



EUROPEAN COMMISSION  
EUROSTAT

Directorate D: Government Finance Statistics (GFS)  
Unit D-2: Excessive deficit procedure (EDP) 1

Luxembourg,  
ESTAT/D2/LA/GB/PdR/VG/af D(2021)

## **FINAL FINDINGS**

### **EDP dialogue visit to Slovakia**

**21-22 June 2021**

## Executive summary

Eurostat undertook an EDP standard dialogue visit with Slovakia on 21-22 June 2021. The purpose of this dialogue visit was to review the data provided in the context of the April 2021 EDP notification and to discuss methodological issues and specific government transactions in the light of the implementation of ESA 2010 methodology and the provisions of the Manual on Government Deficit and Debt. Due to the COVID-19 pandemic, Eurostat and the Statistical Office of the Slovak Republic (SOSR) agreed to hold the meeting by video conference.

Eurostat reviewed and took note of the institutional arrangements in the context of EDP reporting and the data sources used for the compilation of GFS. SOSR informed about the existing arrangement regarding the cooperation between the key stakeholders. Eurostat reviewed the reporting of data according to Council Directive 2011/85, proposing some further investigation, and asked SOSR to provide for review the updated EDP Inventory already published nationally.

Eurostat reviewed the application of the quantitative rules applied in the delimitation of general government. The Slovak statistical authorities will further investigate several units highlighted by Eurostat during the meeting. This concerns the companies *Slovenský Plynárenský Priemysel*, *SPP distribúcia*, *SSE holding*, *Slovenský vodohospodársky podnik*, *OKTE* and *TIPOS*. The Slovak statistical authorities will also further analyse the situation of units where the results of the market/non-market test are zero or the appropriate data is not available.

Eurostat followed up on the long-standing issue of the statistical treatment of the private health insurance companies and asked the Slovak statistical authorities to provide a note addressing the observations made by Eurostat during the meeting in order to clarify their sector classification.

A broad discussion was devoted to the recording of the COVID-19 measures. Eurostat carefully reviewed the documents provided by the Slovak statistical authorities prior the EDP dialogue visit. It was agreed that the Slovak statistical authorities would implement several changes in the accrual adjustments and in the data presentation in the COVID-19 tables (Annex 8). It was also agreed that the schemes set up in the wake of the COVID-19 pandemic fulfil the criteria for being recorded as standardised guarantees. The Slovak statistical authorities will revise the data accordingly, in the context of the October 2021 EDP notification.

The Slovak statistical authorities raised the issue of the statistical recording of the payments made by the health insurance scheme to the public healthcare providers where both groups of units are classified in general government. After having discussed the issue extensively, Eurostat recommended for these payments to be recorded as internal transfers (D.73) and consolidated. The Slovak statistical authorities will revise the recording accordingly in the context of the October 2021 EDP notification.

In relation to foreign claims, Eurostat enquired in detail on the transaction related to the Cuba claims. The issue concerns business loans in the context of the policy supporting export of the Slovak companies. Eurostat requested the Slovak statistical authorities to further investigate the amount to be collected, the nature of transactions and to revise the recording in accordance with the findings. Among others, the extension of R1 motorway (PPP), an operation related to the nuclear fund, some capital injections and transactions related to pensions were debated in-depth. Eurostat welcomed the transparent, well-structured and comprehensive approach by the Slovak statistical authorities to the EDP related work. Eurostat appreciated also the documentation provided by the Slovak statistical authorities prior to and during the EDP dialogue visit.

Finally, Eurostat appreciated the openness and transparency demonstrated by the Slovak statistical authorities during the EDP dialogue visit, quality of the documentation provided before it, as well as the constructive discussions during the meeting.

## **Final findings**

### **Introduction**

In accordance with Article 11 of Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP standard dialogue visit to Slovakia, through videoconference, on 21-22 June 2021.

The delegation of Eurostat was headed by Mr Luca Ascoli, Director of Eurostat Directorate D 'Government Finance Statistics'. Eurostat was also represented by Ms Gita Bergere, Head of Unit D-2 Excessive Deficit Procedure (EDP) I, Mr Philippe de Rougemont, Mr Václav Rybáček, Mr Miguel Alonso and Mr Vassil Georgiev. The European Central Bank (ECB) and DG ECFIN were also represented, as observers.

The Slovak authorities were represented by SOSR, the Ministry of Finance, the National Bank of Slovakia and the Council for Budgetary Responsibility. Representatives from the Debt and Liquidity Management Agency (ARDAL) and from Slovenská Zárúčná a Rozvojová Banka (SZRB, or the national development bank) took part in the discussion during different points of the agenda.

The previous Eurostat EDP dialogue visit to Slovakia took place on 25-26 June 2019.

Eurostat carried out this EDP dialogue visit in order to review data sources for the EDP data compilation and the availability of the data for Local Government, as well as to review the implementation of ESA 2010 methodology in the recording of government transactions, the application of the accrual principle and the sector classification of units. The recording of measures taken in response to the COVID-19 crisis were also discussed.

Eurostat explained the procedural arrangements in accordance with Article 13 of Regulation No 479/2009, indicating that the main conclusions and action points would be sent within days to the Slovak statistical authorities, who may provide comments. Within weeks, the provisional findings would be sent to the Slovak statistical authorities in draft form for their review. After amendments, final findings would be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the information provided by SOSR prior to the EDP dialogue visit. Eurostat also thanked the Slovak statistical authorities for the co-operation during the mission and considers that the discussions were very transparent and constructive.

## **1. Statistical capacity issues**

### *Introduction*

The sole responsibility for the compilation of the EDP notification tables lies with the Statistical Office of the Slovak Republic (SOSR). The Ministry of Finance provides all planned data. During the last EDP dialogue visit, the possibility for establishing regular working arrangement with the Council for Budgetary Responsibility ('CBR') was intensively discussed. In the background note provided prior to the visit, SOSR informed that the Memorandum of Understanding between the key stakeholders had been updated. As regards the cooperation with the CBR, an agreement formalising the existing cooperation was being prepared.

Besides, SOSR informed Eurostat that the new EDP inventory was made public on the website of SOSR. Under this agenda point, Eurostat also came back on several action points raised after the 2019 EDP dialogue visit, namely the revision policy and the consistency of the data on the liabilities of the public controlled corporations which are published nationally. Furthermore, Eurostat also addressed the more recent issue of timeliness, as there was a postponement regarding data deliveries due to the COVID-19 pandemic.

### *Discussion*

Concerning the updates of the Memoranda of Understanding with different national statistical authorities, the Slovak statistical authorities reassured Eurostat that the existing Memorandums allow data exchanges in a timely manner and a sufficient level of cooperation among the concerned parties. SOSR and the CBR also confirmed that the current cooperation is to the satisfaction of both institutions.

### *EDP inventory*

Eurostat referred to Action point 9 raised during the EDP dialogue visit in 2019, which required SOSR to provide an updated EDP Inventory for a Eurostat's review. Although SOSR published the EDP Inventory on its website already in December 2020, the updated version had still not been sent to Eurostat. Eurostat reminded SOSR to send the updated EDP inventory to Eurostat. SOSR confirmed that the updated EDP inventory was published nationally and added, in this regard, that there had not been major changes introduced in the text so that the overall impact on the EDP was not material. SOSR however committed to send the EDP Inventory to Eurostat for review.

### *Data sources and revision policy*

Under this agenda point, Eurostat came back to Action point 6 from the previous EDP dialogue visit where SOSR was required to carry out a comparison between the budgetary data and the data in the profit and loss accounts adjusted by the balance sheet items. Before the EDP dialogue visit, SOSR provided a background note analysing wages amounts. In the discussion, Eurostat asked for a clarification of several items presented in the background note and confirmed with SOSR the way of quantification of this particular item in government accounts.

As part of the background note, SOSR also specified those units for which the differences between analysed data sources were the most significant. Eurostat enquired about the reasons why in some cases, e.g. hospitals or the Ministry of Defence, the data shows a relatively higher difference. SOSR committed to investigate the issue further in order to find out the causes of the observed differences. In the case of the Ministry of Defence, SOSR stated that the issue might relate to the expenditure related to the secret services.

Eurostat then clarified whether the issue may have a B.9 impact or not, in case, for instance, the amount of wages might be regularly underreported. SOSR confirmed that, in the case of the Ministry of Defence, this was only a matter of classification in individual expenditure items. For hospitals, SOSR also confirmed that the cash payments are adjusted by the payables related to wages so that, eventually, the amount of wages is reported on an accrual basis.

### Liabilities of government-controlled entities

In relation to the liabilities of government-controlled entities, Eurostat came back to the action point 8 from the previous EDP dialogue visit in 2019. Although the action point (which required SOSR to sort out the differences between the national publications of the said liabilities) was closed, the currently published data still contained certain discrepancies. Eurostat asked SOSR for an explanation. SOSR confirmed that the existing difference might be attributed to the application of a threshold.

### *Conclusions and Action points*

- (1) SOSR will provide Eurostat for review the updated EDP inventory.

*Deadline: August<sup>1</sup> 2021*

- (2) The Slovak statistical authorities will provide a detailed explanation of the reasons for the differences between the budgetary data and the profit and loss accounts for the selected units (e.g. Ministry of Defence) or group of units (e.g. hospitals).

*Deadline: December 2021*

## **2. Methodological issues and recording of specific government transactions**

### **2.1. Delimitation of the general government sector**

#### **2.1.1 Application of the market / non-market test qualitative and quantitative criteria**

##### *Introduction*

Before the EDP dialogue visit, SOSR provided comprehensive documents covering the units that have been reclassified recently, as well as the economic results and the 50% test results for those that are classified outside general government. It is worth noting that, after the long discussion with Eurostat, which had started already during the April 2020 EDP notification, SOSR reclassified the company *Slovak Investment Holding*, including all the sub-funds managed by this holding company. Following discussions held during the EDP dialogue visit in 2019, SOSR also modified the approach towards the timing of reclassification of units, which are currently reclassified from the year when they are bound to (action point 12 from the EDP dialogue visit in 2019). After having checked the background documents, Eurostat focused on several units reported by SOSR in the Questionnaire on public corporations.

##### *Discussion*

Eurostat thanked the Slovak statistical authorities for providing all the documents concerning the various cases. Eurostat opened the discussion with a set of questions addressing the company *Slovenský Plynárenský Priemysel*, a holding company owning several subsidiaries for

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<sup>1</sup> The Slovak EDP authorities sent an updated EDP inventory to Eurostat for review on 31 August 2021, Ares(2021)5370518. The updated EDP inventory was published on the Eurostat website in October ([ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-inventories](http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-inventories)).

which comparatively high results of the quantitative test are regularly reported. Eurostat also pointed to a relatively very high variation in several items in the primary data used for the 50% test, such as wages or consumption of fixed capital. SOSR committed to further analyse the results of the test in order to find out the causes for results much above the threshold. For the variation in the primary data, SOSR explained that the data reported in the annual statistical questionnaire are used and will further analyse the reasons for the annual changes observed.

Eurostat further enquired about the company *SSE holding*, a holding company having zero employees. Eurostat suggested that a classification in general government would not be more appropriate in this particular case. SOSR replied that the unit operates in the field of electricity supplies, a branch that was largely privatised in the past. Eurostat pointed out that if the unit is privately managed, then it should not be reported in the Questionnaire. However, if the unit is still publicly controlled, then the classification outside general government should be properly justified. SOSR thanked for flagging up this institution and committed to look into this institution.

Eurostat went on to discuss the public company *Slovenský vodohospodársky podnik*. The company is engaged in the river basin management and is showing rather borderline results of the 50% test. After having checked the company's most recent Annual Report, Eurostat pointed out that the company's revenue is predominantly made of the fees for the surface water extraction, the fees for wastewater discharges, rents and the like. In addition, last year, the company received a subsidy of a non-negligible amount from the State budget. Eurostat asked the question of how the different components of the company's revenue are recorded in the accounts. Eurostat also inquired about which types of revenue enter the 50% test calculations, given that many of them seem not to have a nature of market revenue, representing the vast majority of the company's revenue. Eurostat also stated that, when leaving these components of revenues aside, the company's costs relevant for the 50% test would reach a considerably higher amount than the total revenue. SOSR confirmed that the subsidy from the State Budget is not taken into account for the quantitative test. Following the discussion, Eurostat asked SOSR to provide details of the calculation of the 50% test for this particular company.

Eurostat further enquired about the list of companies for which the decision on sector classification remained to be made, as mentioned by SOSR in the background document. Eurostat asked for a confirmation on whether the reclassification policy is such that SOSR waits until a particular unit fails to meet the 50% test during three consecutive years, before deciding to reclassify it into general government. SOSR confirmed that this is indeed the case. Eurostat clarified that there are circumstances in which it is not necessary to wait three years before a unit might be reclassified. First, if a unit reports zero values because it stopped its activity or is being liquidated, such a unit can be reclassified immediately. Second, when the economic results of a company are not available, it is not appropriate to wait until when the results become available, if at all. It is necessary instead to investigate why this is the case and reclassify it, if appropriate.

Eurostat continued by pointing out units that showed high results of the quantitative test. In addition to those discussed in relation to *Slovenský Plynárenský Priemysel*, Eurostat drew the attention to the company *TIPOS*, which is the national lottery company. Eurostat asked for more information about the company's revenue and expenditure, as well as about the recording of these flows in national accounts. SOSR informed that the company is being analysed and the work is still ongoing. Furthermore, SOSR mentioned that alternative calculations were run with the revenue from betting and the costs of winning left out. Irrespective of the treatment of the flows related to betting, the results were still considerably above the 50% threshold, although much lower than the data currently reported (around 102%). SOSR committed to keep analysing the issue and to inform Eurostat about the results.

### *Conclusions and Action points*

- (3) The Slovak statistical authorities will analyse the results of the 50% test for the company *Slovenský Plynárenský Priemysel* and all the company's subsidiaries. The analysis will also explain the year-on-year evolution of individual items in the primary data entering the calculation of the 50% test such as salaries or depreciation costs in order to clarify their substantial annual variations.

*Deadline: January<sup>2</sup> 2022*

- (4) The Slovak statistical authorities will send to Eurostat an analysis concluding on the sector classification of the public company *SPP distribúcia*, a unit currently classified in the sector of non-financial corporations.

*Deadline: January 2022*

- (5) The Slovak statistical authorities will send to Eurostat an analysis of the sector classification of the public company *SSE holding*, a unit classified in the sector of non-financial corporations for which no employees are reported in the Questionnaire on public corporations.

*Deadline: January 2022*

- (6) The Slovak statistical authorities will provide a detailed explanation of the calculation of the 50% test for the company *Slovenský vodohospodársky podnik*. The note will explain which of the company's revenues and expenditures feed into the calculation of the 50% test and the overall treatment of the company's revenues in national accounts.

*Deadline: January 2022*

- (7) Concerning the Questionnaire on public corporations, the Slovak statistical authorities will analyse the situations where the reported results of the 50% test are either zero, show "N/A", or for units placed into liquidation, and provide Eurostat with an explanation for the current classification of such units, as well as the reasons why such situations have occurred (e.g. due to data availability). The Slovak statistical authorities will also propose a way forward with the sector classification of units in question in case of a long-term data unavailability.

*Deadline: December 2021*

- (8) The Slovak statistical authorities will analyse the operation of the company '*TIPOS*', which is entitled to run, *inter alia*, national lotteries. The Slovak statistical authorities will reflect on the fact that in the 50% test, the costs of winning should be deducted from the sales as required by par. 4.135 of ESA 2010. The Slovak statistical authorities will provide to Eurostat the results of the test with the calculation complying with the national account's rules.

*Deadline: January 2022*

#### **2.1.2 Sector classification of specific units, including units engaged in financial activities; rerouting of transactions**

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<sup>2</sup> Deadline to several APs was slightly extended from the original date at the request of SOSR, Ares(2021)7756298. The APs concerned are 3, 4, 5, 6, 8, 9, 22 and 23.

## *Introduction*

Under this agenda point, several long-standing issues were discussed. First, Eurostat intended to clarify the operation of the national development bank (SZRB) whose sector classification was widely discussed during the previous EDP dialogue visits to Slovakia. It had been concluded, during the 2015 EDP dialogue visit, that the bank could be classified outside general government. However, the unit is to be regularly monitored in order to assess whether some of its transactions should be rerouted or whether the operation of the bank evolved in a way that it should be entirely reclassified into general government. Eurostat also broadly discussed with the Slovak statistical authorities the involvement of the bank in the implementation of the COVID-19 measures.

Second, before the EDP dialogue visit, SOSR brought to the attention of Eurostat the legal action taken by one of the public healthcare providers classified in general government. The unit contests its treatment as a government unit, considering that it operates in the market and, simultaneously, that the unit is not subject to the debt relief programme introduced by the Slovak government in order to deal with the high debts accumulated by the public healthcare providers.

Third, Eurostat followed up on the discussion of the health insurance providers whose recording in the accounts was repeatedly discussed during the previous EDP dialogue visits. The fact that two of the three health insurance companies operating in Slovakia are privately owned and classified in sector S.12 poses a main statistical challenge here. The respective transactions of both private companies related to the management of the public health insurance are rerouted through government accounts. Given that the rerouted transactions account for the majority of the total transactions of both companies, Eurostat discussed with the Slovak statistical authorities whether this approach is methodologically sound.

The case of the green energy scheme was the last issue discussed under this agenda point. SOSR recently started to reroute the respective transactions through government accounts, i.e. payments paid by consumers in their electricity bills in order to finance subsidies for the renewable electricity producers. Eurostat welcomed the revision and found the current recording appropriate. In this context, Eurostat enquired about the unit newly entitled to operate as an accounting centre of the scheme, the public institution named *OKTE*. It was discussed whether the new mandate and the operations of the company would justify potential reclassification into general government.

## *Discussion*

### Slovenská Záručná a Rozvojová Banka (SZRB)

This agenda point started with the discussion on the national development bank (SZRB), with the participation of the representatives of the SZRB. It is noted that the sector classification of the unit was extensively discussed in the past, Eurostat thus followed up on this long-standing discussion by asking about the structure of depositors. In this respect, Eurostat referred to the fact, mentioned in the company's 2020 Annual report, that 92% of the total stock of deposits belongs to only one depositor. Eurostat thus inquired about the sector classification of this dominant depositor. The representative of the SZRB replied that the bank is not in a position to reveal this kind of information. Eurostat thus asked whether the deposit in question is held by a public entity or of a private entity, but also this question remained unanswered. Eurostat pointed out that there might be accounting consequences for the sector classification of the bank, depending on the sector classification of the dominant depositor. In this respect, Eurostat highlighted the need to dispose of the relevant information in order to understand the operation of a unit, which is essential not only to decide on the sector classification but also on a potential



re-routing of selected operations carried out on behalf of government. SOSR suggested that the statistical office will investigate different sources to obtain more detailed breakdown of the bank's liabilities to get a better overview of its operations.

Eurostat continued discussing the involvement of the SZRB in the implementation of the COVID-19 measures. The bank is participating in the three guarantee schemes set up by government units. As suggested by SOSR and agreed by Eurostat, these should be recorded as standardised guarantee schemes. This recording is to be implemented in the context of the October 2021 EDP notification. The representative of the SZRB further elaborated on the schemes' operation and on the risk borne by the SZRB, concluding that it is very difficult at this stage to assess the losses that may be incurred in the future. Eurostat further asked about the participation of other commercial banks in the implementation of the schemes. The representative of the SZRB confirmed that other commercial banks participate in all the programmes established by the Slovak Investment Holding (SIH) and that the conditions are identical for all banks participating in the implementation.

Concerning the risk to which the SZRB is exposed, Eurostat noted that government covers 90% of the losses sustained by the bank implementing the programmes. As for the estimation of the expected losses, it was mentioned that first losses are expected to occur in two or three years. The SZRB presumed that only a minor part of the guarantee would bear partial losses. There is also collateral provided for each loan granted in this context. The fact that private commercial banks participate might signal that they do not expect losses resulting from this business. Eurostat thus asked whether the same holds for the SZRB. The SRBS's representative stated that there is a collateral in place that can be sold, if necessary. It was also mentioned that any amount recovered from any non-performing loan would be split between the SZRB and the founder of the scheme. Eurostat specified that the aim is to clarify if the SZRB is participating under the same conditions as the other private entities. Eurostat enquired about the amount of loans provided by the bank at present and discussed whether the ratio of non-performing loans in the newly established COVID-19 related schemes would be lower or higher compared to the already existing schemes. The representative of the SZRB confirmed that the portfolios in question are quite similar.

SOSR and Eurostat agreed that the schemes are to be treated as standardised guarantees as the government units bear 90% of losses, which may arise in the future. It was to be thus decided on the estimations that were to be imputed in the upcoming EDP notification in October 2021. SOSR also mentioned that the European funds might be involved in the funding of the schemes. The Slovak statistical authorities further stated that the estimation of future losses is difficult to make. However, SOSR agreed that the scheme should be considered as standardised, implying booking a provision in government accounts.

Eurostat agreed on the principle and re-emphasized that SOSR should come up with an estimation of the future losses to be recorded under the item F.66/AF.66. During the ongoing discussion, SOSR confirmed that the corresponding amount of provisions would be imputed and estimated the overall impact on the 2020 B.9 to be around EUR 66 million, which corresponds to the amount estimated in the document presented by Eurostat in the meeting '*Program stability Slovenskej republiky na roky 2021 až 2024*'.

#### Sector Classification Challenged in Court

Before the EDP dialogue visit, SOSR informed that a research public unit, currently classified inside government, brought to court the case of its sector classification. The unit argues that it operates in a competitive environment and is not subject to the debt settlement programme that has been set up by the Slovak government in the face of financial difficulties of the public

healthcare providers. Given these circumstances, the unit considers that it should be classified outside general government.

In the note provided before the EDP dialogue visit, SOSR proposed a way forward on the classification of public healthcare providers that were discussed during the meeting. In this context, SOSR expressed its view that the compensation for the provision of healthcare services is provided by the health insurance companies to all providers on very similar conditions. Eurostat recalled the qualitative criteria, which are set in the MGDD in order to decide on the sector classification of public hospitals. Eurostat also recalled that if a unit is reclassified outside general government due to a court decision, then the corresponding flows and stock might be rerouted through government accounts so that the economic results of the given unit are still reflected in the headline figures.

### Hospitals

In relation to hospitals, SOSR raised the issue of how the payments between the health insurance companies and the public healthcare providers in general government should be classified. Currently, the payments in question are treated as payments for services as healthcare providers are considered by SOSR as operating on the market, similarly to private healthcare providers, since they regularly meet the 50% test criteria. Eurostat recalled the convention stipulated in ESA 2010 according to which private producers are, by definition, considered as market producers. This convention however does not apply to public producers. As a result, a unit might produce market output while another in the same market might produce a non-market output.

Following these methodological provisions, Eurostat suggested that the payments in question should not be considered as transfers via market producers, because the producers are classified in general government. The recording as D.632 would be defensible only if the units classified in general government were not considered as institutional units, which is not the case here. As the test results should not be, by convention, taken into account for public healthcare providers, it is to be concluded that the units are non-market ones. Eurostat thus concluded that the payments from the health insurance companies should be recorded as internal transfers (D.73) instead of as payments for services.

### Health insurance companies

The discussion then proceeded to the long-standing issue of the treatment of public health insurance companies. The health insurance system is partly operated by two private companies classified outside general government, whereas the flows related to the public health insurance are rerouted through government accounts. SOSR described in the meeting the way the health insurance companies are treated in the accounts and reported in the EDP notification tables, including specific adjustments introduced for the two private health insurance companies.

Eurostat pointed that the current recording is not actually rerouting but rather a split of companies. Eurostat enquired about the proportion of the rerouted flows on the total companies' flows. SOSR clarified that the proportion stands about 90%. Eurostat further reinstated that, in substance, the companies conduct the same activity as the government health insurance company and a control via contractual agreements is presumably established. The two units are part of the social security system and the majority of their activities are being rerouted. Eurostat suggested that their sector classification be instead reconsidered.

SOSR agreed that the two units are part of the social security system but this economic substance is already reflected by rerouting the respective transactions. SOSR also referred to the advice given by Eurostat to the Czech Republic and to the discussion held during the EDP

dialogue visit to Slovakia in 2008. SOSR also considers that the units are not contractually limited and the government does not, *inter alia*, has a say in many decisions, such as taking loans. Eurostat replied that the 2008 conclusions were based on the application of ESA95 and that the current ESA 2010 rules (as asserted in 2019 conclusions) were less conclusive when it comes to the classification currently applied.

Eurostat summed up the key aspects forming the environment in which the units operate. The main source of revenue has the nature of taxes, the rate of which is set by the government. In the spirit of paragraph 20.309 (h) in ESA 2010, the units are subject to excessive regulation. In addition, the units' incurred debt is being repaid out of the public part of the health insurance revenue. It is noted that the sector classification of the units concerned in the financial sector also poses a practical difficulty with data availability, as the units are not obliged to report data to the State Treasury (*Štátna pokladnica*) under the current circumstances.

Concerning the debt of the private health insurance companies, Eurostat advised SOSR, similarly to the discussion during the EDP dialogue visit in 2019, to investigate if the government is obliged in any way to (partially) repay this debt. In the case of obligations by the government, such debt should be considered as government debt already at inception. SOSR argued that loans of private health insurance companies with commercial banks are out of the scope of the public fund, which is rerouted inside general government. As the discussion on both the sector classification of the health insurance companies and the related debt was not conclusive, it will further continue after the EDP dialogue visit.

#### Green energy scheme

SOSR provided a very comprehensive note describing the reasoning behind the revision undertaken recently whereby the flows related to the support of the green energy are rerouted through government accounts. Eurostat agreed with the recording and appreciated the work done by SOSR in this matter. In the note describing the operation of the scheme, SOSR also referred to the company *OKTE* that is now legally entitled to manage the transactions related to the scheme.

Eurostat enquired more about the operation of the company *OKTE*, which is classified outside general government. Eurostat noted that if the fees paid in favour of *OKTE* are intended to cover the costs incurred by the operator, these payments cannot be considered as sales. Eurostat further inquired on the treatment of the fees in national accounts and the proportion of rerouted transaction on the total revenue and expenditure of the company. Eurostat required SOSR to further investigate the case in order to decide on its sector classification and to provide the results of the analysis.

#### *Conclusions and Action points*

- (9) The Slovak statistical authorities will provide a paper addressing the sector classification of the private health insurance companies '*Dôvera*' and '*Union*'. The paper will focus on the following aspects:
- (a) the companies are part of the social security system;
  - (b) most transactions of the companies' revenues and expenditures are rerouted through government accounts;
  - (c) the operation of the companies is controlled by the contractor agreement;
  - (d) the government exercises a control of the companies' operations via regulation;
  - (e) the companies' major source of revenue has the nature of taxes;
  - (f) it is thus the government who sets the level of payments paid by economic agents to the private health insurance companies;

- (g) the classification outside general government results in a problem with data availability;
- (h) the existing loan of the private part of the health insurance scheme is being repaid out of the amount which the private health insurance companies are legally entitled to retain;
- (i) hence the private health insurance companies manage to exploit the public funds to repay own debt.

*Deadline: January 2022*

- (10) Concerning the operation of the green energy scheme, the Slovak statistical authorities will reflect on the sector classification of the company ‘OKTE’, the entity newly entitled to operate the scheme. The Slovak statistical authorities will analyse the operations of the company, the proportion of the rerouted transactions on the company’s overall business activities and inform Eurostat about the findings along with the conclusion on its sector classification.

*Deadline: December 2021*

- (11) (former AP14) Regarding the payments between public health insurance companies and the healthcare providers classified in general government, the Slovak statistical authorities will apply the recording as internal transfer (D.73) and consolidate accordingly. SOSR should moreover provide Eurostat with a special chapter of the EDP inventory related to the application of classification rules in case of health care providers (hospitals).

*Deadline: Before the September 2021 data submission*

### **2.1.3 Government controlled entities classified outside general government (public corporations)**

*Discussion*

This agenda point was covered by the discussions held under Agenda points 2.1.1 and 2.1.2.

## **2.2. Implementation of accrual principle**

### **2.2.1 COVID-19 measures**

*Introduction*

Eurostat followed up on the discussion of the COVID-19 measures held mainly during the EDP verification period. In order to facilitate the discussion, SOSR provided a very comprehensive note and an updated version of the COVID-19 tables (Annex 8). Eurostat paid attention to the nature of tax measures introduced by the Slovak government in the wake of the pandemic. Eurostat further discussed with the Slovak statistical authorities the estimation of the deferred social contributions, the recording of guarantee schemes which have been implemented by public units, and the recording of the furlough scheme. For the discussion of the COVID-19 measures, the meeting was attended by the representative of the Institute of fiscal policy, an institute that is an integral part of the Ministry of Finance.

*Discussion*

## Taxes and social contributions

The issue has been broadly discussed during the EDP verification period. Concerning the reduction in advance payments, it was confirmed by the Slovak statistical authorities that the drop observed in the figures provided could not be attributed to any government decision taken in 2020, as the existing law already allowed companies to reduce their advance payments if certain conditions are met. As regards tax deferrals, Eurostat recalled the information provided by SOSR recently according to which the new deadline for tax payments did not go beyond the year 2020, implying no impact on B.9 in 2020. The representative of the Ministry of Finance confirmed that the Eurostat's understanding is correct.

Eurostat then focused on the recording of social contributions where the situation was quite different and the deferred payments were imputed as revenue. Although the amounts concerned were rather low, Eurostat asked for a confirmation that the amount of the deferred social contributions would be slightly revised in the October 2021 EDP notification, as this became apparent from the figures presented in the background note provided by the Slovak statistical authorities before the EDP dialogue visit. The Ministry of Finance confirmed that, based on the information newly available, the amounts of the deferred social contributions concerned were slightly revised upward. When explaining the revision for the deferred amounts, the Ministry of Finance indicated that the estimations of the deferred social contributions are based on sector-specific analysis.

Eurostat further discussed with SOSR the way of recording of the COVID-19 measures in the supplementary tables (Annex 8), designed to provide a comprehensive overview of the statistical impact of the measures. Specifically, Eurostat pointed to the fact that the amounts deferred should be fully reflected in AF.8, which was not the case at the time of the EDP dialogue visit. SOSR committed to make appropriate corrections in the upcoming EDP notification in October 2021.

Furthermore, by referring to the national publication '*Program stability Slovenskej republiky na roky 2021 až 2024*', Eurostat noticed that part of the expenditure to support the employment, estimated at EUR 223 million, was paid only in 2021. Eurostat thus asked what amount weighed on B.9 in 2020. SOSR informed that only cash data were used, so there might be some payables related to the support of the employment. Eurostat thus concluded that not all expenditures were booked in this respect with a potential impact on B.9 for 2020. SOSR confirmed this assumption and explained that the unit in charge did not book the corresponding liabilities.

Concerning tax relief, Eurostat explained that the corresponding amounts are to be reported in Annex 8 as negative revenue. Eurostat referred to the amount reported in '*Program stability Slovenskej republiky na roky 2021 až 2024*', where 0.1 percent of GDP is attributed to tax reliefs, and asked SOSR where this amount was reported in Annex 8. SOSR explained that the amount in question is implicitly covered by the adjustment of the accrual taxes. However, Eurostat recalled the recording of tax reliefs as negative revenue. Eurostat further asked whether the cancellation of social contributions was reported in Annex 8. As it was not apparently included in Annex 8, SOSR committed to refine the table.

Eurostat continued by verifying the amount and the recording of the carry-forward losses that were applied by the companies in the 2019 tax declarations submitted in 2020. SOSR confirmed that, as previously agreed with Eurostat, the concerned amount was imputed as revenue in 2019 and subsequently expensed in 2020. This recording followed the methodology requiring an expenditure to be recorded in the year where the respective government's decision was made.

## Furlough scheme

Following up on a discussion held recently, Eurostat and SOSR aimed to agree on the nature and the eventual recording of the scheme that has been introduced in Slovakia. As presented in Annex 8 by SOSR, no furlough scheme apparently existed in Slovakia. SOSR was of the view that the existing scheme is rather social security than a furlough scheme. Following this reasoning, the concerned amount was booked as D.9 in government accounts, which is however not envisaged under the draft note published by Eurostat<sup>3</sup> on 9 April 2020. Eurostat recalled the three options, which are to be followed, whereas the eventual recording should reflect the country-specific character of the scheme. There is also a broad agreement that the corresponding expenditure should not be recorded as D.9. At the end of the discussion, SOSR suggested this scheme to be recorded as D.75, which would be in line with the Eurostat guidance. Eurostat further investigated whether Annex 8 is compiled on a consolidated basis or not. SOSR confirmed that the amounts reported are only those paid to the units classified outside general government.

### Guarantees

The Slovak government set up several guarantee schemes aiming to assist businesses to weather the economic crisis caused by the COVID-19 pandemic. The guarantee scheme operated by the national development bank (SZRB) has already been discussed under the agenda point 2.1.2. Besides, the Slovak Investment Holding (SIH) and Eximbanka set up two more guarantee schemes.

In the case of SIH, the scheme is implemented via commercial banks and recorded in the accounts of SIH. Concerning the latter, Eurostat explained its understanding that the provider of the loans is Eximbanka itself and the scheme is recorded off-balance-sheet by the Ministry of Finance. The Ministry of Finance guarantees 80% of the loans. SOSR concluded in both cases that the schemes should be treated as standardised guarantee schemes. Eurostat inquired about the amounts of provisions that are to be booked in the accounts as expenditure already at inception. SOSR confirmed that the schemes are considered as standardised and estimations of the amounts to be imputed would be available for the October 2021 EDP notification.

### *Conclusions and Action points*

- (12) (formerly AP14) Concerning the expenditure measures related to the COVID-19, the Slovak statistical authorities will revise the data provided in the context of Annex 8 reporting. Namely, the data should be amended in order to reflect properly in the financial accounts the amount of social contributions deferred, to rectify the amount currently recorded in cash related to the support of businesses and to revise the recording in the quarters. Furthermore, Annex 8 should convey the information on the amount of tax reliefs, tax cancellations or the expected losses stemming from the operation of the guarantee schemes.

*Deadline: Before the September 2021 data submission<sup>4</sup>*

- (13) (formerly AP12) The Slovak statistical authorities will accrue in 2020 the expenditure measures in support of employment that were approved during 2020 but paid in 2021, for an amount of €221 m.

*Deadline: Before the September 2021 data submission<sup>4</sup>*

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<sup>3</sup> Such recording was also not yet agreed by a 2021 EDPS WG Member State consultation (subsequent to the dialogue visit).

<sup>4</sup> Clarification notes to APs 12, 13 and 14 were received on 30 September 2021, Ares(2021)7756682, alongside the October 2021 EDP notification. The notes were discussed in detail with SOSR during the October 2021 EDP notification.

- (14) (formerly AP13) In relation to the guarantee schemes set up in the wake of the COVID-19 situation, it was agreed that they meet the criteria for being treated as standardised guarantee schemes, as foreseen in ESA 2010 and the MGDD. This applies to the schemes set up by the Ministry of Finance and by the ‘*Slovak Investment Holding*’ (SIHAZ1). The schemes are implemented through banks, including a public company ‘*Slovenská záručná a rozvojová banka*’. In addition, the guarantee scheme of the Ministry of Finance for business loans provided by Eximbanka (‘COVID úver’) should also be considered as standardised guarantee scheme. The Slovak statistical authorities will provide estimations of expected losses to be recorded as capital transfer in 2020.

*Deadline: Before the September 2021 data submission<sup>4</sup>*

## **2.2.2 Taxes and social contributions**

### *Introduction*

In relation to taxes and social contributions, Eurostat noticed two issues to be clarified. First, the Ministry of Finance implemented a new forecasting model with the aim to reduce the extent of revisions in corporate income tax revenue. Second, Eurostat intended to clarify the evolution of the withheld VAT refunds in order to explain a significant drop in the stock of the VAT refunds withheld.

### *Discussion*

Following the discussion during the EDP dialogue visit to Slovakia in 2019, Eurostat inquired about the new forecasting model adopted by the Ministry of Finance recently. As the Ministry of Finance explained during the previous EDP dialogue visit, the new model is based on macroeconomic data instead of on microeconomic data, with the aim to reduce the extent of subsequent revisions. Incorporation of forecasted amount is necessitated by the existing deadlines for the submission of the income tax declaration.

Eurostat investigated for which year the new model has been applied. The Ministry of Finance confirmed that the new model was applied for 2019; the main purpose was to obtain more accurate estimation of companies’ profits and income tax revenue. The unexpected economic downturn, which hardly hit the economy in 2020, obviously brought new challenges for the forecasting model. Eurostat thus enquired about how the exceptional situation in 2020 would be reflected in the construction of the model. The Ministry of Finance explained that already more than half of the tax returns are already available, which provides a sufficient basis for making an estimation for the whole population.

Eurostat checked with the Ministry of Finance the preliminary estimations used for the April 2021 EDP notification, regarding also some revisions expected for the October 2021 EDP notification. The Ministry explained that the expected revision was approximately EUR 200 million. It further explained that, when forecasting profits and corporate income tax related to the year 2020, the year 2008 was used as a reference. As the results proved to be slightly more conservative, an upward revision is to be expected in the October 2021 EDP notification.

Eurostat continued with the discussion on withheld tax refunds and asked the Slovak statistical authorities about their comments on the recent evolution of the amount of VAT withheld, as changing inspection practices may pose an issue for the total tax revenues. The Ministry of Finance confirmed that all information provided prior to the EDP dialogue visit is correct. The Ministry of Finance went on explaining the significant decrease in the amounts, which follows the practices of the tax administration. As it has been focusing mainly on carousel frauds (a

type of VAT frauds), the amounts in question were higher. After several packages to deal with these frauds had been introduced, a significant drop in the withheld VAT was observed. Eurostat thanked for a very clear explanation and pointed out that should the amounts increase notably in the future, Eurostat will inquire about an explanation.

The discussion continued with the reporting of the government payables related to taxes. As mentioned in the 2019 EDP dialogue visit and also confirmed in the most recent note provided by the Slovak statistical authorities to Eurostat, the respective items recording the tax-related payables were introduced in the public accounts. Nevertheless, no tax-related payables are still reported in the Questionnaire related to the EDP notification. It was explained in the meeting that SOSR is working on a solution and it is the intention of SOSR to report the information on tax-related payables of general government. Eurostat invited SOSR to continue in this effort and to inform Eurostat on the progress achieved.

### **2.2.3 Interest**

#### *Introduction*

The reporting of interests paid and accrued in EDP tables 2 and 3 were discussed, as well as the data reported in the table on interest.

#### *Discussion*

Eurostat thanked SOSR for the compilation of the table on interest. Eurostat investigated the recording of stock of premium, where no value was reported for the year 2013, the first year covered by the table. The Slovak statistical authorities explained that these data were not available at the moment, but that the issue would be investigated further. The subsequent related question was how the amortization of premium and discounts was calculated. SOSR clarified that this information is sourced from the accounting system so that there is no need to dispose of the information on the stock in order to quantify the amortization to be undertaken.

Eurostat pointed out several differences between the table on interest and the EDP notification table for line 12 (premium/discount at issuance). SOSR explained that the table on interest is produced before the EDP notification so that the figures do not necessarily match and any differences, which may occur, would be corrected in the next EDP notification. In a similar vein, a few differences in the total interest (line) 20 were noted. For line 21, Eurostat noticed that no FISIM is reported in spite of the existence of loans provided by domestic and foreign financial institutions. SOSR committed to check the situation and to correct the table.

Eurostat continued with the comparison between interests as reported in EDP table 2 and EDP table 3, where significant discrepancies are observable and asked the Slovak statistical authorities for an explanation. To analyse the issue in detail, the Slovak statistical authorities asked for more time in order to provide a comprehensive analysis explaining the differences.

#### *Conclusions and Action points*

- (15) The Slovak statistical authorities will update the EDP Tables in order to reflect the correct figures recently calculated for 2020 in relation to the premiums and discounts at issuance, the difference between interests accrued and paid, and interest expenditures. The Slovak statistical authorities will also amend the table on interest recording in order to reflect the comments made by Eurostat during the EDP dialogue visit, in particular in relation to the reporting of FISIM and to the perceived error in the figures reported under line 15 ‘premiums and discounts repurchased’.



*Deadline: Before the September 2021 data submission<sup>5</sup>*

- (16) The Slovak statistical Authorities will provide to Eurostat with a reconciliation between the figures reported for the period 2017-2020 under the line ‘difference between interest paid and accrued’ of EDP Table 2A and the figures reported under the line ‘difference between interest accrued and paid’ of EDP Table 3B.

*Deadline: August<sup>6</sup> 2021*

## **2.2.4 EU flows**

### *Introduction*

Eurostat followed up on the discussion held in the previous EDP dialogue visit where Eurostat required SOSR to analyse the time lag between cash and accrual transactions related to the EU flows.

### *Discussion*

SOSR informed that the work on the action point was still in progress. SOSR had analysed a couple of institutions but was not in a position to indicate when the analysis would be finished. Eurostat confirmed with SOSR that this might be an issue impacting government deficit and the action point from the previous EDP dialogue visit would be retained. The discussion went on to discuss the flows related to the Recovery and Resilience Facility. The Slovak statistical authorities informed that some expenditures were carried out in 2020 but no request had been submitted yet, however eligible expenditure are expected to be reimbursed in the future. Eurostat reiterated that if the programme was not approved, no government revenue was to be booked in 2020, but only in 2021.

Eurostat further asked about the financial instruments which might be provided using the RRF funding and for which the same rules are to be applied as to the already existing ones. The representative of the Ministry of Finance explained that, according to the currently available information, no provision of financial instruments is foreseen in this context. However, the situation should be further checked. Eurostat thanked the authorities for the information received and asked SOSR to monitor the situation and to record all flows in question as requested.

### *Conclusions and Action points*

- (17) Regarding EU flows, the Slovak statistical Authorities will inform Eurostat on the results of the investigation on how it addresses, for those cases where the Beneficiary is a government unit, the problem arising from the time lag that exists between the Beneficiary expenditure on an accrual basis and the cash received by the Beneficiary from the paying agent.

*Deadline: December 2021*

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<sup>5</sup> The interest table was received on 30 September 2021, Ares(2021)7756682, alongside the October 2021 EDP notification. The table was discussed in detail with SOSR during the October 2021 EDP notification.

<sup>6</sup> The Slovak EDP authorities sent a reconciliation between the line ‘difference between interest paid and accrued’ of EDP Table 2A and the line ‘difference between interest accrued and paid’ of EDP Table 3B on 31 August 2021, Ares(2021)5370518. The reconciliation was discussed in detail with SOSR during the October 2021 EDP notification.

## **2.2.5 Military expenditure**

### *Introduction*

During previous years, the government had concluded several contracts concerning military deliveries and, in this context, sizeable prepayments were disbursed. The issue was discussed during former EDP notifications, when it was agreed that the prepayments for the military deliveries where the time lag the payment and the delivery is more than one year, are to be recorded as AF.4. SOSR followed the agreed recording.

### *Discussion*

In the discussion on military expenditures, Eurostat verified the time of recording of the advance payments and of the military deliveries that are expected in the years to come. Regarding the data sources, SOSR confirmed that the relevant information is regularly provided in the form of a specific questionnaire that is filled in by the Ministry of Defence annually. The questionnaire addresses relevant aspects such as the date of delivery, the prepayments for deliveries, the value, the counterparty, the value of related services, etc. SOSR thus considers that all elements necessary for a proper recording are available. SOSR also pointed out the fact that some services provided in the context of the most recent purchases, such as training of pilots, needs to be further checked. In relation to this, Eurostat confirmed with SOSR that the time when the trainings are provided had no impact on the date of recording of the military equipment.

## **2.3. Recording of specific government transactions**

### **2.3.1 Guarantees**

#### *Discussion*

The case of guarantees was discussed under other points of the agenda (2.1.2, 2.2.1).

### **2.3.2 Debt assumptions, debt cancellations and debt write-offs; government claims**

#### *Introduction*

The discussion focused on the recording of Cuba claims, an issue of which Eurostat was informed during the April 2021 EDP notification. Following the government declaration from December 2020, SOSR recorded as capital transfer the full amount related to two loans provided by the Slovak banks. In this respect, Eurostat intended to clarify the nature of these transactions and the time of recording.

#### *Discussion*

The discussion centred on the time of recording of the Cuba claim. SOSR informed that they received the information on the government decision which addressed two transactions financed or guaranteed by Eximbanka, one directly with Banco Nacional de Cuba, the bank owned by the Cuban state, and one with a Cuban commercial bank. Following the government declaration, SOSR came to the conclusion that these guarantees are going to be paid by the Slovak government. As further explained by SOSR, this conclusion was also reinforced by the past experience with the Cuban debts and the ongoing COVID-19 crisis. Consequently, the

whole amount was recorded as an expenditure in 2020. In reaction to Eurostat's question, SOSR stated that they are not aware of whether a provision had been recorded in the public account in this context.

A representative of the Ministry of Finance added that, up to now, the Slovak government provided no funds in this respect. There was only a declaration that if Cuba was not capable of repaying its own debt, then the Ministry of Finance will have to step in and assume the guarantee of Eximbanka and pay probably in both cases, in order to avoid some financial threat for Eximbanka. As the Ministry of Finance further described, in May 2020, Cuba was liable to repay a certain amount of interest to a private Slovak bank. The payments were significantly delayed prompting the latter bank to submit an insurance claim to Eximbanka. At the end, Cuba did pay the interest, close to the 90-day deadline during which Cuba was expected to do so. In the meantime, the private bank submitted this claim and the Ministry of Finance decided to make a public declaration, although with no obligation for the government to provide any funding. If at a later stage, any disbursement of funds would be needed, the private bank would claim the money from Eximbanka and the bank would subsequently claim the money from the Ministry of Finance. The Ministry of Finance went on explaining that, following the situation since May 2020, Cuba asked for a postponement of repayment of two instalments that were supposed to be made in September and November 2020 and which are now due in the year 2021. As the current situation stands, Cuba is not late with any of its obligations. However, because of the request for a postponement, the Slovak government had to react.

Eurostat started questioning what the original maturity of these claims was. The Ministry of Finance explained that in the case of the project financed by the private bank and insured by Eximbanka, the original maturity of the loan was set at the end of 2027. In the second case, where Eximbanka provides the financing directly, the maturity is set eight years from the day when the whole work is finished. Completion of the work was expected to take place in autumn 2021. If so, the maturity of the loan would be in 2029. Eurostat asked who the suppliers were in the context of both projects. The Ministry of Finance explained that both claims concern the reconstruction of a power plant and the main suppliers were Slovak companies that cooperate with sub-contractors from Russia or from the Czech Republic. However, due to the COVID-19 pandemic, the work on the second project was not finished yet.

Eurostat also confirmed with the Slovak statistical authorities the amounts concerned, i.e. EUR 120 million referring to the loan provided by the private bank and EUR 53 million provided by Eximbanka. Eurostat further enquired about whether interest accrued is included and how this interest is treated in government accounts. The Ministry of Finance explained that the outstanding amounts stands currently at EUR 168 million, as Cuba has already repaid part of the loans. The Ministry of Finance reiterated that no unpaid obligations were registered yet, but considered the revision in part because of the postponement made, which was at the request of the Cuban side. Eurostat inquired about what would happen in government accounts if Cuba would repay some part of the loans in the future and specifically concerning interest accrued in the future, in particular whether the government would continue to provide interest coverage for future years.

SOSR explained that interest is recorded only for the amount recognised by the debtor. The Ministry of Finance then informed that a complete restructuring of both loans this year is likely to happen, following a reassessment of the financial discipline in 2021 where Cuba is supposed to start repaying also the principal of the loans. The Ministry of Finance also confirmed that neither the private bank, nor Eximbanka have called the guarantees to date. Concerning the recording, SOSR confirmed the amount of EUR 173 million, and that a corresponding entry was introduced in government accounts as expenditure in the form of capital transfer.

Eurostat further clarified the impact on government assets and on government debt. SOSR confirmed that the B.9 impact reached EUR 173 million and the debt increased by the same amount, implying that SOSR did not make a distinction between the debt assumption part and the part related to a cancellation of debt. Given that Eximbanka is classified inside general government, Eurostat pointed to the fact that the debt assumption related to the project financed by Eximbanka should be consolidated in government accounts. In its reply, SOSR clarified that there is still a corresponding asset of Eximbanka, but the debt of the government has been increased by the corresponding amount. Eurostat stressed that the EUR 53 million should be consolidated and thus the overall impact on the government debt should be EUR 120 million. SOSR committed to investigate and to solve the issue in the upcoming EDP notification in October 2021.

Eurostat went on investigating the issue of accrued interest, which is accruing throughout the year 2021. As regards the accrued interest, the Ministry of Finance indicated that the figure of EUR 120 million already includes the full amount of interest which Cuba is supposed to pay during the lifetime of the loan, as well as the fees related to the provision of the credit line. In order to clarify the issue, Eurostat asked for a confirmation that the EUR 120 million includes not only the principal, but also the whole amount of interest, i.e. the part already accrued but also the interest to be accrued in the future, aside from all other fees Cuba is obliged to pay in favour of the private bank. The Ministry of Finance confirmed this understanding.

Eurostat thus suggested that the debt assumption to be recorded should rather correspond to the principal of EUR 87 million and the interest accrued to date. However, it also remains to be clarified whether the government declaration is in fact an event, which should be reflected in government accounts. Eurostat noted that it remains plausible that Cuba will pay off its obligation, either fully or partly, and no Cuban obligations are currently overdue. The Ministry of Finance replied that the risk that the government will have to assume the debt in the future is high, in spite of the facts just mentioned by Eurostat.

Eurostat reminded in this context that ESA 2010 gives an opportunity to record a guarantee call before this guarantee is actually called by the beneficiary, such that an expenditure in 2020 was acceptable. The major issue here is the amount that is to be booked as expenditure in 2020. Eurostat highlighted in this regard that the current recording implicitly assumes that the Cuban party will not repay anything at all. One of the solutions might be to book only a part of the total debt, based on historical evidence. The Ministry of Finance referred to the case from 2015 where Cuba recognised 12-13% of the original debt, out of which 50% were already repaid by now.

Eurostat noted that the current recording is debatable given that Cuba will likely repay at least part of the debt. Eurostat stressed that the current recording should be certainly revised and only that part of the loans unlikely to be repaid should be booked as government expenditure in 2020. Referring to the case that have happened in the past, Eurostat stressed that a parallel should be made between the current case and claims that were disputed, and that postponements are certainly a statistical event that should be assessed against the historical evidence.

#### *Conclusions and Action points*

- (18) In relation to the foreign claims, the Slovak statistical authorities will clarify the notable 2020 transactions related to the Cuba claims. The Slovak statistical authorities will provide an estimation of the amount unlikely to be paid. The appropriate revision in October 2021 should also reflect the fact that the 173m recorded in 2020 partially consists of debt assumption and partially of asset cancellation, as well as the fact that the amount in question includes all future interests on the existing debt.

*Deadline: Before the September 2021 data submission<sup>7</sup>*

### **2.3.3 Capital injections in public corporations**

#### *Introduction*

Eurostat reviewed the data on capital injections by government provided by the Slovak statistical authorities before the EDP dialogue visit.

#### *Discussion*

Eurostat enquired about the content of the dataset provided by SOSR before the EDP dialogue visit. Eurostat clarified the reasons why the figures reported in the background document are not in line with those reported in Table 10.2 of the EDP Questionnaire. Eurostat mentioned that the capital injection in the national development bank was not reported in the background note and further asked whether the data in the note embraces all corporations and not only the public ones. SOSR clarified that the amount in the background document corresponds to the financial transactions (F.5) reported in EDP table 3 and the Questionnaire related to the EDP notification tables (Table 10.1B).

Eurostat also investigated the negative amounts that were reported in the background document. SOSR clarified that these encompass the reinvested earnings related to the EFSF. The discussion went on about the transaction with the ESM, as SOSR reported a substantial amount for the year 2020 that, as was clarified by SOSR, relates to an increase of capital due to a correction of the allocation key. The funds provided by the Slovak Republic to the ESM were subsequently allocated to other member states. Eurostat thanked SOSR for this information, which would be crosschecked with other countries.

#### *Conclusions and Action points*

- (19) The Slovak statistical authorities will clarify the content of the table on capital injections provided before the EDP dialogue visit. Concretely, it is to be explained whether the data reported in the table covers both public and private companies.

*Deadline: December 2021*

### **2.3.4 Dividends, super dividends**

#### *Introduction*

Eurostat reviewed the documents on dividends provided by the Slovak statistical authorities before the EDP dialogue visit. The main focus was given to the frequency the super-dividend test is performed for local government units.

#### *Discussion*

Eurostat enquired about the super-dividend test for local government units, where the test is not run on a regular basis. Nevertheless, it is worth noting that the amount of dividends in question is relatively small. SOSR explained that the super-dividend test at the local government level is carried out on an ad-hoc basis, mainly for sizeable dividend revenues. In this case, the

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<sup>7</sup> Clarification note received on 30 September 2021, Ares(2021)7756682, alongside the October 2021 EDP notification. The note was discussed in detail with SOSR during the October 2021 EDP notification.

transaction is cross-checked with other data sources to figure out the size of super-dividend. SOSR also added that sizeable amounts of dividends are reported from hospitals. These then require closer examination as the amounts of dividends received are reported in the respective accounting item together with the payments from the health insurance companies.

### **2.3.5 Financial derivatives**

#### *Introduction*

The Slovak statistical authorities provided to Eurostat, in advance of the meeting, a filled-out template of the EDP/GFS derivatives table.

#### *Discussion*

The discussion started with the Slovak statistical authorities explaining the existing cross-currency swap agreements and the nature of the related collateral, as well as the reporting implications in the EDP Tables. Eurostat thanked the Slovak statistical authorities for the completion of the table on derivatives and confirmed with SOSR the general government coverage of that table, and that no other derivatives beside the reported cross-currency swaps are used in Slovakia. The discussion focused on the evolution of the collateral on derivatives reported in Block 3 of the table. The Slovak statistical authorities explained the way the collaterals are revaluated and that the changes reported in Block 3 relate to the fluctuation in interest rates. Eurostat pointed to a 50-percent proportion of collateral to market value of derivatives and asked the Slovak statistical authorities to comment and to clarify the form of collateral provided. SOSR confirmed that no collateral is provided in the form of securities and all derivative contracts are with commercial banks.

Eurostat then inquired about the internal consistency of the table on derivatives, as differences between blocks were observable. Eurostat pointed to inconsistencies between Block 1, Block 3 and Block 5, in order to clarify the way of reporting. Block 5 appears to be closer to Block 1 rather than to Block 3. Block 3 includes the figures provided by ARDAL, which is considered generally as more reliable, as explained by the Slovak statistical authorities. This is due to the fact that the values of derivatives provided by ARDAL are closer to the market value than those used by SOSR. SOSR committed to investigate the differences further. It was also confirmed that the collateral is reported at the market value and the derivatives are reported at approximate market value.

Eurostat then asked for a clarification of how transactions in assets and liabilities are quantified, as derivatives on the asset side tend to be linked to inflows of cash and, contrarily, derivatives on the liabilities side are expected to be linked with outflows of cash. At the same time, the allocation of transaction between assets and liabilities should in principle depend on whether the derivative is an asset or a liability at time of transaction. SOSR confirmed that there is a convention applied where the recording depends on whether the derivative is, at the beginning of the year, an asset or a liability. Eurostat welcomed this approach (agreeing that this approximation could be applied) but still the results, as reported in the table on derivatives, seemed nevertheless a bit counterintuitive. SOSR promised to send a detail description of the convention applied in the accounts, which Eurostat welcomed and appreciated.

#### *Conclusions and Action points*

- (20) The Slovak statistical authorities will check possible inconsistencies in the Table on derivatives and get back to Eurostat with an improved Table, when relevant. The Slovak statistical authorities will reflect on the observations presented by Eurostat during the

meeting where Eurostat pointed to the relation between Block 1, 3 and 5. The information in Block 5 on the debt hedged appears to be closer to the information reported in Block 1, sourced from the accounting system, instead of Block 3, albeit the data source used for Block 3 provided by the debt agency (ARDAL) is considered by SOSR as more reliable. The Slovak statistical authorities will also provide an explanation of the conventions behind the recording of transactions in derivatives on the asset and on the liability side.

*Deadline: December 2021*

### **2.3.6 PPPs, concessions and energy performance contracts (EPC)**

#### *Introduction*

In Slovakia, two existing PPP projects are classified outside general government, and reported accordingly in the context of the EDP notification. Before the EDP dialogue visit, the Slovak statistical authorities informed about the projects that are currently in preparation. Eurostat also discussed the concession on the operation of the intermodal transport terminal in Žilina.

#### *Discussion*

Eurostat first focused on the concession concerning the operation of the intermodal transport terminal in Žilina. Eurostat inquired about the sector classification of the assets that were put at the disposal of the private operator, an SPE controlled by private entities. SOSR explained that the stocks of the government's non-financial assets are not compiled in Slovakia. However, SOSR informed that the assets in question enter the calculation of consumption of fixed capital and the corresponding investment expenditure was recorded in government accounts during the time when the assets were built. SOSR confirmed that the related construction of infrastructure assets was completed, and that these assets are property of the Slovak railway infrastructure company (Železničná Spoločnosť Slovensko, a.s., ZSSK). SOSR also confirmed that private operators pay an infrastructure usage fee to ZSSK.

Concerning the other ongoing project, Eurostat investigated the issue of the enlargement of the existing motorway (the R1 expressway Nitra, west - Tekovské Nemce and Banská Bystrica - northern bypass). The new part of the road will be considered as a new asset, so it will be assessed independently from the classification of the existing one. Eurostat asked whether the new contract would be provided to Eurostat. SOSR agreed while explaining that the new contract is currently only a draft. As regards the prison facility located in Rimavská Sobota, SOSR confirmed that this is indeed a PPP project, as it involves the construction of a new facility. SOSR commented on the draft contract and will assess the statistical treatment of the project as soon as the contract is signed.

#### *Conclusions and Action points*

- (21) Concerning the planned PPP projects, the Slovak statistical authorities will provide Eurostat the new contract for the extension of R1 motorway.

*Deadline: December 2021*

### **2.3.7 Emission trading permits**

#### *Discussion*

Eurostat summarised the situation in Slovakia in relation to the method applied for the recording of ETS revenues. Eurostat concluded that the method is in accordance with the current MGDD requirements. Eurostat also thanked Slovakia for the contribution in the discussion on this particular subject held during the EDPS working group.

### **2.3.8 Others: privatization, sale and leaseback operations, UMTS, securitisation and pension issues**

#### *Introduction*

Eurostat enquired mainly on the transactions of the Nuclear Fund, as well as on the transactions related to pensions, namely the transfer intended to cover the re-occurring deficit in the pension system designed for the ex-serviceman of the police and the military forces, and government transactions related to the second pillar.

#### *Discussion*

The discussion started with the transactions of the Nuclear fund and the company JAVYS which is in charge of the decommissioning process. In the note delivered prior the EDP dialogue visit, SOSR informed that a new transaction between the Ministry of Economy and the company JAVYS was identified recently. SOSR will keep investigating the nature of this transaction. At the moment, SOSR was not in a position to confirm whether the transaction may have an impact on B.9 or not. SOSR committed to inform Eurostat as soon as the analysis is finished.

Under this agenda point, the discussion focused on the issue raised by the Slovak statistical authorities lately, namely the payments made by ministries that are intended to cover re-occurring gaps between revenues and expenditures in the pension schemes designed for ex-servicemen of the military and police forces. For the former, the Ministry of Defence established a separate unit operating the scheme (*‘Vojenský úrad sociálneho zabezpečenia’*), which collects social contributions and disburses the pensions of the former member of the military forces. If any gap occurs, a transfer from the Ministry of Defence covers it. For the latter, the Ministry of Internal Affairs itself operates the scheme. If any gap between revenue and expenditure arises, the Ministry of Finance provides the necessary funding.

Transfers to cover deficits are currently recorded as internal transfers (D.73), but the Ministry of Finance disputed this recording recently, arguing that the schemes are in essence employers’ pension schemes and the corresponding flows should be rerouted through the sector of households. If revised in line with the view of the Ministry of Finance, there would be an impact on the nominal level of social contributions and social benefits, while B.9 would remain unchanged. SOSR reiterated that the system is considered by SOSR as pay-as-you-go system.

The Ministry of Finance expressed the view that the system bears resemblance with one where the Law defines a group of inhabitants on behalf of which the State pays the social contributions, such as pensioners, students, children, etc. SOSR disagreed. The Ministry of Finance also noted that the payments just mentioned are not consolidated. Given the disagreement between the Slovak statistical authorities concerning the eventual recording, SOSR asked Eurostat for its opinion.

Eurostat confirmed with the Slovak statistical authorities that a deficit regularly occurs and transfers from the ministries automatically cover this gap. Eurostat further mentioned that the schemes are in fact unfunded employer’s schemes. In the discussion, Eurostat drew the attention to the fact that the issue also concerns the overall employment cost of certain groups of government employees. Due to this fact, the recording as a part of the compensation of



employees should be also considered as one of the options. If considered that the scheme is an employer's social security scheme and the transfers are intended only to cover the occurring deficits, then recording imputed social contribution might have merits. The eventual recording needs to be examined on the basis of some additional information.

The discussion then continued with the topic of contributions paid to the second pillar. During the EDP verification period in April 2021, the issue had already been largely discussed. Eurostat thus only confirmed that the scope of the government participation in the second pillar does not go beyond its intermediary role where part of the social contributions collected by the government is ceded to the second pillar.

#### *Conclusions and Action points*

- (22) The Slovak statistical authorities will provide an analysis of the transaction between 'JAVYS' and the Ministry of Economy which has been recently identified by SOSR. Based on this analysis, if a revision ensues, the Slovak statistical authorities will specify the impact of this revision on B.9.

*Deadline: January 2022*

- (23) The Slovak statistical authorities will provide to Eurostat an updated note on the recording of payments intended to cover deficits stemming from the operation of the pensions scheme for ex-servicemen of the police and the military forces, in order to decide on the proper recording in government accounts.

*Deadline: January 2022*

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# **EDP dialogue visit to Slovakia, 21-22 June 2021**

**Starting on 21 June 2021, at 9.00**

## **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 in the context of ESA 2010 implementation**

1.2.1. Availability and use of data sources

### **2. Methodological issues and recording of specific government transactions**

#### **2.1. Delimitation of the general government sector**

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

2.1.2 Sector classification of specific units

2.1.2.1 Units engaged in financial activities, rerouting of transactions

2.1.3 Government controlled entities classified outside general government (public corporations)

#### **2.2. Implementation of accrual principle**

2.2.1 COVID-19 measures

2.2.1.1 Taxes and social contributions

2.2.1.2 Expenditure measures

2.2.1.3 Guarantees

2.2.2 Taxes and social contributions

2.2.2.1 Withheld taxes

2.2.3 Interest

2.2.4 EU flows

2.2.5 Military expenditure

#### **2.3. Recording of specific government transactions**

2.3.1 Guarantees

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

2.3.2.1 Cuba claim

2.3.3 Capital injections in public corporations

2.3.4 Dividends, super dividends

2.3.5 Financial derivatives

2.3.6 PPPs, concessions and energy performance contracts (EPC)

2.3.7 Emission trading permits

2.3.8 Others: privatization, sale and leaseback operations, UMTS, securitisation and pension issues