDP notification

Introduction

Under this item the issue of the recording of ANFA[10] and SMP[11] profits back to Greece (as recommended by Eurostat) was raised, deriving from the October 2020 Notification.

[8] An Extra Budgetary Fund.
[9] An old housing support scheme.
[10] Agreement on Net Financial Assets. The ANFA refers to Greek bonds held directly by National Central Banks (NCB) in their investment portfolios (purchased in the period 2010-2012).

Eurostat's clarification[12] aimed at ensuring a homogeneous recording of ANFA/SMP profits transferred to Greece among Member States.

The follow up on the issue of Finnvera's guarantees in EDP Questionnaire Table 9.1 was discussed under item 4.3.4. Government guarantees.

Discussion and methodological analysis

In 2019, the ESM transferred the ANFA/SMP profits back to Greece for EUR 1,289 million, on behalf of the euro area Member States.

The transfer of ANFA and SMP profits refer to Greek government bonds purchased by the Eurosystem between 2010 and 2012. The difference between ANFA and SMP is that SMP profits relate to Greek bonds held by the ECB, while ANFA profits refer to Greek bonds held directly by National Central Banks (NCBs). While only some NCBs hold Greek government bonds directly in their ANFA portfolios, most euro area Member States should be concerned by SMPs profits, as they refer to bonds held by the ECB.

For the moment, the only amount recorded (16 million EUR for year 2019, in Q3) is the cash actually transferred by Finland to the ESM account. Eurostat explained that cash transferred to ESM should be reported as a financial transaction, F.21A vs F.29A, with no B.9 impact. In contrast, B.9 should be impacted at the time the ESM decides to transfer amounts to Greece. This has happened in the second and fourth quarters of 2019 and in the third quarter of 2020. In each of the quarters, the FSA should record a D.74 expenditure of EUR 11.8 million each that is a total of EUR 23.3 million for year 2019.

Conclusions

The FSA agreed with the proposed time of recording which will be implemented for the April 2021 Notification.

4. Methodological issues and recording of specific government transactions

4.1.1. Delimitation of general government

Introduction

The discussion focused on the sector classification of the Helsinki City Transport and of Fintraffic Railway Ltd. Prior the EDP dialogue visit, the FSA provided a note analysing the sector classification of those units.

The application of the market/non-market rule in national accounts was discussed in detail during the latest dialogue visit when the correct approach followed by SF was confirmed. No changes were reported by the FSA for this dialogue visit.

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[11] The SMP refers to the holding of Greek bonds by the ECB that were purchased under the Securities Market Programme (in place between 2010 and 2012).

[12] 6eecc0bb-392a-970d-0c71-d83ac8cdf974 (europa.eu).

The sector classification of entities is the task of a working group organised by Statistics Finland. The working group consists of members from different departments of Statistics Finland, meaning the national accounts, the business register and business statistics as well participants from the Bank of Finland.

The market/non-market test is applied for municipal quasi-corporations and public corporations. The test is applied annually, in the context of the ‘Questionnaire on government-controlled units classified outside general government’. The work is based on information derived from the Business Register that is updated annually. The market/non-market test (50% test) is the most decisive criterion for the classification exercise. The current formula takes into account all other operating income except for capital gains from selling fixed-asset shares or other fixed assets that are deducted from the total. The current formula for sales does not take into account variation in stocks of finished goods and in work in progress.

Discussion and methodological analysis

<u>Changes in sector classification since the 2018 EDP visit</u>

The SF confirmed that there have been no substantial changes in the sectorisation process since the latest EDP dialogue visit.

In 2019, there were 1038 government units, which is 25 units less than in 2018 according to the detailed list provided by the FSA.

The FSA reported no change regarding the Questionnaire on hospitals. There are 38 publicly owned hospitals of which 37 are classified as part of the general government sector (S.13) and one as S.11.

Prior to the mission, SF sent an updated Questionnaire on universities. There was no content change, just the number of Universities has changed (dropping from 14 public universities to 13), which are all classified as part of S.1311.

<u>Helsinki City Transport and Tampere City Transport</u>

Helsinki City Transport (HKL) is a municipally owned public transport corporation founded in 1945 that operates the Helsinki subway, tram and the Suomenlinna ferry systems on behalf of the Helsinki Regional Transport Authority. The Helsinki Regional Transport Authority was founded in 2010 and before that, HKL oversaw the planning and organization of all public transport in Helsinki area. The current situation is that the Helsinki Regional Transport Authority pays the Helsinki City Transport for operating subways, trams and ferry systems.

Helsinki City Transport is currently classified in the S.11 sector. However, due to changes in ESA 2010 (and in the MGDD), namely Chapter 20, 20.24, when output is only sold to government , the unit is to be reclassified in S.13.

When the Helsinki Regional Transport Authority (HSL) was formed in 2010, a direct procurement agreement for 15 years was agreed with Helsinki City Transport to operate the subway, tram and ferry systems in the Helsinki area. The arrangement is based on an EU Regulation and national laws that allow for the granting of exclusivity. The agreement between HKL and HSL is valid until 2024. This makes at present HKL the sole provider of services for the general government sector. In addition, HKL does not compete with other private producers through tendering for contracts. Moreover, the output of HKL is only sold to government.

In addition, SF found a similar case of municipally owned public transport corporation also in the city of Tampere.

Having analysed the note and after discussion, Eurostat agreed with the proposed reclassification of these units into the general government sector.

Fintraffic Railway Ltd

Fintraffic Railway Ltd[13] is a state-owned company classified in the public corporations sector (S.11101). The unit is demerged from the public railway corporation VR-Group[14].

Fintraffic Railway Ltd offers railway traffic control and management services. The core of the services is in railway traffic control, traffic planning and capacity management to coordinate railway work and traffic, operation centre operations and passenger information services related to railway travel.

The Finnish Transport Infrastructure Agency[15] purchases traffic control, passenger information and traffic planning services from Fintraffic Railway Ltd.

The FSA considers that checks should be carried out on whether the company fits the description of the cases, presented in MGDD chapter 1.2.4.2 b/c, where the public producer sells its output both to government and other customers, or only to government. If the producer type would be understood as a non-market producer, the applicable sector classification of the unit should be other central government unit.

Update on Finnfund

There were long discussions on the appropriate Finnfund sector classification during the latest dialogue visits in 2015 and 2018 with, according to the Eurostat point of view, inconclusive arguments to keep the fund outside the general government sector.

Finnish Fund for Industrial Cooperation Ltd. aka Finnfund is a development finance company, classified in sector S.125 - Other financial intermediaries. The central government

[13] Finrail Oy.

[14] According to the Survey on the sector classification of railways in the European Union, VR-Group Ltd is a holding company classified in S.11. The contract between VR-Group Ltd and the Ministry of Transport and Communications sets obligations to VR-Group Ltd to run some train lines that would not be profitable enough on their own without extra compensation on losses. However, there is also a contract on traffic bought by government from VR-Group Ltd, annually worth close to EUR 30 million, which is recorded as D.319 in the national accounts.

[15] Väylävirasto, classified as a central government agency S.13111.

owns directly 94.1 % of the shares, and in addition there is a 5.8 % ownership by Finnvera Plc.[16] and 0.1 % ownership by the Confederation of Finnish Industries.

Finnfund provides long-term risk capital for private projects in developing countries. There has been one minor change in institutional arrangements that has no impact on the autonomy of decision as the FSA informed Eurostat. It concerns the Supervisory Board composition, which is, since May 2020, composed of 13 members in comparison to 12 members earlier. In addition, the FSA reported on the current investigation on whether these loans needs to be rearranged through government accounts.

Eurostat asked the FSA for more information on Finnfund loans that could potentially be partly rearranged to government. The FSA informed that, in December 2020, Finnfund provided new information and the SF started to investigate government's commitment for the loss compensation scheme for risk financing program in light of MGDD chapter 1.2.4.5 concerning rearranged transactions, which was significantly amended in MGDD 2019 update. This loss compensation scheme has different compensation levels and therefore SF must investigate the issue in cooperation with Finnfund.

Findings and conclusions

Action point 4. It was agreed that the Helsinki and Tampere city transport companies will be reclassified into general government (S.13)[17].

Deadline: March 2021

Action point 5. The FSA will reclassify Fintraffic Railway Ltd inside general government (S.13)[18].

Deadline: March 2021

Action point 6 The FSA will investigate whether some transactions under special risk financing programme should be rerouted from Finnfund to government

Deadline: September 2021

4.1.2. Update on regional administrative reform

During the latest EDP dialogue visit in 2018, Statistics Finland presented the reform that was promoted by the government of the time regarding a regional government reorganization that also includes reorganization of health and social services. In March 2019, the FSA informed Eurostat that the government had resigned and therefore the preparations of the announced reform could not be continued at that time.

[16] 100 % government-owned financial corporation, classified in S.125.
[17] This AP was implemented in the context of the April 2021 EDP notification. Eurostat considers this action point completed
[18] This AP was implemented in the context of the April 2021 EDP notification. Eurostat considers this action point completed

The current government started its work in 2019 and proceeded with the preparations of the health and social services reform in 2020. The draft proposal on health and social services reform of the current government was presented to the Parliament in early December 2020. However, Parliament needs to pass the legislative package before the reform can enter into force. Overall, the government proposal includes 50 legal acts. Main changes to the previously proposed reform are the less prominent role of private service providers and the less extensive scale of services to be transferred to the responsibility of new counties. The health and social services reform will see the responsibility for organizing healthcare, social welfare and rescue services shifting from municipalities to larger autonomous regions, that is, counties.

The funding of the counties will principally be based on central government funding. The funding system for health and social services will be reformed and based on needs-based standardised criteria. The right of counties to levy taxes will be examined in a parliamentary process later on.

The proposed counties would be established as soon as possible after the entry into force of the implementation act. The Government proposes that the act enters into force on 1 July 2021. The first county elections are foreseen to be held early in the year 2022. In a first step, the counties would prepare the organisation of their activities and the transfers of personnel and assets jointly with the municipalities and municipal authorities. The responsibility for organizing healthcare, social welfare and rescue services and other services and duties to be stipulated separately would be transferred to the counties from the beginning of 2023.

Twenty-one counties are to be established in Finland. Four counties would be established in the Region of Uusimaa, based on the special arrangements made for Uusimaa. The City of Helsinki would also in the future be responsible for organizing its own healthcare, social welfare and rescue services.

The counties would be public law entities that have autonomy in their areas. A county council, elected by direct popular vote, would be the highest decision-making body of counties. The counties would be provided with guidance and direction by central government. Guidance and direction would be strategic in nature, and it would focus on issues essential to organizing duties and ensuring the sufficiency of funding.

4.2 Implementation of the accrual principle

4.2.1 Taxes and social contributions

Introduction

The data used for the recording of taxes is obtained from the State Treasury (state bookkeeping), the Tax Administration (received tax payments for e.g. local government), financial statements of local government (tax on dogs, ceased after 2017, and a pharmacy levy collected in Åland), the Finnish Customs, the Finnish Transport and Communications Agency (registration fee of vehicles, division of user charges on passenger vehicles between D.29 and D.59), the Finnish Government Shared Services Centre for Finance and HR (annual figures for contributions to the Single Resolution Fund and the already ceased bank tax) and the Financial Stability Authority (contributions to the Deposit Guarantee Fund). Income from auction of emission allowances' data is obtained from the Energy Authority.

All sources are cash-based. The same sources are used for the first and second notification. The data reported in the first EDP notification are preliminary. The data for year t are finalised in (t+11) months.

Time adjusted cash is the method used for VAT (and other indirect taxes) and income tax. The time adjusted cash method is not used for certain categories of taxes (e.g. real estate taxes) where cash flows are small and/or even.

Discussion

In the latest Questionnaire on taxes and social contributions, the FSA has reported changes regarding the new time lag of some excise duties from 2021 onwards (from one month to two months), a change which is based on a change in Finnish legislation. In addition, a new item has been added to the list of taxes, 'Contributions to the Deposit guarantee Fund' classified as D.29 HD.

The 2020 version of the Questionnaire is specific in the sense that a new sheet collecting information on COVID-19 measures relating to taxes and SC was introduced (Part 5). This was discussed under item 4.3.1 Recording of government measures undertaken in the context of Covid-19.

Findings and conclusions

Eurostat took note of changes introduced regarding taxes.

4.2.2. Interest recording

Introduction

The information reported in the table on the recording of interest was analysed under this agenda point. In the budget accounts, annual premiums and discounts are recorded on a cash basis. Redemption/issuance of debt above/below par is recorded as a budget revenue or expenditure, but it is in national accounts recorded as financial transactions not affecting the deficit, and premiums/discounts are spread over time based on annual bookkeeping accounts. In the EDP notification Table 2A the adjustment is shown for these differences under item 'difference between interest paid (+) and accrued (D.41) (-)'.

Discussion

The coverage of this interest table is Central government, meaning budget, Senate Properties and extra budgetary funds (S.1311). Eurostat expressed the opinion that both the rerouted Finnvera debt and EFSF interest should be shown in this table.

Eurostat enquired why there is no reported recording of revaluation for FX stocks of coupons (as well as stock of premium discounts) since part of the debt is issued in foreign currencies (though being hedged). Further, Eurostat enquired if interest (coupons and premium/discounts) in this table are recorded before hedging or after. If they are recorded after hedging, it could explain the absence of revaluation of stocks of coupons and premium/discount. The FSA explained that the coupons are recorded before hedging and that the data on revaluation are currently not available.

Eurostat also enquired why coupons sold are so small and whether the bonds are commonly sold in tranches. The FSA clarified that there had been much more coupons sold in the distant past, but less so recently due to the trend towards very low yields at issuance. To Eurostat, this sounded plausible for year 2019 but less so for year 2016 taking into account market interest rates.

Eurostat further enquired about the flow of coupons accrued, in relation to the stock of coupon reported. The FSA answered that the coupon accrued are in dollars and are then converted by ECB rates at the end of year (dollar figures multiplied by exchange rate at the end of year). Eurostat found this as problem of consistency and considers that the coupon accrued should be calculated separately. To Eurostat it seems, by the FSA explanation, that the item coupon accrued contains some element of revaluation though the impact is probably not sizable.

The adjustment line ‘Issuances above (-)/below (+) nominal value’ in EDP T.3 is consistent with the reporting of premiums and discounts at issuance as reported in the table on interest.

Eurostat further enquired about two consistency issues with EDP T.3B ‘Difference between interest (D.41) accrued (-) and paid (4) (+)’ and with the reporting of D.41 in ESA T2. First, the FSA clarified that the difference between the tables comes from the capitalized interest from EFSF in EDP T3. The FSA wondered whether this should be entirely removed from EDP T3, as it does not fit into amortization or operations on coupons.

Second, based on the reporting of ESA Table 2 in October 2020, there is a significant difference between D.41PAY as reported in T2 and the D.41+FISIM derived from the reporting in the table on interest. The FSA confirmed that the reason for this is a difference in coverage, as this interest table only includes the budgetary central government, Senate Properties and extra budgetary funds.

In addition, in EDP T3, Eurostat judged that the other discrepancy was far too high, which could imply that there may be an issue with the adjustment lines, either ‘interest accrued/ paid’, ‘issuance above/ below nominal value’ or ‘appreciation/ depreciation of debt’. Eurostat enquired whether the item ‘appreciation/ depreciation of foreign currency debt’ could be split between (1) gain/loss on debt denominated in a foreign currency not hedged or hedged from one currency to another and (2) gain/loss at the time of unwinding of hedging derivatives.

Findings and conclusions

Action point 14. A number of corrections will be introduced in the table on recording of interest as agreed during the meeting, notably concerning the exchange rate to use for the accrual of interest on bonds issued in foreign currency (average exchange rate) as well as the revaluation effects expected to be observed on the stock of coupons and discounts/premium accrued on those bonds.

Deadline: before the next provision of the Tables

4.2.3 EU flows

Introduction

According to the EDP Inventory, the following ministries receive funds from the EU budget: The Ministry of Environment, the Ministry of Education and Culture, the Ministry of Employment and Economy, the Ministry of Transport and Communications, and the Ministry of Agriculture and Forestry.

The State Treasury is the source of the data related to EU-flows. EU-flows transit through the state bookkeeping system (managed by the State Treasury) but in national accounts, the EU-flows are eliminated from central government revenue and expenditure and shown directly as transfer from the EU to the final receiver.

From the annual budget, SF extract EU-flows distribution to the government and non-government units according to the final beneficiary. If the final beneficiary is non-government, the EU-flow is eliminated from the central government calculation and included in the rest of the world calculations.

The Ministry of Agriculture and Forestry delivers extra detail regarding distribution to the other subsidies on the products (D.319) and other subsidies on production (D.39). The detail includes different types of aid by name and by amounts paid. Mainly all the EU-flows are recorded on a cash basis and the difference between the accrual basis and the cash basis is shown as an adjustment item.

The recording of EU flows in government accounts is expenditure based: a revenue from the EU budget is recorded in government accounts at the time an expenditure related to the EU financed projects is made. Any difference between the amounts booked and the amounts received from the EU budget is recorded under F.89 (net receivables) neutralising the B.9 effect of EU flows.

In the case of a non-government agent realising an EU financed project, the financing by government is based on the accrued costs of the contractor before a reimbursement is claimed from the EU budget. In addition, no prepayments are provided to the partner of government.

Regarding the EU flows linked to the agricultural policy, all the revenue and expenditure appearing in the state bookkeeping are removed from the government accounts, and are shown as paid by the EU and received by domestic sectors other than government. The difference between the annual amounts of removed expenditure and revenue is recorded in F.89.

Discussion and methodological analysis

Prior to the mission, the FSA provided a table on EU flows in which it was shown that all revenue from the EU is included in the working balance. In national accounts, Statistics Finland records the revenue from the EU at the time when government makes an expenditure related to EU-financing. Meaning that they correct the revenue from the EU to match the actual expenditures.

Furthermore, the FSA stated that it is not possible to know all the EU flows to entities outside government. However, they are able to extract the largest EU-flows, for example, the Ministry of Agriculture and Forestry delivers extra detail, which includes different aid by name and by accrual amount paid. Extra details from the Ministry of Employment are also available on the split between EU-flows and domestic flows.

Findings and conclusions

Eurostat took note of these explanations.

4.2.4 Military expenditure

Introduction

The basic source of information for military expenditure is the Treasury data, while complementary information is collected directly from the Ministry of Defence.

The stocks in other receivables include all advance payments (related to both military and non-military expenditure) receivable, of Finnish Defence Forces, whereas the transaction figure is calculated as the difference between the cash payments of military goods and their deliveries. Similarly, the stocks in other payables relate to both military and non-military expenditure of the Finnish Defence Forces.

Discussion and methodological analysis

Eurostat enquired about the current and the upcoming purchases of military equipment mentioned in the October 2020 EDP Notification and the potential impact on government accounts. The FSA provided detailed answers during the meeting though, due to the sensitivity of the information, these will not be detailed here. As explained by the FSA, funds for military equipment programme purchases are added on top of the normal defence budget, which means that the defence costs will experience a significant rise in coming years.

In addition, Eurostat enquired about joint purchases of military equipment, as the recording of this could be quite complex if more Member States are involved. At present, the FSA informed Eurostat there has been no such plans.

Findings and conclusions

Eurostat took note of these explanations.

4.3. Recording of specific government transactions

4.3.1. Recording of government measures undertaken in the context of COVID-19

Under this point of the agenda, participants discussed the main COVID-19 measures undertaken by government and their recording in national accounts, in particular the impact on government deficit and debt. Prior to the meeting, the Finnish statistical authorities provided a note on current and foreseen government operations relating to government measures undertaken in the context of COVID-19.

Discussion and methodological analysis

Regarding taxes in the COVID-19 context, the Finnish statistical authorities reported that it was possible to defer all taxes collected by the Finnish Tax Administration. In practice, companies deferred VAT and payments of income and municipal tax of households (withheld by employing companies). Tax deferrals affected the TAC-based tax accruals. The accruals were raised to the level of the real accrual by adding to 2020 the deferred sums in Q1 and Q2 of 2021, reflected then in F.89. Repayments begun in Q3 of 2020 (September), and the TAC-based accrual was accordingly corrected in the other direction.

Eurostat asked whether some taxes or social contributions for 2019 could have been influenced by COVID-19 measures in October 2020. The Finnish statistical authorities replied that it was not the case. Further, it was explained that in June-August 2020 there was a possibility for enterprises to retroactively receive VAT they had already paid in early 2020, of which some is related to accrual of late 2019. This operation affected the VAT cash of June-July 2020 (the option was not used in August) and was treated similarly with corrections to the accrual of June-July 2020 affecting the F.89, and did not change the VAT figures of 2019. The repayments have been going on from September 2020 on.

Eurostat stressed the importance to adjust the tax and social contributions amounts for 2020 due to the deferrals in the context of the COVID-19 pandemic. Eurostat enquired whether any estimation of uncollectible amounts was deducted from the tax amount. The FSA explained that this was not the case and agreed to estimate[19] the amounts unlikely to be paid in order to exclude them from government revenue for 2020. The same need was flagged for the short-term deferrals of social contributions granted in the context of the COVID-19 pandemic but this issue was more related to avoid disrupting the quarterly government accounts. The FSA agreed to adjust the quarterly series by way of approximate estimates in the absence of precise information.

The FSA reported that significant COVID-19 measures are related to employment pension fees and unemployment benefits. The level of the employment pension fee was lowered by 2.6 % during the second half of 2020. Eurostat enquired whether this was a temporary nature and argued that if this was the case, it should be considered as a rebate. The FSA confirmed the temporary nature of the measure, as in 2022 the contribution would be raised and for this reason they were quite reluctant to implement estimations.

[19] The FSA has decided to use the percentage of payments that are included in currently lapsed reimbursement programs provided by Tax Administration.

In addition to the lower employment pension fees, a temporary law was passed that allows entrepreneurs to receive unemployment benefit if the COVID-19 pandemic has reduced their income under a certain threshold. Alongside this, a number of other temporary changes to the unemployment benefit legislation have been introduced, among others, removing the 5-day waiting period before the entitlement to unemployment benefit starts, loosening the requirements for receiving a higher-level unemployment benefit and allowing studying while receiving unemployment benefits.

Besides the measures targeting taxes and social contributions, a number of other COVID-related measures have been introduced and planned. These include a financing support for restaurants and firms, liquidity support for self-employed persons, grants to small and medium-sized enterprises provided by Business Finland and ELY Centres, and increased Business Finland R&D loan authorisations to increase in Finnvera's guarantee losses. In addition, a support to public transportation is foreseen as well as capital injections into some companies.

Moreover, the recording of COVID-19 related measures in the context of the supplementary EDP Table 8.2 was reviewed and some required corrections were detected.

Some of the specific measures announced were discussed during the meeting, specifically those related to the airline company – Finnair - that includes an increase of the share capital of Finnair, an unsecured hybrid loan facility to Finnair and a state guarantee for Finnair loans. Eurostat inquired about the hybrid loan provided by the government to Finnair in 2020, which is convertible into equity. Based on information provided by the FSA, Eurostat concluded that this loan, if it will be drawn down, has the characteristic of a capital injection in a loss making company and consequently should be treated as a capital transfer at time of drawdown.

Eurostat also inquired about the availability of source data for the Recovery and Resilience Facility (RRF) recording. The Finnish statistical authorities informed that data requirements regarding budgeted and realized RRF expenditure have been investigated by Statistics Finland and the Ministry of Finance and data related work is in progress.

Findings and conclusions

Action point 7. As regards tax deferrals on VAT, income tax and municipality tax in the context of the COVID-19 pandemic, the FSA will estimate the amounts unlikely to be paid in order to exclude them from government revenue in 2020[20].

Deadline: March 2021

Action point 8. In the context of the short-term deferrals of social contributions granted in the context of the COVID-19 pandemic, the FSA will adjust the quarterly series in order to

[20] The SF provided the note on method and implemented as per the AP for the April 2021 Notification. Eurostat considers this action point completed.

take into account such deferrals as much as possible, if necessary by way of rough estimates (in the absence of any precise information)[21].

Deadline: March 2021

Action point 9. In the context of the supplementary EDP Table 8.2 related to COVID-19, a number of corrections will be introduced in the table as agreed during the meeting. Moreover, amounts related to deferrals for social security contributions mentioned in the previous point should also be included in Table 8.2[22].

Deadline: March 2021

Action point 10. It was agreed that the hybrid loan (convertible into equity) provided by the government to Finnair in 2020, and which might be drawn down in the course of 2021, has the characteristic of a capital injection to be treated as a capital transfer at time of drawdown.

Deadline: after the loan will be provided

4.3.2. Dividends

Introduction

Prior to the mission, the FSA informed Eurostat of an upcoming revision on S.13141[23] Employment Pension Schemes data, due to previously unreported dividends attributable to collective investment fund shareholders (D.4431) received from the rest of the world. The FSA quality controls on the reporting of private equity funds capital returns and income distributions had revealed some difficulties in the reporting which triggered the announced revision. Most of the unreported data are associated to dividends received from private equity funds in years between 2017 and 2019.

Since the announced revision was sizeable, Eurostat used the opportunity to discuss with the FSA representatives the general recording of D.443 across the national accounts.

In this context, the compilation of dividends attributable to collective investment fund shareholders (D.4431) and compilation of retained earnings attributable to collective investment fund shareholders (D.4432) were revisited.

Discussion and methodological analysis

Eurostat asked about the general recording of D.443 across the NA. In the view of Eurostat, the general recording typically involves three steps: (1) exploiting the returns of resident collective investment funds (CII) and other sources to calculate their D.4 revenue/income; (2) allocating the D.4 revenue/income of these resident CII as D.443 across holders, using whom-to-whom information (rather than other sources); and (3) establishing the D.443 earnable on CII abroad, with the difficulty that D.4 revenue is presumably not well

[21] Eurostat considers this action point completed.
[22] Eurostat considers this action point completed.
[23] This subsector consists of 34 units of which four are pension insurance companies.

known/used. In addition, Eurostat asked the FSA to address also the private equity specificity and whether the S.13 source data/compilation differ or not from the general approach.

Compilation of investment income attributable to collective investment fund shareholders D.443

The FSA explained that dividends attributable to collective investment fund shareholders are compiled in a centralized manner for all sectors (private and government). Data is derived from separate data sources for cross-border flows and dividends paid by domestic investment funds. Dividend income received from domestic investment funds is derived from the investment fund balance sheet survey (SIRA) collected by the Bank of Finland (BOF) that includes dividend income paid to investment fund shareholders. The aggregate level of dividends received from domestic investment funds are distributed to investment fund shareholders using financial accounts data on investment fund shares of each sector.

Investment fund dividends received from the rest of the world is derived from securities data collected by BOF in which mutual funds are separated to investment funds (UCITS) and other collective investment schemes. Primary data source for balance of payments data is the SAVE survey done by BOF. It is a survey on security-based assets and liabilities of non-financial corporations, financial corporations, and central government. Cross-border flows are directly received and reported by beneficiary sectors.

Cross-border D.443 flows

The FSA explained that primary data source for foreign dividend income paid by foreign other collective investment schemes is derived from the SAVE survey. In the case of these other collective investment schemes, profit distribution is reported in the dividends field while return of capital reduces the invested amount reported in the quantity field. Theoretically, the SAVE data on dividends should consist only of distributed profit in the case of other collective investment schemes. However, it seems that SAVE also includes holding gains from assets of other collective investment funds. Eurostat concluded that the FSA should establish a method to avoid the holding gain component to be included within D.443 as this component is likely to be significant, particularly in the overall gains arising from private equity placements abroad that have reached significant amounts in Finland in recent years. The FSA replied that this could not be done directly from SAVE data, although (as already noted) SAVE data already exclude dividends from the final period when private equity funds cease to exit which, presumably, consists more of holding gains than dividend income.

To conclude, Eurostat noted the forthcoming inclusion of the source data previously missed but urged the FSA to re-examine the recording of the large amounts distributed in recent years to government by private equity funds considered up to now as revenue (D.443). It was therefore unclear at this stage in which direction the final correction in government revenue (and B.9) would eventually end up.

Findings and conclusions

Action point 11. The FSA will revise the data in order to include, among property income attributable to collective investment funds (CII) (D.443), those amounts accruing to two government units and payable by selected foreign private equity funds that were up to now not included among D.443. In so doing, the FSA will establish a method to avoid including within D.443 the holding gain component, which is likely to be a significant part of the overall gains arising from these private equity placements[24].

Deadline: March 2021

Action point 12. In this context, the FSA will re-examine the recording of the large amounts distributed in recent years to government by private equity funds and considered up to now as D.443, in order to exclude the amounts to be considered as holding gains[25].

Deadline: March 2021

Action point 13. More generally, the FSA will explain how the D.443 payable by resident CII and by non-resident CII and receivable by resident units (and first and foremost accruing to government) is generally compiled in Finland[26].

Deadline: March 2021

4.3.3 Derivatives

Introduction

Prior the mission, the FSA provided the requested table on derivatives. The aim of this table is to have an overview on derivative operations undertaken by governments, to verify the adherence to the relevant ESA accounting rules and to cross check the EDP table 3 and 2 as well as the ESA table 27. Flows on derivatives only enter the financial accounts (F.7), with no impact on the deficit and, as a result, a misreporting on derivatives is likely to be B.9 neutral and mostly concern the discrepancy. However, the monitoring of derivative flows is important to ensure that they are correctly identified and coded as financial, otherwise an impact on B.9 may occur.

There have been FOREX swaps, interest rate swaps and currency swaps. In general, the State Treasury at present mainly executes interest rate swaps.

Discussion and methodological analysis

The FSA indicated that the coverage of the table on derivatives is Budgetary central government (S.13111) and only includes derivatives related to central government debt (while refinancing and interest equalisation are not yet included). Eurostat suggested including all derivatives engaged by the Treasury, including options/swaptions not related to debt hedging and swaps entered in the context of the Finnish Export Credit Ltd (FEC) financing arrangement in the table on derivatives.

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[24] The SF provided the note on the method. Eurostat considers this action point completed.
[25] The SF provided the note. Eurostat considers this action point completed.
[26] The SF provided the note. Eurostat considers this action point completed.

Eurostat enquired on which basis the split between assets and liabilities is done. The FSA confirmed the gross reporting for the stocks of derivatives while transactions seem to be reported on a net basis. The reported transactions in the table on derivatives reflect net transactions in F.71 in ESA Table 27, appearing for years 2016/2017 as net transactions in liabilities, and for years 2018/2019 as net transactions in assets.

The table allows reporting on a gross basis, showing assets and liabilities separately, or on net basis, if this is the only information available. However, Eurostat encouraged a gross reporting being preferred for EDP surveillance and as a crucial element for quality monitoring of data reported in EDP table 3 and ESA table 27. Moreover, Eurostat stressed out the importance of consistent recording between balance sheets and transactions. The OEF in AF.7 should reflect only genuine revaluations and not the differential effect of netting.

Eurostat noted that, in concept, each given transaction in derivatives are to be classified as either an asset or a liability transaction according to whether the derivative in question was an asset or a liability at time of transaction. One well-accepted simplifying convention is to classify the transactions depending on whether the derivative is an asset or a liability at the end (or at the beginning) of the year (accounting period). Where granular data is not available or difficult to exploit, Eurostat suggested using modelling to estimate plausible transactions, rather than to net transactions and stocks.

Eurostat enquired if the entries for streams of interest included the unwinding of hedging swaps. Eurostat pointed out the unwinding of hedging swaps relates to the residual value of swaps involving the exchange of currencies (FOREX or currency swaps) at the termination of the contract (or when the contract is offset), and some recording related to that is expected. Moreover, an impact of the unwinding of swaps should be reported and crosschecked with the entries on ‘appreciation/depreciation of debt in foreign currencies’ reported in EDP table.

The Adjustment to the Working Balance in EDP T2A has the same sign as recording in F.71. However, there was a difference observed in the years 2018 and 2019 in this adjustment in EDP T2A vis-à-vis the reported transaction in the table on derivatives. The FSA replied that this was due to differences in coverage.

Furthermore, Eurostat enquired whether the collaterals reported in this table are netted and if central counterparties clearing (CCP) is used for the clearing of swaps at the central government level. Derivatives appear on both sides of the balance sheet meaning that collateral should be posted by Central Government for the derivatives that are liabilities and government receives some collateral for derivatives that are assets. They further explained that, until recently they had one-way CSA agreements so they did not post collateral to counterparty. They only received CSA collateral. The year 2019 is the first year they posted collateral at year-end. The FSA also explained that they are not clearing trades via CCP.

Eurostat enquired again on the recording of an old refinancing arrangement (initiated in 2009) benefiting the Finnish Export Credit Ltd (FEC), that involved currency swaps, an issue that had been subject of some discussions in previous EDP dialogue visits. Eurostat wanted to clarify the recording existing in EDP/ESA tables related to this scheme, in terms of maximum amounts and classification. The FSA had thought the subject closed (with the scheme appropriately reported in EDP and GFS) and were accordingly not prepared to answer in detail; which will be done later in writing. To this effect, the FSA will provide the balance sheet of the FEC or a statement on what were the full loans to FEC. The FSA will also provide a comprehensive Table 3B related to the scheme (in order to investigate the correct recording of the swaps that were part of this arrangement).

Findings and conclusions

Action point 15. A number of corrections will be introduced in the table on derivatives, as agreed during the meeting.

a. Eurostat welcomed the gross reporting provided by the Treasury for the stocks of derivatives at market value and encouraged a similar gross reporting of the notional values and, if possible (including using a simplified approach discussed in the meeting), of transactions.

b. The table will also encompass all derivatives engaged by the State/Budgetary Central Government, including options/swaptions not related to debt hedging or swaps entered in the context of the FEC financing arrangement.

c. The impact of the unwinding of swaps will be reported and crosschecked with the entries on 'appreciation/depreciation of debt in foreign currencies' reported in EDP table.[27]

Deadline: (a)/ (b) before the next provision of the Tables and (c) before April 2021 notification

Action point 16. Eurostat explained that ESA Table 27 should align with the Table on derivatives (aside from differences in sector coverage) and with the EDP tables. In this context, transaction in F.71 should preferably be recorded gross and not net[28].

Deadline: March 2021

Action point 17. In EDP Table 2A, the line 'difference between interest received and accrued' under 'other adjustments' should be relabelled[29].

Deadline: March 2021

Action point 21. In relation to the refinancing arrangement benefiting the Finnish Export Credit Ltd (FEC), the FSA will provide the balance sheet of the FEC subsidiary. If not possible, the FSA will provide a statement on what were the full loans to FEC including information on total loans extended and maximum exposure, broken down by currency, before swaps and then after swap[30].

Deadline: Before October 2021 notification

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[27] The AP 15c was implemented in the April 2021 Notification. Eurostat considers this action point completed
[28] The AP was implemented in the April 2021 Notification. Eurostat considers this action point completed
[29] The AP was implemented in the April 2021 Notification. Eurostat considers this action point completed
[30] Eurostat considers this action point completed based on the fact FSA provided the FEC financial report.

Action point 22. In relation to the refinancing arrangement benefiting the Finnish Export Credit Ltd (since 2009), the FSA will provide a comprehensive Table 3B in order to investigate the correct recording of the swaps which were part of this arrangement.

Deadline: Before April 2022 notification

4.3.4. Government guarantees

Introduction

According to the EDP Inventory, Finland provides guarantees on SME's borrowing, housing loans, export credit and student loans.

Eurostat and the Finnish statistical authorities reviewed the EDP questionnaire tables on guarantees provided during the October 2020 Notification particularly the issue of recording of all Finnvera guarantees in the EDP Questionnaire table 9.1.

Discussion and methodological analysis

Eurostat pointed out that in the October 2020 EDP notification, Finland reported a total stock of debt guaranteed by government equal to EUR 80.4 billion for 2019 or 33.4% of GDP which is the highest percentage of contingent labilities due to government guarantees among Member States. It was also mentioned that the total figure in this table was heavily impacted by EUR 22.1 billion of guarantees provided by Finnvera.

SF commented that as a significant part of public guarantee operations is actually conducted by Finnvera as grantor, the FSA have routinely included all these operations of Finnvera Plc (guarantees granted by the company) in the table 9.1 for transparency reasons. The inclusion of the figures of Finnvera explains why there is no direct link between S.13 ESA 2010 accounts and the information in this table, which is derived from the State Guarantee Statistics. The situation changed in April 2020 when all loans of Finnvera's domestic activities were rearranged to central government accounts.

It was recalled that during the October 2020 Notification, it was agreed that table 9.1 would be corrected and only the guarantees of Finnvera that are covered by the credit loss compensation would be included in table 9.1 and that non-rearranged guarantees should be also removed from the table.

In the same context, it was agreed that the FSA would study the possibility for improving the source data and filling the sub-items of this table as the FSA reported difficulties with the sub-items because of Finnvera. The FSA currently report only the top rows of the table - relation (7) Guarantees cash calls and (12) Repayments by the original debtor. The FSA explained that the reporting of these sub-items is still difficult when mixing S.13 and S.125 guarantees and their cash calls and repayments.

The total stock of debt guaranteed includes also guarantees provided by Finavia Plc, classified in S.11, to its subsidiaries because the state is ultimately liable for these guarantees.

Eurostat enquired about Finavia's recent activities and the FSA informed that Finavia is not anymore granting guarantees.

Regarding standardized guarantees, which are reported in the table 9.4, FSA indicated that they are mainly related to student loans guaranteed by the central government. Eurostat enquired whether the guarantees provided to farmers (S.14), reported in the one-off table on government guarantees, could fit the definition of a standardized guarantee. The FSA could check this.

Eurostat and the FSA also briefly discussed in general the issue of standardized guarantees. Eurostat explained that if there are some provisions relating to guarantees in the public accounts, this gives a statistical authority a strong hint that this sort of guarantee provided is a standardized guarantee.

In national accounts, payments by central government related to guarantee calls are treated as capital transfers. Regarding student loans, guarantees called are treated as the acquisition of loan assets. It was agreed that the FSA should clarify whether the coefficients chosen for the calculation of the D.9 on standardised guarantees take into account possible recoveries on the remaining claims held by government after the guarantees are called.

Findings and conclusions

Action point 18. It was agreed that the EDP questionnaire main Table 9.1 on guarantees should exclude the guarantees provided by Finnvera, except those covered by a loss coverage commitment of government (unless the former would be considered as extended on behalf of government), and these may be instead inserted in the memorandum part of the table. However, guarantees provided by government to Finnvera should be included in the table.

Deadline: September 2021

Action point 19. The FSA will determine whether provisions relating to guarantees exist in the public accounts of government, in order to ascertain whether some of the guarantees provided by government (agricultural, housing) would have the nature of standardised guarantees.

Deadline: September 2021

Action point 20. The FSA will determine whether the coefficients chosen for the calculation of the D.9 on standardised guarantees take into account also possible recoveries on the remaining claims held by government after the guarantees are called.

Deadline: September 2021

4.3.5. Capital injections in public corporations

Introduction

As indicated in the EDP Inventory, information on capital injections is derived from the government financial statements and the financial statements of Solidium Ltd and of the Finnish Climate Fund. Regarding the capital injection test, it was pointed out that the test is carried out annually by Statistics of Finland and covers all cases.

Compared to the latest dialogue visit, there are new supplementary data that have been used at the local government level.

Discussion and methodological analysis

The FSA informed Eurostat about planned capital injections. In 2021, Finavia is going to apply for recapitalization to recover from the COVID-19 crisis. As a result, the State of Finland is preparing to recapitalize the company by EUR 350 million in order to strengthen their balance sheet and its financial position. In national accounts, SF further explained that this transaction is going to be recorded as a capital transfer (D.99), because the exceptional losses are large in one accounting period in the business accounting and Finavia is under threat of financial distress. Therefore, there will be a negative impact on the government net lending/net borrowing.

Due to the COVID-19 pandemic, air transport has not been able to recover from the pandemic. The Government has begun preparations of a financing arrangement to support Finnair in this difficult market situation by EUR 400 million. The financing would be granted as an unsecured hybrid loan to strengthen its balance sheet and equity. The facility will be structured so that Finnair is able to access the funds, if its cash or equity position would drop below the limits to be defined in the facility's terms and conditions. In national accounts, this transaction will be recorded as a capital transfer (D.99) due to the exceptional losses in one accounting period in the business accounting and due to the fact that Finnair is under threat of financial distress. Therefore, there will be a negative impact on the government net lending/net borrowing.

The Finnair case was discussed together with other COVID-19 measures under the item 4.3.1.

Findings and conclusions

Eurostat took note of the planned capital injections and agreed with the planned recording.

4.3.6. Public-Private Partnership, concessions and energy performance contracts

<u>Public-Private Partnership</u>

Statistics of Finland confirmed that there have been no changes or amendments to existing PPP contracts. According to the latest report, in the October 2020 EDP reporting, there are five off balance sheet PPPs (for a contractual value of EUR 76 million) and four on balance sheet PPPs (for a contractual value of EUR 1079 million).

Public-Private Partnerships exist both at the level of central government and local government, but their number has not been significant.

As for central government, the information on PPPs can be attained from budget authorities and the State Treasury. For local government PPPs, there is no direct source to identify these projects. However, significant projects are identified in cooperation with experts of the Association of Finnish Local and Regional Authorities. Often, projects that are called PPPs by municipalities turn out not to be PPPs. Instead, they are often ‘normal’ long-term procurement contracts or combined financial lease (property lease) and service contracts.

After a project is identified, Statistics Finland requests a copy of the original contracts signed between the partners involved. Based on these contracts, Statistics Finland does an evaluation of risks relating to PPPs as well as a separation between PPPs and other types of long-term contracts.

Concessions

The FSA reported, in the document sent prior to the mission that the government did not enter into any concession contracts in the period 2016-2019.

Energy performance contracts

The FSA informed that some local government units might have energy performance contracts. Statistics Finland’s current data sources do not provide any information on these contracts, though this could change from year 2021 onwards due to the newly introduced database for the local level of government.

Findings and conclusions

Action point 23. The FSA should investigate the existence of Energy Performance Contracts and their recording in the government accounts and report to Eurostat.

Deadline: September 2021

4.3.7 Other specific government transactions

Emission trading permits

The first auctions of emission allowances by the Finnish central government took place in 2012 and those allowances were surrendered for the first time in 2014, which was the first year in which tax revenue was recorded in national accounts.

In the financial accounts, the sales of emission allowances are recorded as other accounts payable of S.1311.

Tax revenue is calculated using data from the Energy Authority. As an adaptation of the first-in-first-out method, the price x amount of each auction is summed for 12 months between

April 1st and March 31st, using the previous year as a proxy, i.e. for 2019 the tax revenue is obtained from auctions between April 1, 2018 and March 31, 2019. Cash data for each calendar year is obtained from state bookkeeping.

Mobile phone licences

The FSA informed Eurostat on the newest auctions on mobile phone licences.

In 2018, the Finnish government organised an auction for the 5G network. The auction generated EUR 77.6 million in revenue to the State with a licence validity from 2019 to 2033. The fees are paid in five annual instalments.

The FSA clarified that the implementation in non-financial accounts regarding sector S.1311 will be to eliminate sales income of the state budget accounts in the first five years (2018-2022) and to record instead D.45R spread from 2019 to 2033 for EUR 77.6 million. The prepayment in the first year is recorded as other accounts payable (F.8) and deducted annually according to D.45R payments.

In 2020, the Finnish government arranged another auction for the 5G network. The auction generated EUR 21 million in revenue to the State. The licences are valid from 2020 to 2033. The fees are paid in five annual instalments. Furthermore, the FSA informed that the implementation will be done in the compilation round of the April 2021 Notification applying the method of recording similar to the first auction in 2018.

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EUROSTAT EDP DIALOGUE VISIT TO FINLAND

8-9 February 2021

Draft Agenda

1. **Statistical institutional issues**
   1.1. Review of Institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation
   1.2. Data sources and revision policy

2. **Follow-up of the previous EDP dialogue visit**

3. **Follow-up of the October 2020 EDP notification - Analysis of EDP Tables and the related questionnaires**

4. **Methodological issues and recording of specific government transactions**
   4.1. Delimitation of general government, application of the market/non-market rule in national accounts
   4.2. Implementation of the accrual principle
      4.2.1. Taxes and social contributions
      4.2.2. Interest
      4.2.3. EU flows
      4.2.4. Military expenditure

   4.3. **Recording of specific government transactions**
      4.3.1. Recording of government measures undertaken in the context of Covid-19
      4.3.2. Government guarantees
      4.3.3. Capital injections in public corporations, dividends, privatization
      4.3.4. Dividends, super dividends
      4.3.5. Public Private Partnership, concessions and energy performance contracts
      4.3.6 Derivatives
      4.3.7 Other: emission trading permits; UMTS; government claims; debt assumptions, debt cancellations and debt write-offs, sale and leaseback operations

5. **Other issues**
   5.1. ESA 2010 Transmission Programme
   5.2. Any other business