STATISTICS
ESTONIA

Inventory of the methods, procedures and sources used for the compilation of deficit and debt data and the underlying government sector accounts according to ESA 2010

Estonia

November 2023

Background

Compilation and publishing of the Inventory of the methods, procedures and sources used to compile actual deficit and debt data is foreseen by Council Regulation 479/2009, as amended.

According to Article 8.1: *"The Commission (Eurostat) shall regularly assess the quality both of actual data reported by Member States and of the underlying government sector accounts compiled according to ESA 95.... Quality of actual data means compliance with accounting rules, completeness, reliability, timeliness, and consistency of the statistical data. The assessment will focus on areas specified in the inventories of Member States such as the delimitation of the government sector, the classification of government transactions and liabilities, and the time of recording."*

In line with the provisions of the Regulation set up in Article 9, "*Member States shall provide the Commission (Eurostat) with a detailed inventory of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts. The inventories shall be prepared in accordance with guidelines adopted by the Commission (Eurostat) after consultation of CMFB. The inventories shall be updated following revisions in the methods, procedures and sources adopted by Member States to compile their statistical data*".

The content of the Inventory and the related guidelines have been endorsed by the Committee on Monetary, Financial and Balance of Payments statistics in June 2012 and are followed by all EU Member States. This version introduces references to the ESA 2010 and the updates mirroring the changes introduced by the ESA 2010. It also includes changes introduced by the MGDD 2022 version.

LIST OF ABBREVIATIONS

Abbreviation	Name
AAU	Assigned amount units
BoP	Balance of Payments
BRSP	Business Register for Statistical Purposes
COFOG	Classification of the functions of the government
CSDB	Centralised Securities Database
EBA	Extra-budgetary accounts
EDP	Excessive Deficit Procedure
EEX	European Energy Exchange
EFSF	European Financial Stability Facility
ERDF	European Regional Development Fund
ESMS	Euro-SMX Metadata Structure
ETCB	Estonian Tax and Customs Board
EU	European Union
EU ETS	European Union Emissions Trading System
EUA	European emission allowance
FA	Financial accounts
GFS	Government finance statistics
GG	General Government sector
IIP	International investment position
IPSAS	International Public Sector Accounting Standards
MGDD	Manual of Government Debt and Deficit
MoF	Ministry of Finance of the Republic of Estonia
MoU	Memorandum of Understanding
MSD	Macroeconomic Statistics Department
NA	National accounts
NACE	Statistical Classification of Economic Activities in the European Community
NCB	National Central Bank
NFA	Non-financial accounts
NPISH	Non-profit institutions serving households
NRF	National resolution fund
NSI	National statistical institute
PF	Pension fund
PPP	Public-private partnership
PRIA	Estonian Agricultural Registers and Information Board
PSFS	Public Sector Financial Statements
SE	Statistics Estonia
SRF	Single resolution fund
SSSC	State Shared Services Centre
SUT	Supply-use tables
UMTS	Universal Mobile Telecommunication System
VAT	Value added tax
WB	Working balance

LIST OF ESA 2010 CODES USED IN THIS DOCUMENT

Code/ classification	**Name**
Institutional sectors	
S.11	Non-financial corporations
S.12	Financial institutions
S.121	Central bank (public)
S.122	Deposit-taking corporations except the central bank
S.123	Money market funds
S.124	Non-MMF investment funds
S.13	General government
S.1311	Central government
S.1313	Local governments
S.1314	Social security funds
S.14	Households
S.15	Non-profit institutions serving households (NPISH)
S.2	Rest of the world
Balancing items	
B.9	Net lending/net borrowing (of the non-financial accounts)
B.9f	Net lending/net borrowing of the financial accounts
Transactions (in non-financial accounts)	
P.11	Market output
P.131	Payments for non-market output
P.2	Intermediate consumption
P.51	Gross fixed capital formation
P.51c	Consumption of fixed capital
D.1	Compensation of employees
D.122	Employers' imputed social contributions
D.2	Taxes on production and imports
D.21	Taxes on products
D.29	Taxes on production
D.3	Subsidies
D.31	Subsidies on products
D.4	Property income
D.41	Interest
D.42	Distributed income of corporations
D.45	Rent
D.61	Net social contributions
D.611	Employers' actual social contributions
D.612	Employers' imputed social contributions
D.622	Other social insurance benefits
D.63	Social transfers in kind
D.632	Social transfers in kind – purchased market production
D.7	Other current transfers
D.75	Miscellaneous current transfers
D.76	VAT- and GNI-based EU own resources
D.9	Capital transfers
D.92	Investment grants

D.99	Other capital transfers
Classification of financial assets (AF) and transactions in financial assets and liabilities (F)	
(A)F.2	Currency and deposits
(A)F.3	Debt securities
(A)F.31	Short-term debt securities
(A)F.32	Long-term debt securities
(A)F.4	Loans
(A)F.41	Short-term loans
(A)F.42	Long-term loans
(A)F.5	Equity and investment fund shares/units
(A)F.51	Equity
(A)F.519	Other equity
(A)F.6	Insurance, pension and standardised guarantee schemes
(A)F.66	Provisions for calls under standardised guarantees
(A)F.7	Financial derivatives
(A)F.8	Other accounts receivable/payable
(A)F.81	Trade credits and advances
(A)F.89	Other accounts receivable/payable, excluding trade credits and advances

The complete list of ESA 2010 codes is available at http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32013R0549.
Estonian versions of ESA 2010 codes are available at http://metaweb.stat.ee/?siteLanguage=ee (names of all the associated lists begin with ESA).

Contents

Annex I – list of general government units

Annex II – pension schemes

A. Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data

This chapter provides a summary description on the general government sector components and specifies institutional responsibilities and basic data sources used for EDP tables and for the compilation of general government national accounts. Special attention is given to EDP tables: detailed description of components of the working balance and the transition into B.9 (net lending/net borrowing); compilation of Maastricht debt and of stock-flow adjustments; explanation of the link between EDP table 2 and 3, balancing process and statistical discrepancies.

1. General Government

This section describes the coverage of the General Government sector and the sub-sectors for Estonia.

The general government sector is composed by 3 sub-sectors: S.1311 Central government, S.1313 Local government and S.1314 Social security funds. It includes:

1.1. Central government subsector (S.1311)

This subsector includes[1]:

- State budgetary organisations (number of legal units 169): ministries and organisations managed by ministries, Riigikogu (the Parliament), the President of the Republic, the State Audit Office, the Chancellor of Justice, the Supreme Court, the State Chancellery and county governments.
- Public legal institutions (number of legal units 22): all but two of this type of units in existence – state universities, the National Library, Estonian Public Broadcasting etc. Two of the institutions belong to S.1314 sector.
- State foundations (other than hospitals) (number of legal units 63): a wide range of non-profit units established by the central budgetary organisations. The list includes mostly units established to provide various grants or implement specific programs, but there are also theatres and museums.
- State hospitals (number of legal units 12): all state hospitals and units providing ancillary services to hospitals.
- State enterprises (number of legal units 12): units which are enterprises by their legal form but are considered non-market producers according to ESA 2010 rules. These units are mainly engaged in real estate management activities, public transport enterprises and the provision of social welfare services to adults with special mental needs.

[1] The numbers in parentheses after the name of the group indicate the number of legal units included in the specific subsector on 1 January 2022. This applies to all S.13 subsectors.

1.2. State government subsector (S.1312)

This subsector does not exist in Estonia.

1.3. Local government subsector (S.1313)

This subsector includes:

- Local budgetary organisations (number of legal units 1846): local governments and the organisations managed by local governments.
- Local government foundations (except hospitals) (number of legal units 183): various local non-profit institutions, such as foundations and non-profit associations.
- Local government hospitals (number of legal units 17): hospitals and units providing other outpatient services.
- Local government enterprises (number of legal units 28): units which are enterprises by their legal form but are considered non-market producers according to ESA 2010 rules.

1.4. Social security funds subsector (S.1314)

This subsector contains two units dealing with health insurance and unemployment insurance.

Further details relating to practical aspects of sector classification for individual units into general government sector could be found in Chapter B, section 1.

2. Institutional arrangements

This section provides general information on institutional arrangements relating to the production and dissemination of government deficit and debt statistics:

- responsibility of national authorities for compilation of individual EDP tables and underlying government national accounts, as defined by ESA 2010 Transmission Programme;
- institutional arrangements relating to public accounts which are used by statistical authorities for compilation of government national accounts and EDP tables;
- general overview about bookkeeping system used by public units, internal quality checks and external auditing;
- communication between individual national authorities involved in EDP;
- publication of deficit and debt statistics.

Legal basis for the compilation of GFS and EDP data

Government finance statistics (GFS) and Excessive Deficit Procedure (EDP) data are compiled based on the statistical action named Government Sector Finance, which is part of the official statistical programme. The official statistical programme is a list of demographic, social, economic and environmental statistical actions which is compiled by Statistics Estonia and the programme is approved by the government each year for the following five years according to the national or international demand for statistics. The official statistical programme is defined and compiled according to the Official Statistics Act, which entered into force on 01.08.2010. The list of statistical actions to be performed by Statistics Estonia (SE) is approved by an order of the Government of the Republic of Estonia.

2.1. Institutional responsibilities for the compilation of general government deficit and debt data

This section describes institutional responsibilities for compilation of Government Finance Statistics (national accounts for general government and EDP tables). Further related information is described in section 2.3 Communication.

National accounts data for general government are transmitted to Eurostat[2] via the following tables (see the related EU legislation)[3] :
Table 2 – Main aggregates of general government (annual data)
Table 6 – Financial accounts by sector (annual data)
Table 7 – Balance Sheets for financial assets and liabilities (annual data)
Table 801 – Non-financial accounts by sector (quarterly)

[2] http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database
[3] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:174:0001:0727:EN:PDF

Table 9 – Detailed Tax and Social Contribution Receipts by Type of Tax or Social Contribution and Receiving Sub-sector (annual data)
Table 11 – Expenditure of General Government by function (annual data)
Table 25 - Quarterly Non-financial Accounts of General Government
Table 26 – Balance sheets for non-financial assets (annual data)
Table 27 – Quarterly Financial Accounts of General Government
Table 28 – Quarterly Government Debt (Maastricht Debt) for General Government
Data on government deficits and debt levels are reported to Eurostat twice a year (in April and October) in EDP notification tables[4].

Table 1. - Institutional responsibilities for the compilation of general government national accounts and EDP tables

Institutional responsibilities *(the appropriate cells are crossed)*			**NSI**	**MOF**	**NCB**	**Other**
Compilation of national accounts for General Government:						
Nonfinancial accounts	annual		X			
	quarterly		X			
Financial accounts	annual				X	
	quarterly		X			
Maastricht debt	quarterly		X			
Compilation of EDP Tables:						
EDP table 1	actual data	deficit/surplus	X			
		debt	X			
		other variables	X			
	planned data	deficit/surplus		X		
		debt		X		
		other variables		X		
EDP table 2 (actual data)	2A central government		X			
	2B state government		M			
	2C local government		X			
	2D social security funds		X			
EDP table 3 (actual data)	3A general government		X			
	3B central government		X			

4 http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/edp_notification_tables

	3C state government	M			
	3D local government	X			
	3E social security funds	X			
EDP table 4		X			

NSI – National statistical institute including units subordinated to the NSI (the latter is to be specified in comments)
MOF – Ministry of Finance/Economy including units subordinated to the MOF (to be specified in comments)
NCB – National Central Bank
M – not applicable
Other – other national body, to be specified in comments

The units engaged in the compilation of the GFS and EDP are the following:

NSI: Statistikaamet (Statistics Estonia)

MOF: Rahandusministeerium (Ministry of Finance of the Republic of Estonia)

NCB: Eesti Pank (Bank of Estonia)

The main responsibility lies with Statistics Estonia (hereinafter SE), which compiles non-financial and quarterly financial accounts, Maastricht debt and the corresponding ESA 2010 transmission tables. SE also compiles all the EDP tables, except the forecast figures for year t. The forecast is compiled by the Ministry of Finance (hereinafter MoF) and forwarded to SE.

NCB is responsible for the compilation of annual financial accounts, also for the government sector, and therefore responsible for the compilation and transmission of ESA tables 6 and 7 to Eurostat. The main data source for the annual financial accounts of the government sector is the quarterly financial accounts, transmitted to Eesti Pank by SE, based on the Memorandum of Understanding (MoU) signed between the two institutions.

The EDP tables and related questionnaire are compiled by the Macroeconomic Statistics Department (hereinafter MSD) in SE. The tables and questionnaire are delivered to Eurostat via eDAMIS[5].

The ESA 2010 transmission programme tables are also compiled by the MSD and delivered to Eurostat via eDAMIS.

All the data compiled by SE in the context of the ESA 2010 transmission programme are published on the dates established in the annual release calendar, which is published beforehand on SE's web-site on 1 October each year (https://www.stat.ee/en/calendar). The data are not made available to any other user before the publication day.

2.1.1 Existence of an EDP unit/department

The unit responsible for the compilation of the EDP tables and related questionnaire in SE is the MSD. The Head of the MSD reports to the Deputy Director General of SE responsible for production and publication of statistics. The department deals with two fields of statistics: government finance statistics and national accounts statistics.

[5] The Electronic Data Files Administration and Management Information System (eDAMIS) offers standard solutions for collecting data files in the European Statistical System.

The GFS are compiled by five analysts and two leading analysts. Two experts in the team are specialised in EDP issues and also compile both the annual and quarterly general government financial and non-financial accounts, using in part input from other analysts.

2.1.2 Availability of resources for the compilation of GFS data

GFS data are compiled by the GFS team in MSD (see section 2.1.1). There are altogether seven specialists in the GFS compilation team dealing exclusively with the government sector statistics, one additional analyst compiles gross capital formation, consumption of fixed capital and acquisitions less disposals of non-financial non-produced assets for all sectors. Additionally, one specialist compiles financial intermediation services indirectly measured (FISIM) for all sectors.

There are two main data sources used for the compilation of the government sector accounts. One data source is accrual accounting information collected by the State Shared Services Centre (hereinafter SSSC), which is a government agency in the governing area of the MoF (until 2013, the information was collected by the MoF). An information system is used for retrieving and coding the data from that source and for managing the necessary classifications and bridge tables. Two specialists, one from the GFS team (and one for back-up from MSD) have the capability for initiating data transfer and codification processes. Five specialists (including the one responsible for data transfer) regularly deal with the updating of the bridge tables. The other GFS specialists mostly provide methodological expertise needed to define proper transition rules.

The other main data source is the tax revenue report presented by the tax authority. One GFS specialist is responsible for the calculation of tax revenues for the general government sector.

The same specialists who compile the GFS data are also responsible for providing the data upon request to other organisations. Even if the final results are transferred by the analyst responsible for technical work (as is the case with ESA 2010 transmission tables), the tables themselves are compiled by GFS specialists.

2.2. Institutional arrangements relating to public accounts

Generally, “public accounts” are basic source data for GFS compilation, i.e. EDP tables as well as annual and quarterly accounts for general government. Public accounts are used by public units and refer to accounting records and relating accounting outputs (e.g. financial statements) based on the accounting framework defined by a national legislation. This section provides a general overview on institutional responsibilities relating to public accounts. Further details on public accounts for individual government subsectors are described under relevant sections on data sources and EDP tables.

2.2.1 Legal / institutional framework

Starting from 2004, the new Accounting Act became effective for the central government, local governments and other non-business institutions of the government sector. Under this law, the MoF has the authority to establish accounting principles and terms of reporting for all institutions of the Estonian public sector, including business companies controlled by public sector entities. The SSSC compiles the Consolidated Annual Report of the State, which consists of the consolidated financial statements of the state, of the local governments, of the government sector and of the public sector. The MoF, who is responsible for the correctness and timely submission of the annual report, presents it to the Government of Estonia, who submits it to the Parliament.

The General Rules of State Accountancy (henceforth Rules) became effective from 1 January 2004 (issued by the regulation of the Minister of Finance). The accounting principles are fully accrual based and consistent with International Public Sector Accounting Standards (IPSAS).

The Rules include:

- general accounting principles for the public sector entities;
- the uniform chart of accounts, obligatory for the reporting purposes of public sector institutions (in practice, all units of the central and local governments use the same chart of accounts as well as many other public sector institutions);
- report form and due dates for the reports, submitted monthly or quarterly via the internet in the public sector financial statements database of SSSC.

In order to start the compilation of the reports and transit to the accounting principles described in the Rules, the starting balance was created as of 1 January 2004. At the same time, the obligation to present quarterly and annual reports according to the Rules came into force. Those reports, presented to the SSSC, are called Public Sector Financial Statements (PSFS).

The Rules were enforced at first with respect to state accounting entities (in essence state-budgetary units), local governments, public-legal institutions and state-established foundations and non-profit institutions. The Rules were expanded to other public sector units (including enterprises) starting from 1 January 2005.

From 2004 to 2007, the reporting had to be done quarterly (reports are cumulative). Starting from 2008, all units belonging to the government sector have to report monthly; other units report quarterly.

Aggregated reports compiled based on the information reported by entities are published on the dedicated web-site under the heading “Aruanded” (Reports) (https://saldo.rtk.ee/saldo-app/). On the same web-site, the current code lists included in the chart of accounts are also available under the heading “Klassifikaatorid” (Classification).

In addition to the accrual based PSFS, cash based execution reports were available for the state budget until the end of 2016. Starting from 2017, the state budget and its execution reports are accrual based. Mixed based execution reports were available for local budgets until the end of 2018. Starting from 2019, local budgets and their execution reports are accrual based.

2.2.2 Auditing of public accounts

2.2.2.1 General government units

The financial statements of all units included in the general government sector are audited. The financial statements of all state budgetary units and the Consolidated Annual Report of the State used to be audited by the National Audit Office of Estonia (Riigikontroll). Starting from 2016, state budgetary units do not have to present individual financial statements anymore, because their financial data are presented and audited as part of the Consolidated Annual Report of the State. The accounts of the National Audit Office of Estonia itself are audited by independent auditors appointed by the Parliament.

The financial statements of the rest of the units in the government sector (except for non-profit associations) have to be audited by a sworn auditor. The statements of non-profit associations could be audited, but this is not mandatory.

The financial statements have to be audited and approved six months after the end of the fiscal year and have to be published shortly after the approval (for most cases the time limit is seven working days). The exception is the Consolidated Annual Report of the State, which contains the consolidated financial statements of the state, of the government sector and of the public sector. This Annual Report is presented to the auditors six months after the end of the fiscal year and has to be audited by the end of August. After the end of auditing process, the Annual Report is presented to the Parliament for approval. The draft of the Consolidated Annual Report of the State is published on the web-page of the MoF shortly after it is presented to the auditors. The audited version also has to be published seven working days after the auditing process has finished.

2.2.2.2 Public units, not part of general government

The financial statements of public units not part of general government have to be audited by sworn auditors as a rule. The exceptions to the rule are non-profit associations for which auditing is not mandatory.

The rules of auditing applying to the public sector units are the same as for the private sector. The auditing process covers all the information provided in the financial statement of the units and the results of the audit are always part of the approved financial statement. The financial statements have to be presented to the Business Register (which is with limited access) and most of the units publish them on their web-sites.

2.3. Communication

2.3.1 Communication between actors involved in EDP

2.3.1.1 Agreement on co-operation

SE co-operates with the SSSC, which is the government agency providing nationwide financial, human resource and payroll accounting services. The financial services include state accountancy and financial reporting services. The co-operation between SE and the SSSC is based on an official agreement in the form of a MoU, which formalises the PSFS data exchange and various other methodological and metadata information exchanges from 2022 onwards. The delivery of source data is based on a MoU from 2022 onwards, in accordance with SE's release calendar and the ESA 2010 data transmission programme. The scope of source data is S.13.

In practice, the exchange of information between SE and the SSSC occurs mostly via communication between specialists who have been established as contact persons for specific topics. More complicated methodological cases are discussed with the Head of the Financial

Accounting in order to have as much metadata on the bookkeeping records of PSFS as possible. Meetings or consultations are organised on an ad-hoc basis with experts holding relevant information from all over the public sector. The exchange of information between the officials is flexible and dynamic which ensures efficiency and relevance. Usually, a memo or minutes of the meeting are drafted to reflect the issues discussed and decisions made.

Communication with the MoF is formalised in the sense that there are working groups to co-operate specifically for the EDP or GFS compilation. The provision of planned data for the EDP reporting is the responsibility of the MoF, as the Ministry has to compile the macroeconomic and financial forecasts pursuant to the State Budget Act. For each EDP report, SE sends the MoF a request for planned data for the EDP purposes a week before the publication date. The MoF fulfils the forecast request and SE inserts the planned data to the EDP tables.

2.3.1.2 Access to data sources based on public accounts

All the information used for the compilation of GFS and EDP statistics is available in electronic format.

The PSFS data are available via the direct data transfer protocol from the database of the SSSC.

The information about tax revenues from the Estonian Tax and Customs Board is presented in Excel format and delivered via e-mail.

The aggregated monthly state budget execution report and local governments' execution reports compiled by the SSSC are available in Excel format on the website of the MoF.

The annual state budget report compiled by the SSSC is included in the Consolidated Annual Report of the State, which is available on the website of the MoF.

Various additional information is used to provide all the detailed information requested in EDP tables and the related questionnaire. Those data sources include, among others, the information about state guarantees and the financial statements of public sector units. Most of the information used is available in Excel format. Some data, e.g., the Consolidated Annual Report is available in PDF format, but this is not considered as a constraint for SE.

2.3.2 Publication of deficit and debt statistics

2.3.2.1 Publication of EDP data

EDP tables (Annex 1) are published by SE after the notification round is closed by Eurostat. No specific date is set for it, but the report is published after the assessment process with Eurostat is closed.

The EDP inventory is published alongside EDP tables. No additional information is usually published.

2.3.2.2 Publication of underlying government ESA 2010 accounts

The GFS data, which are reported via the ESA 2010 Transmission Programme, are also published in the statistical database of SE. According to the Dissemination Policy of SE, all the information transferred regularly to Eurostat has to be published in the statistical database prior to the transmission. Therefore, the usual practice is that the publication of the data and transmission to Eurostat occur on the same day.

The publication dates are available via the release calendar available on the website of SE (https://www.stat.ee/en/calendar).

Each table in the statistical database is accompanied by metadata including the definitions, methodology and classifications.

Also, the Euro-SDMX Metadata Structure (ESMS) metadata are presented for all statistics released with regard to the European Statistical System on the website of SE (https://www.stat.ee/en/find-statistics/methodology-and-quality/esms-metadata).

3. EDP tables and data sources

This section reports on availability and use of basic data sources for the compilation of national accounts and EDP tables, by general government subsectors and main units/groups of units. It also aims at describing adjustments to basic data source in order to compile ESA 2010 based deficit/surplus; EDP tables compilation techniques, balancing practices; link between EDP table 2 and 3.

3.1. EDP table 1

EDP table 1 provides the core, summary information for the reporting period, as requested by the related EU legislation: net borrowing(-)/net lending(+)(B.9) for general government sector and its subsectors, outstanding amount of Maastricht debt by instruments, Gross Domestic Product (GDP), gross fixed capital formation (GFCF) for GG sector and data on interest expenditure (D.41) .

This section focuses on Maastricht debt only. A detailed description of B.9 calculation and data sources for individual subsectors is covered under section 3.2.

3.1.1 Compilation of Maastricht debt

3.1.1.1 Specification of debt instruments

Liabilities in AF.2 Currency and deposits at the GG level consist of deposits held at the State Treasury. Deposits held at the State Treasury are recorded under AF.2 liabilities as these correspond to deposits transferable at will. At subsector level, S.1311 has considerable debt held by S.1314, the reason being that all the cash reserves of the social security funds are held and managed in the centralised deposits in the State Treasury. There are no deposits with capitalised interest among units in S.13.

Based on MGDD 2022 chapter 8 box 1, the euro coins are not included in AF.2 liabilities of the government sector from 2016 onwards. Years 2011–2015 will be revised during 2024 benchmark revision.

Liabilities in AF.31 Short-term debt securities: Until 2019, there were no outstanding liabilities in this category. In 2011, a small amount of short-term bonds (4 million euros) were issued by a S.13 general government unit, which were repaid also during 2011. In 2019, the State Treasury issued 200 million euros in treasury bills. From 2020 onwards, further short-term treasury bills were issued.

Liabilities in AF.32 Long-term debt securities: Long-term securities have been issued both by S.1311 and S.1313 units. At the end of 2018, the majority of these bonds were held by resident financial institutions (approx. 80%) and the rest by non-resident units. Most of those bonds have an initial maturity of 7–10 years. In 2020 the State Treasury issued 1.5 billion euros in long-term bonds, and additionally 1 billion euros in 2022. There are no capitalised interest bonds.

Liabilities in AF.41 Short-term loans: These are related to loans with initial maturity less than 1 year. This category includes mostly bank overdrafts.

Liabilities in AF.42 Long-term loans: The majority of AF.42 liabilities are related to long-term loans from the rest of the world (about 70% at the end of 2022) and long-term loans from resident financial institutions (about 30% at the end of 2022). A small amount of liabilities held by resident non-financial units are associated with financial leases. At subsector level, the proportion of S.1311 loans from non-resident creditors is much higher than for S.1313; one of the main contributors is the European Financial Stability Facility (EFSF) (approximately 20% of S.1311 AF.42 liabilities at the end of 2022). A fraction of S.1313 debt is also held by units classified in S.1311; therefore the consolidated S.13 debt is smaller than the sum of debt of subsectors. Most of the liabilities in this category have initial maturity over 10 years, falling in most cases in the 10–15 years bracket.

Additionally, long-term trade credit liabilities are classified as AF.42 from 2016 onwards.

The interest accrued is calculated based on the data from PSFS. The difficulty is that in this data source the interest expenditure is presented as a total figure for all liabilities of loans and securities. Therefore, in the financial accounts, estimations are used to divide interests accrued between the liabilities AF.4 Loans and AF.3 Debt securities. Regarding AF.32 issued by the Treasury in 2020 and 2022, information (also about interest accrued) is received from the Centralised Securities Database (hereinafter CSDB), therefore the interest accrued is deducted from AF.32.

For the EDP purposes, the debt is valued at face value, i.e. according to the Maastricht definition of debt.

3.1.1.2 Data sources used for the compilation of Maastricht debt

The data source for the compilation of Maastricht debt (except long-term Treasury bonds issued in 2020 and 2022) is PSFS (for details, see sections 2.2.1 and 3.2.2.1). In PSFS, the breakdown for currency and deposits, loans and securities is available. For loans and securities, the data are split into short- and long-term liabilities. Short-term liabilities are with maturity up to one year. Also, the counterpart information (by sector) is available. The interest accrued is presented for all liabilities together. Therefore, other data sources (counterpart information and financial reports of the units) are used for the division of interests between instruments in the financial account.

Data on long-term Treasury bonds issued in 2020 and 2022 are derived by Eesti Pank from the CSDB and provided to SE based on the MoU. Data on long-term Treasury bonds are obtained from the CSDB instead of PSFS, as the data in the CSDB are more detailed regarding the information on counterpart sector. The data from the CSDB are quarterly and contain information on transactions, revaluations and interest in the detail of counterpart sectors.

For the April EDP notification, information from the preliminary PSFS reports is used. As the preliminary PSFS version is approved by the SSSC, no estimations are used in addition to this data source, unless the SSSC informs SE of serious shortcomings in the reports. Although the first deadline for the annual information is 25 January, the cross-checking and correcting of the reports lasts until the end of March and the final version of the data is usually completed by the end of May, after which the Consolidated Annual Report of the State is compiled and presented for auditing. The audit is finalised by the end of August.

For the October notification, the version of PSFS presented for auditing is used. Usually, no relevant changes are made during the auditing and, therefore, the final audited version very rarely differs from the version presented for auditing. Nevertheless, the official audited version of PSFS is not used for the October notification, the reason being that the actual revisions of GFS are carried out in the first half of August according to the revision policy and associated timetables.

3.1.1.3 Amendments to basic data sources

No amendments are made to PSFS data which would change the valuation of the debt. The reason for this is that information about both the transactions and other changes (revaluations, changes in volume etc.) in instruments is already included in the PSFS.

3.1.1.4 Consolidation of Maastricht debt

In PSFS, for instruments included in Maastricht debt, the counterpart information is available. In case the counterpart unit is in the public sector, the specific unit (or consolidation group) is identified. Otherwise, more general information is provided about whether the counterpart is a non-resident institution or a resident financial institution or a resident non-financial institution or a resident private person. The consolidation of debt is carried out based on this information.

For most cases, the internal flows are consistent, as the cross-checks are carried out. The differences, when present, are minor. In order to guarantee the perfect consolidation in the financial account, the priority of data is set based on the subsector. The first priority is on the S.1314 data, followed by the S.1311 and at last by the S.1313 data. This prioritisation means, for instance, that the S.1311 liabilities toward S.1314 are recorded based on the assets of the latter subsector. Such a recording might slightly affect the B.9f Net lending/ net borrowing of the financial accounts of subsectors, but does not affect the B.9f of the whole S.13.

3.2. Central Government sub-sector, EDP table 2A and 3B

Information provided in this section refers to data sources available for the Central Government (S.1311), indicates what sources are used for compilation of non-financial and financial accounts and EDP tables for S.1311, and explains the adjustments made in order to comply with ESA 2010.

3.2.1. Data sources for main Central Government unit : “The State”

This section describes data sources available and used for compilation of national accounts and EDP tables for the main Central Government unit:

- Basic data sources
- Complementary data sources used for the purpose of special ESA 2010 adjustments (e.g. accrual adjustments, recording of specific government transactions, etc.).

The main central government unit refers to all units whose revenues and expenditures are regulated with the Annual State Budget. The state budget covers the following units:

- ministries in the reach of their managerial and administrative areas;
- State Chancellery in the reach of its managerial and administrative area;
- the Parliament, President of the Republic, State Audit Office, Chancellor of Justice and the Supreme Court of Estonia with the authorities in their area of administration.

Budget reporting covers the state budget execution reports and was cash based until the end of 2016. Starting from 2017, the state budget and its reports are accrual based. In addition, starting from 2017, all the state budgetary units use one centralised and unified business accounting system. This information is used when necessary to verify details about some transactions.

Aggregated financial statements of these units are collected through the PSFS reporting system, which is based on the IPSAS accrual accounting rules. The PSFS reports are collected on a regular basis and are the main source for the compilation of the government sector accounts. Taxes (with small exceptions) and tax interests are recorded based on the information presented in the detailed cash receipts report from the Estonian Tax and Customs Board (hereinafter ETCB).

The preliminary PSFS data are used for the April compilation. The monthly figures for December should be reported by 25 January, but the cycle of cross-checking and correcting of the data begins after this deadline and takes several months. This usually causes noticeable revisions in the October notification when compared with the April figures.

Table 2 – Availability and use of basic source data for the main central government unit

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
		T + days	*T+months*		*cross appropriate cells*		
				Budget Reporting			
				(1) Current revenue and expenditure			
C/A*	M	T+45	T+2	(2) Current and capital revenue and expenditure	x		
C/A*	M	T+45	T+2	(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				Financial Statements			
A	M	T+25	T+9	(5) Profit and loss accounts		x	x
A	M	T+25	T+9	(6) Balance sheets		x	x
				(7) Cash flow statement			
				Other Reporting			
				(8) Statistical surveys			
C	M	T+30	T+1	(9) Other: detailed receipt report from Estonian Tax and Customs Board (corresponds to tax revenues recorded in State budget reporting)		x	x

Accounting basis (column 1): C- cash, A- accrual, M-mixed
Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.
Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.
Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.
Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.
WB – working balance, B.9 Net lending/net borrowing

EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

*Starting from the fiscal year 2017, the state budget is accrual based and therefore, starting from the April 2018 notification, WB is accrual based.

3.2.1.1 Details of the basic data sources

Data sources used for compilation of national accounts

There are four main data sources used for the compilation of government sector accounts at SE:

1) Public Sector Financial Statements (PSFS) (accrual);
2) Detailed receipts report from the Estonian Tax and Customs Board (cash);
3) Revenue received from sales of EU ETS permits, based on information obtained from the European Energy Exchange (EEX) platform;
4) EFSF information from Eurostat.

PSFS

PSFS are used for recording all transactions of S.13 accounts, except the majority of taxes and interest on tax liabilities and EFSF related data. PSFS are used for the State, for the local governments, for the social security funds and for other central and local government bodies.

The basis for PSFS is the General Rules of State Accountancy (henceforth Rules), which became effective on 1 January 2004, issued by the regulation of the Minister of Finance. The Rules are in accordance with IPSAS.

The Rules include:

- general accounting principles for the public sector entities;
- the uniform chart of accounts, obligatory for the reporting purposes of public sector institutions (in practice, all units of the central and local governments use the same chart of accounts as well as many other public sector institutions);
- report form and due dates for the reports, submitted monthly or quarterly via the online reporting interface in the PSFS database of the SSSC.

The uniform chart of accounts includes:

1) List of accounts (also specifying the list of other codes which have to be included in the account combination for a specific account);
2) List of counterpart codes;
3) List of codes of function (based on COFOG);
4) List of source codes (used to identify EU funds and other foreign aid);
5) List of cash-flow codes.

The reports presented to the Public Sector Financial Statements system consist of account combinations and their positions. Account combination consists of account code, counterpart code, code of function, source code and cash-flow code.

EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

The form of the report is the following:

Account	Counterpart	Function	Source	Cash-flow	Debit	Credit

Account number is compulsory information; other codes are filled in if specified in the list of accounts. Due to electronic reporting in the database, the information of the reporting unit (so-called owner of the account) is added automatically to each record. Each reporting unit, which is called a consolidation unit in the context of accounting, has a specific counterpart code.

All the public sector units, which have the obligation to report their figures for PSFS, are broken down into consolidation groups. In some cases, the consolidation group consists of only one legal unit, in other cases it consists of several units. For instance, the consolidation group for one local government consists of the local government itself and of schools, kindergartens, cultural centres and other similar units belonging to and being part of the budget of this local government. At the same time, most foundations and enterprises each form a consolidation group consisting of only one legal unit.

The list of accounts is hierarchical with 6 levels. Each account has a 6-digit code. Accounts can be grouped together into sub-groups, groups, sets, classes and types. There are altogether eight account types which are identified based on the first digit of the account: (1) assets, (2) liabilities, (3) revenues, (4) benefits and grants provided, (5) operating costs, (6) other expenditures, (7) net financing from the state budget and (8) additional information for compilation of financial statements. The last two types are used only as additional information for the compilation of consolidated financial statements of the state. Those annual statements are audited by State Audit Office and approved by the Parliament.

Counterpart codes assigned to consolidation groups are also 6-digit figures. Based on the structure of the code, it is possible to distinguish whether the unit belongs to the government sector or to other public sector units. There are also generic codes used to indicate private sector units (by their legal form) and non-resident units.

According to the Rules, government sector units have to present their cumulative monthly reports to PSFS 25 days after the end of the month on which the information is reported. Various consistency checks are run on the data by the SSSC after the reporting deadlines. If necessary, the reports can still be changed some time after the deadline. For reporting of the December figures, a long-term correction period is allowed and the version presented by 25 January is very preliminary.

Other public sector units have to present cumulative reports to PSFS quarterly.

The recording practices used in the PSFS are mostly appropriate for national accounts compilation. In some cases, additional data sources are used to break down records in PSFS into several ESA 2010 transactions. In general, such instances do not change the amount of expenditure/revenue. In the case of interest, other receivables and payables could not be associated with a specific financial asset. Other than that, the information in PSFS is suitable for the compilation of financial accounts.

The information in PSFS is netted for consolidation unit but is not consolidated with other units. Since the counterpart information is available, the consolidation for national accounts purposes does not cause difficulties.

Detailed receipts report from Estonian Tax and Customs Board

This report contains the cash information about revenues collected by the ETCB. Revenues contain taxes, interests on tax liabilities, fees and penalties, revenue from the use of natural resources and pollution fees. For major taxes (income tax, social tax, and VAT), the information is provided about the tax collected and about tax returns.

This report is used to calculate most taxes and social contributions in national accounts. In addition, according to the guidelines provided by Eurostat, the interest on tax liabilities is recorded in national accounts as D.75 Miscellaneous current transfers revenue based on this cash information.

EFSF data

Information about EFSF related assets and liabilities is provided by Eurostat. The annual figures are transferred to the MoF by SE and are incorporated into the PSFS.

Working balance (WB)

The working balance used for the S.1311 subsector and reported in EDP table 2A is drawn from the state budget execution reports compiled by the SSSC. These reports were cash-based until the end of 2016 and are accrual based from 2017 to 2018. The reports were once again changed and from the 2019 reporting period onwards the WB is mixed based. Tax revenues are reported as time-adjusted cash figures and all other revenues and expenditures included in the working balance are accrual based, the working balance is therefore considered to be on mixed basis and is indicated accordingly in EDP table 2A.

Starting from 2019, the figure for working balance used in April is based on regular monthly state budget execution reports. The monthly reports are based on financial accounting data and aspire to follow the logic used in ESA 2010 based government sector deficit figures as much as possible. These reports are compiled by the SSSC and published on the website of the MoF. It should be stressed that the data available in April is still preliminary and will be audited by the end of May[6].

In October[7], the figure for working balance used in EDP table 2A is the one presented in the Consolidated Annual Report of the State (henceforth Annual Report). The Annual Report is compiled and presented for auditing usually by the end of May but no later than by the end of June. After auditing, but no later than at the end of August, the Annual Report is presented to the Parliament for approval.

The Annual Report is an accrual based financial statement and follows IPSAS standards. Among other information, the Annual Report also includes the state budget execution report, which is compiled using the same principles applied to regular monthly state budget execution reports used in April. The execution report in question is used in the October EDP notification because by the time of compilation, it is usually already approved by the Parliament.

[6] In 2017–2018, the figure for working balance used in the April notification is also based on regular monthly state budget execution reports. The monthly reports are based on financial accounting data and are purely on accrual basis. These reports are compiled by the SSSC and published on the website of the MoF.
[7] In 2017–2018, the figure for working balance used in October is also the one presented in the Consolidated Annual Report of the State.

EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B
In the regular monthly state budget execution reports published by the MoF and used by SE for the April notification, only very aggregated information about the state budget is provided and no information is available about counterparts or reporting units. Since monthly state budget execution reports are compiled by the SSSC, it is responsible for the correct consolidation. Data compiled by SE are derived from data sources listed in subsection "Data sources used for compilation of national accounts" above.

For the revenue side, the break-down by type of revenue provides the division into tax revenues and non-tax revenues. The non-tax revenues are in turn divided into six categories which roughly (but not fully) coincide with the 2-digit level of account codes used in PSFS: (1) sale of goods and services, (2) state fees, (3) transfers received, (4) sale of fixed assets, (5) revenue from assets and (6) other revenues. No further breakdown is provided, although, for instance, in the case of revenues from assets it is known to contain mostly interests, dividends, and revenues from the use of natural resources.

For the expenditure side, two breakdowns are provided: expenditures by type and expenditures by administrative units. Five types of expenditures are provided: grants and other transfers provided, administrative and labour costs, other expenditures, financial expenditures, and investments. Administrative units represent the governing areas of each ministry and constitutional organisations.

The main difference between the information published in regular monthly state budget execution reports (used in April) and the Consolidated Annual Report of the State (used in October) is that the breakdowns for revenues and expenditures described in the two previous paragraphs are even less detailed in the Annual Report.

For financial transactions, only the net amount (change in assets minus change in liabilities) is presented, which is broken down by administrative units. No information is available about which instruments are included and/or affected.

In addition to the aggregated state budget execution report, a detailed tax receipts report from the ETCB is available. This report is not used for the working balance but to compile tax revenues for S.1311, S.1314, and partially also for S.1313 subsector.

In the accrual-based reports, some aggregated figures about non-financial transfers (incl. depreciation of fixed assets) and cash flows are included.

3.2.1.2 *Statistical surveys used as a basic data source*

No statistical surveys are used as a basic data source. Additionally, no statistical surveys are used to retrieve data from public enterprises, as public sector enterprises report their data in PSFS.

3.2.1.3 *Supplementary data sources and analytical information*

This section describes supplementary data sources used to amend basic data sources when compiling national accounts. In order to meet ESA 2010 requirements, supplementary data could be used for e.g. for accrual adjustments, reclassification of specific transactions, consolidation, amendments of revenue and expenditure structure, amendments of structure of assets and liabilities, identification of a counterpart sector, etc.

3.2.1.3.1 Supplementary data sources used for the compilation of non-financial accounts

Various data sources are used for special cases to provide a breakdown of grants into various ESA 2010 transactions; for instance, division of transfers between D.632 Social transfers in kind - purchased market production and D.3 Subsidies. Such breakdowns do not affect the expenditure or the revenue as a whole. The necessary information is usually gathered from the units providing the grants.

Sickness benefits and redundancy payments to employees treated as imputed non-pension contributions are estimated using declarations of income and social tax received from the ETCB (accrual data).

Monthly data about first registrations of vehicles are used as an indicator for the estimation of car registration fees (D.214). The reason for estimation is due to lack of detail in PSFS.

Statistics on research and development (Frascati survey) are the main data source for estimating the output of own-account R&D of the government sector. The scope of S.13 is defined according to ESA 2010.

The data of Balance of Payments are used for excluding the import of royalties and license fees from gross fixed capital formation (P.51).

The quarterly data on VAT- and GNI-based EU own resources (D.76) are received from the MoF.

Detailed information from SAP reporting software is used for identification of transactions, COFOG structures, etc.

Additional information is provided by or requested from the MoF in the case of capital injections into public sector enterprises. Data for the superdividend test is taken from PSFS and annual reports of enterprises from the Business Register.

3.2.1.3.2 Supplementary data sources used for the compilation of financial accounts

Some additional information from the MoF and Eesti Pank is used to estimate the revaluations associated with other equity (AF.519). Additional information from Eesti Pank is used to correct counterpart data on AF.81 assets retrieved from PSFS, as for some prepayments for fixed assets the counterpart information is not available in PSFS. Eesti Pank identifies the amounts of AF.81 assets which should have S.2 as the counterpart. Furthermore, data on long-term Treasury bonds issued in 2020 are derived by Eesti Pank from the CSDB and provided to SE based on the MoU. Data on long-term Treasury bonds are obtained from the CSDB instead of PSFS as the data from the CSDB are more detailed regarding the information on the counterpart sector. The data from the CSDB are quarterly and contain information on transactions, revaluations and interest in the detail of counterpart sectors.

3.2.1.4 Extra-budgetary accounts (EBA)

Usually, not all flows of a non-financial nature are recorded in the so called budgetary accounts which enter the WB, as reported in the first line of EDP table 2. Some funds could be put aside as reserves, special purpose funds and are booked in so called “extra-budgetary accounts” - EBA. In some cases, according to national legislation, transactions that are not scrutinized by budgetary rules can be booked in EBA and not in ordinary budgetary accounts. It is very important that all non-financial flows of the main entity, including those entering EBA, are appropriately incorporated into calculations of deficit.

No EBA have been used in Estonia after the year 2003.

Non-financial flows recorded in EBA

Financial flows recorded in EBA

3.2.2 Data sources for other Central Government units

This section describes data sources available and used for compilation of national accounts and EDP tables for other Central Government units (those not reported in the working balance in EDP T2A).

The other central government subsector units are divided into four categories: public-legal institutions, foundations, hospitals, and enterprises.

PSFS are used as a data source for all these units.

Table 3 – Availability and use of basic source data for other central government units: public legal institutions, foundations, hospitals, enterprises

Available source data				Source Data Accounting	Source data used for compilation of	
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			B.9 (NFA)	B.9f (FA)
		First results	Final data			
1	*2*	*3*	*4*	*5*	*7*	*8*
		T + days	*T+months*			
				Budget Reporting		
				(1) Current revenue and expenditure		
				(2) Current and capital revenue and expenditure		
				(3) Current and capital revenue and expenditure and financial transactions		
				(4) Balance sheets		
				Financial Statements		
A	M	T+25	T+9	(5) Profit and loss accounts	x	x
A	M	T+25	T+9	(6) Balance sheets	x	x
				(7) Cash flow statement		
				Other Reporting		
				(8) Statistical surveys		
				(9) Other:		

See notes to table 2, on the used abbreviations.

3.2.2.1 Details of the basic data sources

The only data source used for the compilation of the figures for other central government units is PSFS. The description of the data source is provided in section 3.2.1.1.

3.2.2.2 Statistical surveys used as a basic data source

No statistical surveys are used.

3.2.2.3 Supplementary data sources and analytical information

This section describes supplementary data sources, which are used to amend basic data sources while compiling national accounts. In order to meet ESA 2010 requirements, supplementary data could be used for, e.g., accrual adjustments, reclassification of specific transactions, consolidation, amendments of revenue and expenditure structure, amendments of structure of assets and liabilities, identification of a counterpart sector, etc.

Supplementary data sources are used only to provide a breakdown of some records in PSFS into several ESA 2010 transactions, and in exceptional cases when PSFS data are temporarily unavailable. Such breakdowns do not affect the overall level of revenues, expenditures or assets and liabilities except in cases when a unit is reclassified in or outside of the general government.

3.2.2.3.1 Supplementary data sources used for the compilation of non-financial accounts

Supplementary data sources are used only to provide a breakdown of some records in PSFS into several ESA 2010 transactions or to determine the specific ESA 2010 transaction suitable for recording some bookkeeping transaction. Such breakdowns do not affect the overall level of revenues, expenditures or assets and liabilities.

There are two types of supplementary data sources used for analytical purposes:

1) Lists of projects financed by units in the list below;
2) Counterpart information on the beneficiaries of the projects (usually financial reports).

Both data sources are used to distinguish the nature of the projects. The main reason for using this data is to clarify the COFOG structure of the expenditures and in some cases to reclassify a transaction from one type of transfer into another (in most cases D.3 Subsidy or D.7 Other current transfers are reclassified into D.92 Investment grants).

The units regularly covered are the following:

1) Cultural Endowment of Estonia (Eesti Kultuurkapital);
2) Enterprise Estonia (Ettevõtluse Arendamise SA, starting from 2022 Estonian Business and Innovation Agency);
3) Estonian Film Institute (Eesti Filmi Instituut).

Information about financed projects is publicly available via the websites of the listed units and via the website of the European Union Structural Funds in Estonia. Therefore, there is no need to acquire additional information from the unit. Annual reports of the beneficiaries are available via the Business Register (all enterprises and non-profit organisations in Estonia have to submit their annual report to the Register no later than 6 months after the end of their fiscal year).

The description of other supplementary data sources is provided in section 3.2.1.3.1.

EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B
As indicated in previous paragraphs, the reclassifications of transactions mentioned do not cause any changes in B.9, B.9f or the levels of the revenue and expenditures.

3.2.2.3.2 Supplementary data sources used for the compilation of financial accounts

Money and Banking Statistics are used for comparison purposes for S.1311 assets (mainly AF.2) and liabilities (mainly AF.4) vis-à-vis monetary financial institutions.

3.2.3 EDP table 2A

This section provides detailed information on individual lines reported in EDP T2A.

3.2.3.1 Working balance - use for the compilation of national accounts

The working balance is derived as the difference between revenues and expenditures in the state budget execution reports. These reports include investments in fixed assets in expenditures and exclude financing transactions (e.g. loans, securities transactions etc.).

In 2009 a project was started which aimed to improve the compilation of the cash based state budget execution report. In order to implement this project, the State Shared Service Centre (SSSC) was created at the beginning of 2013. The main task of the SSSC is to organise the state accounting, establish the necessary standards and provide financial reporting on the state units. The SSSC is also responsible for the development and maintenance of the common financial reporting software and the integration of the financial reporting of state units into the common software. All of the state units had switched to the common financial reporting software by the end of 2016.

The main benefits of implementing the common financial reporting software are: (1) the introduction of unified classification codes both for expenditure and revenue items; in the old system, codes could be added only to expenditure items; (2) the introduction of counterpart codes which will make possible the creation of consolidated budget reporting; and (3) the fact that the budget execution and accounting are directly linked. In the previously used e-Treasury system, the link between the financial reporting systems of state units and the budget reports was less comprehensive and therefore different classification codes could be used in different systems for the same transaction.

These developments were prerequisites for changing from the cash-based state budget to the accrual based budget and accrual based reporting. This change was carried out starting from 2017.

The working balance is not used for the compilation of non-financial accounts (NFA) nor the B.9, as the main data source used for these purposes is accrual based PSFS. In the case of the accrual based state budget execution reports, the link exists because these reports are also based on PSFS data.

3.2.3.2 Legal basis of the working balance

The working balance is drawn from the state budget execution reports. The Annual State Budget itself is approved as a legal act by the Parliament.

In April, the figure of working balance is based on the accrual based monthly state budget tables presented to SE by the MoF. In October, the figure used in table 2A is the one presented in the Consolidated Annual Report of the State, which by this time is presented for approval (or in some cases has even already been approved) by the Parliament. The figures presented to the Parliament for approval are part of the Consolidated Annual Report of the State, which is first audited by the State Audit Office (Riigikontroll)[8]. The Consolidated Annual Report of the State together with the auditors' comments is published on the web-site of the MoF in the dedicated section http://www.fin.ee/riigi-raamatupidamine (the reports are available only in Estonian).

In the case of the accrual state budget (starting from 2017), auditing might have an effect on the budget execution report, because source data are audited. Nevertheless, the process has been changed in such a way that the auditors are included already during the compilation of the Consolidated Annual Report of the State. This should minimise or eliminate the possibility of changes in the finalised figures caused by the National Audit Office Act[9].

3.2.3.3 *Coverage of units in the working balance*

Two adjustment lines due to sector delimitation appear in EDP T2. The purpose of the first adjustment is to exclude flows relating to units, which do not belong to the government sector (or to the particular subsector) according to ESA 2010 definition. The second adjustment refers to B.9 of other units, which are classified within the particular government subsector, but related inflows/outflows are not included in the working balance.

3.2.3.3.1 Units to be classified outside the subsector, but reported in the WB

There are no units reported in the WB but classified outside the subsector.

3.2.3.3.2 Units to be classified inside the subsector, but not reported in the WB

The other government units included in the central government subsector are divided into four groups: (1) public legal institutions, (2) foundations (other than hospitals), (3) hospitals and (4) enterprises. The B.9 estimated for those groups of units is on accrual basis as it is calculated based on PSFS data. On rare occasions there could be units which are classified inside the central government subsector but which are not included in the WB due to late announcement of reclassification by SE.

In practice, as PSFS data are used as source data for all government sector units, only the B.9 for the whole consolidated subsector is calculated. B.9 figures for groups of other central government sector units (called sub-subsectors) are later estimated specifically for EDP purposes using the more detailed information. For instance, capital and current transfers are calculated on sub-subsector level from the very beginning for consolidation purposes. On the other hand, gross capital formation and subsidies are calculated only on subsector level. Therefore, the B.9 for other central government bodies is estimated and the B.9 of the State is calculated as the difference between the B.9 of the consolidated subsector and the B.9-s of other sub-subsectors.

3.2.3.4 *Accounting basis of the working balance*

Starting from 2017, the working balance is essentially accrual based[10]. In April, the balance is the difference between accrual-based revenues and expenditures (including acquisition of non-financial fixed assets and excluding depreciation). In October, the figures from the Consolidated

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[8] In the case of the cash based state budget (used before 2017), auditing had no effect on the execution reports. Although there were cases where the final report presented by the MoF was different from the preliminary one because of the actualisation of data.

[9] National Audit Office Act: https://www.riigiteataja.ee/en/eli/530062021004/consolide

[10] The working balance of the central governments subsector was on cash-basis up until 2016. The balance was pure cash representing the revenues and expenditures, except transactions, which were deemed to be financial transactions according to the State Budget Act. Those financial transactions were receipts from and repayments of loans, acquisitions and disposals of securities and shares in corporations and organisations.

Annual Report of the State are used. Accrual tax revenues are replaced with time-adjusted cash revenues. Therefore, the WB is not entirely accrual based, but rather mixed.

However, considering the continuation of the State Reform in Estonia, these reporting practices are liable to change. One part of the State Reform is the implementation of Performance-Based Budgeting by 2020. The implementation of the accrual based state budget in 2017 was one step in the process. Considering the ongoing reform, changes in the state budget execution reports are to be expected to continue. It is unknown whether these changes will be affecting the timing and/or structure of reports relevant in the EDP context.

During EDP dialogue visit in January 2023, Eurostat requested that Estonian statistical authorities would detail the adjustments previously done by the SSSC on the budget execution for the calculation of the working balance and will show those adjustments in EDP T.2A. The adjustments are eliminated from working balance and added to EDP T.2A and explanations for individual rows are added to subparagraphs 3.2.3.4-3.2.3.7.

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

Starting from 2017, when the accrual-based WB was introduced, no adjustment is reported, because no adjustments are made in the source data[11].

Interests (both revenues and expenditures) in GFS are calculated using the information from PSFS. According to the rules of PSFS, the interests have to be recorded in the period where they are accruing. In case the interests have been accrued but have not been paid (or received), the corresponding amount has to be recorded as a liability (or asset) in the corresponding balance sheet account. Based on those rules, the recording of interests in PSFS is considered to be in line with ESA 2010 guidance and is recorded based on this data source.

3.2.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2

Adjustments associated with other taxes are reported in the section of *Other adjustments* (see section 0 for more information). Two adjustments are present under *Other accounts payable*:

1) Adjustment associated with the sale of ETS (taxes):
   In WB, revenue is recorded when the proceeds from the sale of ETS are received and therefore an adjustment is made.

2) Adjustment associated with the sale of 5G licenses:
   One-off fees are recorded as rents and the expected duration of frequency usage was estimated to be 10 years for national accounts purposes. In WB, revenue is recorded when the proceeds from sale of 5G licences are received and therefore an adjustment is made.

The majority of differences between WB and final B.9 are recorded in the line *Other accrual adjustments* even if they are associated with F.8 transactions in financial account.

[11] All the interests received or paid by the State were recorded in the cash-based WB, but because of the high aggregation level, this information could not always be distinguished from the overall revenues/expenditures. Therefore, adjustments reported up until 2016 are based on PSFS information about interests not yet paid and not yet received. The only time that securities have been sold in Estonia with discount occurred in 2002, when the cash-based data source was still used. For that case, the necessary imputations were carried out and recorded in the EDP tables.

3.2.3.4.3 Other accrual adjustments in EDP T2

This section is applicable only for the cases of cash-based WB. As the source data are accrual-based, the only regular accrual adjustment made for S.13 accounts is the time adjustment for taxes, as time-adjusted cash receipts are used for recording taxes and social contributions[12].

3.2.3.5 Completeness of non-financial flows covered in the working balance

All non-financial transactions in cash are included in the WB. Transactions in kind are excluded from the WB.

Non-financial transactions not included in the working balance adjustment is added to explain the difference between WB and B.9 arising from transactions not included in WB but included in B.9.

In addition, an adjustment for rerouting transactions of Kredex Krediidikindlustus AS in non-financial accounts is added.

3.2.3.6 Financial transactions included in the working balance

The full amount for dividends is recorded as a revenue for WB purposes but according to superdividend test the revenue is partially (or fully) recognised as financial transaction. Therefore, an adjustment for superdividends is presented in financial transactions included in the WB.

3.2.3.7 Other adjustments reported in EDP T2

Please also see section 3.2.3.4.2 for more information.

Other adjustments presented in EDP T2 are following:

1) Capital injections:
   The adjustment includes expense not included in the working balance or difference in recording (financial transaction or non-financial transaction) of the expense between working balance and B.9.
2) Losses from doubtful receivables:
   Losses on doubtful other receivables and losses on doubtful sales receivables are recorded in source data as an expenditure after the bills are not paid by the deadline and a predefined amount of time has passed. These movements are not included in expenditures in GFS.
3) Revaluations in assets:
   Revaluations (profit/loss from revaluation of shares, revaluation due to change in currency exchange rate, revaluation in inventories) are reported in working balance whereas not recorded in B.9 and therefore adjusted accordingly.
4) Difference between accrual-based tax interest and cash figures:
   Tax liabilities not paid by the deadline are incurring interests, which in the ESA 2010 context are more in line with the definition of penalties. Due to the accounting rules, such fines are reported as doubtful receivables in PSFS. Some of the amounts are later retrieved and reported as negative amounts in doubtful receivables. As a result, doubtful

[12] There have been occurrences where the financial reporting principles are not in line with ESA requirements and changes are therefore made in the data. One such case is the sale of AAU-s (Assigned Amount Units) in 2010, where in bookkeeping records the revenue was recorded at the same time as expenditures made from those revenues, while in national accounts the revenue had to be recorded at the time of the sale of AAU-s.

receivables are volatile over time. In addition, the share of doubtful receivables from tax interests is high – in the last 10 years, the average share has been 81%.
Therefore, pure cash data are deemed more reliable in this instance. No time-adjustment is implemented because data are available only for tax interest as a total and not for each tax separately.

5) Transfer (accrual based) to local government replaced with cash:
According to the Income Tax Act, 12% of income tax revenues of a resident natural person collected by the ETCB are transferred to the local government of the taxpayer's residence. This transfer is recorded as cash based. However, PSFS data are accrual based, so the difference between cash and accrual-based recording is shown as an adjustment.
6) Removal of consolidation and adjustment figures imputed by the SSSC:
The SSSC imputes generic records in the source data with the purpose of carrying out automated consolidations for various reports. Such records are usually added at some aggregation level and cannot be associated with a specific reporting unit (at least not without additional background knowledge). The consolidation rules in the financial accounting context are different from rules applicable in ESA 2010. As a result, these imputed records are excluded from GFS (unless there is a justified reason to include them). In general, this kind of exclusion should be neutral, but the (1) different rules of consolidation and (2) consolidation being carried out for different aggregation levels can sometimes have an effect on the level of breakdown used for EDP table 2A purposes.
7) Change in pension provisions:
Expenditures from actuarial changes in pension provisions are replaced with actual pay out amounts and therefore adjustment has been made.
8) Amortisation:
Amortisation cost is eliminated from the WB.
9) Other changes (mostly in consolidation between and within subsectors):
This line includes various amounts of adjustments which are not included in other details. Therefore, this amount represents unexplained difference (residual).

3.2.3.8 Net lending/net borrowing of central government

The source data for calculating B.9 are PSFS and the report on tax and social contributions receipts. Please see section 3.2.1.1 for more information.

3.2.4 EDP table 3B

3.2.4.1 Transactions in financial assets and liabilities

Financial accounts are used for the compilation of EDP T3 with only minor adjustments. The adjustments are introduced due to the presentation of debt at face value.

EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

Table 4. Data used for compilation of transactions and of stocks of financial assets and liabilities

	Assets							Liabilities						
Source Data	**F.2**	**F.3**	**F.4**	**F.5**	**F.6**	**F.7**	**F.8**	**F.2**	**F.3**	**F.4**	**F.5**	**F.6**	**F.7**	**F.8**
	Calculation of transactions													
Transaction data (integrated in public accounts)		x	x	x	x	-	x		x	x	-		x	
Other transaction data														
Stock data	x							x				x		x
	Calculation of stocks													
Transaction data														
Stock data	x	x	x	x	x	-	x	x	x	x	-	x	x	x

See list of ESA 2010 codes in the introduction part of the inventory.

F.7 assets and F.5 liabilities do not exist in the case of Estonia.

For all financial assets and liabilities, the accrual based PSFS are used as the main data source. In PSFS, the balance sheets and the revenue and expenditure accounts are integrated. Information from the CSDB is used for calculating F.32 liabilities associated with long-term bonds issued by the State Treasury.

Money and Banking Statistics and international investment position are used for comparison purposes. Also, during the compilation of annual sectoral financial accounts, the data are compared to counterpart information from other sectors. In the integration process of annual financial accounts, the hierarchy of data sources is set in place and the S.13 sector is recognised as a "priority" sector (mainly due to the superior quality of input information in the form of PSFS). This means that, usually, the PSFS data are not changed according to the counterpart information. As it is, the counterpart data have proven to be relatively consistent with PSFS.

Internal amendments, which are carried out regularly, are associated with super-dividends and capital injections. Those amendments are in line with non-financial accounts because PSFS are used as the data source for the compilation of non-financial accounts as well, and the amendments are carried out through the specific encoding rules.

Some amendments in financial accounts are made for consolidation purposes. In the compilation of S.13 financial accounts, the priority of subsectors is as follows: at first, S.1314 data are used in order to amend the stocks and flows with the other two subsectors of S.13; in the second instance, the data of S.1311 are used to amend stocks and flows associated with the S.1313 counterpart. The priorities are set this way, because the S.1314 data are the easiest to verify (since there are only two institutional units in this subsector) and the S.1311 data are usually of slightly better quality than S.1313 data (due to a large number of small units in the latter subsector).

As the PSFS are accrual based, no accrual adjustments are made regularly, except in the case of revenues from taxes and social contributions, which are recorded using the cash-data and simple time-adjustment method.

3.2.4.2 Other stock-flow adjustments

In this section, only adjustments which have been present in Estonia are described.

There are relatively few stock-flow adjustments. All are in line with non-financial accounts as the PSFS is used as the source for these as well, and the amendments are carried out through the specific encoding rules.

Long-term Treasury bonds were issued below nominal value in the years 2020 and 2022. Information about this case is obtained by Eesti Pank from the CSDB and provided to SE based on the MoU.

The line "Difference between interest accrued and paid" includes the information from PSFS regarding liabilities and assets associated with unpaid interests, which according to the guidelines are comprised of interests accrued during the accounting period but not yet paid or received.

Recently, there have been two major cases of reclassification of existing units into the government sector after a change in their operations. A company providing regular public services for the carriage of passengers between the mainland and islands was reclassified to the S.1311 sector as it did not meet the market/non-market test. Additionally, a foundation was reclassified to the S.1311 sector since it fulfilled the criteria concerning government control over the entity.

3.2.4.3 Balancing of non-financial and financial accounts, transactions in F.8

This section aims at describing of techniques and methods for balancing non-financial and financial accounts applied generally for the whole general government sector.

Allocation of discrepancy B.9 vs B.9f

Usually, the differences between B.9f and B.9 are tracked down at the level of subsector but no further, as financial accounts are not compiled on a more disaggregated level. In case of a very large discrepancy (especially in the case of the April notification), sometimes part of it was allocated either to the financial or non-financial account depending on the direction of the discrepancy. In the past, the discrepancy was usually allocated to the F.8 in financial accounts. However, the practice of allocating the discrepancy between B.9f and B.9 to financial or non-financial accounts is no longer in use.

A major part of the discrepancy is usually associated with the central government subsector. The main reason is that the compilation of this subsector is complicated due to the involvement of various special methodological cases included in the MGDD.

Changes to intermediate data

There are no changes made in intermediate data; all the amendments associated with discrepancy are carried out at the final stage of the compilation of accounts.

Complementary elements on stocks

No changes are made in the accounting balance sheets because of discrepancies.

Accruals

It is considered that the discrepancies between financial and non-financial accounts are probably caused by some yet unidentified inconsistency in the inclusion of PSFS data in both accounts. As the balance sheets and revenue and expenditure accounts are integrated in PSFS, the discrepancies are most likely caused by some specific bookkeeping concept or the imperfect bridge tables.

Ex-post monitoring

Preliminary B.9 and B.9f are compared during the compilation of each period. In the revision of annual accounts, only the annual figures are compared.

In case there are larger differences (over 10 million euros in absolute figures) between B.9 and B.9f, the division of discrepancy between subsectors is examined and the technical correctness of calculations is inspected. Thereafter, the large-scale operations and the recording of specific methodological cases are investigated. If a specific problem could not be pinpointed through those inspections, the specialists decide whether and which corrections need to be done based on all the information available.

3.3. State government sub-sector, EDP table 2B and 3C

This subsector is not applicable in Estonia.

3.4. Local government sub-sector, EDP table 2C and 3D

3.4.1 Data sources for Local Government main unit: local governments

Table 5 – Availability and use of basic source data for main local government units

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1: First results	Time of availability of annual results for T-1: Final data		WB	B.9 (NFA)	B.9f (FA)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
		T + days	*T+months*		*cross appropriate cells*		
				Budget Reporting			
				(1) Current revenue and expenditure			
				(2) Current and capital revenue and expenditure			
M/A	Q	T+40	T+2	(3) Current and capital revenue and expenditure and financial transactions	x		
				(4) Balance sheets			
				Financial Statements			
A	M	T+25	T+9	(5) Profit and loss accounts		x	x
A	M	T+25	T+9	(6) Balance sheets		x	x
				(7) Cash flow statement			
				Other Reporting			
				(8) Statistical surveys			

EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

C	M	T+30	T+1	(9) Other: detailed receipt report from Estonian Tax and Customs Board (corresponds to tax revenues recorded in budget reporting)		x	

Accounting basis (column 1): C- cash, A- accrual, M-mixed
Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.
Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.
Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.
Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.
WB – working balance, B.9 Net lending/net borrowing

3.4.1.1 Details of the basic data sources

Data sources used for compilation of national accounts

There are two main data sources used for the compilation of local government subsector accounts in SE:

1) PSFS;
2) Detailed receipts report from the ETCB (cash).

See section 3.2.1.1 for more information about main data sources.

Working balance

Up until 2018, the working balance used for the local government subsector was drawn from the mixed-based aggregated local government budget execution report. Starting from 2019, the report is accrual based. The aggregated report is compiled by the MoF based on the reports presented by local governments.

3.4.1.2 Statistical surveys used as a basic data source

No statistical surveys are used as a basic data source.

3.4.1.3 Supplementary data sources and analytical information

3.4.1.3.1 Supplementary data sources used for the compilation of non-financial accounts

Supplementary data sources are used in the following cases:

1) To break down some transactions in PSFS into several ESA 2010 transactions or to determine which specific ESA 2010 transaction is suitable for recording a certain bookkeeping transaction in GFS;
2) For classification of the functions of government (COFOG);
3) For research and development expenditure estimations.

Such breakdowns (items 1-2) do not affect the overall level of revenues, expenditures nor assets and liabilities.

Two types of supplementary data sources are used for analytical purposes:

1) Legal documents, explanatory notes about budgets and financial statements of local governments published on their web-sites;
2) Counterpart information on the beneficiaries of the projects (financial reports).

EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B
The description of other supplementary data sources is provided in section 3.2.1.3.1.

3.4.1.3.2 Supplementary data sources used for the compilation of financial accounts

No statistical surveys are used as a basic data source.

3.4.2 Data sources for other Local Government units

Table 6 – Availability and use of basic source data for other local government unit

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
		T + days	*T+months*		*cross appropriate cells*		
				Budget Reporting			
				(1) Current revenue and expenditure			
				(2) Current and capital revenue and expenditure			
				(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				Financial Statements			
A	M	T+25	T+9	(5) Profit and loss accounts		x	x
A	M	T+25	T+9	(6) Balance sheets		x	x
				(7) Cash flow statement			
				Other Reporting			
				(8) Statistical surveys			
				(9) Other:			

Accounting basis (column 1): C- cash, A- accrual, M-mixed
Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.
Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.
Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.
Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.
WB – working balance, B.9 Net lending/net borrowing

3.4.2.1 Details of the basic data sources

The only data source used for the compilation of the figures for other local government units is PSFS.

3.4.2.2 Statistical surveys used as a basic data source

EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B
No statistical surveys are used as a basic data source.

3.4.2.3 *Supplementary data sources and analytical information*

Some supplementary data sources and analytical information are used.

Sickness benefits and redundancy payments to employees treated as imputed non-pension contributions (D.1222=D.6222) are estimated using declarations received from the ETCB.

Statistics on research and development (Frascati survey) are the main data source for estimating the output of own-account R&D of the government sector.

3.4.3 EDP table 2C

3.4.3.1 *Working balance - use for the compilation of national accounts*

The working balance is derived as the difference between revenues and expenditures in the local budget execution reports, which are presented to the MoF by local governments. These reports are mixed based up until 2018, as some are cash based while others are accrual based. Starting from 2019, all reports are accrual based. These reports include investments in fixed assets in expenditures, and used to exclude financing transactions (e.g. loans, securities transactions etc.) up until 2013. Starting from 2014, some of the financing transactions (loans, equities) were again included among expenditures and revenues.

The working balance is not used for the compilation of NFA nor the B.9, as the main data source used for those purposes is accrual based PSFS.

3.4.3.2 *Legal basis of the working balance*

The working balance is drawn from the mixed-based aggregated local budgets execution report. Each local government approves its budget at the beginning of the year and changes it when necessary. The budget execution report is presented by the local government to the dedicated department in the MoF, which creates the aggregated report of all local governments.

3.4.3.3 *Coverage of units in the working balance*

3.4.3.3.1 Units to be classified outside the subsector, but reported in the WB

There are no units reported in the WB but classified outside the subsector.

3.4.3.3.2 Units to be classified inside the subsector, but not reported in the WB

The other units included in the local government subsector consist of three groups: (1) foundations (other than hospitals), (2) hospitals and (3) enterprises. The B.9 estimated for those groups of units is on accrual basis as it is calculated based on PSFS data.

In practice, as PSFS data are used as source data for all government sector units, only the B.9 for the whole subsector is calculated. B.9 figures for groups of other local government sector units (called sub-subsectors) are later estimated specifically for EDP purposes using more detailed information. For instance, capital and current transfers are calculated on the sub-subsector level from the very beginning for consolidation purposes. On the other hand, gross capital formation and subsidies are calculated only on the subsector level and there is no technical solution available at the moment for the calculation of these on sub-subsector level. Therefore, the B.9 for other local government bodies is estimated and the B.9 of local governments is calculated as the difference between the B.9 of the subsector and the B.9-s of other sub-subsectors.

3.4.3.4 Accounting basis of the working balance

Up until 2018, the working balance of the S.1313 subsector is on mixed-basis and starting from 2019, all reports are accrual based.

The balance represents revenues and expenditures. Starting from 2014, these transactions also include the receipts from and repayments of loans, acquisitions and disposals of shares in corporations and organisations.

3.4.3.4.1 Accrual adjustments relating to interest D.41, as reported in EDP T2C

Please see section 3.2.3.4.1 for further explanations.

3.4.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2C

Please see section 3.2.3.4.2 for further explanations.

3.4.3.4.3 Other accrual adjustments in EDP T2C

Please see section 3.2.3.4.3 for further explanations.

3.4.3.5 Completeness of non-financial flows covered in the working balance

All non-financial transactions in cash are included in the WB. Transactions in kind are excluded from the WB.

3.4.3.6 Financial transactions included in the working balance

There were no financial transactions included in the working balance in the years 2003–2013. Starting from 2014, the following information is included in the working balance:

- new loans provided;
- loan repayments received;
- acquisition of shares and other equities;
- disposal of shares and other equities.

No counterpart information is provided for these figures. However, in the majority of cases, it is possible to identify the associated parties via a comparison of records provided in PSFS. In many cases, the counterpart is other local government subsector unit (foundation or enterprise), which is not a budgetary unit but is a government sector unit according to the ESA 2010 methodology.

3.4.3.7 *Other adjustments reported in EDP T2C*

Accrual based PSFS are the main data source for the local government subsector. This means that no accrual adjustments, associated with specific transactions, are carried out. PSFS data are used for data compilation directly without changes in most cases. An exception is associated with current and capital transfers received from other sub-sectors and in some instances paid to other subsectors. For consolidation purposes, the usual practice is to replace the revenue side of the recipient sub-sector with the expenditure side of the paying subsector. There are some exceptions where the expenditure side is replaced with the revenue side. These replacement decisions are made based on the data quality and data compactness.

Local budget execution reports used as the WB are compiled on a high aggregation level. This aggregation level combined with the mixed nature of the reports (up until 2018 some governments employed cash based budgeting, while others used accrual based budgeting) makes comparison with PSFS based GFS complicated. For this reason, the line "Accrual adjustments and adjustments in intra-sectoral transactions" contains all the differences between the WB and B.9 which could not be associated with specific transactions and/or occurrences.

3.4.3.8 *Net lending/net borrowing of local government*

The source data for calculating B.9 are PSFS and the report on tax and social contributions receipts. Please see section 3.2.1.1 for more information.

3.4.4 EDP table 3D

3.4.4.1 *Transactions in financial assets and liabilities*

Financial accounts are used for the compilation of EDP T3 with only minor adjustments. The adjustments are introduced due to the presentation of debt at face value.

Table 7. Data used for compilation of transactions and of stocks of financial assets and liabilities

	Assets							Liabilities						
Source Data	**F.2**	**F.3**	**F.4**	**F.5**	**F.6**	**F.7**	**F.8**	**F.2**	**F.3**	**F.4**	**F.5**	**F.6**	**F.7**	**F.8**
	Calculation of transactions													
Transaction data (integrated in public accounts)		x	x	x	x	x	x	-	x	x	-	-		
Other transaction data														
Stock data	x												x	x
	Calculation of stocks													
Transaction data														
Stock data	x	x	x	x	x	x	x	-	x	x	-	-	x	x

See list of ESA 2010 codes in the introduction part of the inventory.

See section 3.2.4.1 for further information.

3.4.4.2 *Other stock-flow adjustments*

EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B
See section 3.2.4.2 for further information.

3.5. Social security sub-sector, EDP table 2D and 3E

3.5.1 Data sources for Social Security Funds main units: Estonian Health Insurance Fund and Estonian Unemployment Insurance Fund

Table 8 – Availability and use of basic source data for social security funds

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
		T + days	*T+months*		*cross appropriate cells*		
				Budget Reporting			
				(1) Current revenue and expenditure			
				(2) Current and capital revenue and expenditure			
				(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				Financial Statements			
A	M	T+25	T+9	(5) Profit and loss accounts	x	x	x
A	M	T+25	T+9	(6) Balance sheets		x	x
				(7) Cash flow statement			
				Other Reporting			
				(8) Statistical surveys			
A	Q	T+70	T+9	(9) Other: Report on investment portfolios of units provided by Eesti Pank (used in the period of 2007-2012)		x	x
C	M	T+30	T+1	(9) Other: detailed receipt report from Estonian Tax and Customs Board (corresponds to tax revenues recorded in State budget reporting)		x	x

Accounting basis (column 1): C- cash, A- accrual, M-mixed
Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.
Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.
Column 6,7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.
Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.
WB – working balance, B.9 Net lending/net borrowing

EDP tables and data sources - Social security sub-sector, EDP table 2D and 3E

3.5.1.1 *Details of the basic data sources*

Data sources used for compilation of national accounts

The main data source used for the compilation of S.1314 accounts is PSFS (see section 3.2.1.1 for more information).

Working balance

The accrual based working balance used for the S.1314 subsector is drawn from the revenue and expenditure accounts in PSFS (in the April notification) or from the income statement in financial statements of the units (in the October notification). Those two sources have to coincide in October.

3.5.1.2 *Statistical surveys used as a basic data source*

No surveys are used.

3.5.1.3 *Supplementary data sources and analytical information*

3.5.1.3.1 Supplementary data sources used for the compilation of non-financial accounts

A supplementary data source used for the period 2007–2012 was the report on the investment portfolio of the units in S.1314 presented by Eesti Pank. Both units in the S.1314 sector held long-term securities but recorded those as portfolio investments and therefore also recorded revaluation of securities and interest revenue accrued as one figure in PSFS. The more detailed breakdown was offered to Eesti Pank and this information was used to divide the figures provided in PSFS.

These data are not used after 2012 as the securities of S.1314 were handed over to S.1311.

The description of other supplementary data sources is provided in section 3.2.1.3.1.

3.5.1.3.2 Supplementary data sources used for the compilation of financial accounts

See section 3.5.1.3.1.

3.5.2 Data sources for other Social Security units

There are no other units in the social security subsector.

3.5.3 EDP table 2D

3.5.3.1 *Working balance - use for national accounts compilation*

The working balance is based on the PSFS data, which are used for the compilation of national accounts.

3.5.3.2 *Legal basis of the working balance*

For legislation about PSFS, please see section 2.2.1. Information reported in PSFS has to coincide with the financial statements of S.1314 units. The financial statements have to be audited but are not directly approved by the Parliament or any Ministry. Indirectly, the PSFS of social security funds are part of the Consolidated Annual Report of the State, which is approved by the Parliament.

3.5.3.3 Coverage of units in the working balance

3.5.3.3.1 Units to be classified outside the subsector, but reported in the WB

There are no units reported in the WB but classified outside the subsector.

3.5.3.3.2 Units to be classified inside the subsector, but not reported in the WB

There are no units classified inside the subsector but not reported in the WB.

3.5.3.4 Accounting basis of the working balance

3.5.3.4.1 Accrual adjustments relating to interest D.41, as reported in EP T2D

There are no accrual adjustments relating to interest payables.

There were adjustments relating to interest receivable for the period 2007–2012. See section 3.5.1.3.1 for further information.

3.5.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2D

There are adjustments under other accounts receivable associated with the revenues from social contributions. The social contributions in the WB are on accrual basis; in the national accounts time-adjusted cash is used.

3.5.3.4.3 Other accrual adjustments in EDP T2D

There are no other accrual adjustments in EDP T2D.

3.5.3.5 Completeness of non-financial flows covered in the working balance

Because the working balance is drawn based on the income statement, the majority of the transactions associated with the acquisition of fixed assets are excluded, as those are recorded in the balance sheets.

3.5.3.6 Financial transactions included in the working balance

Because the working balance is drawn based on the income statement, some changes associated with financial assets (mostly revaluation of securities) are included in this figure.

3.5.3.7 Other adjustments reported in EDP T2D

Because the working balance is drawn based on the income statement, it does include the depreciation of the fixed assets and some figures associated with other changes in volumes according to ESA 2010 (for instance changes in exchange rates).

3.5.3.8 Net lending/net borrowing of social security funds

B.9 is calculated using the same data source which is the basis for the working balance.

3.5.4 EDP table 3E

3.5.4.1 Transactions in financial assets and liabilities

Table 10. Data used for compilation of transactions and of stocks of financial assets and liabilities

	Assets							Liabilities							
Source Data	**F.2**	**F.3**	**F.4**	**F.5**	**F.6**	**F.7**	**F.8**	**F.2**	**F.3**	**F.4**	**F.5**	**F.6**	**F.7**	**F.8**
	Calculation of transactions														
Transaction data (integrated in public accounts)		x	x	x	x			-	x	x	-	-		
Other transaction data														
Stock data	x					x	x						x	x
	Calculation of stocks														
Transaction data														
Stock data	x	x	x	x	x	x	x	-	x	x	-	-	x	x

See list of ESA 2010 codes in the introduction part of the inventory.

See section 3.2.4.1 for more information about the calculation of stocks and flows.

3.5.4.2 Other stock-flow adjustments

See section 3.2.4.2 for more information.

3.6. Link between EDP T2 and related EDP T3

The monitoring of the link between the individual adjustments in EDP T2 and the related transactions reported in EDP T3 is important for the assessment of GFS data quality.

It is not expected that the adjustments from EDP T2 would be clearly identified in EDT3.

- First, this is due to different coverage of units, because the adjustments in EDP T2 should refer only to the main entity reported in the WB, while transactions in EDP T3 reflect the whole subsector.
- Second, due to the accounting basis and coverage of transactions reported in the WB. For the former, if the WB is on accrual basis, theoretically there is no need for adjustments in other accounts receivable/payable F.8 in EDP T2, but it should be ensured that the accrual recordings in non-financial accounts are linked to transactions in F.8 reported in EDP T3 and in FA. For the latter (coverage of transactions), the WB balance as reported in EDP T2 typically does not cover all financial flows, since some are booked in the so called extra-budgetary accounts of the main entity.
- Third, adjustments/transactions reported in EDP T2A are non-consolidated, since they refer to the main entity only, as recorded in the working balance (e.g. loans, other accounts receivable/payable, etc.), while financial transactions recorded in EDP T3 refer to the whole subsector and they are consolidated.

As far as specific imputations are concerned, such as debt cancellation, debt assumption etc., which are reported in EDP T2, these should be reflected also in financial accounts and EDP T3 under the related financial instrument.

Therefore, in order to ensure consistency between non-financial and financial accounts and quality of GFS data, statisticians are to be able to explain and to quantify a link between flows reported in EDP T2 and EDP T3.

3.6.1 Coverage of units

The same list of units is used for the compilation of financial and non-financial accounts for the whole S.13 sector. In large part, the data sources are the same for both financial and non-financial accounts as well, as a single encoding system of the source data is used.

3.6.2 Financial transactions

Central government subsector

Starting from 2003, there are no financial transactions included in the working balance.

Local government subsector

In the years 2003–2013 there were no financial transactions included in the working balance. Starting from 2014, transactions in loan assets, and acquisition and disposal of equities are included in the working balance.

Social security funds subsector

The working balance of social security funds is based on the PSFS data, so are both the financial and non-financial accounts. Therefore, all the financial transactions, changes in volumes and revaluations of financial assets included in the working balance and excluded from B.9 are included in the financial accounts (and therefore in EDP T3).

3.6.3 Adjustments for accrued interest D.41

Central and local government subsectors

Adjustments for accrued interest reported in a separate line in EDP T2A and T2C refer to the interest expenditures and revenues of the main unit in the subsector. The figures in T3 apply to the whole subsector. It should be noted that there is no actual adjustment made to the cash based working balance as the data used for the compilation of D.41 and B.9 are accrual based PSFS.

For the central government subsector, starting from 2017, adjustments for accrued interest equal to zero, because the data in the WB and PSFS are equal and therefore no adjustments are made. At the same time, in T3B, the figure is present because there are differences between actual cash payments and accrued amounts.

Social security funds subsector

There are no accrual adjustments for interests, as the working balance is already accrual based.

3.6.4 Other accounts receivable/payable F.8

In essence, the differences between accrual and cash-based revenues and expenditures should be explained fully in PSFS by the various financial transactions. But the aggregated data used for statistical purposes and the high aggregation level used in WB-s make it very difficult (or in some cases impossible) to find and/or present the specific associations between cash and accrual data.

Additionally, in T3, other accounts payable and receivable apply to the subsector as a whole. On the other hand, other receivables and payables reported in T2 are supposed to indicate only the main group of the subsector, which for T2A means state budgetary units and for T2C only local government units.

Therefore, in practice, the total net-value of F.8 reported in T2 cannot be completely in line with F.8 reported in T3. And even if it could, a direct line could not be drawn between the two tables due to the lack of detailed information.

Starting from 2017, accrual-based WB is used in table T2A for central government subsector. Since these figures are already accrual based, there are only two types of adjustments associated specifically with F.8 transactions. One is the adjustment in ETS receipts and the other is the adjustment associated with the sale of 5G licences, also in 2018 the adjustment in payments made to the EU budget is present. In these cases there is a distinct and identifiable difference between the rules used in financial reporting and the method used in GFS.

As the working balance for social security funds subsector is accrual based, there are no accrual adjustments reported in EDP table 2, besides the corrections associated with tax and social contribution revenues. F.8 in EDP table 3E presents the other accounts receivable and payable drawn directly from PSFS.

3.6.5 Other adjustments/imputations

As explained in section 3.6.4, it is very difficult or even impossible to record all F.8 assets and liabilities in detail in EDP T2. For this reason, all the differences between the working balance and B.9, which could not be specified, are recorded in T2 as other adjustments. Those adjustments also include the effects from the corrections made for consolidation purposes.

All the adjustments associated with super-dividends or other similar imputations are taken into account in the codification process carried out by SE. Therefore, the “imputation” is essentially done when all the ESA 2010 associated transaction and asset codes are attached to the source data.

The only adjustment for social security funds subsector is excluding other changes in volumes included in income statements according to the bookkeeping rules.

3.7. General comments on data sources

Accrual based PSFS are the main data source used for GFS purposes. For more detailed information, see sections 2.2.1 and 3.2.1.1.

3.8. EDP table 4

Table 4 – The statements on the provision of additional data contained in the Council minutes of 23/11/1993 request the submission of trade credits and advances, amounts outstanding in the government debt from the financing of public undertakings, differences between the face value and the present value of government debt and GNI at market prices.

3.8.1 Trade credits and advances

The information about trade credits is obtained from PSFS. As the F.81 is included in the financial accounts, the amounts presented in EDP table 4 and EDP table 3 are the same.

As the data are obtained from PSFS, the coverage is complete for the total general government sector and for each of its subsectors.

Eurostat's decision on the recording of some operations related to trade credits of 31 July 2012 has been implemented for all the subsectors.

According to ESA 2010 paragraph 20.132, long-term trade credits are recorded as long-term loans (AF.42).

3.8.2 Amount outstanding in the government debt from the financing of public undertakings

The government sector in Estonia does not borrow on behalf of public enterprises. The figure shown in this line therefore presents the amount of money lent to public enterprises by the general government sector (F.4 assets of S.13). The logic here is that if the government sector had not lent that money to enterprises it could have been used to finance the activities of the government sector itself, and there would have been less need to borrow additional resources.

4. Revision policy used for annual GFS

This section relates to the revision policy concerning annual non-financial and financial government accounts. It describes the country policy for revisions with and without impact on the deficit (non-financial accounts for general government) and debt (financial accounts for general government).

4.1. Existence of a revision policy in your country

The revision policy for the annual GFS is fully compliant with the revision policy for the whole national accounts. The data for the year T are finalised with the publication of the Supply and Use Tables (hereinafter SUT) for the respective year. SUTs are compiled and published 36 months after the end of the reference year, whereupon they are integrated into the national accounts and GFS. Based on the revision policy applying to the revision of the whole national accounts data framework, further revisions are carried out at T+21, T+33 and T+45 months.

The preliminary version of the annual GFS is compiled at T+3 months. This version is based on the very preliminary source data, subject to corrections, which can be very significant. The source data are closed for auditing at T+5 months. At this stage, no revisions to the backward source data are published, unless required by auditing results.

The second version of the annual GFS data is published at T+9 months and is based on the source data that are audited but may be not yet adopted by the Parliament. The Parliament usually adopts the State's Annual Report at T+10 months. In the case of regular revisions, the data for the year T published at T+9 months are revised according to the latest available source data, and all the revisions to the backward data covering previous four years (from T to T-4) are also published.

4.1.1 Relating to deficit and non-financial accounts

The revision policy covers both financial and non-financial accounts, and there are no specific activities foreseen, regardless of whether the revision has or does not have an impact on the deficit (B.9).

4.1.2 Relating to debt and financial accounts

The revision policy covers both, non-financial and financial accounts (including debt), and there are no specific activities foreseen, regardless of whether the revision has or does not have an impact on the debt.

4.2. Reasons for other than ordinary revisions

According to the revision policy, revisions due to the existence of new figures, data sources/details that were not available in the past, changes in methodology or other reasons are carried out at the time of regular revisions. A major revision may be planned if an error has been found or a correction in methodology is needed in finalised data, with significant influence on the main indicators.

4.3. Timetable for finalising and revising the accounts

The revision policy of national and financial accounts has been agreed nationally with the provider of BoP statistics, Eesti Pank. Since the implementation of ESA 2010 and BoP6 in September 2014, all statistical revisions are co-ordinated between SE and Eesti Pank. Most of the changes have an effect on quarterly data releases. For the annual data releases, the new revision policy is more restrictive than the common European revision policy; it remained unchanged for the National and Financial Accounts domains as well as for GFS and EDP.

Financial and non-financial accounts are revised according to the same timetable.

Time of publication		Reported year: T	T+1y	T+2y	T+3y
T+1y	T+3m	First release; estimated/preliminary data			
T+1y	T+9m	1. revision, half-finalised data; data not adopted by Parliament			
T+2y	T+3m		First release; estimated/preliminary data		
T+2y	T+9m	2. revision; half-finalised data; data adopted by Parliament; revision integrated with NA	1. revision, data not adopted by Parliament		
T+3y	T+3m			First release; estimated/preliminary data	
T+3y	T+9m	3. revision; half finalised data; revision integrated with NA	2. revision; half-finalised data; data adopted by Parliament; revision integrated with NA	1. revision, data not adopted by Parliament	
T+4y	T+3m				First release; estimated/preliminary data
T+4y	T+9m	4. revision; **final data**; revision integrated with NA	3. revision; half-finalised data; revision integrated with NA	2. revision; half-finalised data; data adopted by Parliament; revision integrated with NA	1. revision, data not adopted by Parliament

B. Methodological issues

5. Sector delimitation – practical aspects

5.1. Sector classification of units

General government is defined by ESA 2010 §2.111 as "… institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth". Moreover, §20.05 specifies that the general government sector "consists of all government units and all non-market non-profits institutions (NPIs) that are controlled by government units. It also comprises other non-market as identified in paragraphs 20.18 to 20.39".

It is necessary to determine:
a. if it is an institutional unit (ESA 2010 2.12 describes the rules according to which an entity can be considered as an institutional unit)
b. if it is a public institutional unit (ESA 2010 §20.18 and MGDD I.2.3 – define the notion of control by the government over an entity as "the ability to determine the general policy or programme of that entity"…. According to the list of criteria listed in ESA 2010 §20.309)
c. if it is a non-market public institutional unit - reference to "Market-non-market delineation" (ESA 2010 §20.19 to §20.28 and MGDD I.2.4)"

At present, the government sector in Estonia contains only units, which are deemed to be non-market producers according to ESA 2010. The first round of classification decisions is based on the market/non-market test (so-called 50% test). Nevertheless, qualitative information is used to determine whether the services provided by the unit are by nature market or non-market services. For example, some units could be treated as market producers purely on the market/non-market test basis, but based on the nature of the services provided and risks taken are deemed to be non-market producers (e.g. social care institution, central stockholding entity).

SSSC compiles a list of transaction partners as an annex of General Rules of State Accountancy. This list includes state accounting entities, local government bodies, other legal persons in public law and other accounting entities over which the abovementioned persons have dominant or significant influence. This list presents the register of consolidation units, which have to report to the SSSC in the context of PSFS. One consolidation unit can contain several legal units. Other public sector bodies are all named in the list, even if some of them belong into the same consolidation unit. Therefore, whenever a new other public sector unit is created, this information is added to the register of consolidation units, and thereby SE also receives the information. The full list of legal units included in this listing could also be derived from different registers, but this information is of secondary nature in the context of national accounts.

It should be noted that the list published by SSSC includes some units that are connected with the government sector, but are not considered to be public sector according to ESA 2010. The main example is affiliated companies where the government sector has only a minority share and no special rights. For some time, there was an exceptional case concerning a few start-up enterprises. In this case, the government had a very small minority share (below 15%) but had special rights, which gave control over the units. These enterprises were not included in the list of SSSC, but were considered to be public sector units by SE. In 2017, the government ownership rules were changed, eliminating the control, and the units were classified outside the public sector.

The classification of new public sector units is determined by SSSC, reclassification is determined by the MSD in SE. Prior to making the final decision on the classification of a unit, a consultation is held with other departments in SE, the Head of State Accounting Department in SSSC and with the Statistics Department of the Eesti Pank, in order to receive additional information or a second opinion.

It should be noted that there are certain units that are classified to the government sector based solely on the nature of their activities, e.g. qualitative criteria, without the market/non-market test. The main examples are public sector hospitals and social care facilities. The analysis carried out for these units has proven that they are created directly to carry out public policies and therefore are considered to be government sector units even in some rare cases where receipts from the private sector are slightly higher than receipts from the government sector.

Public sector units classified outside the government sector are currently tested on an annual basis. As a first step, the 50% test is carried out for the period of three years. The 50% test is conducted based on the financial information from PSFS. The rules set in ESA 2010 chapter 20 place a strong emphasis on the counterpart unit of the sales activities and the presence of competition. For this reason, testing of the units is carried out in the following parts:

1) Quantitative information on sales receipts and production costs of public sector units is compiled;
2) Ratios based on sales receipts and production costs are calculated;
3) Quantitative checks are carried out based on these ratios;
4) Additional qualitative checks are carried out for units whose sales receipts received from the government sector are at least 50% of total receipts. If necessary, some or all of the receipts from the government sector are eliminated from the sales receipts.

In step two, three ratios are calculated:

- Ratio 1[13] = Sales receipts / Production costs

  which is the usual market/non-market test ratio.

- Ratio 2 = Sales receipts, excl. from S.13 / Production costs

  which shows the ratio of sales receipts from other sectors than S.13 to production costs.

- Ratio 3 = Sales receipts, excl. from S.13 / Sales receipts

  which shows the share of sales receipts from other sectors than S.13 to total receipts.

The majority of the information for compilation of these ratios is automatically derived from the PSFS, using a bridge table to reach ESA 2010 concepts. Special testing is carried out for subsidies, as only the amounts classified as subsidies on products are included in the market test (and this distinction cannot be made automatically on the revenue side of corporations). Depreciation of fixed assets provided in the PSFS is used as an approximation for consumption of fixed capital (CFC, P.51c).

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[13] Sales receipts = P.11 + D.31

Production costs = D.1 + P.2 + D.29 + P.51c+ D.41

SE uses CFC reported in PSFS for the quantitative MNM test for all units, since the values are similar to CFC used in national accounts. Additionally, SE relies on PIM model on macro level, as it is expected to be based on ESA rules and therefore, gives consistent results by ESA rules. If there are deviations in investments suspected, investments are occasionally controlled. Moreover, SE occasionally compares data of annual reports and PSFS for large and influential units, when there are large jumps in the investment levels in order to get more information as the companies can write additional descriptions about their investments in the annual reports. If there are discrepancies between the annual reports and the PSFS but no additional information is provided in the annual reports, then PSFS data is used.

A preliminary quantitative check consists of two parts:

1) Check ratio 2: if this is higher than 0.5, the unit is considered to be a market producer. The reason is that even if the goods or services are sold to the government with economically insignificant prices, the unit receives a sufficient amount from the private sector to fulfil the market test criteria.

2) For units for whom ratio 2 is equal to or below 0.5, ratio 1 is checked:
    a. if ratio 1 is equal to or less than 0.5, the unit is classified as a non-market producer, since it is impossible for it to fulfil the 50% criterion;
    b. if ratio 1 is higher than 0.5, additional qualitative analysis is carried out for the unit.

The analysis is carried out based on a minimum of three years of data. In order to make a decision based on ratios, the movements in several years are taken into account. Each ratio is considered to be equal to or less than 0.5 in the case:

a) where the ratio has been equal to or less than 0.5 during three consecutive years during the period of the last five years
   or

b) where the ratio is constantly fluctuating and stays below or above 0.5 mark no longer than for two consecutive years.

In the case that a new enterprise is created and it has been economically active for less than three years, a presumption is made that the unit is a market producer. Exceptions are cases where SE has carried out a pre-assessment of sector classification for the unit and has reached the conclusion that there is no possibility for the unit to become a market producer (for instance, the new unit provides auxiliary services and the only client is the government sector).

Qualitative analysis is carried out for units whose ratio 2 is equal to or less than 0.5 but ratio 1 is higher than 0.5. In the case of such units, it is clear that if they were not selling goods or services to the government sector, they would not fulfil the criterion of being a market producer. Therefore, it is necessary to assess whether the receipts from the government sector can be treated as market production according to the criteria set in ESA 2010 paragraphs 20.24−20.28.

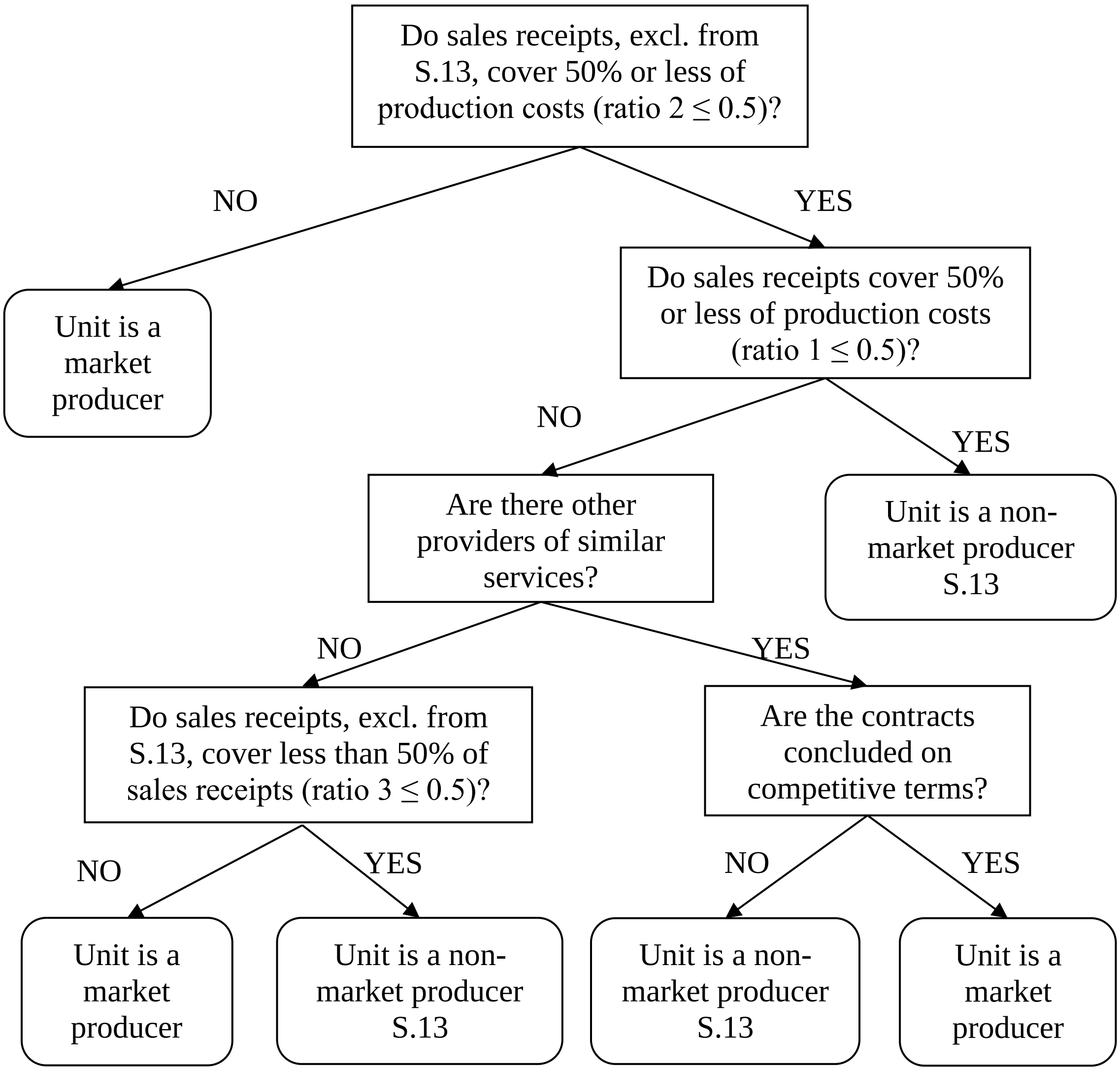
The following table presents conditions for treating sale to the government sector as market sale. Competition on the same basis as other providers generally means that the public procurement contract is concluded according to market conditions and government sector payments are associated only with the amount of services provided.

Table 11. Cases where sale to the government sector is market production

Is unit the only provider of service for government? / Clients	Only provider in public sector	One of several providers in public sector
Only government	Case 1: Competing with private producer(s)	Case 2: Competing on similar conditions with other providers
Government and others	Case 3a: Sales receipts from other sectors are over 50% of total receipts or Case 3b: While selling services to the government sector, there is competition with private producer(s)	Case 4: Competing on similar conditions with other providers

The decision tree in the chart below does not completely correspond to the conditions in Table 11, but the result is the same, except in very rare cases. While carrying out qualitative testing, the first step is to establish whether competition exists, or in other words, whether there are other providers of similar services:

1) If there are no similar providers, case 3a is applicable. Therefore, it is necessary to check whether sales receipts from other sectors are more than half of total receipts:
    a. if yes, the unit is a market producer;
    b. if no, the unit is a non-market producer (this case also covers case 1, because if there is no competition and the only buyer is the government sector, the unit is definitely a non-market producer).
2) If there are other providers for similar services – cases 1, 2, 3b and 4 will apply, where it is necessary to check whether the contracts are concluded on the same conditions as with other providers (for cases 1 and 3b, it is also necessary to check whether the other providers are from the private sector):
    a. if the conditions of the contract are similar to other providers, the contract is concluded in competition situation and the unit is a market producer;
    b. if the conditions are not similar to other providers, there is no competition and the unit is a non-market producer.



Every single unit is tested in this way. However, since PSFS do not include data on the subsidiaries of the units, then additional data is requested from the subsidiaries who exceed the threshold of total liabilities larger than 0.01 % of GDP, as is specified in the Questionnaire on government controlled units classified outside general government.

Information regarding public units in liquidation is received from the list of transaction partners as an annex of General Rules of State Accountancy, which is compiled by SSSC. In case a unit is in liquidation, it will be indicated in the list. Thereafter, the 50% test is compiled for the unit and in case it fails the test, then it will be reclassified to the government sector, based on MGDD chapter 1.2.4.4 point 66. The data for reclassification is derived from PSFS. Additionally, information regarding public inactive units is available in PSFS.

5.1.1 Criteria used for sector classification of new units

The units covered by the State Budget or local government budget are invariably classified as government sector units.

For other public sector units, the classification is often based on the combination of economic activity code (NACE), objectives stated in the statutes of the unit and legal status. Ownership usually plays a role when determining the subsector.

The legal status of the unit also plays a role in the classification of units, because unless NACE and/or some additional information indicate otherwise, enterprises are assumed to become profitable and are recorded outside the government sector by default. Exceptions are cases where SE has carried out an ex-ante assessment of sector classification for the unit and has reached the conclusion that there is no possibility for the unit to become a market producer. New non-profit institutions, on the other hand, are usually classified in the government sector, unless NACE or additional information suggest otherwise.

5.1.2 Updating of the register

The full list of public sector legal units is available in the Business Register for Statistical Purposes (BRSP) held by SE. This internal register holds the list of all legal units in Estonia and is used for the creation of samples for statistical surveys carried out by SE. Information about each unit includes among else NACE codes, institutional sector, legal form and owner of the unit. This information is automatically updated based on the information in official registers (such as the Business Register) and the surveys conducted. Major checking and correction of the information is done manually at least once a year. Information for previous periods cannot be changed in BRSP.

The list of new public sector units is checked at least once in a quarter, because whenever a new unit is added to the list applying to the PSFS, the NACE and institutional sector code have to be assigned to the unit; otherwise, it is not possible to process the financial information received from PSFS.

For compilation purposes, there is a parallel (partial) list held and managed by the GFS team. This list includes only reporting units present in PSFS (so it excludes subsidiary units whose reports are consolidated with the parent company's). In this list, information about sector classification is updated for all relevant periods.

5.1.3 Consistency between different data sources concerning classification of units

The lists of units included in surveys are compiled based on the BRSP. The sector classification is also based on the information recorded in the BRSP. As BRSP is updated regularly based on the information from the GFS team in SE, it guarantees that institutional units are treated the same way in statistical surveys and GFS.

In order to guarantee the correct classification of government sector units in Money and Banking Statistics, the full list of legal units in Estonia, including units classified in the government sector (by subsector), is published once a year on the webpage of SE.

Government sector financial and non-financial accounts are compiled based on the same data sources, so this guarantees consistency in the government sector. Since in sector accounts the government sector information is based directly on the GFS information, there is the same consistency.

5.2. Existence and classification of specific units

The full list of legal units in Estonia (including units in the government sector) is available on SE webpage[14].

In addition to the state and local governments, the general government sector contains:

1) Almost all public legal institutions in Estonia that belong to the central government subsector (except two that belong to social security funds). This group includes public universities, national TV and radio broadcaster, National Library, National Opera, Academy of Science, Cultural Endowment of Estonia, Estonian Defence League etc.

2) Most of the non-profit institutions established by the state or local governments or public-legal units. The general rule is that if the founder of the unit is a government sector unit, the government sector is considered to be the owner. There have been some very rare exceptions in the case of non-profit institutions established by local governments, where a major amount of the financing has been provided by other sectors or control over the actual activities of the unit has been outside the government sector.

   A few non-profit institutions are classified as market producers and are therefore classified either to S.11 Non-financial or S.12 Financial institutions sector.

3) Public hospitals, which are classified into the central or local government subsector depending on the sector that has ownership of the hospital. This classification of hospitals was established after a thorough investigation of financing schemes. During the investigation, it was concluded that the sales of the services by public hospitals financed by the Estonian Health Insurance Fund cannot be treated as market production.

4) Some enterprises that either provide ancillary services to the general government sector or were deemed to be non-market producers based on the 50% test.

There are no quasi-corporations or Special Purpose Vehicles (SPV) in the Estonian government sector.

There are some public sector enterprises managing the railway infrastructure, airports and harbours. All these units are classified outside the government sector, since they receive only small amounts of financing from the government sector (most of it is from actual sales of services). Due to changes in EU legislation and in accordance with it, in the case of the railway infrastructure company, the government has been covering some of its losses. Despite these payments, in 2019, the company was still performing as a market producer in the market/non-market test.

There is one larger public sector unit (except the Central Bank) involved in financial activities, which provides export insurance: KredEx Krediidikindlustus AS (KredEx Credit Insurance Ltd). With reference to EDP 2021 dialogue visit action point 11, SE reroutes from 2020 onwards through the S.13 accounts the operations of the unit, which are performed on behalf of the government and with its guarantee.

The national protection fund, as described in MGDD 2022 chapter 1.5 points 7−10, in Estonia is the Guarantee Fund (Tagatisfond). The objective of the Guarantee Fund is to guarantee, under the conditions and to the extent provided by the Guarantee Fund Act[15], the protection of funds deposited by clients of credit institutions (depositors), clients of investment institutions

[14] Information for classification of economic units: https://www.stat.ee/en/provide-data/andmete-esitamisest/information-classification-economic-units
[15] Guarantee Fund Act: https://www.riigiteataja.ee/en/eli/ee/526112020002/consolide/current

(investors), unit-holders of mandatory pension funds and policyholders that have entered into an insurance contract for a mandatory funded pension. Its objective is also to accumulate funds for financing the implementation of the resolution tools and powers, thereby increasing the reliability and stability of the financial sector.

For that purpose, the Guarantee Fund has the following pools of assets (sectoral funds): the Deposit Guarantee Sectoral Fund, the Investor Protection Sectoral Fund, the Pension Protection Sectoral Fund, the Pension Contracts Sectoral Fund and the Resolution Sectoral Fund, i.e. the national resolution fund (NRF) as stated in paragraph 7 of the Financial Crisis Prevention and Resolution Act[16].

Contributions to Sectoral Funds include single contributions, regular contributions and extraordinary contributions paid ex post. The levels of the contributions are specified in the Act. Contributions shall not be refunded to credit institutions unless otherwise provided by law. Regarding the Resolution Sectoral Fund, contributions of credit institutions are transferred to the Single Resolution Fund (SRF), whereas contributions of investment institutions remain in the Sectoral Fund.

As stated in paragraph 34 section 4 of the Guarantee Fund Act, on the basis of a resolution of the supervisory board, the Guarantee Fund may accept irrevocable payment commitments as contributions to the Sectoral Fund, if the payment commitment is at free disposal and fully backed by collateral of low risk assets unencumbered by any third party rights.

The Guarantee Fund is classified in S.13, following the action point 12 of the EDP dialogue visit in 2015.

The reason for the reclassification from S.12 to S.13 in 2015 was that the Guarantee Fund Act sets a rigid framework to the activities and actions of the Guarantee Fund. While the Act states that the supervisory board has to approve all compensation payments, it also sets specific deadlines by which the compensation payment has to be made. For that reason, the unit itself or the supervisory board does not have decision autonomy. In addition, the government sector is the last resort for resources (in the form of a loan or guarantee) in the cases where the Guarantee Fund does not have a sufficient amount of funds to cover the compensations to be paid.

There are no non-resident SPEs that are directly controlled by government units.

[16] Financial Crisis Prevention and Resolution Act:
https://www.riigiteataja.ee/en/eli/ee/501042019019/consolide/current

6. Time of recording

This section describes the time of recording for taxes and social contributions, EU flows, military expenditure, interest and other transactions (subsidies, current and capital transfers and financial transactions.

The time of recording is defined in ESA 2010 §1.101. It is the accrual basis, meaning when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled.

6.1. Taxes and social contributions

ESA 2010 states that taxes and social contributions are derived from two sources: amounts evidenced by assessment s and declarations or cash receipts.
If assessments and declarations are used, amounts should be adjusted by a coefficient reflecting assessed and declared amounts never collected. An alternative treatment foresees recording tax/social contribution revenue on a gross basis and adjusting this amount by a capital transfer to the relevant sectors equal to the amounts unlikely to be collected.
If cash receipts are used, the amounts should be time adjusted so that the cash is attributed to the time when the underlying activities, transactions or other events took place to generate the tax/social contribution liability, or when the amount of tax was determined, in the case of some income taxes.

6.1.1 Taxes

This section describes the methods of recording of taxes on an accrual basis. The time of recording of taxes is defined in ESA 2010 §4.26 and §4.82 as the time "…when the activities, transactions or other events occur which create the liabilities to pay taxes".

The data source used for calculating the most significant taxes is a detailed receipt report from ETCB for both EDP notifications. The data source becomes available in T+1 month. The tables for EDP report and the related questionnaires are compiled by SE. In some cases, taxes from PSFS report from MoF is used as a data source.

As a method, simple time adjustment with a time lag of one month is used for the most significant taxes, by which the cash receipts are adjusted to the time of the tax liability (according to the declarations). By the current method of recording, the total amount of tax receipts contains both tax revenues and reimbursements made in the same period.

In Estonia, there is a non-payable tax credit system, where tax credits are limited to the size of the tax liability. In this system, all the tax credits are embedded in the tax system and reduce the government tax revenue.

The tax incentives that are allowed to be deducted from the person's total income are basic exemption, housing loan interest, training expenses, donations, and contributions to supplementary funded pension. In 2023, the overall basic exemption is up to 654 euros per month, and it decreases as a person's income increases. However, the basic exemption during the pensionable age is a fixed amount – 704 euros per month and it does not depend on the amount of the person's income.

Fines for non-payment (so-called tax interests) are recorded as miscellaneous current transfers (D.75) at the time the cash is received by the government sector.

There is no provision for tax amnesties in the tax system; therefore, they are not recorded.

6.1.2 Social contributions

The time of recording of social contributions is defined in ESA 2010 §4.94 as "… the time when the work that gives rise to the liability to pay the contribution is carried out…" for employers and employees social contributions, and as "… when the liabilities to pay are created" for self-employed and non-employed persons.

The data source used for calculating social contributions is a detailed receipt report from ETCB for both EDP notifications. The data source becomes available in T+1 month. The tables for EDP and the related questionnaires are compiled by SE.

The method for calculating social contributions is a simple time adjustment with a time lag of one month, except employers' imputed social contributions (D.612). Cash receipts are adjusted to the time of the tax liability (according to the declarations). By the current method of recording, the total amount of tax receipts contains both tax revenues and reimbursements made in the same period. Employers' imputed social contributions (D.612 = D.122) are estimated using declarations of income and social tax received from ETCB and PSFS information (accrual data). Fines for non-payment (so-called tax interests) are recorded as miscellaneous current transfers (D.75) at the time the cash is received by the government sector.

There is no provision for tax amnesties in the tax system; therefore, they are not recorded.

6.2. EU flows

The issue of recording EU flows is important for national accounts, especially government accounts, because – due to the institutional arrangements – in general all amounts transit via government accounts. In order to avoid potential effects on the level of government deficits, countries have to eliminate these flows from public accounts.
ESA 2010 paragraphs 20.294-20.300 foresee that when non-government units are beneficiaries from EU grants, all the flows to and from government should be recorded as financial transactions, without any impact on government net lending/borrowing (B.9).
When final beneficiary is a government unit, the neutrality of EU flows is ensured by matching the time of recording of government revenue from the EU and the time of recording of the government expenditure covered by the EU grant.
The ESA 2010 Manual on government deficit and debt Chapter 2.6 "*Grants from and contributions to the EU budget*" provide further details concerning the recording of these flows.

6.2.1 General questions

Grants from European Union (EU)

The following definitions are used in this text:

1) Paying authority – a unit that receives payments from and certifies the eligibility of expenditures to the European Commission. Such units are ministries or the Government Office of Estonia, depending on the policy area where the project belongs. It also delivers the funds to implementing agencies.

2) Implementing agency – a unit that processes support applications, checks the payment application and eligibility of expenditure, makes payments to final beneficiaries, exercises supervision over projects and counsels final beneficiaries.
3) Final beneficiary – a unit that had applied for support from EU structural funds and to whom the implementing agency makes payments. In the projects with several participants, the recipient might transfer part of the support to the other participant, but it is not possible to track such transfers.

The list of paying authorities and implementing agencies has changed over different programming periods. From 2019 onwards, the paying authorities are ministries or the Government Office of Estonia, depending on the policy area where the project belongs.

The data source used for recording EU grants is PSFS, consisting of accrual bookkeeping data of public sector units. More information about PSFS is available in section 2 of this document. Reporting EU flows to PSFS is regulated by the act Public Sector Financial Accounting and Reporting Principles[17]. The same rules for reporting data to PSFS regarding EU flows apply for all general government and public sector units, including other central and local government units. All public sector units (in effect, all paying authorities and implementing agencies) have to present their reports in the framework of PSFS. This ensures that the same principles for neutralisation of EU flows apply for other central and local government bodies.

The neutralisation of EU flows as well as regarding other types of grants is already applied in PSFS according to the Public Sector Financial Accounting and Reporting Principles. In the PSFS system, there are separate account codes for receiving grants and mediating grants (§24(5)). To ensure neutralisation of grant flows, incl. EU flows, beneficiaries in the public sector report revenue from grants in the same period when they incurred the corresponding expenses (§25(1)). If the beneficiaries have incurred the expenses but have not received the grants yet, they record a claim and revenue and expense. When the cash of the grant is received, it is recorded as a receipt of the claim or advance payment. In the case that the beneficiaries have received the grant but have not incurred the expenses yet, they record it as an advance payment. In the period when the expenses are incurred, the beneficiaries record both the expense and revenue from the grant. (§26(2), §27(4))

To ensure neutralisation in the case of grant mediation, the mediators record the expense in the same period as the beneficiaries (§25(3)). The mediators also record the revenue in the same period as the expense (§24(5)). If the mediators have received grants as prepayments, regardless of whether they have transferred the cash to the final beneficiaries or not, they record an advance on the grant until the expense has been incurred by the beneficiaries. If the expense has been incurred by the beneficiaries, both mediators and beneficiaries record a reduction in the advance as well as revenue and expense. In the period when the beneficiaries have incurred the expenses but have not yet received the grants, both the beneficiaries as well as mediators record the expense and revenue. Additionally, the beneficiaries record a claim, as explained above, whereas the mediator may either record a claim towards the grant issuer or a decrease in the advance of the grant issuer. The mediator also records an increase in payables towards the beneficiaries or a decrease in advances paid to beneficiaries. (§28(2)) Therefore, the neutralisation of EU flows for all public sector units, including other central and local government bodies, is ensured by the Public Sector Financial Accounting and Reporting Principles.

[17] Public Sector Financial Accounting and Reporting Principles (available only in Estonian): https://www.riigiteataja.ee/akt/13174576?leiaKehtiv

Starting from 2017, all amounts related to different EU funds are recorded under a single source code in PSFS. This code, along with the account codes, are used to process the recording of EU flows in PSFS, using bridge tables to compile data according to ESA 2010 methodology, incl. EU neutralisation principles, for GFS and EDP purposes. The processing of PSFS data through bridge tables is done at the level of the reporting entity. As PSFS is accrual based, the correct time of recording is already ensured in the source data, as explained above.

The data regarding EU flows are compiled in the GFS non-financial accounts at the sub-subsector level. If the beneficiary of the EU grant is not a government unit, the government sector is considered to be acting on the behalf of the EU. Transfers from the government sector to the final beneficiary have to be recorded as expenditures of the EU and revenues of the final beneficiary, and the transaction should not affect the general government balance. This ensures neutralisation of EU flows in the case of grant mediation. If the beneficiary of the EU grant is a government unit, then the objective of the grant is to cover the expenditures made by a government unit or to increase the value of fixed assets of a government sector unit. Revenues from the transfers have to be recorded in the same time period as subsidised expenditures. In case the S.13 unit is a final beneficiary, expenses and revenues are recorded in GFS as reported in PSFS and no specific bridge table rules are applied.

Also, by using the information from the implementing agency, it is possible to distinguish the so-called technical support for which the implementing agency itself is final beneficiary. In the case of technical support, the implementing agencies receive support from the European Regional Development Fund (ERDF) to carry out their tasks (for instance to cover a part of the salaries, administration costs, etc.). If the unit is an implementing agency for the ERDF and receives technical support at the same time, it is not possible to make a distinction about the final beneficiary on the MoF side.

All the revenues from the various foreign aid (including EU funds) are recorded in the State budget execution report as revenue. Also, the actual payments made to implementing agencies (if the agency is not included in the State Budget) or to final beneficiaries (if the implementing agency is a state budgetary unit) are recorded on the expenditure side of the State Budget report. The distribution of the revenues and expenditure between various funds cannot be derived from this source. The state budget execution report is used as the working balance for EDP table 2A.

In order to calculate the accrual adjustments in EDP table 2A up to 2016, it is assumed that the accrual revenues from the EU budget are equal with the corresponding expenditures (based on the recording rules in PSFS, it should be so). Since the amount of cash revenue and cash expenditure are known, it is possible to calculate accrual adjustment items separately for revenues and expenditures. In effect, the sum of two adjustments is equal to the difference between cash revenue and cash expenditure. Starting from 2017, no adjustments are reported in EDP table 2A, because revenues in WB are reported at the same time as the expenditures are made, and as a result, no accrual adjustments are made to the source data.

In the financial account, the payables and receivables associated with EU grants are drawn directly from PSFS data and can be distinguished from the other payables and receivables based on the source code information. In compilation of the financial account, these payables and receivables are treated in the same way as the rest of the payables and receivables in PSFS. The specific information about EU grants is detached only for EDP questionnaire purposes.

It is also important to notice that until 2016, the time difference between the cash and accrual revenue figure reported in EDP table 2A does not equal with the other receivables in the financial account. The same applies for the expenditures and other payables. The reason is that time-adjustments associated with the expenditure/revenue in the non-financial account could be related either to a claim or to a liability in the financial account. Therefore, only the sum of cash and accrual adjustments associated with revenues and expenditures can be compared with the difference between the other receivables and payables.

Payments to EU

Payments from the State Budget to the EU budget are recorded according to the guidelines set in section 2.6.2 of MGDD 2022 edition.

6.2.2 Cash and Schengen facility:

The time of recording of payments received by the beneficiary Member States through Schengen and Transitional Facilities would be accounted according to the Eurostat decision on EU flows, while the time of recording of Cash-flow Facility is when the transfers are to be made by the Commission. In practice, in this particular case, the amounts would be recorded as revenue in the years in which they were received by the beneficiary countries.

Estonia received support through Schengen facility in years 2004−2007. For national accounts purposes the Schengen facility is considered to belong among the Structural Funds in the context of EU grants.

6.2.3 EU financial instruments

The EU has been providing measures of financial support from EU structural and investment funds ‘financial instruments’ (FI). These instruments may be ‘equity or quasi equity investments, loans or guarantees’ and they are intended to support activities that will generate income, or result in saving on future expenditure. Unlike grants, they do not constitute a gift to the final recipient, which will typically be a small or medium-sized enterprise (SME) since, under normal circumstances, the funds are expected to be repaid to the creditor and produce a return on the investment (such as interest on the loan, or profit on subsequent sale of equity). EU legislation allows for a choice on how the financial instruments are implemented nationally: the Implementing Authorities can choose whether to assign the implementing task to a newly created entity or contract out the management to the EIF/EIB or to existing financial institutions.

In Estonia, the units implementing EU financial instruments, hence the beneficiaries, based on MGDD 2022 chapter 2.6 point 74, are KredEx Foundation (starting from 2022 Estonian Business and Innovation Agency) and Rural Development Foundation. Both units are classified in S.1311 subsector. As the beneficiary units are classified in S.1311 subsector, the cash received to build up the fund for the financial instrument is recorded as a payable (F.89) of the ‘beneficiary’ towards the EU, not as government revenue. The payable decreases when funds are considered lost (e.g. when loans granted by the beneficiary to the final recipient are cancelled, or a guarantee is called) against a government revenue from the EU (which hence neutralises the capital transfer on the loan cancellation or guarantee call). The payable increases for amounts of accrued interest and fees and dividends received. The AF.89 payable to the EU will remain in the system, pending a decision on the final appropriation of these funds.

As the main data source for EU financial instruments is the PSFS, the neutralisation of EU funds on the level of the beneficiary is ensured by using the information from the appropriate account codes and by applying bridge tables to reach the appropriate recording based on MGDD guidelines.

The units benefiting from these schemes are units in S.11.

Programmes employing financial instruments were implemented from 2016 onwards. One programme is implemented by KredEx Foundation, extending the existing programmes targeted to enterprises. In the other programmes, the EU grants were used to set up special funds, all of which are managed by units outside the government sector. All these cases have initially been treated in a similar way as schemes employed by KredEx Foundation in the previous programming period.

Jeremie/Jessica programs

Programming period 2008−2013

There were programmes implemented in Estonia in the context of JEREMIE initiative. The institutional unit implementing these programmes is KredEx Foundation (legal form is foundation – special type of non-profit institution). KredEx Foundation is classified to the S.1311 subsector.

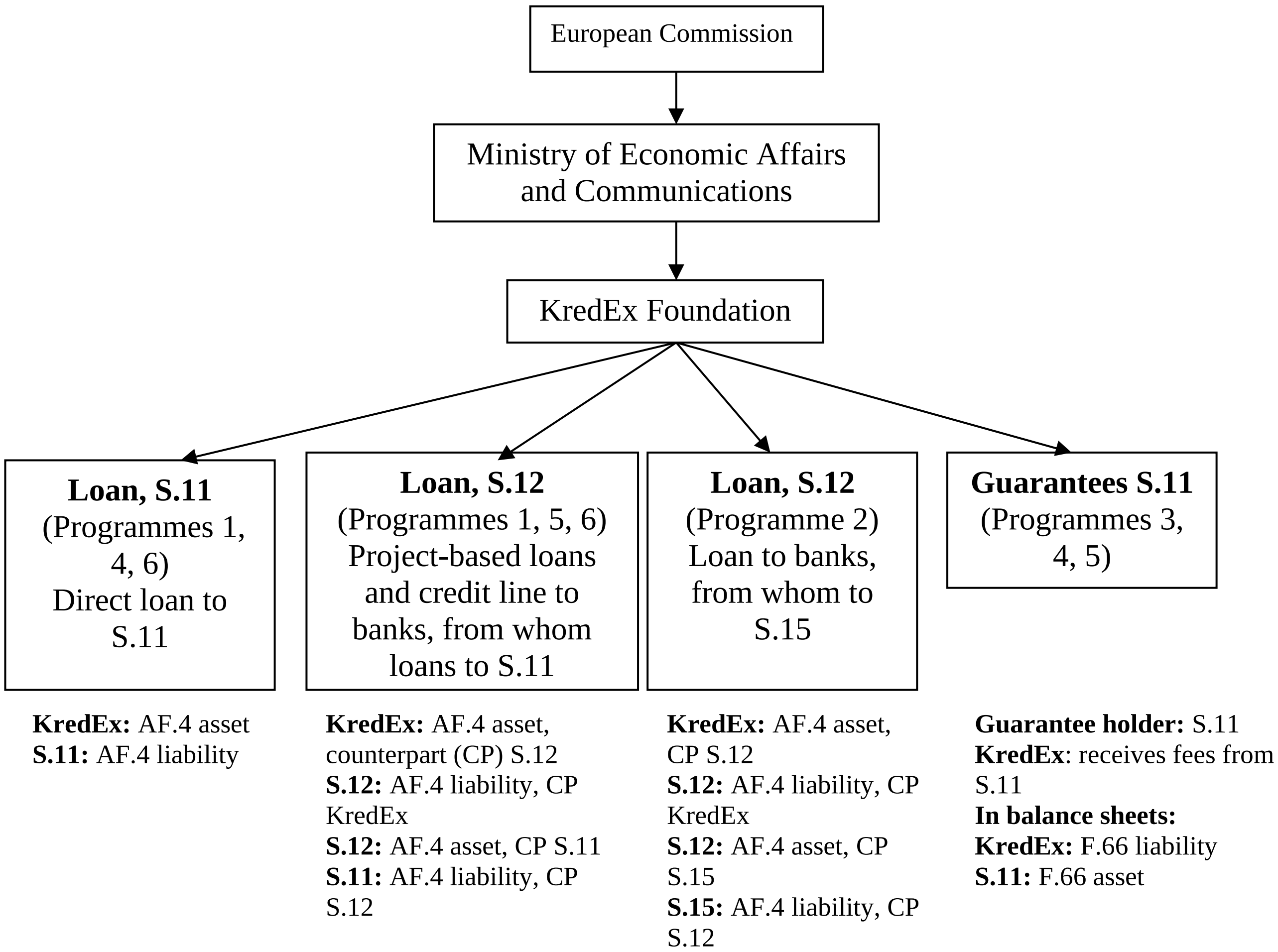
EU assistance in the context of JEREMIE initiative was adopted by KredEx Foundation in two forms:

1) temporary resources, which had to be returned to the 1st level intermediate body, which will decide how to use them further;
2) resources included to the own capital of KredEx Foundation.

Resources included in the own capital are permanent and cannot be extracted.

There were six programmes that were implemented using the resources provided. The following chart provides information about the sectors that benefit from the measures financed from programmes and the type of transactions that are recorded in the bookkeeping. The majority of measures target small and medium-sized enterprises, only one measure is associated with housing.

Time of recording -Time of recording of other transactions



The measures can be divided into four groups.

In the first group, KredEx Foundation provides loans directly to enterprises, all of which, based on their activities, are classified in national accounts to non-financial corporations sector (S.11). While providing such loans, KredEx Foundation records the loan claim on the balance sheet, and corporations that receive the loan correspondingly record it as a liability.

The second group of measures is where KredEx Foundation provides resources to banks (S.12 sector), which in turn provide loans to non-financial corporations. Two types of financing can be differentiated: project-based loans and credit line. In the case of project-based loans, a corporation applies to a bank for a loan. The bank reviews it and, in the case of approval, forwards the loan-application to KredEx Foundation. KredEx Foundation provides the loan to the bank in the necessary amount, and the bank in turn gives the loan to the corporation. Credit line was a one-time measure where KredEx Foundation provided loan to banks, from which resources had to be used to provide loans to non-financial corporations. The difference from project-based loans was that banks do not have to report each loan financed application to KredEx Foundation. For such schemes, KredEx Foundation records claims toward banks and banks record the corresponding liability. Also, banks record the claims toward non-financial corporations who in turn record the liabilities toward banks.

The third group is loans that were provided by KredEx Foundation to banks, which had to use these to provide long-term low-interest renovation loans to apartment associations. The aim of the loans is to renovate apartment buildings to be more energy-efficient. The recording of the transactions is similar to the previous group. The only difference is that the counterpart for loans provided by banks are non-profit institutions serving households (hereinafter NPISH or S.15 sector in national accounts).

The fourth group is guarantees: export guarantees and guarantees on loans. Guarantees on loans include guarantees to loans for working capital and overdraft, to leases, to investment loans and on bank guarantees. These guarantees can be considered to be standardised as defined in ESA 2010. In 2010, the activity of providing export guarantees was transferred to an affiliated company of KredEx Foundation, which is classified as a market insurance provider.

According to the advice received from Eurostat, the best option to record revenues to KredEx Foundation from EU grants should be at the time the funds are used through the call of guarantees or non-repayments of loans. As this suggestion was impractical due to incomplete information and the time-consuming process, the second-best solution was used in GFS statistics. In this solution, capital transfer was recorded from EU to KredEx Foundation at the time cash amounts were provided to KredEx Foundation. At the same time, capital transfer in the same amount was recorded from KredEx Foundation toward households, enterprises or NPISH, in order to keep a neutral effect on B.9.

As an extension of this suggested recording, additional adjustments had to be made in financial accounts. Since the cash did not truly leave the accounts of KredEx Foundation at the same time with the recorded expenditure, the transactions in AF.8 payables were imputed in order to ensure consistency in B.9 and B.9f. The payables were then removed by other changes in volumes in order to keep the actual balance of assets and liabilities.

6.2.4 EU Recovery and Resilience Facility (RRF)

The RRF entered into force on 19 February 2021. It finances reforms and investments in Member States from the start of the pandemic in February 2020 until 31 December 2026. To receive RRF funds, member states must present plans for major investments and reforms that promote economic recovery and strengthen social resilience. The funds provided via the RRF consist of grants and loans, and their disbursement is linked to the fulfilment of a number of milestones and targets.
Statistically, the RRF grants are to be treated similarly to the conventional EU grants, i.e., without impact on the net lending (+) /net borrowing (-) (B.9) of general government (see MGDD section 2.6.1). An exception to the neutrality rule exists for the year 2020 (due to the retroactive application of the RRF. Expenditure incurred in 2020 is not neutralised in 2020, the corresponding revenue is to be recorded when the plan is endorsed by the Council. In addition, in the case of the RRF, by convention, government is to be seen as the final beneficiary of all funds. Advance payments by the EU on RRF grants are to be recorded either in F.8 payables or a reduction in F.8 receivables to the extent that receivables exist. The expenditure financed by the RRF loans should accrue following ESA 2010 rules, and no expenditure neutralisation should take place. The recording of the FIs financed from the RRF grants should follow the same rules as for the FIs financed from the regular EU flows (see MGDD section 2.6.3), that is, be B.9 neutral for general government (as the beneficiary).

The recording of RRF related revenues and expenditures follows the guidelines in MGDD 2022 chapter 2.6.4. For clarification, Estonia will not receive any RRF loans.

Data source for the grants related to the RRF is our main data source PSFS, which includes a source code specific to RRF, which enables to distinguish receivables and payables, as well as reimbursements, revenues and grants mediated, related to RRF at the level of the reporting unit.

Time of recording -Time of recording of other transactions

As PSFS is accrual based then the correct time of recording is already ensured in the source data. The source code information along with the account codes are used to process the recording of EU flows in PSFS through bridge tables to compile data according to ESA2010 methodology, incl. EU neutralization principles, for GFS and EDP purposes. The processing of PSFS data through bridge tables is done at the level of reporting entity.

In the WB the same principles of recording are used for RRF grants as in GFS. Therefore, in EDP tables 2 there are no adjustments needed, as it is accrual based. In EDP tables 3 the transactions made in connection with RRF flows are reported under net acquisition of currency and deposits as well as other accounts receivable/payable.

The updating of the recovery and resilience plan after the availability of the actual GDP data for the years 2020 and 2021 is currently in process. Therefore, the neutralisation of RRF expenditure is in accordance with MGDD 2022 chapter 2.6.4 and a neutralisation of a lower share of the expenditure actually incurred, is not necessary. At the moment there are no financial instruments issued which are financed from RRF grants.

6.2.5 Market Regulatory Agencies

Market regulatory agencies are bodies whose intervention activities are mostly characterised by buying and selling products, often on behalf of the EU, with an aim to stabilize prices and to maintain purchasing prices to farmers at a sufficiently high level: they offer buying agricultural products from domestic producers at a predetermined price (often higher than "market" prices) and reselling them usually at a lower price later on and occasionally arranging for giving them away free of charge. These agencies can be involved in storing agricultural inventories, or in arranging for storage, as well as in distributing subsidies.

The question is whether the principle of re-arranging EU transactions would also apply to the recording of changes in inventories (P.52) arising from the interventions of agricultural market regulatory agencies in the market. According to the guidance, in those circumstances where a market regulatory agency acting on behalf of the EU is classified inside general government, the creation of a unit in S.11 is recommended in order to capture the changes in agricultural inventories, and to avoid that such changes in inventories are recorded in national government accounts (as changes in government inventories, with an impact on the government deficit/surplus) or in the rest of the world accounts (as exports and imports). The unit to be created to capture these changes in inventories is a quasi-corporation, rather than a notional unit, in order to ensure an equality of treatment with cases where market regulatory agencies are classified outside government. This is also appropriate because any temporary difference in value arising from changes in market value of these inventories not yet covered by subsidies is likely to be small and on average zero.

In Estonia, there is only one Market Regulatory Agency: the Estonian Agricultural Registers and Information Board (Põllumajanduse Registrite ja Informatsiooni Amet, PRIA). The major activity of PRIA is provision of agricultural grants, and therefore, the unit is classified in the central government subsector.

It is considered that PRIA is acting on behalf of the European Commission. Therefore, PRIA does not record the inventories itself, but records the claim toward EU. The claim is recorded in PSFS under the account of “Long-term part of loans granted”, and the amount recorded at the end of the period is equal with the value of the inventories. These claims are recorded as AF.42 Long-term loans in national accounts.

6.3. Military expenditure

The ESA 2010 principle on accrual recording, when applied to military expenditure, is generally the time when the economic ownership of the good occurs, which is usually when delivered.
ESA 2010 paragraphs 20.190-20.192 define the rules for the statistical recording of military equipment. Chapter II.5 in Part II of the ESA 2010 MGDD details the rules concerning the recording of military expenditure.

6.3.1 Types of contracts

The data source used for recording military expenditure is PSFS, collected by SSSC from all public sector units (see section 2 of this document for further information).

Detailed information about contracts on military inventory is not generally available, since it is considered to be classified information. Nevertheless, on occasion some detailed information has been provided to SE. Based on the information made available to SE, the main way of financing the acquisition of military equipment is short-term prepayments (which are recorded as trade credits in GFS). In some cases, there have been made larger prepayments for deliveries, but in such occurrences, the equipment itself is recorded in PSFS at the time of the delivery. There have not been assets/liabilities of a long-term nature reported in EDP Questionnaire Table 7.

Estonia is involved in joint purchasing of military assets with other countries. However, there are no trilateral arrangements in the context of deliveries of military equipment.

6.3.2 Borderline cases

There is no information about borderline cases.

6.3.3 Recording in national accounts

The expenditures associated with military equipment are recorded in two separate groups in PSFS. One part of the equipment is recorded as fixed assets (denomination is “Defence fixed assets”) and the other part as managing costs (denominated as “Defence equipment and materials”). Both types of expenditures are recorded as gross fixed capital formation (P.51) in the national accounts, except expenditures on single-use weapons (ammunition, missiles, mines) and military equipment maintenance and repair (recorded as P.2 Intermediate consumption).

Based on the rules, the fixed assets for defence purposes are recorded in PSFS at the time of the delivery, except in the cases where the equipment is built over many years. However, based on the available information, the first case of this nature appeared only in 2011 when building of two radar systems was started. In the case of the radars, the equipment is built in stages and each stage is recorded as a fixed asset after it has gone through qualification tests.

According to the MGDD 2022 sub-section 2.5.3.1, military goods should be recorded at the delivery. In the case of complex systems, the expenditure should be recorded at the time of delivery of the individual pieces of equipment that compose the systems, and not at the time of completion of delivery of all pieces. Recording rules used in PSFS are currently in line with these guidelines, and therefore, data from PSFS are used to record the military goods in national accounts directly without any adjustments.

6.4. Interest

This part aims at describing accrual adjustment for interest.

ESA 2010 paragraph 20.178 reads: "*In the system, interest is recorded on an accrual basis, i.e. interest is recorded as accruing continuously over time to the creditor on the amount of principal outstanding*"

ESA 2010 MGDD part 2, chapter 2.4 is dealing with some practical aspects of the recording of interest.

6.4.1 Interest expenditure

Table 12 Availability and basis of data on interest

Instrument	S.1311		S.1312		S.1313		S.1314	
	State	OCGB	Main unit	OSGB	Main unit	OLGB	Main unit	OSSB
Deposits (AF.2)	Accrual	Accrual	M	M	Accrual	Accrual	Accrual	Accrual
Debt Securities (AF.3)	Accrual	Accrual	M	M	Accrual	Accrual	Accrual	Accrual
Loans (AF.4)	Accrual	Accrual	M	M	Accrual	Accrual	Accrual	Accrual
Other accounts receivable (AF.8)	Accrual	Accrual	M	M	Accrual	Accrual	Accrual	Accrual

Cash/accrual, M (not applicable) or L (not available)
OCGB (other central government bodies), OSGB (other state government bodies), OLGB (other local government bodies), OSSB (other social security bodies)

The data source used for recording interest expenditure is PSFS, collected by SSSC from all public sector units (see section 2 for more information).

PSFS data are on accrual basis and provide separately recorded information for interest expenditures associated with loans, securities, financial leases and other payables. In the balance sheets, the interest accrued but not paid on loans, securities and financial leases is recorded in one account. Since a major share of liabilities in this category is associated with loans, the predefined amount of interest for known securities is recorded under AF.3 Securities, and the rest is allocated under the instrument AF.4 Loans in financial account.

No adjustment is applied on the interest recorded in PSFS, since this data source is accrual and the rules used there have been found to be in line with ESA 2010 requirements on interest. The working balance presented in EDP tables 2A and 2C originates from cash-based budget execution reports, which are more aggregated than he PSFS, and it is impossible to draw full information about interests paid and received from there. The budget execution reports used for working balance in EDP table 2A and 2C are accrual-based starting from 2017 and 2019, respectively.

In EDP tables 3A−3E, the actual difference between interest accrued and interest paid is recorded based on the information available from PSFS.

6.4.2 Interest Revenue

The same data source – PSFS – is used for interest revenue as is used for interest expenditure. In the case of social security funds, information collected by Eesti Pank was used as an additional data source, in order to distinguish the revaluations and interest accrued on securities for period 2008−2011. Such an additional source was necessary since units in S.1314 subsector were recording all long-term investments in securities as portfolio investments in PSFS, and therefore, were also recording revaluations and interests accrued as a single amount. During 2012, the handling of the investments and reserves of social security funds was handed over to the State, and there is no further need for the additional data source.

There are no special accrual adjustments made, since the interest revenues are recorded based on the accrual information.

6.4.3 Consolidation

For interest revenues and expenditures, counterpart information is presented in PSFS. However, units engaged in the transaction do not always present the same information in corresponding accounts (it should be noted that differences are rare and are hardly ever larger than a few thousand euros). In order to guarantee that the amounts to be consolidated on the revenue and expenditure side are equal, the following approach is used:

- information from the paying unit is considered to be more trustworthy;
- therefore, on the revenue side, the amount recorded by the recipient is replaced with the amount recorded in the expenditures of the payer.

Such approach guarantees that the consolidation of interest in government sector accounts will not affect B.9 of the general government sector. Consolidation is applied in all subsectors and, in compilation of general government figures, transfers between subsectors are also consolidated.

6.4.4 Recording of discounts and premiums on government securities

Long-term treasury bonds were issued below nominal value in 2020 and 2022. Information about this case was obtained by Eesti Pank from CSDB and provided to SE based on the MoU. Based on ESA2010 §20.186, the interest expenditure recorded is the amount of accrued coupon interest as specified in the contract, plus the amount accruing each period attributable to the difference between the redemption price and the issue price.

6.4.5 Recording of interest accrued on intergovernmental loans in dispute and interest accrued on intergovernmental loans unlikely to be repaid

There are no intergovernmental loans that are in dispute in Estonia. There has been one case of a non-performing loan unlikely to be repaid. This consists of a loan granted to an airline company, and is recorded as a debt cancellation in 2014, following the action point of EDP dialogue visit in 2015.

6.4.6 Recording of interest on on-lending's from supranational entities

Supranational entities may borrow on the markets at more favourable rates than many Member State governments can achieve and on-lend the amounts to national governments in the form of loans. An example is the SURE instrument, established by the European Commission in 2020. Under the SURE instrument, the European Commission uses the capital markets to raise funds and then on-lends them to national governments in the form of loans.

There is one case of on-lending from supranational entities in Estonia, i.e. the SURE loan, which was received in 2021. The face value of the loan is equal to the face value of the corresponding bond issued by the supranational entity. Based on ESA2010 §20.186, the interest expenditure recorded is the amount of accrued coupon interest as specified in the contract, plus the amount accruing each period attributable to the difference between the redemption price and the issue price. In Maastricht debt the loan is treated in nominal value, based on the definition of MGDD 2022 chapter 8.2.2 point 6.

6.5. Time of recording of other transactions

All transactions are recorded according to ESA 2010 rules. The data source used for most taxes and social contributions is cash-based. Other transactions are recorded based on the accrual-based PSFS. The reporting of data in PSFS is regulated by General Rules of State Accountancy, which is based on IPSAS rules. In most cases, these rules are suitable for ESA 2010 based recording. Where IPSAS rules are not suitable for ESA 2010 purposes, specific corrections are made in the coding processes by SE.

7. Specific government transactions

Methodological rules applicable for recording of specific government transactions are set up in the Manual on Government Deficit and Debt (implementation of ESA 2010), 2022 edition[18].

7.1. Guarantees, debt assumptions

Generally, government guarantees are recorded off-balance sheet in government accounts (contingent liability), and neither government debt nor deficit is impacted. However, when a guarantee is activated (called), the payment made by government on behalf of the debtor is normally recorded as government expenditure. In case of repeated guarantee calls, the whole outstanding amount of the guaranteed debt should be assumed by government. The latter leads to a one-off increase of government debt, as well as of deficit. The accounting rules are explained in the Chapter 7.4 on Government guarantees of the ESA 2010 Manual on government deficit and debt. This chapter describes also specific cases and related treatment in national accounts.

7.1.1 Guarantees on borrowing

7.1.1.1 New guarantees provided

Recording in public accounts

MoF offers one-off guarantees to other central government units and public sector enterprises. The majority of one-off guarantees have been provided to units that are classified in S.13 sector.

Information about the stock of guarantees provided is recorded in PSFS as off-balance sheet liabilities. The list of one-off guarantees held by MoF is published in the Consolidated Annual Report of the State (which is approved by Parliament). In the case of one-off guarantees, it is easy to see whether a new guarantee has been provided or not.

Until now, there have been no cases of debt assumption at inception of one-off guarantees.

Recording in national accounts

Information about the guarantee stocks is available for GFS compilers via PSFS. The stock of one-off guarantees is recorded as contingent liabilities in national accounts. Due to the recording in PSFS, the amount of new guarantees provided could not be recorded separately in EDP Questionnaire tables.

7.1.1.2 Treatment of guarantees called

Recording in public accounts

There have been no calls for one-off guarantees provided by MoF.

Recording in national accounts

There have been no calls for one-off guarantees.

[18] https://ec.europa.eu/eurostat/web/government-finance-statistics/methodology/manuals

7.1.1.3 Treatment of repayments related to guarantees called

Recording in public accounts

There have been no such occurrences.

Recording in national accounts

There have been no such occurrences.

7.1.1.4 Treatment of write-offs by government in public accounts of government assets that arose from calls, if any

There have been no such occurrences.

7.1.1.5 Data sources

Accrual-based PSFS is the main data source for guarantees. Additionally, detailed information from financial statements is used for Kredex Foundation. Please see section 7.1.1.1 for a detailed description.

7.1.2 Guarantees on assets

No guarantees have been provided for assets.

7.1.3. Standardized Guarantees

There are two foundations providing standardised guarantees:

1) Guarantees provided by the state-established KredEx Foundation on housing loans and various borrowing options for enterprises;
2) Guarantees provided by the state-established Rural Development Foundation on borrowing options for enterprises.

The treatment of these schemes is different in both public and national accounts.

Guarantees provided for housing loans and borrowing of enterprises

These guarantees are provided by KredEx Foundation.

The main data source used for calculations is PSFS (see section 2 for more information). In PSFS the stock of provisions and overall change in provisions is available. Detailed information about changes is available only from the financial statement of KredEx Foundation, which becomes available approximately six months after the end of the fiscal year (this statement provides the same overall figures as PSFS, but due to the format of the statement, several transactions and assets/liabilities are presented in much more detail).

The following information about stocks is provided in PSFS:

1) stocks of provisions;
2) decrease in provisions due to payments for calls of guarantees;
3) other changes in provisions.

The stock of provision provided in PSFS is recorded directly as a stock of AF.66 liabilities in national accounts.

In the financial statement, the information about changes in provisions is divided into two parts: 1) increase in provisions (due to the provision of new guarantees) and 2) decrease in provisions. The decrease is in turn divided into two parts: decrease because of payments made and decrease due to guarantee periods ending. The increase in provisions and decrease due to the guarantee period ending sum up to the "other changes in provisions" recorded in PSFS. The financial statement is also used to split provisions between counterparts (S.11 and S.14 sectors)

The usual recording in national accounts is that the "other changes in provisions" in PSFS are recorded as capital transfers (D.99) expenditure in government sector accounts. After the financial statement of KredEx Foundation becomes available, the figures are cross-checked for differences or other kind of changes. In financial accounts, this transfer is recorded as other changes in volumes of AF.66 liabilities, which usually increases the stock.

The decrease in provisions due to payments for calls of guarantees is recorded as a transaction in AF.66 decreasing the stock of the liability.

Guarantees provided for borrowing of enterprises

These guarantees are provided by the Rural Development Foundation.

The main data source used for calculations is PSFS where the stock of provisions and overall change in provisions is available. The following information about stocks is provided in PSFS:

1) stocks of provisions;
2) decrease in provisions due to payments for calls of guarantees;
3) other changes in provisions.

The stock of provision provided in PSFS is recorded directly as a stock of AF.66 liabilities in national accounts.

The decrease in provisions due to payments for calls of guarantees is recorded as a transaction in AF.66 decreasing the stock of the liability.

In 2020 and 2021, additional guarantees were provided by Rural Development Foundation as a COVID-19 pandemic measure. As our main data source PSFS does not allow identification of such guarantees, then the relevant information about the initial guarantees as well as the revision, is received from the annual reports of the unit as well as by contacting the unit directly.

The change in provision provided by Rural Development Foundation was recorded in GFS in 2020 and 2021 as D.9 expenditure. The amount of the provisions as well as the changes in it are recorded in financial accounts under AF.66 liabilities.

In the case of standardised guarantees, only the stock of guarantees could be seen in PSFS. No information about the amount granted and the amount cancelled could be seen separately. Detailed information about the new amounts granted and cancelled is available only from the financial statement of KredEx Foundation, which have to be published six months after the end of the reporting period.

In addition to the standardized guarantees provided by KredEx Foundation and by Rural Development Foundation, the Ministry of Education and Research provides standardized guarantees for student loans.

Additionally, with reference to EDP 2021 dialogue visit action point 11, SE reroutes from 2020 onwards through the S.13 accounts the operations of the KredEx Krediidikindlustus AS (KredEx Credit Insurance Ltd), which are performed on behalf of the government and with its guarantee. Kredex Krediidikindlustus AS provides state export guarantees on behalf of the government sector. These transactions are rerouted through S.13 accounts and recorded as standardised guarantees of the government according to ESA paragraph 5.190, MGDD chapter 1.2.4.5.2 and MGDD chapter 7.4 point 32. Please see chapter 7.16 for further information.

7.2. Claims, debt cancellations and debt write-offs

Providing loan capital is generally a financial transaction not impacting the net borrowing/net lending (B.9). Government, as a lender, is expecting that the debtor will be in a position to repay the loans, according to a schedule agreed at inception. However, if the loan is non-recoverable, the recording of government expenditure might be considered. The related accounting rules are set up in ESA 2010 and further clarified in the Chapter 3.2 on Capital injections and Chapter 7.2 on Debt assumption and cancellation of the ESA 2010 Manual on government deficit and debt.

7.2.1 New lending

General government units have granted loans mainly to public non-financial corporations. Maturities are usually around 9−15 years; interest rates vary but are mostly close to market rates.

There is also a significant stock of claims against the households sector, which mainly relates to late payments for privatised land. In public accounts, these claims are discounted, as interest has to be paid on only the short-term part of these loans (on the part where remaining maturity is less than 1 year). The part of the loan that is long-term does not bear interest. In the national accounts financial balance sheets, these claims are reported in nominal value.

PSFS (see section 2 for more information), which is the primary data source, allows direct distinguishing of new lending and repayments for loans, which are marked with different cash-flow codes in the public accounts. However, new lending and repayments are not distinguishable in PSFS for long-term payables, which according to ESA §20.132 have to be classified as loans. The stocks in PSFS are integrated with flows, as the stock at the end of the period is calculated based on the stock at the beginning, and all the flows (transactions and revaluations) carried out during the year. PSFS covers all the general government sector units.

Recoverability of loans for GFS purposes is evaluated only in the case of larger transactions. Financial statements of the public units involved are used to evaluate the probability of default.

There has been one case where the loan granted was recorded as expenditure in national accounts at inception. The reasoning was that the loan was provided to a company in serious financial troubles and that had received two separate capital injections previously, and also the provider of the loan, MoF, recognised the loan shortly after the provision as unlikely to be recovered.

7.2.2 Debt cancellations

There has been one case of debt cancellation related to the general government sector in Estonia. The case occurred in 2014 and concerned a loan that was provided from central government to a public corporation during the period 2013−2014. The case was discussed between MoF and SE at the inception of the loan, and was recorded as financial transaction based on the affirmation that the loan carries interest and the company is expected to pay the loan back. Later, the development of the situation was followed by SE and the decision of recording debt cancellation was made in the context of national accounts based on the financial information of the corporation available publicly.

7.2.3 Repayments of claims

Repayments of claims are recorded as negative transactions under F.4 in financial accounts. The data for recording comes directly from PSFS. In PSFS, all the general government sector units are covered and the claims associated with loans are recorded in separate balance sheet accounts (bookkeeping accounts) where a cash-flow code has to be present for all movements. The list of codes used indicates whether the claim arises (provision of loan), whether the claim is repaid and whether some other revaluation or reclassification has happened.

There have been no cases in Estonia where repayment in kind has been made for a claim.

7.2.4 Debt write-offs

There has been no case of debt write-offs related to the general government sector in Estonia.

7.2.5 Sale of claims

There has been no case of sale of loans by the general government sector in Estonia.

7.2.6 Income contingent loans

There are no income contingent loans in Estonia.

7.2.7 Recording of loans not expected to be fully repaid

This section refers to loans that are not expected to be repaid in full at the outset. When a “loan” is at inception not expected to be fully repaid, a capital transfer is to be recorded at inception for the part expected to be lost. For such loans significant net losses are expected at inception, i.e. for amounts far in excess of the usual losses on loans and with no compensatory interest.

There have been cases where loans were granted that were expected not to be repaid at the time of granting in the context of COVID-19 pandemic, in the year 2020. As a pandemic measure, Kredex Foundation gave enterprises loans, which were not entirely expected to be repaid at the time of granting. As our main data source PSFS does not allow identification of such loans, then the relevant information about the amount expected not to be repaid as well as the revision of it, is received from the annual reports of the unit as well as by contacting the unit directly.

The amount not expected to be repaid was recorded in GFS in 2020 as D.9 expenditure. The interest on these loans is apportioned in line with the partitioning.

There have not been sales of such loans.

7.3. Capital injections in public corporations

Government capital injections are transactions which occur when governments provide assets (in cash or in kind) to public corporations (or assume liabilities), in their capacity of owner / shareholder, with an aim to capitalize or recapitalize them. The accounting rules are set out in ESA 2010 paragraphs 20.197-20.203 and clarified in the Chapter 3.2 on Capital injections of the ESA 2010 Manual on government deficit and debt. These chapters devotes considerable space to set the operational rules for the recording of capital injections in national accounts

either as transactions in equity (financial transaction = financing = “below-the-line”), or as capital transfers (non-financial transaction = expenditure = “above-the-line”).
It is recalled that the MGDD also indicates that payments by government to public units, structured in the legal form of a loan or a bond, might be considered in specific circumstances as capital injections, and to be classified in certain cases as a non-financial transaction (predominantly capital transfer D.9); cf. MGDD 3.2.3.2.2.

In PSFS, which is the main data source for GFS compilation (see section 2 for further information), information is provided about all the payments made into the equity capital of public corporations (both payments made in cash and in kind) and all the grants (in cash or in kind) provided to public corporations.

The equity injections in cash are essentially divided into two groups based on the legal form of the recipient – (1) injections into companies in the sense of the Commercial Code and (2) injections into non-profit-making institutions (foundations and non-profit associations). In certain conditions, non-profit-making units can be classified as market producers belonging into the non-financial corporations or financial corporations’ sector according to ESA 2010 methodology despite their legal form.

According to the Non-profit Associations Act paragraph 1, a non-profit association shall not distribute profits among its members, and Foundations Act paragraph 2, a foundation may use its income only to achieve the objectives specified in its articles of association. Therefore, non-profit associations and foundations do not have the capacity to pay dividends, which means that government does not act as a market investor while injecting capital into these units. For that reason and the provisions given in ESA 2010 20.198 b, all injections made to these types of institutions are always recorded as investment grants.

In the case the recipient of the injection is a company, the main criterion for classification of the injection is the operating profit of the company in the last three years. As a general rule following from ESA 2010 20.198 a, if the company has had operating losses for three years in a row, the injections are recorded as investment grants; otherwise, the injections are recorded as financial transactions. If there has been a longer spell of losses and only one intermediate year of profit, the whole time-series is considered, and usually the injection is also recorded as an investment grant.

When injections are made into new companies, the size of the company is a key factor. If the company is smaller, the injections are recorded automatically as financial transactions for the first two years. If the company has existed for three years or more, the classification of the transaction is inspected, taking into account the actual operating profits or losses of the company. In the case of large companies, the analysis and the classification of the injection are carried out already before the actual creation of the company or directly after that.

A full-scale inspection of equity injections is carried out during the annual revision of GFS. Equity injections are generally recorded as financial transactions while compiling quarterly accounts. The exceptions are:

1) large known injections that have already been analysed;
2) injections into foundations or non-profit associations.

There are no quasi-corporations associated with the general government sector in Estonia.

7.3.1. Capital increases in multilateral development banks

When Multilateral Development Banks (MDB) extend concessional loans and grants to low-income countries, the resources for such activities become systematically depleted. In this context, the donor countries meet periodically to replenish those resources. The donor countries contributions to such MDBs are therefore to be recorded in the non-financial accounts.

There capital increases in MDB are not applicable in Estonia.

7.3.2. Government capital injections in non-resident corporations

Sometimes government carries out capital injections in corporations that are resident in foreign countries. If government holds at least 10% of the equity capital/ voting power of the non-resident corporation reinvested earnings on foreign direct investment are recorded, i.e., retained earnings of the non-resident corporation are deemed to be distributed to the government and then reinvested through the financial accounts. In cases where the reinvested earnings recording is applied, government capital injections are usually recorded in the financial accounts, unless the capital injections are used to cover holding losses or write-offs not included in the reinvested earnings. The latter requires the recording of a non-financial transaction (see MGDD 3.5).

There have been no capital injections in non-resident corporations in Estonia.

7.4. Dividends

The accounting rules are set out in ESA 2010 paragraphs 20.205-20.207. It is recalled, that the ESA 2010 Manual on Government Deficit and Debt chapter 3.5 indicates that large and exceptional payments out of reserves which significantly reduce the own funds of the corporation should be treated as superdividends, i.e. transaction in shares and other equity (a capital withdrawal). It also sets out that the resource available for distribution by a unit (a corporation) is the distributable income of the unit, as defined in the ESA 2010, paragraph 4.55.

Total distributions could therefore comprise one part recorded as distributed income of corporations, D.42, and another recorded as transactions in equity, F.5. The former data is reported to Eurostat in ESA 2010 table 2 and table 8 within “other property income” category, and the latter is included within transactions in equity in financial accounts. Within the latter, for the benefit of analysis, one should also distinguish between amounts received from the National Central Bank, and amounts received from other public corporations.

In Estonian GFS, dividends are recorded on the cash basis (at the time of the actual receipt of the revenue). The data source for recording dividends is PSFS. The superdividend test is applied on a constant basis for April EDP notification. The test is conducted once more, when the finalised PSFS data is available. This takes place while preparing for the revised annual accounts to be reported in September and for October EDP notification.

Until 2018, the superdividend test was carried out using operating profit. According to suggestions made in EDP notification in April 2019, SE started using distributable income instead. Income tax is deducted from the distributable income. Although the majority of the units do not present their annual reports[19] in English, as this is not required by law, the units usually mention distributable income in the annual report as profit for the year or net profit for the financial year. The operating profit (i.e. the profit before income tax) is called “ärikasum” and distributable income (i.e. the income tax deducted from operating profit) is called “aruandeaasta kasum” in Estonian.

[19] Annual reports are available in the Estonian in Business Register. However, if the unit also compiles an English version, it is usually available on the unit’s own website.

The superdividend test itself is carried out using the distributable income of the unit from the previous year to compare it with the dividends received. The reason for such treatment is that the decision about the dividend to be paid out is usually made based on the results of the previous financial year. The general rule is that the dividends received that are equal or less than the distributable income of the previous year are recorded as property income in national accounts. The amount exceeding the distributable income is recorded as a financial transaction. In some cases, if the amount of the dividend received is small (below 0.1 million euros) but still exceeds the distributable income, it has been considered to be property income to the full extent.

The superdividend test is not carried out on dividends received by the mothers from the daughters. A group approach is used when testing superdividends.

7.5. Privatization

The accounting rules are set out in ESA 2010 paragraphs 20.210-20.213. The proceeds collected by government when disposing of shares in public corporations are often called privatization proceeds. The counterpart entity (i.e. the acquirer of shares) is the private sector. Privatization can be indirect when the proceeds are forwarded to government after the sale of a subsidiary. The MGDD chapter 5.2 indicates that such indirect privatization proceeds are not government revenue. MGDD chapters 5.3 and chapters 5.4, respectively, provide the guidance on the treatment of privatisation proceeds from public corporations and restitution and use of vouchers for privatisation.

Specifically, chapter 5.3.1 of the ESA 2010 Manual on government deficit and debt mentions that in some EU Member States, holding companies have been set- up by the government to restructure the public sector with the aim of making the enterprises more competitive and profitable and, in the long run, disengaging the government. Often their main activity is to organise the privatisation efficiently and transfer the proceeds of the sale of shares to other public corporations (owned by the holding company or not), through grants, loans or capital injections.

The main issue is: what is the relevant sector classification of this sort of unit managing privatisation and possibly making grants to other enterprises? Should this activity been considered as taking place on behalf of the government?

There is no separate unit involved in privatization in Estonia.

7.6. Public Private Partnerships

The term “Public-Private Partnerships” (PPPs) is widely used for many different types of long-term contracts between government and corporations for the provision of public infrastructure. In these partnerships, government agrees to buy services from a non-government unit over a long period of time, resulting from the use of specific “dedicated assets”, such that the non-government unit builds a specifically designed asset to supply the service. The accounting rules are set out in ESA 2010 paragraphs 20.276-20.282 and clarified in the Chapter 6.4 of the ESA 2010 Manual on government deficit and debt.

The key statistical issue is the classification of the assets involved in the PPP contract – either as government assets (thereby immediately influencing government deficit and debt) or as the partner’s assets (spreading the impact on government deficit over the duration of the contract). This is an issue similar to the one of distinguishing between operating leases and finance leases, which is explained in Chapter 15 of ESA 2010.

As a result of the methodological approach followed, in national accounts the assets involved in a PPP can be considered as non-government assets only if there is strong evidence that the partner is bearing most of the risk attached to the asset of the specific partnership. In this context, it was agreed among European statistical experts that, for the interpretation of risk assessment, guidance should focus on three main categories of risk: “construction risk” (covering events like late delivery, respect of specifications and additional costs), “availability risk” (covering volume and quality of output) and “demand risk” (covering variability of demand).

PPP assets are classified in the partner's balance sheet if both of the following conditions are met: the partner bears the construction risks and the partner bears at least one of either availability or demand risk, as designed in the contract.

If the conditions are not met, or *if government assumes the risks through another mechanism*, (e.g. guarantees, government financing) then the assets are to be recorded in the government's balance sheet. The treatment is in this case similar to the treatment of a financial lease in national accounts requiring the recording of government capital expenditure and borrowing. In borderline cases it is appropriate to consider other criteria, notably what happens to the asset at the end of the PPP contract.

PPPs are used quite rarely in Estonia. There have been two cases which are considered as PPPs. Both cases were carried out by one local government and the contractual period started in 2007.

Starting from 2009, it is very difficult to distinguish PPPs from simple acquisitions of fixed assets. The reason is that, according to the General Rules of State Accountancy, long-term co-operation contracts have to be recorded similarly to financial lease if (a) the partner is profit oriented and (b) the government sector unit controls or regulates which services to whom and at what price have to be provided. Such a rule ensures that all PPP-type contracts are always recorded so that the fixed asset is recorded in the balance sheet of the government sector unit, but it makes it very difficult to track down specific PPP contracts should more such occurrences arise.

There is no specific unit dealing with PPPs, as PPPs are not common in Estonia. According to the legislation, local governments should inform the MoF about the PPPs they are carrying out and the MoF has the right to request to see specific contracts.

In the two cases of PPPs carried out, the preliminary documentation was available via the web-site of the local government and additional information was requested by SE, after information about these PPP contracts was received via public media and from the Head of the State Accounting Department of the SSSC.

As of November 2021, developments regarding PPP projects have been frozen by the Government, as they are not prioritised by the Government.

7.7. Financial derivatives

This part describes the use of financial derivatives and the recording of derivative related flows in EDP tables and national accounts.

Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union does not distinguish between the ESA and EDP definition of interest. The Regulation No 549/2013 paragraph 4.47 reads: *Payment resulting from any kind of swap arrangement is recorded as a transaction in financial derivatives in the financial account, and not as interest recorded as* *property income. Transactions under forward rate agreements are recorded as transactions in financial derivatives in the financial account, and not recorded as property income*.

ESA 2010 paragraph 20.133 specifies the treatment of so called of market swaps: "*Lump sums exchanged at inception on off-market swaps are classified as loans (AF.4) when the lump sum is received by government. Off-market swaps are partitioned in the balance sheet into a loan component and a regular, 'at-the-money' swap component.*"

7.7.1 Types of derivatives used

Interest rate swaps have been used by major S.1313 units to hedge the effects of the changes in the interest rate on their debt service burdens. In S.1311, the MoF has used interest rate swaps to cover the risks related to student loans (which are loans with a fixed interest rate), but these are not used any more.

In the past, social security funds used currency futures and forwards to hedge the currency risks related to their bond portfolio (up until 2012).

7.7.2 Data sources

Accrual based PSFS are the main data source for derivatives. For social security funds, the report of Eesti Pank on investment portfolios was used up until 2012 as an additional source to distinguish the revaluations of their future contracts.

7.7.3 Recording

There have been no off-market swaps used in Estonia.

7.8. Payments for the use of roads

The main issue is whether payments for road, both in the case of tolls and vignettes, should be considered as sale of services or as a tax, when the infrastructures are owned by public units. The issue is important also because the classification of payments made for the usage of roads, either as sales or taxes, influences the assessment of the 50% criterion, which is fundamental for the purpose of assessing whether a given institutional unit (in some cases, a government-controlled entity receiving the payment of the toll or vignette) is a market or a non-market producer.

Payments for the use of roads will generally be classified as a sale of a service in the case of tolls. They will also be classified as a sale of a service in the case of vignettes whenever users have sufficient choice both in terms of selecting specific roads and of choosing a determined length of time for the vignette.

From 1 January 2018, it is required to pay road toll for all heavy goods vehicles that weigh over 3.5 tonnes and are used on the public road network. In addition to the heavy goods vehicles registered in Estonia, the heavy goods vehicles registered abroad are also obligated to pay the road toll. The toll rate depends on the maximum authorised mass of the heavy goods vehicle and its trailer, the number of axles, and the emission class of the heavy goods vehicle.

Estonia applies time-based road tolls, the purchase of which provides the right to use the roads for a certain period of time. The Road Administration is responsible for the collection of tolls, which are treated in GFS as payments for non-market output (P.131) of central government.

7.9. Emission permits

There are two main trading systems, where European Union Member States can participate:

The Kyoto Protocol is a 1997 international treaty, which came into force in 2005. In the treaty, most developed nations agreed to legally binding targets for their emissions of the six major greenhouse gases.[33] Emission quotas (known as "Assigned amounts", AAUs) were agreed by each participating 'Annex 1' country,

The European Union Emission Trading Scheme (or EU ETS) is the largest multi-national, greenhouse gas emissions trading scheme in the world. It is one of the EU's central policy instruments to meet their cap set in the Kyoto Protocol. The so-called EU emission Allowance (EUA) is traded.

The ESA 2010 MGDD part 6, chapter 6.5 is dealing with the statistical recording of the emission trading allowances.

Estonia sold AAUs in the years 2010–2011. The revenue received in those two years was, respectively, 158.2 and 187.8 million euros. According to the guidelines provided by Eurostat, the revenue was recorded as disposal of non-produced non-financial assets. The expenditures financed by those revenues are to be recorded at the time they are made.

EUAs have been sold since 2013. Up until this time, only free allowances were allocated to polluting companies.

In 2013, when the third phase of the EU ETS program commenced, the number of free permits decreased, and Estonia has also been selling emission permits. The number of permits to be sold by Estonia is determined by historic emissions in the EU, achievements under the Kyoto Protocol and the nation’s relative wealth. Estonia is also eligible for a derogation which allows the free allocation of emission permits to electricity producers, who in most of Europe no longer qualify for free allowances. The amount of emission permits to be sold is also influenced by the so-called “back-loading” decision which has caused a larger number of permits to be traded in the years 2019–2020 and the expense of tradable allowances for the years 2014–2016.

The trading of said permits is done via the European Energy Exchange (EEX) platform as is the case in most of Europe. On determined dates (usually 3 times a week), countries put a determined quantity of permits up for auction. The price is determined by the bids and is uniform for all transactions at auction. Information provided about the bidders is not sufficient to draw any conclusions about their origin.

Currently, the revenue received from sales of permits is recorded as a financial transaction when the sale takes place and then as D.29 Taxes on production based on TAC+1.

7.10. Sale and leaseback operations

Government sells an asset and immediately leases it back from the purchaser. The issue is whether the sale is to be considered as a "true sale" (transaction in GFCF improving B.9) or the transaction is to be treated differently and an asset should remain on government's balance sheet.

MGDD part 6, chapter 6.2 is dealing with sale and lease back operations

There were cases which could have been classified in this category. In these cases, the government sector established an enterprise with the objective to centralise the management of central government real estate. However, after the analysis of the activities of the enterprise, the unit was classified into the government sector and therefore all the transactions associated with assets occurred inside the general government sector.

There have been no further sale and leaseback operations in Estonia.

The information about possible sale-leaseback operations could be obtained from the financial statements of public sector units and from the Head of the State Accounting Department of the SSSC. Contracts are usually available on demand.

7.11. Securitisation

Securitisation is when a government unit transfers the ownership rights over financial or nonfinancial assets, or the right to receive specific future cash flows, to a special-purpose vehicle (SPV) which in exchange pays the government unit by way of financing itself by issuing, on its own account, asset backed bonds.
The classification of the proceeds received by government as disposal of an asset may lead to an impact on the government deficit, when the asset is a nonfinancial asset or if it is determined that a revenue should accrue. All securitisation of fiscal claims should be treated as borrowing, as well as all securitisation with a deferred purchase price clause and all securitisation with a clause in the contract referring to the possibility of substitution of assets. In addition, if the government compensates the SPV ex-post, although this was not required according to the contract, the operation should be reclassified as government borrowing.

ESA 2010 paragraphs 20.260-20.271 establish securitisation operations accounting rules. The MGDD part 5, chapter 5.5 is dealing with securitisation operations.

There have been no cases of securitisation in Estonia.

There is no specific official procedure in place for SE to be informed of such new operations, but there is an agreement on the management level of the State Accounting Department of the SSSC that information obtained about various accounting cases is relayed to SE.

7.11.1 Securitisation of NPLs with government guarantees

Government might help financial institutions to dispose of their impaired assets via securitisation. In such cases, government support takes the form of a guarantee on the senior debt issued by an entity (a special purpose vehicle (SPV)) specifically created to purchase the NPLs.

There have been no cases of securitisation of NPLs with government guarantees in Estonia.

7.12. Mobile phone licenses

The receipts of government following the allocation of mobile phone licenses to operators are to be recorded as rent (D.45) over the whole time of the licence.
In cases when licenses are sold in advance of their actual availability, any prepayment collected by government should be recorded as other accounts payable (F.8).

The ESA 2010 MGDD part 6, chapter 6.1 is dealing with the sale of mobile phone licenses.

The third-generation mobile phone licenses (in the form of frequency authorisation) were distributed in Estonia in 2003. The license fee collected by the government sector was recorded as disposal of a non-produced non-financial asset.

Starting from 2007, several new frequency allocations via public competition have taken place. Most of them have been associated with 3G, 3.5G and 4G mobile services. One case from the year 2011 was associated with digital TV.

The use of radio frequencies in Estonia is permitted based on a frequency authorisation. The frequency authorisation is granted for a term of up to one year, except in specific circumstances defined in legislation. Starting from 2008, the cases have concerned ship and aircraft radio licenses and amateur radio stations.

Upon the grant of the right to use a radio frequency band by way of public competition, the Minister of Economic Affairs and Communications may determine a one-off authorisation charge and a deposit for participation in the competition. The one-off authorisation charge is determined as a fixed charge or, in the case of auction, as a starting price. The deposit is equal for all participants and will be returned after the winner of the competition is ascertained.

The frequency authorisation has to be extended (renewed) each year and the state fee has to be paid for that purpose. If the state fee is not paid, the frequency authorisation cannot be renewed but has to be applied for anew. In order to extend a frequency authorisation, the authorisation holder has to submit an application no later than one month before the expiry of the frequency authorisation.

It should be noted that even in the case of public competition/auction, where the one-off authorisation charge is paid, the state fee has to be paid as well. Without the payment of the state fee, the frequency authorisation is not granted. This kind of a system creates a situation where the actual period, over which a company is using a specific frequency, is unknown at the inception. Legally, the shortest period could be one year if the holder of the frequency authorisation does not renew it. In reality, such a situation is unlikely to occur, because the holder has economic interest to hold the authorisation for a longer period.

Considering the situation, the one-off charges have been recorded as revenue in the year when the frequency authorisation was granted. Following the logic that the frequency authorisations are also sellable, the revenues were recorded as disposal of non-produced non-financial assets.

During the major revision in 2019, the recording of mobile contracts signed after 2017 was changed to match the requirements of the MGDD, to record the amounts received as D.45 rental income, spread over the lifetime of the license contracts. State fees were recorded as D.45 Rents at the time of collection. One-off fees are recorded as rents. For the recording of one-off charges collected in 2017 and onwards, the expected duration of frequency usage was estimated to be 10 years for national accounts purposes. The changes were implemented from 2017 onwards.

Regarding the recording of pre-2017 licenses, SE follows the main conclusions of the 2017 EDP dialogue visit, specifically point 15 which states: “As regards the recording of revenue linked to UMTS licences, given the fact that contracts do not have a fixed duration in Estonia, Eurostat considers that the present method used by SE to record UMTS revenues is appropriate.” Therefore, for contracts signed prior to 2017, the recording remains as one-off lump sums in the year the contracts were signed.

In 2022, four open competitions of 5G frequency licences were carried out and the recording follows the guidance in MGDD 2022 chapter 6.1.3. Therefore, proceeds collected by government, at inception are recorded as pre-payments, i.e. as a flow of payable for government. The stock of payables is reduced each period by the same amount, which is recorded in D.45 rental income.

There have been no cases of mobile phone licences sold ahead of their availability.

7.13. Transactions with the Central Bank

The management of asset portfolios and interventions in foreign exchange markets for monetary policy purposes may generate capital gains for central banks, which are liable to be distributed to general government. The amounts involved may sometimes be very large. Capital gains are not income in national accounts and therefore payments to government financed out of capital gains cannot be recorded as property income but have to be recorded as financial transactions. It also proposes to apply the rules on capital injections when government makes a payment to the Central Bank. Such payments by government may be made to cover losses made by the Central Bank. Capital losses may occur due to foreign exchange holding losses. Operational losses may occur due to the fact that interest and other operational income do not cover operational costs made by the central bank. Capital losses cannot be recorded as equity injection, therefore capital gains and losses are somehow not treated symmetrically. This asymmetrical treatment is nevertheless justified for the purpose of appropriately measuring government deficit.

Eesti Pank provides a part of its profit to the state budget according to section 30 of the Eesti Pank Act, and those revenues are recorded as dividends in general government accounts. The amount of profit handed over is dependent on the amount of profit transferred to the various reserves. The amount of profit transferred to reserves is decided by the Supervisory Board of Eesti Pank, but at least 50% of the profit has to be transferred. The rest of the profit has to be transferred to the state budget. The superdividend test is used on the payments made to the state budget, because the profit of Eesti Pank is calculated including the revaluation effects of the securities and also net-receipts from the sale and disposal of securities, which are not revenue according to ESA 2010.

7.14. Lump sum pension payments

ESA 2010 paragraphs 20.273-20.275 define the accounting rules for recording of the lump sum pension payments. The related accounting rules are further described in the ESA 2010 MGDD and debt Part 3.6 Impact on government accounts of transfer of pension obligations.

There have been no such cases in Estonia.

7.15. Pension schemes

Pension system in Estonia is based on three-pillar approach.

The first pillar is compulsory for all residents of Estonia as it’s paid out of the social tax calculated from salaries. Social tax is 33% and is divided in two parts 13% is for health insurance and 20% is for the pensions of today’s pensioners. The first pillar makes the main part of the person’s pension in old age or in case of future inability to work. Based on if the person is joined with second pillar then 4% of the social tax is transferred directly to the second pillar.

The second pillar is voluntary managed funded scheme and addressed only the risk of old-age and does not provide of invalidity and survivorship. From 1st of January 2021 the second pillar was made voluntary. The second pillar is managed by fund management activities as investment funds and the participants are holders of pension units. If a person has joined the second pillar, then employee has to pay 2% of its gross wage, which is withheld by the employer. The 4% of person's social tax will be transferred to insure everyone's personal future and that part will be paid as voluntary funded pension not as state pension.

The second pillar reform came into force on the 1st of January 2021. From 1st of January 2002 to 1st of January 2021 the second pillar was compulsory for the persons who were born in 1983 and later but was voluntary for the employees up to the age of 60 on the certain conditions. The obligation aroused on 1st of January of the year following the year when person became 18 years old and is tax-resident in Estonia. The pension reform allowed people to decide if they want to participate in such scheme, suspend their funds or withdraw funds. The young people are automatically joined the second pillar but them as well will have the ability to choose if they want to stay in that scheme. However, if the person has decided to withdraw his funds then there is a ten-year rule which states that the person will have the right to resume funded pension contributions only when ten years have passed since the withdrawal. After withdrawal the person can decide what to do with his funds. One of the options is to reinvest into pension investment account where is possible to invest the second pillar money himself.

The third pillar is based on supplementary funded pension scheme and is completely voluntary as well. It is managed by fund management activities. The person has to choose either to have more funds to collect for retirement and which funds to have. If the person chooses to join the third pillar it is his decision how much money will put into it and have the right to withdraw the money any time. With third pillar there are no obligations at all. However, the person can apply for the refund on the income tax on contributions to the third pillar which gets him a 20% tax rebate on annual contribution. Tax incentive should not exceed 15 percent of persons annual gross income or 6000 euros, whichever is lower.

The detailed pension and security system schemes are described in Annex II.

7.16. Rearranged transactions

With reference to the EDP 2021 dialogue visit and action point 11, SE reroutes the operations of KredEx Krediidikindlustus AS (KredEx Credit Insurance Ltd), which are performed on behalf of the government and with its guarantee, through the S.13 accounts from 2020 onwards. Kredex Krediidikindlustus AS provides state export guarantees on behalf of the government sector. These transactions are rerouted through S.13 accounts and recorded as standardised guarantees, hence, as contingent liabilities of the government according to ESA paragraph 5.190, MGDD chapter 1.2.4.5.2 and MGDD chapter 7.4 point 32. The corresponding provisions are recorded as provisions for calls under standardised guarantees (AF.66) liabilities and guarantee calls as (D.99) expenditure as well as transactions in AF.66 liabilities of the government sector in case the payments are made from the provisions. Transactions are rerouted through S.1311 accounts from 2020 onwards.

To identify the transactions to be rearranged, annual reports alongside PSFS are used. The annual report gives information about the amount of risk portfolio, i.e. the sum of active credit limits. The report states the volume of credit risks insured with a state guarantee in the risk portfolio each year. However, according to the information received from the company, the credit limits do not incorporate the maximum potential liability which would have to be paid out by Kredex Krediidikindlustus AS in case the buyers become insolvent. The gross amount of the insurer's maximum potential liability at the end of each year is also provided in the annual report. Nevertheless, the amount which is reinsured with a state export guarantee is not published in the annual report of Kredex Krediidikindlustus AS. According to the information received from the company, one insurance contract with one company may cover several credit limits by different buyers/countries, some of which are covered by the state guarantee and some of which are not. Hence, an estimation of the maximum liability covered by state guarantee is made according to the volume of credit risks insured with a state guarantee each year. The amounts determined to be rearranged enter into statistics via PSFS verified with the amounts presented in the annual report.

7.17. Decommissioning costs

Currently, there are no activities covered or reported.
Decommissioning activities took place in 2009–2010 and in 2014–2015. These transactions were corrected in the benchmark revision 2019. Further explanations can be found from the benchmark revision 2019 documents on SE’s website[20].

There is a new long-term project: the establishment of a final storage facility and the dismantling of reactor sections.

Activities and timetable for the establishment of a final storage facility and demolition of reactor sections:

- 2017–2025 – preparatory activities. Application for funds, preparation of basic documents for public procurement (completion of studies for the establishment of the final storage facility and demolition of the reactor sections; preparation and impact assessment for a zoning plan), conduct of procurement. Thereafter, planning shall be carried out including a strategic environmental impact assessment. Relevant studies shall also be carried out to identify the best location for the establishment of the facility. In parallel, the environmental impact will be assessed and appropriate studies will be carried out to find the best way to demolish the reactor sections.
- From 2025 to 2027 – operating permits will be requested and issued for the design and construction of the facility.
- From 2027 to 2040 – design and construction of the facility. Based on the results of the planning and impact assessment, a facility will be designed and built, which allows – besides final storage – the treatment, packaging and temporary storage of waste. The existing radioactive waste will also be processed and packaged and be ready for storage.
- From 2027 to 2040 – application for and issue of licenses for the dismantling of reactor sections. In the course of this activity, preparatory work will also be carried out to demolish the sections; the equipment needed for demolition will be acquired.
- From 2039 to 2040 – application for and issue of authorisation for use, implementation of the monitoring programme and introduction of the facility.
- From 2040 to 2050 – dismantling of reactor sections. In addition to the dismantling of the sections, radioactive waste will be treated, packaged and stored at the facility.

According to the preliminary studies (2015), the indicative cost of the construction of the final storage facility and the dismantling of the reactor sections will be 90 million euros, which is planned to be covered from EU funds and the state budget.

[20] Revision of time series in 2019 https://www.stat.ee/sites/default/files/2020-11/Revision%20of%20time%20series%20in%202019.pdf

Specific government transactions - Transactions with the Central Bank - Lump sum pension payments - Pension schemes

7.18. Concessions

Concessions are arrangements for the ‘development’ of infrastructure (e.g., buildings, roads, bridges, tunnels airports, ports), with payments made by end-users. Concessions are long-term arrangements between a government unit and a concessionaire (which may be a public or a private unit) in which the government grants the concessionaire the legal right to exploit a specific asset (or even several assets) which is/are constructed, substantially renovated or expanded under the concession arrangement. At the end of the concession arrangement, all assets are returned to the government for no consideration. If the assets are not returned to the government at the end of concession, the arrangement is not a concession.

There are no concessions in Estonia.

7.19. Energy Performance Contracts

In an Energy Performance Contracts an EPC-contractor finances and carries out an initial capital investment in order to improve the energy efficiency of an existing facility. The EPC-contractor is remunerated via the energy savings achieved through the upgraded equipment and structures. The equipment and structures provided by the EPC-contractor are treated collectively as EPC assets and are recorded on the balance sheet of the EPC-contractor if it ultimately bears the majority of the risks and rewards associated with the use of the EPC assets. A detailed approach to the risks and rewards to be analysed is provided in the Eurostat/ EIB “Guide to the statistical treatment of Energy Performance Contracts” published on 8 May 2018.

No contracts have been carried out and no plans have been made for the renovation of the central government property. Energy efficiency contracts are not reasonable for the renovation of central government buildings, as the study ordered by Riigi Kinnisvara AS (State Real Estate Ltd.) points out. At municipal level, one energy efficiency contract has been implemented to renovate a kindergarten in Viljandi city. In the future, there are no plans in this area.

So far, the MoF has drawn up an energy efficiency contract template as a sample for the public sector. Further actions of the MoF include raising awareness in the public sector, whereas they plan to identify good demonstration projects and introduce these to the government sector units.

Information about possible EPCs is requested from MoF.

7.20. Government interventions to support financial institutions: financial bailouts and defeasance

There have been no government interventions to support financial institutions in Estonia.

Annex I List of general government units

Provided separately.

Annex II Pension schemes

The following groups are applied for the classification of the coverage of pension schemes:

1) disability pensions (disability);
2) early retirement benefits due to reduced capacity to work (disability);
3) old age pensions (old age);
4) anticipated old age pensions (old age);
5) partial pensions (old age);
6) survivors' pensions (survivors);
7) early retirement benefits for labour market reasons (unemployment).

At national level, the definition of pension is laid down by legal acts. The main legislative document in this field is the State Pension Insurance Act. It covers:

- Old age pension – includes old age pension (including deferred old-age pension) and anticipated old-age pensions (old-age pension under favourable conditions and early retirement pension). Early retirement pension is not connected with labour market reasons or reduced capacity to work. The only conditions are that the person has three years or less until the retirement age and the length of the pension qualifying period has to be at least 15 years.
- Survivors' pension
- National pension – could be old age or disability or survivors' pension. A national pension shall be granted when potential beneficiaries do not have the right to receive the pensions mentioned above.

Superannuated Pensions Act regulates old-age pensions ("length of service" pension).

Old-Age Pensions under Favourable Conditions Act regulates old-age pensions.

Different legal acts regulate special pension schemes for the President, Members of Parliament, Judges, Members of Defence Forces (all categories of pension are covered), Police Officers, Prosecutors (covers disability and old-age pensions), the Auditor General, the Legal Chancellor (covers survivors' and old-age pension) and Public Service (old-age pension).

Unemployment Insurance Act regulates contributions related benefits in the case of unemployment. Under pension schemes classification, only early retirement benefits for labour market reasons are presented. There are no such early retirement pensions in Estonia, but Unemployment Insurance Fund pays unemployment insurance benefits if a person has lost their job and certain conditions are fulfilled (length of qualification period, reason of ending the job contract). These benefits are included under the national definition of "pension". The following table lists pension schemes in Estonia. The key to the "Coverage" numbers can be found above in the beginning of Annex II, and the key for "Scheme" can be found below the table.

Table 13. Pension schemes in Estonia

#	Scheme name	Coverage	Scheme
1	State Pensions	1, 3, 4, 6	A
2	Unemployment	7	A
3	Voluntary Funded Pension	3	B
4	Supplementary Pension Funds	3	B
5	Employers Funded Pension	3	C
6	Schemes for civil servants (President, Members of Parliament, Members of Defence Forces, Judges)	1, 3, 6	D
7	Schemes for civil servants (Police Officers, Prosecutors)	1, 3, 4	D
8	Schemes for civil servants (State Auditors, Legal Chancellors)	3, 4, 6	D
9	Schemes for civil servants (Public Service)	3, 4	D
10	Pension Insurance	3, 4	F

The letter codes for “Scheme” in Table 13 have the following meanings:

A − social security schemes;

B − private funded schemes administered by insurance companies or autonomous pension funds;

C − private funded schemes operated by employers, which maintain special reserves (segregated from other reserves);

D − private unfunded schemes operated by employers (without special reserves);

E − social assistance;

F − other insurance.

Description of pension schemes in Estonia:

1st scheme: the main part of I pillar (from the classical three-pillar system) based on the pay-as-you-go system. Social tax used for pension payments is considered as contributions. The scheme is unfunded.

2nd scheme: started in 2002. The scheme was established to protect employees against all risks connected with unemployment and, at national level, it is considered as a pension scheme, because it provides benefits related with contributions.

3rd scheme: II pillar pension funds. Collection of contributions started on 1 July 2002. The second pillar was mandatory a fully funded pension scheme until 1 January 2021. From January 2021, it is voluntary.

4th scheme: a part of the III pillar. Supplementary funded pension funds are managed by fund management activities. The number of participants is the total of unit holders of all funds. The benefits are not treated like a pension at national level.

5th scheme: there are no data available about these funds.

6th – 9th schemes: parts of the I pillar for a certain group of pensioners. Unfunded schemes financed from the State Budget.

10th scheme: the other part of the III pillar (voluntary pension insurance). The number of contributors is the number of outstanding insurance contracts, contributions are gross premiums and pensions are gross claims. The benefits are not treated like pensions at the national level. The scheme is included for a better overview.

General remarks for Table 13

- Pension is a monthly financial social insurance benefit in the case of old age, incapacity for work, loss of a provider or unemployment, which is based on the principle of solidarity and which is paid from the funds allocated for the expenditure of state pension insurance or special pension schemes in the state budget or from unemployment insurance fund. Starting from 2002, it includes a periodic benefit, which is guaranteed by the law; for receiving it, units of a pension fund are acquired for the social tax paid for a person and for additional contributions made by the person; it is paid from the pension fund or by an insurer. According to the Funded Pensions Act, actual mandatory funded pension payments started from January 1st, 2008.
- Interpretation provided in this document does not cover supplementary funded pension and employers funded schemes, because of the lack of information.
  The supplementary funded pension is voluntary, and one person could have shares of several funds (scheme 4) as well as insurance contracts (scheme 10). He or she could also buy and sell the shares as he/she wants or disclaim the insurance contract. The main difference between supplementary pension fund and ordinary investment fund is that if the units are not sold before the age of 55, there is no income tax paid on contributions and gains. Supplementary pension funds are treated as other investment funds, and pension insurance as ordinary life insurance.
- There is a problem with scheme 4: it is impossible to find out the actual number of participants or pensions paid. The requirements are slightly stricter than for other open-ended mutual funds, but the guarantees for the investors in the case of failure are the same.
- There are no social insurance schemes where benefits and contributions are classified as social assistance and vice versa.
- The separation of social and other insurance is based on obligation: obligatory schemes are considered to be social insurance.
- People are encouraged with tax reductions to join supplementary funded pension schemes. Income invested into supplementary pension funds or paid for pension insurance is free from income tax (Table 13, Scheme 10).
- There are no pension schemes encouraged by any other body than the state in Estonia.

Classification of social insurance schemes

The state pays social insurance tax for the following persons:

- persons who receive child care allowance;
- non-working spouses of diplomats and public servants serving in a foreign state;
- persons who receive caregiver’s allowance;
- non-working persons who have participated in the nuclear test, in the elimination of the effects of a nuclear disaster, or in an accident at a nuclear power station;
- Estonian citizens who have settled to Estonia from foreign states or persons of Estonian origin and their spouses, children and parents receiving social benefits;
- conscripts or persons in alternative service.

All of the aforementioned persons are participants in scheme 1, the state pension (see Table 13).

Pension schemes classified in Table 13 as type “A” cover a large part of the community. Scheme 1 (state pension) covers all employed persons, unemployed and some of non-employee worker.

Scheme 2 (unemployment) covers all employed persons, except the self-employed and persons who have the right to receive old age pension. Government units impose both schemes, described as category “A”. A “non-employee worker” could participate in schemes 1, 3, 4 and 10 (Table 13). The category “Private funded schemes administered by insurance companies or autonomous pension funds” includes second pillar funds managed by management companies. Joining the scheme was mandatory until 1 January 2021 for people born in 1983 or later, after they turn 18 and voluntary for other employees born in the period 1942−1982 on the condition that social tax is paid or is to be paid. Self-employed persons could make contributions only if they have contracts with enterprises or the public sector. From 1 January 2021, the second pillar became voluntary for everyone. Units of pension funds are inheritable.

4th scheme funds marked as “B” are supplementary funded pension funds managed by fund management activities. They are voluntary and everybody may join. In national accounts, they are treated as investment funds.

Funded schemes hold assets and have liabilities corresponding to these assets. Each member of the scheme owns a proportionate share of the assets of the fund, and sooner or later the share will be taken out.

The contributions made in accordance with the Unemployment Insurance Act are invested by the unemployment insurance fund (Table 13, Scheme 2). The scheme is classified as type “A”, because there are no guarantees that the contributor will receive anything, i.e. the contributors do not own anything.

Pension schemes classified as private funded schemes hold assets considered as owned by the insurance policy holders.

There are no “partially funded schemes” in Estonia.

The scheme is a “defined contribution scheme” when the investment risk is carried by contributors and the received benefits depend on investment income. Scheme 3 in Table 13 is the defined contribution scheme, the others are defined benefit schemes, except scheme 10, which could include some contracts based on a “defined contribution scheme”, but as it was explained before, we consider that scheme as category “F”.

Employers’ funded schemes are very rare in Estonia and, because of the lack of information, they are not recorded as pension schemes so far.

Statistics Estonia has not found out whether there are any private unfunded schemes operated by employers, except for civil servants.

Social contributions are recorded in the “secondary distribution of income account” with entry D.611 (employers’ actual social contributions).

Classification of social security schemes

Social security schemes are compulsory for their participants. The obligation is based on legal acts. There are no pension schemes classified as “social security schemes” in which participation is voluntary.

The contributions are fixed in legal acts (Social Insurance Act and Unemployment Insurance Act) as percentage of wages and salaries. The algorithms for calculation of benefits are established in the State Insurance Act and Unemployment Insurance Act, a part of state pension (the national pension) is set by the Parliament. The Social Insurance Board whose main task is the organisation granting and paying state pensions, benefits and compensations (Table 13, Scheme 1) is an agency working in the administrative area of the Ministry of Social Affairs.

The Unemployment Insurance Fund managing Scheme 2 (Table 13) is a legal entity under public law.

The government controls the financing of both schemes classified in category “A”. The funds for financing state pension insurance are provided in the annual state budget. The main source for covering these expenses is the pension insurance part of the social tax. Unemployment insurance is financed from unemployment insurance premiums, which are a type of compulsory insurance payment established by law and transferred by the Estonian Tax and Customs Board (ETCB).

The financing of Voluntary Funded Pension (Table 13, Scheme 3) is established by the law and organised by ETCB; ⅔ of the contributions made could be considered as financing from government – employees have to pay 2% of their gross wage, which is withheld by the employer. The employer will redirect 4 percentages of the current pension insurance part of the social tax (20%) together with 2% to ETCB (from where they are allocated to pension funds through the Estonian Central Depository for Securities). On the other hand, the allocation of 4% reduces the future state pension benefits of the contributor as he/she had paid less social tax. In national accounts, it will be recorded as a transaction between employer and pension fund (S.124). The scheme is considered as a private funded pension scheme, because the benefits depend on contributions and investment income and are not guaranteed or controlled by the government.

The Voluntary Funded Pension (Table 13, Scheme 3) was compulsory until 1st of January 2021 for persons born in 1983 or later and voluntary for other employees up to the age of 60 (born in 1942) on the condition that social tax is paid or is to be paid. Private companies manage it as investment funds and the participants are holders of pension units. The scheme is classified as type “B”, because it is fully funded and contributions are paid to autonomous pension funds. From 1st of January 2021, the scheme is completely voluntary, allowing people to suspend and withdraw funds. Once the funds are withdrawn, the person has the right to resume funded pension contributions after ten years have passed since the termination of contributions.

Classification of institutional units supporting pension schemes

Pension schemes in Estonia are classified by sub-sector as follows:

		Categories of pension schemes					
		A	B	C	D	E	F
Institutional sectors/ sub-sectors	S.11	XX	No	Yes	No	No	No
	S.121	XX	No	No	No	No	No
	S.122	XX	No	No	No	No	No
	S.123	XX	Yes	No	No	No	No
	S.124	XX	Yes	No	No	No	Yes
	S.1311	Yes	XX	No	Yes	No	No
	S.1312	XX	XX	XX	XX	XX	XX
	S.1313	No	XX	No	Yes	No	No
	S.1314	Yes	XX	No	No	No	No
	S.14	XX	No	No	No	No	No
	S.15	XX	No	No	No	No	No
	S.2						

Yes = there are institutional units belonging to the sector/sub-sector that support (run) pension scheme of the specified category;

No = there is no institutional unit belonging to the sector/sub-sector that supports (runs) pension schemes of the specified category;

XX = a combination is impossible.

The key for the categories of pension schemes may be found under Table 13.

Category A: Sub-sector S.1311 runs pension scheme 1 and S.1314 runs pension scheme 2.

Category B: Institutional sub-sector S.123 show's pension scheme 4 (Table 13). Supplementary pension funds are treated as financial vehicle corporations created to be holders of securitized assets. Sub-sector S.124 runs pension scheme 3.

Category D: Sub-sector S.1311 runs schemes 6−8 and part of scheme 9. Sub-sector S.1314 runs part of scheme 9. So far category “D” has been recorded in sub-section S.1311 as category “A”.

There are no pension schemes that are not based on the principle of social solidarity, supported by institutional units classified within the general government sector.