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D-3: Excessive deficit procedure (EDP) 2

Luxembourg, May 2024

FINAL FINDINGS

EDP dialogue visit to Finland

4-5 May 2023

17 May 2023

EXECUTIVE SUMMARY

Eurostat carried out an EDP dialogue visit to Finland on 4-5 May 2023 and 17 May 2023. The aim of the visit was to review several technical and methodological issues related to EDP reporting.

The discussions between Eurostat and the Finnish statistical authorities mainly focused on the high statistical discrepancies in EDP tables, the sector classification of certain financial public corporations, the implementation of the accrual principle for taxes and social contributions, and the recording of interest, financial derivatives, and EU flows.

Eurostat discussed with Statistics Finland the accumulation of a negative statistical discrepancy for S.13, which has now reached 2.2% of GDP. All aspects relating to the possible origin of the statistical discrepancy were discussed, including the data sources used for the EDP reporting, the potential influence of the new data source introduced at the local government level (which also includes a new layer of the local government known as wellbeing services counties), the consolidation of data, the level of details available for the reconciliation of the difference between the B.9 and B.9f at unit level, and the general quality of data inputs.

As regards the delimitation of general government, the list of government-controlled units classified outside the government sector was reviewed. In particular, the sector classification of MuniFin and the Finnish Export Credit Ltd, both classified in the financial corporations sector, were discussed in more detail. It was agreed that Statistics Finland will review the issue of the classification of MuniFin and will investigate whether the Finnish Export Credit Ltd could be considered as an institutional unit, and the potential consequences for its classification of the ongoing analysis on the sector classification of Finnvera.

On taxes and social contributions, the discussion focused on the possibility of reporting the EDP Questionnaire table 5 on a gross basis. In addition, Statistics Finland will investigate the payment arrangements applied for social contributions and will review the current practice of apportioning income taxes between central government and local government.

In relation to the recording of interest and derivatives, some issues about the presentation of the different associated flows in EDP tables were discussed. In addition, the reporting of the emergency refinancing provided to the Finnish Export Credit Ltd in 2011 was discussed again in the context of the analysis to reduce statistical discrepancies, aiming to clarify the recording of the related hedging swap in the EDP table 3B and ESA table 27, as well as in the EDP table 2A.

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

FINAL FINDINGS

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Finland on 4-5 May 2023 (Part I) and 17 May 2023 (Part II).

The delegation of Eurostat was headed by Mr Luca Ascoli, Director of Directorate D Government Finance Statistics. Representatives of DG ECFIN, the European Central Bank (ECB) participated in the meeting as observers. The Finnish authorities were represented by Statistics Finland, the Ministry of Finance, and the Bank of Finland. Representatives from the State Treasury also participated for the relevant agenda items.

The previous Eurostat EDP dialogue visit to Finland took place on 8-9 February 2021.

Eurostat carried out this EDP dialogue visit in order to review data sources for EDP/GFS data compilation, to discuss the implementation of ESA 2010 methodology, mainly for the (1) recording of interest and financial derivatives, (2) accrual recording of taxes and social contributions, to review the recording of specific government operations such as capital injections, dividends, guarantees, PPPs, and to review the recording of government measures undertaken in the context of Russia's invasion of Ukraine and the measures to mitigate high-energy prices.

With regard to procedural arrangements, the Main conclusions and action points will be sent to Finland for review. Then, within weeks, the Provisional findings will be sent to Finland for review. After this, in accordance with Article 13 of the EDP Regulation, the Final Findings will be sent to Finland and to the Economic and Financial Committee (EFC) as well as published on the website of Eurostat.

Eurostat appreciated the relevant background material provided by the Finnish statistical authorities prior to the EDP standard dialogue visit. Eurostat also thanked the Finnish statistical authorities for their good co-operation and productive discussions during the EDP dialogue visit.

1. STATISTICAL INSTITUTIONAL ISSUES

1.1 Review of institutional responsibilities in the framework of the EDP data reporting and GFS compilation

Introduction

Statistics Finland has the sole responsibility for actual data relating to EDP statistics, for applying national accounts methodology and for making classification decisions, while the Ministry of Finance (MoF) is responsible for planned data. The institutional responsibilities and the institutional arrangements are the same as those established during the EDP dialogue visit in 2021.

Discussion

Statistics Finland introduced this topic by presenting their Statistics Finland's organisational chart and pointing out the challenges stemming from the current outdated compilation system. Statistics Finland considers that the current IT system is lacking flexibility and requires further development to always achieve full continuous consistency of all statistical sub-domains. Statistics Finland informed Eurostat that a new IT project which will address these issues is foreseen for implementation in 2028.

The Government Finance Statistics team at Statistics Finland, responsible for compiling the EDP tables, consists of experts from both the Government Finance and Sector Accounts group and the Balance of Payments and Financial Accounts group within the Economic Statistics Department in Statistics Finland. As the EDP tables are a product of the national accounts process, the compilers of EDP statistics are the same staff that compiles the subsectors for the annual national sector accounts.

To facilitate information exchange, Statistics Finland set up an EDP co-operation group consisting of representatives from Statistics Finland, the Ministry of Finance, and the Bank of Finland. This group meets regularly before the notification deadlines to discuss and inform each other of underlying events and decisions influencing the reported figures.

There are also regular annual meetings between Statistics Finland, the Ministry of Finance, and the National Audit Office of Finland. Statistics Finland emphasized in their reply to an action point of the dialogue visit in 2021, that issues of mutual interest can be covered in these meetings and considered that there is no need for a formal cooperation agreement between the institutions.

Eurostat asked whether there are sufficient resources assigned to EDP tasks. Statistics Finland replied that there are 15 people involved in the government finance and EDP statistics. Statistics Finland considers that one more expert in financial accounts would be beneficial. Statistics Finland also highlighted significant challenges it faces when organising work between departures and arrivals of experts, as well as due to the IT and data source changes.

Findings and conclusions

Eurostat took note that there have been no changes in the institutional responsibilities or institutional arrangements in Finland since the previous EDP dialogue visit.

1.2. Data sources and revision policy

Introduction

The major change to the government sector since the last EDP dialogue visit, and consequently to data sources, is the introduction of a new layer within the local government - S.13132 – ‘wellbeing services county administration’. This reform from the beginning of 2023 transferred the responsibility for organising health, social and rescue services from municipalities to the newly established wellbeing services counties.

Statistics Finland reported new data sources for central and local government due to the rerouting of social housing activities via government accounts.

Discussion

Statistics Finland presented the main highlights of the reform of healthcare, social welfare and rescue services that entered into force at the beginning of 2023 and its effect on the preparation of the Finnish GFS compilation.

Under the reform, 21 self-governing wellbeing services counties were established. The responsibility for organising public healthcare, social welfare and rescue services was transferred from the municipalities to the wellbeing services counties on January 1st, 2023. The City of Helsinki is responsible for organising health, social and rescue services within its own area, whereas the joint county authority for the Hospital District of Helsinki and Uusimaa is responsible for organising specialised healthcare in the Uusimaa area. The highest decision-making power in each wellbeing services county is exercised by a county council, whose members are elected in county elections.

The new wellbeing services counties are primarily funded by central government transfers, which are financed via taxes. Funds are collected via an increased state tax rate on personal income and its share of corporate income tax. Consequently, municipal tax rates were reduced as was their share of corporate income tax. The wellbeing services counties have no right to collect taxes. Since the counties are self-governing, they decide on the use and allocation of their funding. The level of funding is allocated to counties based on specific criteria, adjusted annually. They can undertake loans for investments only with government approval.

Regarding data sources, it was recalled, that financial information on municipalities and wellbeing services counties are collected by the State Treasury, supplementary data are used from other sources (e.g., Tax Administration). Not all data – or all detailed computations – will be available in March 2024, before the EDP notification of April, although figures will become more reliable when data becomes more robust during 2024.

Statistics Finland recalled that, since the beginning of 2021, the State Treasury has been responsible for the collection of financial data from municipalities, taking over this role from Statistics Finland. In addition, the State Treasury maintains the register on municipal financial data.

Statistics Finland noted issues and problems related to the data collection process that can be divided into two main categories, technical difficulties, and data content related issues.

Data content related issues, potentially impacting data quality, are the following: varying response rates among reporting entities (often below 100%), as some data providers are failing to adhere to the reporting schedule; reluctance, or failure to correct inconsistencies or provide additional information; logical and mapping errors due to an incomplete automation

of the reporting process, and discrepancies between accounting/bookkeeping practices and National Accounting standards.

Eurostat asked whether the new local government data collection would allow more timely and direct access to the individual reports. Statistics Finland confirmed this, explaining further that the reporting has become more detailed (transitioning towards a register-based approach) and is offering more granularity compared to the previously used group level data. The reporting now encompasses three dimensions— accounts (expenditure, revenue), service classification (COFOG, industry classification) and sector classification.

Eurostat inquired whether the changes in data collection would result in potential breaks in time series, Statistics Finland confirmed this. The main improvement noted was the more detailed reporting instructions, that would bring clarity to respondents on what to include in their reports, thus correcting previous inaccuracies.

Eurostat noted that such break in time series may affect the statistical discrepancy. For example, if a flow is calculated from the change in stocks, and if the new stock of payables is significant, the break in the time series would create a significant statistical discrepancy. Eurostat considers that Statistics Finland should verify whether the stocks of payables/receivables are contributing to the existing statistical discrepancy.

As regards the new data source for the compilation of rerouted social housing loans with interest subsidy, it was recalled that a quarterly report on state-guaranteed ARA¹ loan stocks per debtor sector was introduced in the compilation process of central and local government financial accounts, in the statistical year 2021. The State Treasury reports the information to Statistics Finland.

In relation to the revision policy, Statistics Finland has not reported any changes since the last EDP dialogue visit. The revision policy for EDP data is part of the revision policy that applies for national accounts. In the April notification (t+3) the EDP figures for year (t) are considered as final when the final supply and use tables concerning year (t) are published.

Findings and conclusions

Action point 1: *In relation to local government data, the Finnish statistical authorities will check and report to Eurostat (looking at counterpart information available through the new Ministry of Finance interface) whether the stocks of other accounts payable and receivable observable in the source data are significant and the predominant counterpart sectors. They will assess whether the change in reporting towards a more automated system (e.g., through this new Ministry of Finance interface) possibly entailed a break in time series that might then have inadvertently led to discrepancies (where F.8 is calculated by changes in stocks). This is because, even though the chart of account/budgeting may not have changed, much more frequent voluntary reporting (favoured/facilitated by the new reporting scheme) or renewed focus by accountants on the data (following the change in interface) may have led to “new”/re-estimates of AF.8 stocks.*

*Deadline: 15 September 2023.*²

1.3 Compliance with Council Directive 2011/85/EU

Introduction

¹ The Housing Finance and Development Centre of Finland (ARA).

² The note was provided on 15 September 2023.

Regarding fiscal data, Statistics Finland publishes monthly data on public finances, broken down by central government and social security funds, that are further broken down by employment pension schemes and other social security funds³. Data are provided for total revenues, total expenditures, and fiscal balances. The quarterly data for local government are also published.

Annual data regarding general government guarantees, liabilities of public corporations, off-balance sheet PPPs, general government non-performing loans and the participation of general government in the capital of corporations are published, as a percentage of GDP.

Discussion

Statistics Finland reported that both data, the cash-based fiscal data, and contingent liabilities, are produced and published according to Council Directive 2011/85/EU. Data published nationally are consistent with the data published annually in Eurostat's database. The national publication also includes data on the participation of government in the capital of corporations. However, data on non-performing loans are not available for the local government level.

Eurostat raised concerns about the timing of publication of the contingent liabilities data, noting they are usually published after Eurostat's own publication, hindering consistency checks. Statistics Finland indicated the possibility of earlier data release in January but clarified that publishing figures as percentage of GDP will not change.

Findings and conclusions

Eurostat took note of the explanation. Statistics Finland is planning to publish the relevant data earlier to provide Eurostat with the possibility to cross-check the consistency to reported data.

1.4 EDP Inventory

Statistics Finland provided the latest version of the EDP Inventory according to ESA 2010 in January 2021. The Annex 1 – A List of General Government Units – refers to years 2018 and 2019.

Following the MGDD 2022 edition, the EDP Inventory template was reviewed, therefore an update of Finish EDP inventory would be required. Eurostat recalled that keeping EDP Inventory up to date, is a legal requirement of the Regulation 479/2009, as amended and encouraged Statistics Finland to update the EDP Inventory regularly. Eurostat suggested that the Annex 1 could be updated on a yearly basis.

Findings and conclusions

Action point 2: *It was agreed that the EDP Inventory will be revised in the context of the benchmark revision.*

Deadline: by 1 October 2024.

2. FOLLOW-UP OF THE PREVIOUS EDP DIALOGUE VISIT

³ The situation changed at the end of year 2023. Statistics Finland is now publishing the data broken down on central government and social security funds.

The previous EDP dialogue visit took place on 8-9 February 2021 and resulted in 23 action points. Statistics Finland provided responses to all of them. The action points that remained under Eurostat evaluation were discussed in the relevant agenda items of this dialogue visit.

Action points 14, 15a, 15b and 22 were discussed under the interests and derivatives recording. Action point 6, regarding the special risk financing programme, was discussed in the context of the Finnfund sector classification.

3. FOLLOW-UP OF THE APRIL 2023 EDP NOTIFICATION

Introduction

During the April 2023 EDP Notification, Eurostat observed an accumulation of negative statistical discrepancy for the years 2019-2022 at the central government level (it amounted to almost EUR 2 billion, equal to 0.7% of GDP). For the general government sector, the statistical discrepancy (of a negative sign) reached EUR 5.8 billion, equal to 2.3% of GDP. This could indicate either that the deficit would be too high, or that the debt would be too low, or that the sum of adjustments between the deficit and debt inside EDP tables 3 could be wrong. Given the size of the discrepancy and its increasing amounts, Eurostat requested the issue to be investigated by Statistics Finland. This would be especially relevant for 2022, when alongside a deficit of 0.9% there was a discrepancy of 1.2% of GDP.

Discussion

Two types of discrepancies could arise in EDP tables 3: (a) the difference between B.9, compiled from non-financial accounts, and B.9f stemming from financial transactions; and (b) the discrepancy arising from the imperfection in stock and flow reconciliations. Due to this, two separate lines are devoted to discrepancies in EDP tables 3: the line "Difference between capital and financial accounts (B.9-B.9f)" and the line "Other statistical discrepancies (+/-)".

During the April 2023 EDP notification, Statistics Finland reported that they were in the process of double-checking the biggest transactions and sector classification changes. They were also considering several contributing factors, such as the COVID-19 pandemic and the reform of the healthcare, social welfare, and rescue services. These events may have triggered some time of recording issues. Statistics Finland also recalled that the figures for the year 2022 were still preliminary. Revisions are expected at least until December 2023, when the latest information referring to 2022 will be available. Moreover, there is still room for improvement in the new data collection process governed by the State Treasury, as there have been many quality issues concerning the collection of budgetary local government accounts for the years 2021 and 2022.

Eurostat enquired about the nature of the working balance for central government, indicated as being on a mixed basis in the EDP Inventory. It was clarified that the working balance is mostly cash-based, with some exceptions. For example, the compensation of employees (D.1) and intermediate consumption (P.2)⁴ are on an accrual basis while transfers to other government levels (D.73), taxes and social contributions are on a cash basis. However, the working balance of the central government is largely defined by commitments. The budgetary appropriations not used are included and, consequently, deducted in the adjustment lines in EDP table 2A.

⁴ Statistics Finland records intermediate consumption on accrual basis or cash basis. Usually, the principle is accrual.

The working balance of the social security funds is on an accrual basis, except for social contributions, employment fees and transfers that are recorded on a cash basis. Eurostat further enquired about the recording of the time adjustment in EDP table 2D when transfers occur from central government to Kela⁵, which needs to be verified by Statistics Finland.

Furthermore, Eurostat enquired on the large amounts reported under F.8 receivables/payables of social security funds. These mainly relate to the purchase and sale of securities and could be potential cause of statistical discrepancy. Statistics Finland considers that this could be due to Varma and Ilmarinen, though a unit-by-unit analysis at the social security level, done in the past, exposed large discrepancies between B.9 vs B.9f also for Keva (Local government pension fund) and VER (The State Pension Fund). In this context, Eurostat asked on which basis the financial derivatives of these units are recorded, and what is the main data source for them. Statistics Finland explained that data are obtained through the Employment Pension Scheme Quarterly Survey (EPSQ), as this questionnaire has very detailed stocks and flows data, at market value. However, the EPSQ questionnaire does not contain revenue and expenditure data, as it is primarily used for financial accounts purposes. Eurostat observed two issues regarding the EPSQ questionnaire. First, on how the F.8 receivables/payables associated to the purchases of bonds are identified in the questionnaire and, second, whether the transactions in derivatives are recorded on a cash basis. Statistics Finland explained that the EPSQ questionnaire provides enough details, in the form of separate lines, for the F.8 associated to the purchase of bonds. Regarding the recording basis of transactions in derivatives, it may be an accrual basis, as there is no accrual adjustment for derivatives. This factor could explain part of the existing statistical discrepancy.

Moreover, Eurostat enquired on the quality of input data, focusing also on the quality of the instructions provided for the EPSQ questionnaire. Statistics Finland explained that instructions are provided for the reporting of each financial instrument, although the instructions could probably be more specific. Eurostat argued that the respondents might not be aware of the existence of discrepancies, as the EPSQ questionnaire does not report revenues and expenditures.

Eurostat enquired on the data source used for obtaining the figure of reinvested earnings (D.4432) of the social security funds. Statistics Finland explained that the data come from Balance of Payments data, while data on F.522 are obtained from the EPSQ. Eurostat wondered if reinvested earnings in the non-financial side are also added to the financial side in EDP table 3E.

Before the dialogue visit, Statistics Finland provided Annex 1 the main revenue and expenditure items of other central government bodies and financial transactions for 2021, where a B.9/B.9f difference is visible. Eurostat asked why not all columns regarding financial accounts had been filled in. Statistics Finland explained that they do not have details to produce unit by unit data for financial accounts for all units, as not all the financial statements have the level of details required for a separate calculation.

Eurostat observed that F.8 data reported, in in Table 4.1 of the EDP questionnaire for central government, as ‘Other unspecified items’ are missing detail e.g., detail on account group codes, or on service/COFOG code. Providing those details might help to identify any erroneous F.8 and eventually reduce the discrepancy. It was agreed that Statistics Finland will provide more details in the Questionnaire table 4.1.1. and 4.1.2.

Eurostat asked about the source of the other statistical discrepancy observed for central government. Statistics Finland explained that they had contacted the State Treasury, and they

⁵ The Social Insurance Institution of Finland.

consider that the problem could be within F.31 and F.32, as a reporting error in the data source or in a consolidation item. Eurostat indicated the importance of reconciling stocks and transactions in debt. It was also mentioned that the social security funds will likely not affect the other statistical discrepancy of the general government. Statistics Finland considers that data from the State Treasury are more precise for the adjustments necessary in the EDP tables.

Eurostat recalled that, in principle, the hedging flows associated to the unwinding of debt associated swaps should appear as transactions in F.71 in EDP table 3 with a counterpart in F.3L, and that an additional corrective entry should also be reported within the line ‘appreciation/depreciation of foreign-currency debt’. Statistics Finland also explained that there is no comprehensive adjustment for F.3L. Eurostat considers that transactions of F.3L in ESA table 27 may be incorrect and create a discrepancy. Statistics Finland should, in this respect, report to Eurostat the incurrence of liabilities in F.71 in order to detect problems in the years before 2022.

Based on data reported in the ad-hoc Annex 1 on detailed revenue and expenditure of other central government bodies, Eurostat inquired about the discrepancy of EUR 383 million observed for Solidium Oy in 2021. Statistics Finland explained that if respondents would also report revenue and expenditure, they would see from where the discrepancy is originating. Eurostat considers that, in such cases, Statistics Finland should also contact each individual unit to clarify the issue when a sizeable discrepancy is observed. Eurostat concluded that there is the necessity to investigate further on the issue of the discrepancy of Solidium, using money and banking statistics for F.2/F.3/F.5.

Eurostat further inquired about the sources of the other statistical discrepancies for the central government, noting that the stock of debt (e.g., for 2022, EUR 1.2 billion) should be reconciled with the transactions in debt (flows of EUR 400 million). While Statistics Finland is reviewing the issue, it considers that the social security funds would probably not have an impact in the other statistical discrepancy of general government. Statistics Finland also clarified that the transactions in the financial accounts are calculated as incurrence minus reduction plus change in accrued interest, at market value. Eurostat concluded that it is not likely that the consolidation is the problem.

Findings and conclusions

Action point 3: *As regards the statistical discrepancies in the social security sector, the Finnish statistical authorities will check whether transactions in derivatives are reported on an accrual basis by reporting units or not (in national accounts, transactions in derivatives should be recorded on a cash basis).*

*Deadline: 15 September 2023.*⁶

Action point 4: *Moreover, the very sizable flows of payables and receivables (notably for year 2022) seemingly related to large purchases/resales of bonds undertaken by certain social security units will need to be carefully checked and documented, including verifying if a netting approach of the source data used may not be advisable.*

*Deadline: 15 September 2023.*⁷

⁶ The note was provided on 15 September 2023.

⁷ The note was provided on 15 September 2023.

Action point 5: The Finnish statistical authorities will also check whether other accounts payables and/or receivables exist in the WB of Kela for transfers receivable from the State (budgetary central government) and for what amounts. They will identify the appropriate correction in table 2D (currently presumably located under “residual”) under a dedicated line. They will confirm that these transfers are recorded on a cash basis in GFS/ESA, such that no entry in F.8 in Table 3B and 3E are necessary for these intragovernmental transfers.

Deadline: 15 September 2023.⁸

Action point 6: In relation to the large amounts of the accounts receivable and payable in social security (e.g., including as a result of the large amounts of bonds purchased and resold – see AP.2), transactions obtained through the Employment Pension Scheme Quarterly Survey (EPSQ) should be compiled, unit by unit for the past four years, and reconciled with the non-financial accounts. These should also be compared with the security holdings of the Central Bank of Finland. On this basis, Statistics Finland will send to Eurostat the B.9/B.9f reconciliation tables obtained from the survey for the four years.

Deadline: 15 September 2023.⁹

Action point 7: Statistics Finland will ensure that the significant reinvested earnings/income attributable to policy holders (EUR 2 billion in 2021), which are present in the non-financial side of the accounts, should also be consistently added to the financial side.

Deadline: 15 September 2023.¹⁰

Action point 8: The Finnish Statistical Authorities will provide a note (and table) explaining the reconciliation between the financial flows observed in the own accounts of government units related to F.2 assets and F.3 assets (and possibly F.5 assets) and those observed in money and banking and securities statistics and possibly BoP, clearly explaining the prioritisation applied and the treatment of differences in GFS/ESA. They will particularly focus their report on the possible impact on statistical discrepancies and will envisage locating differences (if any) in F.8 on dedicated lines in Questionnaire table 4.1.

Deadline: 15 September 2023¹¹ for a note and a table about data sources, 15 December 2023

Action point 9: The Finnish Statistical Authorities will make an effort to more systematically monitor the ad-hoc table (Annex 1) provided for the dialogue visit (on other central government bodies revenue/expenditure and financing reconciliation), with an aim to identify the primary source of B.9/B.9f discrepancies, and then take action to eliminate these.

Deadline: Continuous.¹²

Action point 10: Statistics Finland will appropriately record – when reporting this ad-hoc table (Annex 1) on other central government bodies revenue/expenditure and financing reconciliation – the withdrawal of equity of EUR 500 million of Solidium Oy (column 4) that took place in 2021 (which is in addition to the dividends/transfers paid out to the State of EUR 368 million), with counterpart entries in the “entities in the WB” (column 13) and in

⁸ The note was provided on 15 September 2023.

⁹ The note was provided on 15 September 2023.

¹⁰ The note was provided on 15 September 2023.

¹¹ The note was provided on 15 September 2023.

¹² The note was provided on 15 September 2023.

consolidation between CG sub-sub-sectors (column 16). This will reduce the sizeable discrepancy between B.9 and B.9f for this unit but will increase the discrepancy of the “entities in the WB” (to EUR 1.2 billion in 2021).

Deadline: 15 September 2023.¹³

Action point 11: The Finnish Statistical Authorities will provide sufficient detailed information on the amounts included under ‘Other unspecified items’ in Table 4.1 of the EDP questionnaire for central government (providing detail as is available, e.g. by principal “account group” codes, by service/COFOG code, by “counterpart”, by reporting unit), with a view to identify any erroneous F.8, so to eventually reduce the discrepancy (items 27x, 45x, 54x of Table 4.1.1, items 27x, 47x, 57x of Table 4.1.2). Table 4.1 items should also be properly labelled (item 27a of Table 4.1.1 and 27b of table 4.1.2).

Deadline: 15 September 2023.¹⁴

Action point 12: The Finnish Statistical Authorities will report to Eurostat a reconciliation of the transactions between State (budgetary central government) debt and the change in debt at face value, “line by line” or by main categories (sufficiently detailed), distinguishing: incurrence and redemptions (at pre-swap value), and the interest accrual added to the flows (which should in principle be equal to the F.3/F.4 liability of central government) and discounts/premiums and revaluations, if any. To this effect, the Treasury will assist Statistics Finland in this undertaking. This exercise will be central to reduce/remove the other statistical discrepancies of central government, which are large in Finland (and exceptionally so in 2022).

Deadline: 15 December 2023.¹⁵

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

4.1 Delimitation of general government, application of the market/non-market rule in national accounts

4.1.1 Application of the market/non-market test

Introduction

In Finland, the result of the 50% test is the most important criterion for the sector classification exercise. The test is applied annually, in the context of the ‘Questionnaire on government-controlled units classified outside general government’. For conducting the test, comprehensive annual financial statements data is available. Financial statements are included in the business statistics data warehouse, which covers all companies, on a legal unit basis. It is composed of administrative data (the tax records) and direct survey data and contains detailed data on profit and loss accounts, balance sheets and investments in fixed assets, etc. The current formula considers all other operating income except for capital gains from selling fixed assets or shares, that are deducted from the total. The current formula for sales does not consider variations in stocks of finished goods and work in progress.

The discussion focused on the calculation of the consumption of fixed capital used in the 50% test.

¹³ The note was provided on 15 September 2023.

¹⁴ The note was provided on 15 September 2023.

¹⁵ The note was provided on 15 December 2023.

Discussion

As regards the production costs, Eurostat inquired whether Statistics Finland is using a coefficient for the calculation of the consumption of fixed capital. Statistics Finland explained that they are using the depreciation of fixed assets as stated in financial statements. Eurostat indicated that, in the context of the 50% test, it is important to move from the business accounts' concept of depreciation to the consumption of fixed capital as defined in national accounts. For this adjustment there are a few possible solutions. One is to apply a general coefficient on depreciation (for instance of around 1.5 to 2 for the train infrastructure unit) or a specific coefficient based on a case-by-case analysis for a subset of companies which have a sizeable amount of fixed assets (for instance for highway companies) or for those companies whose test results are close to the 50% threshold. Eurostat also suggested to Statistics Finland to examine the document related to the issue that was discussed in EDPS Working Group in December 2016 and the results of the questionnaire on the issue of 2017. Statistics Finland explained that they can use coefficients by industries.

Eurostat further inquired on how goods for resale are treated in the 50% formula and what is Statistics Finland's practice, taking into account that only the margin should be relevant in the calculation. Moreover, Eurostat asked if the data allows to distinguish between purchase of goods for resale, change in inventories of goods for resale and sale of goods for resale. Eurostat explained that the goods for resale (costs) should be deducted from the denominator and nominator, given that the margin can substantially impact the outcome when the percentage is close to the 50% threshold.

Findings and conclusions

Action point 13: *As regards the calculation of the consumption of fixed capital used in the 50% test, Statistics Finland will reflect on the possibility to use of a coefficient (possibly differentiated by industries) to be applied to fixed asset depreciation, obtained from the business accounts of entities.*

*Deadline: by 1 December 2023.*¹⁶

Action point 14: *The 50% test will also be corrected in order to properly take into account the issue of goods for resale, the purchases of which should be deducted from both the numerator and denominator (unless already excluded), leaving only the gross margin (trading) in the numerator for the calculation of the 50% test. By the same token, changes in inventories of those goods for resale should be added in the numerator (just like finished goods or work in progress). Statistics Finland will also examine the treatment of inventories of materials and other input goods (which should in principle be deducted from the denominator).*

*Deadline: by 1 December 2023.*¹⁷

4.1.2. Government controlled entities classified outside general government

Introduction

¹⁶ A response was provided on 1 December 2023.

¹⁷ A response was provided on 1 December 2023.

Eurostat discussed two financial corporations under this agenda item: the MuniFin (Kuntarahoytus Oyj), and the Finnish Export Credit Ltd (Suomen Vientiluotto Oy) both classified in the financial corporations' sector (S.12).

Discussion

MuniFin is a public sector credit institution with the mission to provide local government units in Finland with access to funding on the financial markets under more favourable conditions than a single municipality could achieve on its own.

Eurostat inquired whether a municipality has to provide a guarantee when MuniFin is lending to a municipal public corporation. Statistics Finland confirmed that this was indeed the case. Eurostat was of the opinion that MuniFin cannot be seen as an independent lending corporation, taking into account that a joint liability is quite an unusual situation and that this would require a check of the annual financial report of the entity for determining the capital at risk. There are some Member States' cases where the capital at risk is close to zero, with cases where even a derivative position is guaranteed by government. Eurostat considers that MuniFin provides financial services which have an ancillary character, similar to the case of Digi Finland, for example, which is classified in the sector of general government. Statistics Finland pointed out that lending to public corporations is less material in the business activity of MuniFin than the lending to social housing units.

According to MuniFin's annual report for the year 2022¹⁸, when it comes to risk exposure, a major part of assets are loans granted to housing units (the Housing Finance and Development Centre of Finland (ARA) accepts the loan and gives the loan a state guarantee) which are secured by immovable property. Statistics Finland emphasized that a significant part of those is already rearranged through government accounts and only a minor part is not. Eurostat considers that MuniFin is not exposed to any customer risk, as stated in the financial report. Moreover, MuniFin can lend to wellbeing counties services, introduced in 2023 as a new layer of the local government. Eurostat considers necessary for Statistics Finland to review the sector classification of MuniFin in the light of all arguments put forward by Eurostat during the meeting. These include governance aspects, MuniFin's features of a captive financial institution and genuine risk exposure, especially considering the existing guarantees on its asset side, the joint guarantee of local government on the liability side, and the ancillary character of the entity by analogy with the treatment of Digi Finland, for example.

As regards the Finnish Export Credit Ltd (FEC), a subsidiary of Finnvera¹⁹, Eurostat asked if FEC is a separate institutional unit, as it has no staff or no related cost other than fees paid to Finnvera. According to Finnvera financial statements, all FEC liabilities are towards the parent company while the assets side is exclusively made of loans to foreign customers of exporters. To Eurostat, this would indicate that FEC is an ancillary unit of Finnvera and, as such, would have a non-market nature. If FEC and Finnvera are considered together, the question would be raised of what activities should be considered as market.

Finally, the sector classification of another unit, Finnfund, was briefly addressed. Statistics Finland had sent an official request for bilateral advice to Eurostat, as well as the relevant

¹⁸ [Municipality Finance Plc Annual Report 2022 \(globenewswire.com\)](https://www.globenewswire.com)

¹⁹ Finnvera (a specialised financing company which provides export credits and guarantees, as well as loans and guarantees mainly to SMEs) is classified outside S.13 though in April 2020, all loans of Finnvera's domestic activities were rearranged to central government accounts.

documentation, and their assessment on the sector classification of the entity. Before the dialogue visit, it was agreed that this issue will be discussed separately, on a bilateral basis.

Findings and conclusions

Action point 15: *Statistics Finland will review the issue of classification of MuniFin in view, amongst other, of the information obtained in the latest published financial report of the entity as well as of the arguments put forward by Eurostat (governance, features of captive, genuine risk exposure of MuniFin e.g., to “customer risk” given the guarantees on its asset side, joint guarantee of local government on the liability side, ancillary character by analogy with the treatment of Digi Finland, etc.), having in mind the work made by the internal task force. Statistics Finland will also examine the opportunity of rerouting MuniFin lending to public corporations, which must be guaranteed by the sponsoring local municipality, in addition to the large portfolio of ARA loans held by MuniFin already recently rerouted²⁰.*

Deadline: by 28 April 2024.

Action point 16: *FEC does not seem to be a financial intermediary (being exclusively financed by Finnvera, its owner, and occasionally by the State) or even an institutional unit (if the administrative tasks are executed by Finnvera and merely charged to FEC, to be confirmed) and should be reclassified by Statistics Finland as an ancillary unit/ a dependent captive of Finnvera or of government.*

Deadline: by 1 December 2023.²¹

Action point 17: *Statistics Finland will examine whether the aggregation of FEC with Finnvera would change the assessment on Finnvera sectorisation, also taking into account new developments relating to Finnvera as well as the work done by Eurostat task forces on those classification issues (of dedicated public financial units).*

Deadline: by 1 December 2023.²²

Action point 18: *Statistics Finland will carry out the necessary amendment related to Finnfund on the basis of the advice to be soon provided by Eurostat, as a result of the official request for advice submitted on 14 April 2023.*

Deadline: Benchmark revision 2024.

4.2 Implementation of the accrual principle

4.2.1 Taxes and social contributions

Introduction

The main data sources used for the recording of taxes are the State Treasury (state bookkeeping) and the Tax Administration. These two sources and all other sources used for taxes are cash-based. The same sources are used for the first and second EDP notification. Time-adjusted cash (TAC) is the method used for VAT (and other indirect taxes) and income taxes. The time-adjusted cash method is however not used for certain categories of taxes e.g.,

²⁰ Eurostat pointed out that according to the annual review, MuniFin is having exposures EUR 7 billion to public corporations and EUR 11 billion exposures to secured by mortgages on immovable property in year 2022.

²¹ The note was provided on 1 December 2023.

²² The note was provided on 1 December 2023.

real estate taxes, where cash flows accumulate in autumn and TAC would not correct cash to accrual properly.

When it comes to social contributions, the main data sources are the Employment Pension Funds, the Social Insurance Institution (*Kela*) and the Employment Fund (*Työllisyysrahasto*). In addition to these, Statistics Finland uses data collected by the Financial Supervisory Authority on the contributions and benefits from all unemployment and sickness funds. The Employment Pension Funds' data are on accrual basis net of the amounts not collected, while the data for the other two main data sources are based on cash. Moreover, if existing, reimbursements and refunds, interest on late payments, fines and penalties for non-payments and amnesties are recorded with social contributions data. This means that social contributions are recorded net.

Discussion

Regarding the TAC method used for taxes, Eurostat inquired whether Statistics Finland experienced any problem with the availability of data at the time of the first EDP notification. Statistics Finland confirmed the existence of some problems as they need to use estimations for the month of February for some excise taxes in the first EDP notification, though at the end the estimations are close to the actual data and the amounts of corrections are small.

Eurostat enquired on the reported methodological change in excises taxes. Statistics Finland explained that it refers to a new time lag applied to the recording of some excise duties, from one month to two months, from 2021 onwards. This modification is based on a change in the Finnish legislation. The list of D.214 excises with the 2-month time lag applies now to: alcohol, tobacco products, energy, soft drinks, stockpiling duty on liquid fuels and certain beverage packages.

In addition, a new item has been added to the list of taxes, 'Contributions to the Deposit guarantee Fund' classified as D.29 HD. Starting from 2021, a new payment has been added as regards students (S.14), which pay a healthcare fee (D.61321) to Kela (S.1314). It is recorded on a cash basis and the data source is Kela's bookkeeping data.

Eurostat asked if there is a single tax account system set up in Finland and the answer was negative.

As there are no payables reported in the Questionnaire table 5, Eurostat inquired how Statistics Finland monitors refund activities and whether the reason for the netting approach in the table stemmed from a lack of data. Eurostat explained that refunds activities are not distorting B.9, though in some countries net reporting can hide problems. Showing the gross receivable and payable helps monitoring the figures reported. Furthermore, Eurostat asked about the reasons for the observed discrepancies between the increase in tax revenues (ESA table 2) and the increase in fiscal receivables/payables (Questionnaire Table 5) between 2018 and 2022, as well as the stocks of these fiscal receivables are relatively low level. The same issue was observed for social contributions as there is a very low level of the associated stock of receivables currently reported in the Questionnaire table 5. It was concluded that Statistics Finland will make an analysis to explain those discrepancies and will study the possibility of systematically reporting the Questionnaire Table 5 on a gross basis, instead of on a net basis.

Eurostat also inquired on two following issues, (I) accounting practices applied for social contributions, and (II) current practice of spreading some excise duties cash proceeds over the following six months.

According to the EDP Inventory the social contributions are based on an assessment and declaration basis (AD) though from Statistics Finland's response it looked like social

contributions were on the cash basis²³. Eurostat concluded that, if this is the case, the description of method used should be corrected in the Questionnaire on taxes and social contributions as well as in the EDP Inventory.

As regards the spreading of excise duties amounts, Statistics Finland explained that it primarily concerns the excise duty on tobacco. It is recorded differently than most other excise duties. They first do a simple time adjustment for the cash, a time lag for this duty is two months. Then, they spread accrual over the following six months. Statistics Finland further explained, in their response, that the reasoning behind this recording is that during past few years it has been a practice in Finland that the rate of this excise duty is increased twice a year, usually in the January and during the summer. This leads to a behaviour where sellers of the tobacco try fill their stocks right before rate of the duty is increased.

Then discussion focused on the current practice of apportioning income taxes between central government and local government. Eurostat is of the opinion that, as corporate income tax rates are determined by central government, this tax should be recorded as central government revenue. Then intragovernmental transfers toward the local government should be shown. Moreover, the allocation of of the associated proceeds is based on the actual tax revenue, and not the size of local government units. The allocation of tax revenue to the local government is made based on the amount of taxes paid by corporations located in the municipality. If a corporation operates in multiple municipalities, tax revenue is divided to those municipalities based on the amount of employees that the specific corporation has in each municipality.

As regards tax credits, Statistics Finland considers that there are only non-payable tax credit schemes.²⁴ They are related to the Income tax for households (D.51M) and Municipal tax of households (D.51M). The time of recording is when the tax credit is used by the beneficiary. Tax credits can be only used in the taxation year of the event/condition.

As part of the measures in response to the COVID-19 crisis, the VAT payments made by certain companies were paid back to companies as a loan. In these cases, VAT revenue was shown gross and TAC- adjusted in the corresponding months.

When it comes to tax reductions, the majority of the measures observed in Finland imply a temporary reduction of VAT (D.211) and an increase of tax deductions supporting household's income (D.51). These measures are meant to be temporary and pose no difficulty in recording, as they will simply decrease government tax revenue. Regarding tax deferrals, the amounts deemed not to be collected have been estimated to be 4.1 % of the deferred sums, based on data from the Finnish Tax Administration.

There are also three measures designed to mitigate the high-energy prices for consumers, with a direct impact on government tax revenue: (I) A reduction of the VAT on the sale of electricity from 24% to 10% between 1 January 2023 and 30 April 2023. VAT reduction on electricity would only apply to its sale, and not to electricity transmission or to the access to

²³ From Statistics Finland response to the AP 21: 'Social Security contributions are based on the financial statements of the social security funds. Employment pension funds: Most of the contributions are recorded on a due basis, and the amounts due but not yet received are entered in premium receivables. Amounts unlikely to be paid are reduced from the received contributions. However, no coefficient method has been introduced in national accounts to this date that includes amounts unlikely to be paid; the credit losses are recorded based on actual insolvency cases faced by the employment pension companies. In our view, this due basis is, in practice, close to the assessment method. This recording practice provides a reliable way to ensure that, over time, revenue not received, is not recorded in national accounts.'

²⁴ Income from work – deduction, disability deduction (no longer available after January 2023), maintenance deduction, housekeeping deduction, student loan deduction, and tax credit for electricity (only for year 2023).

the electricity grid, that will still be subject to the standard VAT rate of 24%, and (II) A temporary reduction in the VAT applicable to passenger transport to 0%. Statistics Finland explained that this measure was implemented in the beginning of the year 2023. (III) A fixed-term income tax credit for electricity to households.

Findings and conclusions

Action point 19: *Statistics Finland will provide an analysis justifying the apparent discrepancies between the increase in tax revenues (ESA table 2) and the increase in fiscal receivables/payables (Questionnaire Table 5) between 2018 and 2022, as well as the relatively low level of the stocks of these fiscal receivables (reported in Questionnaire table 5). They will also study the possibility of systematically reporting the Questionnaire Table 5 on a gross basis (as required and as done by most Member States), instead of on a net basis. Moreover, the FSA will check whether it would be possible to split the fiscal receivables/payables amounts of Questionnaire Table 5 between D.2 and D.5 for the years before 2013.*

*Deadline: by 30 September 2023.*²⁵

Action point 20: *Statistics Finland will investigate the payment arrangements and/or accounting practices applied for social contributions, in order to justify the very low level of the associated stock of receivables currently reported in Questionnaire Table 5. Statistics Finland will evaluate to what extent the figures reflect unduly netting receivables and payables, and how a gross reporting could be ensured.*

*Deadline: by 30 September 2023.*²⁶

Action point 21: *Statistics Finland will update the NTL questionnaire for taxes and social contributions (as well as the EDP inventory, where necessary), as it seems that, at present, no taxes and social contributions are based anymore on an assessments and declarations basis (AD), as well as in order to mention (and explain in the EDP inventory) the current practice of spreading some excise duties cash proceeds over the following six months (amounts thus to be recorded as payables in Questionnaire Table 5).*

*Deadline: by 30 September 2023.*²⁷

Action point 22: *Statistics Finland will review the current practice of apportioning income taxes between central government and local government, and instead record these taxes as central government revenue with intragovernmental transfers, given the fact that corporate income taxes are determined centrally (contrarily to personal income taxes) and that the subsequent allocation of these proceeds across local governments is made on a statistical basis (i.e. on the basis of the size of the establishments concerned, in each local government).*

Deadline: benchmark revision.

4.2.2. Interest and financial derivatives

Introduction

²⁵ The detailed note was provided on 29 September 2023.

²⁶ The note was provided on 29 September 2023.

²⁷ The note was provided on 29 September 2023.

Prior to the EDP dialogue visit, Statistics Finland provided to Eurostat updated tables on the recording of interest and financial derivatives, which were used as the basis for discussion.

Under this item the action point 22 from the dialogue visit 2021 was discussed. The text indicated that *‘In relation to the refinancing arrangement benefiting the Finnish Export Credit Ltd (since 2009) the FSA will provide a comprehensive Table 3B in order to investigate the correct recording of the swaps which were part of this arrangement.’*

Discussion

As regards the interest table, Eurostat observed that the recommendations provided during the last dialogue visit were not followed. Namely, the coverage (state government including Senate Properties and extra budgetary funds) remained the same, and the rerouted Finnvera’ debt interests and EFSF interests were not included in the table. Also, there are no data reported on revaluations. Eurostat inquired about improvement regarding the calculation of coupons accrued. For the coupons paid, Eurostat considers that the Finnish statistical authorities should use the exchange rate at time of payment. Eurostat further enquired on whether stocks are impacted by exchange rates. Moreover, the memo item 2 that includes the D.41+FISIM is missing in the table and Eurostat asked this to be reported.

Eurostat further enquired if an accrual adjustment due to EFSF²⁸ is recorded in the EDP T3B. Statistics Finland explained that this should be on the assets side and probably included in other statistical discrepancy. It seems that only EUR 7 million of accrual adjustment for EFSF in 2022 is recorded instead of EUR 20 million. Eurostat observed that the Finnish statistical authorities seem to have a problem to reconcile transactions in debt and the change in stock of debt. To explain the statistical discrepancy in the years 2021 and 2022, it is necessary to better reconcile transactions in debt and stocks in debt.

Eurostat inquired on the average maturity of bonds as, according to the data reported in the interest table, it seems there is an acceleration of amortisation in premiums and discounts through the years, especially in 2022, though the net flow seems to be stable. Eurostat considers that the Finnish statistical authorities should cross-check this issue.

Furthermore, Eurostat enquired whether premiums and discounts are in the working balance, and if yes, at what time they are recorded, at issuance or at redemption. Statistics Finland confirmed that premiums are included at the time of issuance and discounts at redemption.²⁹ Eurostat concluded that this is the reason why figures for the difference between interest paid and accrued in EDP T2A and T3B are not the same. Statistics Finland explained that they could change this practice if they would have the split of this item, and that the State Treasury could assist in case the budget codes are not detailed enough to this effect.

In relation to financial derivatives, it was recalled that flows on derivatives only enter the financial accounts (F.7), with no impact on the deficit and, as a result, a misreporting on derivatives is likely to be B.9 neutral and concern mainly the discrepancy. The monitoring of derivative flows is important to ensure that they are correctly identified and coded as financial or otherwise an impact on B.9 may occur. While historically the State Treasury has used FOREX swaps, interest rate swaps and currency swaps, lately the main derivatives used are interest rate swaps. As it was agreed in the last dialogue visit, the financial derivatives

²⁸ Regarding the European Financial Stability Facility lending, at the end of 2022, Finland’s general government debt included EUR 3.4 billion of debt guaranteed by the EFSF to beneficiary countries.

²⁹ Statistics Finland corrected the information in their reply to the Action point 25: "In Finland discounts and premiums are recorded at the time of issuance in the working balance".

table should include all derivatives engaged by the State Treasury, including options/swaptions not related to debt hedging and swaps entered in the context of the Finnish Export Credit Ltd (FEC) financing arrangement.

As the data presented in the derivatives table is not aligned with EDP T3B, Eurostat inquired about the source data for EDP and about the link with the derivatives table. Statistics Finland explained that the main data source for the EDP T3B is a quarterly survey of the State Treasury. It was also recalled that entries for derivatives should be on a cash basis (being an exception to the general rule on accrual) consistently with the table of the State Treasury. Eurostat cross-checked the data reported in the derivatives table with the data in the EDP table and thoroughly discussed all technical issues of the derivatives table with the Finnish statistical authorities. As a result, it was agreed that Statistics Finland will correct the appreciation/depreciation of foreign currency debt in the EDP T3 for the year 2022. In addition, Eurostat proposed to the Finnish statistical authorities a few amendments of the derivatives table and recommended that they enquire on the difference between transactions in the derivatives table and EDP Table 3B/ESA Table 27.

Regarding the refinancing arrangement benefiting the Finnish Export Credit Ltd (FEC), it was recalled that the FEC benefitted from an emergency refinancing in dollars in 2011, which was hedged through a swap. However, it remains unclear how the swap was so far recorded in the EDP table 3B and in the ESA table 27. Moreover, the swap entries in the EDP T2A need further clarification. Eurostat reminded that the swap concerning the FEC emergency refinancing should be included in the table on derivatives as well as in EDP Table 3B /ESA Table 27, though this will impact mostly the years between 2011 and 2018.

According to the chart submitted to Eurostat for the purpose of the dialogue visit in 2013, the FEC swap was booked as debt and not as a derivative. At present the swap flows are much bigger than the loans flows, which would indicate that the conclusions of the 2013 dialogue visit were not fully correct. Eurostat asked for the FEC' financial statements and was able to approximately calculate the associated change in debt. There are two problems stemming from the FEC balance sheet. First the swap is not classified as a derivative but as a loan. Second, the figures reported in the EDP T3B do not match the figures in the balance sheet (EUR 4 billion recorded by the unit instead of EUR 2 billion recorded by Statistics Finland). Eurostat presumed that the swap was not included in the stock of debt but among debt transactions, meaning that, in the EDP T3B, it would be included inside the other statistical discrepancy. Statistics Finland explained that they would not be able to separate the process for this programme from the rest of accounts in the ESA T27. Statistics Finland pointed out that it would be difficult to review such an old recording.

Findings and conclusions

Action point 23: *The Finnish Statistical Authorities will implement a number of corrections on the table of interest (filling for instance, lines 2 and 12, on revaluations, and following-up on a number of other technical points raised during the 2021 EDP dialogue visit and during this one).*

*Deadline: by 1 December 2023.*³⁰

Action point 24: *The accrual adjustment for EFSF (relating to step-up bonds) should be symmetrically included in EDP table 3B (around EUR 20 million per year, to be recorded*

³⁰ The note was provided on 1 December 2023.

under both “loans (F.4) assets” and “difference between interest accrued and paid”) which, at present, seems not to be the case, and thus part of the statistical discrepancy.

*Deadline: by 30 September 2023.*³¹

Action point 25: *Statistics Finland will report the amounts recorded in the working balance covering premiums at issuance and discounts at redemption and make a reconciliation table between “difference between interest accrued and paid”, as shown under table 2A and 3B. The Treasury will provide the necessary data on discounts at redemption if the budget codes are not detailed enough to this effect.*

*Deadline: 30 September 2023.*³²

Action point 26: *EDP Table 3B will be corrected for the year 2022 in order to correctly reflect the appreciation/depreciation of foreign currency debt stemming from the unwinding of swaps (EUR 504 million received, sign to be checked), in line with the ad-hoc derivative table compiled by the Treasury (the recording seems to have been correct in years 2019-2020). This will however aggravate the discrepancy.*

*Deadline: by 30 September 2023.*³³

Action point 27: *Eurostat welcomed the ad-hoc derivatives table compiled by the Treasury, and suggested a few amendments, notably including all swap termination payments in bloc 1, irrespective of reflecting natural unwinding or cancellations (under the item “cancellation”, which Eurostat agrees needs to be relabelled), notably those observed in bloc 5. Reporting transactions either as an asset or a liability according to the classification of the underlying stock at time of transaction (or in the year of transaction) would also be advisable where possible. Eurostat took note that the transactions in this table are recorded on a cash basis, as requested by ESA, and recommended that the Finnish Statistical Authorities enquire on the difference between transactions in this ad-hoc table and EDP Table 3B/ESA Table 27 (seemingly based on a survey, which recording basis needs to be clarified).*

*Deadline: by 1 December 2023.*³⁴

Action point 28: *The Finnish Statistical Authorities will review the recording issues of the swap concerning the Finnish Export Credit Ltd (FEC) emergency refinancing in the table on derivatives (bloc 1/2) as well as in EDP Table 3B /ESA Table 27 (mostly covering 2011-2018).*

Deadline: by 1 March 2024.

Action point 29: *Eurostat took note that the 2013 EDP dialogue visit findings relating to the emergency refinancing of FEC in dollars (and its swap) were erroneous and that the swap (dollar leg) did not lead to an entry in the Maastricht debt. The Finnish Statistical Authorities will nonetheless explain how the swap was so far recorded in EDP table 3B/ESA table 27/Questionnaire table 8 and for what amounts. Eurostat indeed noted that the emergency refinancing cumulated to EUR 2.2 billion (EUR 2.6 billion after the subsequent appreciation of the dollar), while table 3B allegedly includes EUR 4 billion (seemingly with the euro leg of the swap), with a possible entry in statistical discrepancy. See also AP.28. The Finnish*

³¹ The short note was provided on 29 September 2023.

³² The note was provided on 29 September 2023.

³³ The note was provided on 29 September 2023.

³⁴ The note was provided on 1 December 2023.

Statistical Authorities will also explain why the FEC refinancing, and the swap is reported with 6 entries in EDP Table 2A (instead of 3).

Deadline: by 1 March 2024.

4.2.3 EU flows

Introduction

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

Prior the dialogue visit, Statistics Finland provided an ad-hoc table on the recording of EU flows (Annex 4) which was discussed in the context of the EU flows data reported in the EDP Questionnaire table 6.

Discussion and methodological analysis

From the annual budget, Statistics Finland is able to extract the EU-flows distribution to government and non-government units according to the final beneficiary. If the final beneficiary is non-government, the EU-flow is eliminated from central government accounts and included in the sector accounts as a transaction between the rest of the world and a non-government domestic sector. This means that Statistics Finland neutralises the revenue from the EU by recording an F.89 payable. Statistics Finland explained that as a result of this treatment, they do not have to know what is contained in the money flow from the EU (in the sense of its division into prepayments and reimbursements). Their view is that the recording is as close as possible to accrual, as the time of recording of the budget expenditure is close to accrual.

In the context of agricultural policy, all revenue and expenditure appearing in the state bookkeeping is removed from the government accounts and are shown as paid by the EU and received by domestic sectors other than government. The difference between the annual amounts of removed inflows and outflows, shown in F.2 is booked as F8. Also, in this case, Statistics Finland does not consider useful to find the composition of revenue (prepayments/reimbursements) from the EU. In the long run, the removed expenditure and the revenue offset each other.

Statistics Finland is, in principle, able to quantify both the associated receivables and payables, but in the EDP table 2A they show the difference in net receivables.

In the budget accounting, the third own resource is included in the heading “Finland’s contribution to the EU” (two other items included in this heading are the GNI based payment and the UK rebate) and that figure is not adjusted in national accounts calculations.

Then, Eurostat briefly cross-checked data reported in the ad-hoc Annex 4 with data reported in the EDP Questionnaire table 6. Eurostat observed discrepancy between the data reported in the Annex 4 when compared to the questionnaire data. For example, the net inflows for 2019 accounts of EUR 3 million in the Annex 4 while EUR 51 million in the questionnaire. Furthermore, the general impression was that Statistics Finland should need to improve the presentation of data in the questionnaire specifically data on ‘Inflows’ and ‘Outflows’ should be filled in. Moreover, Statistics Finland should verify the consistency of line 1 (Amounts included in the working balance of EDP table 2A) and line 15 (Adjustments for contributions made to the EU) with line 29 (Amounts in the line "Other accounts receivable").

Eurostat asked Statistics Finland if all EU flows are in the working balance or only part of them. Statistics Finland replied that maybe some items are not included in the working balance. Furthermore, Eurostat inquired on the time at which a transfer from state to local government is booked. Statistics Finland confirmed that for the local government the accrual principle is followed. Eurostat recalled that, usually, it is on cash basis and further advised Statistics Finland to investigate what is the time lag, in practice, for transfers related to EU funds from central government to local government, noting that it should not be that far from the moment of activities/expenditure. Statistics Finland replied that there is no significant time lag. Eurostat remarked that this should be stated in the EDP Inventory.

Findings and conclusions

Action point 30: *The Finnish Statistical Authorities will resend to ESTAT the ad-hoc table on the recording of EU flows, to undertake several corrections based on the comments made by Eurostat and fill it on a best estimate basis – focusing on its consistency with Questionnaire table 6 (see next AP).*

*Deadline: by 30 September 2023.*³⁵

Action point 31: *The Finnish Statistical Authorities will adapt Questionnaire table 6, following the meeting discussions, notably so to systematically fill lines 2 and 5 (Working Balance inflows and outflows), to consider reporting payables/receivables related to FI contributions to the EU budget under payables (if appropriate), to ensure consistency with the information on the ad-hoc table on EU flows (previous AP), to verify the adherence to the sign conventions applicable to the different tables, and to maintain consistency of stock and flows.*

*Deadline: by 30 September 2023.*³⁶

Action point 32: *Statistics Finland will report which part of the EU flows does not transit through the working balance (and the recording of these specific flows through the various tables concerned). Statistics Finland will check whether EU transactions are strictly recorded on a cash basis (for associated intra-government flows notably) in the source data or, on the contrary, on some sort of commitment basis, and accordingly whether some receivables/payables exist (in accounting) and are also recorded, and to ascertain whether this can be a cause of statistical discrepancy.*

*Deadline: 15 September 2023.*³⁷

Action point 33: *More in general, Statistics Finland will provide a note on the accounting basis of intra-government transfers, for each of the main units of general government, so to assess to what extent these flows could be a cause of statistical discrepancy. The note will elaborate on the accounting basis of the working balance, the budget/accounting codes of these transfers, and the plausibility of coverage difficulties and/or misallocations of counterparts. It will also report on any observed differences (in the past four years) in the source data related to these transfers, and on the (explicit or implicit) procedure used for rebalancing/eliminating differences, if any.*

*Deadline: 15 September 2023.*³⁸

³⁵ The note was provided on 29 September 2023.

³⁶ The note was provided on 29 September 2023.

³⁷ The note was provided on 15 September 2023.

4.2.4 Military expenditure

Introduction

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

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

Discussion and methodological analysis

During the October 2022 EDP Notification, there was an issue relating to the most appropriate and reliable figure for recording deliveries and this issue seemed to persist in the April 2023 EDP Notification as high discrepancy remains for 2019 and 2020 across EDP Questionnaire table 7.

Eurostat inquired on the reasons why deliveries and cash payments were revised for all years between the April 2023 and the October 2022 EDP notifications, while the stocks of trade credits and advances (AF.81L) remained the same. Statistics Finland explained that the basic source data are the State Treasury bookkeeping data, and these are complemented by Ministry of Defence (MoD) information on deliveries. The information received from MoD enables Statistics Finland to distinguish investments from intermediate consumption more accurately. Statistics Finland further clarified that MoD data on cash payments are considered as preliminary, to be finalised two years later. Statistics Finland has also deducted transactions in trade credits and advances F.81L from the cash payments as they include all the payments associated with military equipment including payments made using trade credits.

Furthermore, Eurostat asked why data on deliveries for 2019 were revised in the EDP notification of October 2022. Statistics Finland explained that it was due to new information received regarding a non-delivered corvette.

Findings and conclusions

Action point 34: *The Finnish Statistical Authorities will correct Table 7 of the EDP questionnaire (on the recording of military equipment) in order to correct some mistakes introduced in the Table.*

*Deadline: October 2023 EDP notification*³⁹

4.3. Recording of specific government transactions

4.3.1. Measures to mitigate the impact of high-energy prices in the economy

Introduction

Under this point of the agenda, participants discussed the main measures undertaken by government in response to the high-energy prices and their recording in national accounts, in particular the impact on government deficit and debt.

³⁸ The note was provided on 15 September 2023.

³⁹ EDP Questionnaire Table 7 was corrected on 29 September 2023.

Prior to the meeting, Statistics Finland provided a note explaining the measures implemented to mitigate the increase in energy prices to households and industry, indicating for each measure the GFS codes used and the time of recording. The same content had been reported for the April 2023 EDP Notification in the Annex 10, the supplementary table for reporting government interventions to mitigate the impact of high-energy prices.

Discussion

Statistics Finland had identified the following government measures implemented in 2022 to mitigate the increase in energy prices to households and industry:

A business cost support for transportation firms due to higher fuel prices was implemented in 2022, and the transaction was classified as other subsidies on production, and according to the ESA 2010 paragraph 4.39 it was recorded in 2022 Q1 and Q2, for a total amount of EUR 31 million.

A lowering of the value-added tax on the sales of electricity was adopted temporarily from December 2022 to the end of April 2023. The impact in Q4 of 2022 was equal to EUR 273 million, recorded as a reduction in revenues of taxes on production (D.21). Eurostat inquired if the amount reported in Annex 10.2 refers only to December 2022, as the measure was foreseen from December 2022 to April 2023, and this was confirmed by Statistics Finland.

A bridge-funding loan from Solidium to Fortum is included in the Annex 10.2. This had the objective of financing Fortum's collateral needs in the power commodity market. A loan F.4 worth EUR 350 million was granted in 2022 Q3. Statistics Finland informed Eurostat that the liquidity facility gives Fortum access to EUR 2.35 billion through the state-owned holding company Solidium, but Fortum declared that the utilization of this arrangement would only be a last resort measure. It can benefit of this facility for one year only, September 2022 to September 2023. Eurostat inquired if, in theory, new tranches of the loan could be drawn. This was confirmed but the Finnish statistical authorities considered it unlikely to happen. Additional tranches are possible until September 2023⁴⁰ and need to be paid back until the end of 2023.

Eurostat inquired on the existence of other government measures aimed at mitigating the increase in energy prices, which were not reported in Annex 10.2. According to the Bruegel Institution's database on energy measures, there are two other substantial measures: (1) Rescue Package for Utility Firms, and (2) Liquidity support for energy companies owned by Finnish municipalities.

As regards the first measure, and according to media available information, in September 2022, the Finnish government announced emergency funding of up to EUR 10 billion aimed at stabilising the electricity market. The funding is to be provided in the form of loans and loan guarantees. The proposed loan and guarantee programme would be valid until the end of 2023, with loan periods of a maximum of 2 years. The loans are to be granted according to market terms. The programme is intended as a last-resort financing option for companies that would otherwise be threatened with insolvency. Eurostat inquired about the implementation of this measure. The Finnish statistical authorities informed Eurostat that no company used this measure and that the terms were similar to those provided to Fortum.

For the second measure, a liquidity support for energy companies owned by Finnish municipalities, there was no information on when it started and when it will end. The

⁴⁰ After the dialogue visit, Statistics Finland informed Eurostat that the tranches could be drawn only until the end of March 2023, not until September 2023.

foreseen amount of this measure is EUR 5 billion. Eurostat inquired what would be the data source which would allow Statistics Finland to know about the implementation of this measure. Statistics Finland explained that the use of this programme can be identified and that they would use press releases of government as an information source. In addition, Ministry of Energy and Employment data should be a good data source on this issue. Eurostat further inquired which entity would provide amounts to whom. Statistics Finland explained that it would be government providing resources to MuniFin and then MuniFin would provide them to energy companies.

Conclusions

Eurostat concluded that the two additional measures listed in the Bruegel database should be properly followed (amounts established) and should enter the Annex 10.2 for the October 2023 EDP notification, as there would be national accounts consequences. As regards the second measure, loans for liquidity support would need to be distinguished from guarantees.

4.3.2. Recovery and Resilience Facility (RRF)

Introduction

The RRF allocation to Finland is equal to EUR 1.8 billion (0.7% of GDP) in non-repayable grants. No expenditure (or revenue) was recorded in 2020. The Recovery and Resilience Plan was approved in March 2023.

Statistics Finland explained that, during the April 2023 EDP notification, RRF grants were included as inflows in the working balance of 2021 for an amount of EUR 271 million. This instalment was paid to Finland in 2022.

Discussion and methodological analysis

Prior to the dialogue visit, Statistics Finland explained that they are imputing the RRF related revenue at the time of the expenditures incurred and of other costs financed by RRF grants. The data source for RRF-related information is based on the monthly state bookkeeping data of central government. RRF expenditures and other RRF related costs can be identified from the state bookkeeping data as the budget appropriations have separate information for RRF appropriations and for their use.

Inside the general government, there are few particular units to take into account in the recordings. Transactions to Business Finland (S.13119) and to the universities (S.13119) as well as municipalities (S.131311) and the Åland Government (S.131313) are recorded when the payments are to be made from the budgetary central government (S.13111).

Eurostat inquired about the associated recording presented in the RRF table submitted as part of the EDP notifications. In particular, it seems that the 2021 outflows reported in section 1.3 of the table correspond to the budget appropriations that are not used within the same year, and consequently it would need the recording of an entry in receivables/payables. In relation to that, Eurostat also considers that corrections in lines 9 and 14 are necessary to avoid a gross recording stemming from intra-governmental events, as also pointed out by Statistics Finland. A further adaptation of the table is also required in lines 15 and 19-20. Eurostat also advised that capital injection, shown in line 2n impacting B.9, should be included under item 17 other adjustments.

Findings and conclusions

Action point 35: *Statistics Finland will implement a number of corrections in the RRF table. The entries for receivables/payables in Table 1.4 should be reviewed, avoiding the current*

gross recording in receivables and payables for amounts that are essentially/merely intra-government events: they will report instead in receivables EUR +15 million in 2022 and EUR -15 million in 2022, and EUR -83 million in payables in 2022 (thus adapting items 14-15 and 19-20). In addition, the amount of EUR 10 million in 2022 (related to a capital injection) should be included under item 17 (other adjustments) and not under item 18 (change in debt). Moreover, a receivable should preferably be booked for the year 2023, even if it concerns planned figures.

Deadline: by 30 September 2023.⁴¹

4.3.3 Government measure in response to the COVID-19 crisis and of Russia's invasion of Ukraine

Introduction

As concerns the government measures in response to the COVID-19 crisis, Statistics Finland provides EDP Annex 8, the COVID-19 supplementary table, as part of each EDP notification. The measures affecting taxes and social contributions were discussed under agenda item 4.2.1., while for the rest of the measures Eurostat did not raise questions.

The discussion focused on Finland's support of Ukraine. This support takes many forms. So far, Finland has given over EUR 910 million, which represents 0.3% of its GDP, in support of Ukraine.

Discussion and methodological analysis

Based on the latest announcement of the Ministry of Defence, the combined value of the fourteen defence material packages submitted to Ukraine so far is over EUR 910 million. In 2022, Finland had donated military equipment assistance to Ukraine for a total worth EUR 190 million. Hence, the total value of the 2023 packages is around EUR 710 million so far. Statistics Finland does not have more precise information on how much of these amounts are classified as fixed assets and single-use items. Finland's government has decided that more detailed information for public use is classified. The statistical figures for 2022 are based on public material and estimations.

Donated defence material assistance to Ukraine has been taken into account when recording P.51 and D.92 of S.2. These recordings do not have any effect on the net lending of central government. Statistics Finland has not recorded single-use items such as ammunitions, missiles, rockets, and bombs because it does not have any item classified as military inventory, P.52. Instead, they record single-use items directly as intermediate use, P.22.

According to the Ministry for Foreign Affairs of Finland, humanitarian assistance, and development cooperation account for nearly EUR 140 million. However, these amounts cannot be separated from other humanitarian aid and development cooperation in the state bookkeeping data, which are mostly recorded as D.74 of S.2. Statistics Finland has asked for more detailed information from the Ministry for Foreign Affairs but has not received it so far.

Eurostat inquired on how plausible the amount obtained from media press release is, and whether it was checked with the Ministry of Defence. Statistics Finland has asked for a verification but has not received any feedback. Eurostat asked the Finnish statistical authorities whether Finland participates in trilateral arrangements in the context of deliveries of military equipment to the Ukraine and the answer was negative.

⁴¹ The note was provided on 29 September 2023.

Eurostat inquired if any specific adjustment was done to the total amount of the military equipment donated. Statistics Finland explained that they have added the relevant BoP data, which is only half of the amount reported by MoD, as they lack detailed information and are not aware of how much is already booked in the state bookkeeping accounts. Eurostat stressed that this adjustment might cause a double counting in the recording. It could be the case that the amount contains equipment that is not fully amortised or already amortised but in BoP recorded at the same value, and in addition it could also contain inventories. Furthermore, two related recording issues were raised by Eurostat, on whether equipment and ammunitions are recorded as P.51 or P.52, and what is the impact of the adjustment on B.9. Statistics Finland clarified that they do not recognize inventories for military items, as they mainly use information from the Emergency Supply Agency for inventories which concerns predominantly oil and gas. Eurostat further inquired about the general practices followed for inventories, e.g., in the case of hospitals, and whether the ESA T2 relevant recording is based on 'use of goods' or 'cash flow statements. The B.9 should be impacted at the time the goods are used and not purchased. Statistics Finland answered that they would need to check with the State Treasury. Eurostat considers this as an important task that should be done quickly taking into account that P.2 is around EUR 30 billion and 2/3 is reported at local government level.

Findings and conclusions

Action point 36: *Statistics Finland will address the issue of the military equipment donated to Ukraine, which is currently subject to an ad-hoc adjustment based on BoP information (used to overcome confidentiality difficulties), with a view to check whether such an adjustment is justified, so to avoid possible double counting in B.9.*

*Deadline: by 30 September 2023.*⁴²

Action point 37: *Statistics Finland will notably verify with the accountants of the Ministry of Defence whether donations of military equipment and/or ammunitions are recorded as expenditure, or as write-offs, in the budgeting or in the accounting, and on what accounting basis (amortised costs, etc) – having in mind the source data used by Statistics Finland for calculating the ESA revenue/expenditure (and B.9) of the State.*

*Deadline: by 30 September 2023.*⁴³

Action point 38: *Moreover, Statistics Finland will also check whether, when ammunitions/raw materials are purchased, the impact on B.9 in Finland is at the time of purchase or at the time of use of the item purchased. To this effect, Statistics Finland will report on the accounting practice followed (budgeting or accounting) and on the exploitation of the source data by Statistics Finland, by main units/grouping of units – when drawing the ESA revenue/expenditure accounts for these units. The report will also refer to information on inventories that may exist in the balance sheets (codes, etc.). Statistics Finland will in particular report on the practice and on the observed data on inventories relating to the National Emergency Supply Agency and to hospitals, aside from the State (Ministry of defence, etc.) and municipalities (and new counties).*

*Deadline: by 30 September 2023.*⁴⁴

⁴² The note was provided on 29 September 2023.

⁴³ The note was provided on 29 September 2023.

⁴⁴ The note was provided on 29 September 2023.

4.3.4. Government guarantees

Introduction

In the April 2023 EDP notification, Finland reported a total stock of debt guaranteed by government equal to EUR 45.8 billion for 2022, or 17.2 % of GDP. EUR 33.9 billion of that total stock, or 12.7% of GDP, corresponded to guarantees to public corporations, of which the stock of debt of financial corporations guaranteed by government amounted to EUR 25.8 billion at the end of 2022. The amount of new guarantees provided by government within the course of 2022 was equal to EUR 7.7 billion, or 2.9 % of GDP.

Finland provides guarantees on SME's borrowing, housing loans, export credit and student loans. The source data for guarantees are the statistics "Central government guarantees"⁴⁵ collected/prepared by Statistics Finland, and "Finances and activities of municipalities and joint municipal authorities (part I)" provided by municipalities and joint municipal authorities, state bookkeeping data, the annual report of Kuntien takauskeskus (Municipal Guarantee Board) and financial statements of the Åland Government.

Since 2022, export and special guarantees provided by Finnvera are removed from the total stock of debt guaranteed by government and are included among statutory guarantees⁴⁶ in EDP Questionnaire table 9.1. Domestic guarantees provided by Finnvera and government's guarantees to Finnvera's funding remain in the total stock of debt guaranteed by government. The EFSF guarantees are excluded.

Guarantees provided by central government, Finnvera Plc, Finavia Plc and Kuntien takauskeskus to government units are consolidated. Guarantees provided by municipalities, joint municipal authorities and the Åland Government to government units are not consolidated (because of lack of data).

Since June 2022, the social housing loans for housing entities that are under ARA restrictions⁴⁷ are rerouted through general government accounts. Due to this methodological change, the guarantees provided to these rerouted ARA housing loans are consolidated among general government guarantees. The consolidation is implemented from the year 2018 onwards. The consolidation extends to the guarantees provided by the Housing Fund of Finland for the ARA restricted social housing loans and to the guarantees provided by the Municipal Guarantee Board for the acquisition of funds used for the social housing loans lent by a public financial institution.

In national accounts, payments by central government related to guarantee calls are treated as capital transfers. This includes also transfers to the non-government unit Finnvera Plc, for covering Finnvera's guaranteed losses. Concerning student loans, guarantees called are treated as acquisition of loan assets.

Discussion and methodological analysis

⁴⁵ The statistics covers guarantees provided by central government units, Kela and Finnvera Plc. The data is collected directly from these units.

⁴⁶ As additional items.

⁴⁷ Restrictions concerning ARA interest subsidy loans are the determination of rents and maintenance charges through expenses, profit limitations, provisions on the selection of tenants and the conditions for the transfer of assets.

Regarding the EDP Questionnaire table 9.1, Eurostat considers difficult to observe the evolution of the guarantees provided by government due to the number of changes undertaken/ reclassification of units/ consolidation of guaranteed debt. Moreover, the table includes municipalities and joint municipal authorities' data which is not consolidated. Statistics Finland informed that guarantees to other S.1313 units cannot generally be consolidated though they have consolidated some known cases, as for example guarantees to Länsimetro Oy and ARA loans. Eurostat further inquired what happens if a guarantee is called, and on whether in this case a capital transfer is recorded despite the fact that it is not possible to see that the transaction was between two government units. Statistics Finland replied that they can identify guarantee calls from the source data and therefore they are able to consolidate.

Statistics Finland recalled that the main data source for local government guarantees changed at the beginning of 2021. Statistics Finland's data collection was replaced by a new XBRL-based data collection operated by the State Treasury. The new data source has information on new guarantees. As the data on local guarantees provided in document 20 prior to the dialogue visit, do not match the data reported in ad-hoc Annex 5 on guarantees, it was agreed that Statistics Finland will correct and resend the table.

Findings and conclusions

Action point 39: *Statistics Finland will undertake several corrections to the ad-hoc Annex 5 on guarantees provided for the dialogue visit, along the lines of the points discussed during the meeting and check whether/how guarantee calls at local government level on guarantees provided to government units are consolidated, or whether, on the contrary, there is an impact on B.9.*

*Deadline: by 30 September 2023.*⁴⁸

4.3.5. Capital injections in public corporations, dividends, superdividends

Introduction

Prior to the dialogue visit, Statistics Finland provided a document on the national accounts treatment of the government's bridge-financing agreement with Fortum and on recapitalisation measures to support Meyer Turku. Both treatments were discussed during the meeting.

Discussion and methodological analysis

National accounts treatment of the Government's bridge financing agreement with Fortum

The State of Finland, the sole shareholder of Solidium Oy (classified in S.13), announced on 6 September 2022 a bridge financing arrangement for its majority owned energy company Fortum (S.11001) through Solidium Oy. Fortum announced the drawdown of EUR 350 million in September 2022. In national accounts, it was treated as a financial transaction, with no impact on B.9. No other drawdowns have been announced.

The loan has a repayment schedule, and the payment of interest is mandatory. According to Statistics Finland, the Finnish government will receive a sufficient rate of return on its

⁴⁸ The table was provided on 29 September 2023.

investment. In addition to the fixed interest rate, Solidium Oy was entitled to subscribe for newly issued shares free of charge⁴⁹.

The aim of the arrangement was to ensure access to sufficient liquidity resources if Fortum's collateral requirements continued to rise significantly, and not to cover realized losses. Exceptional geopolitical tensions caused energy prices to rise, increasing the collateral requirements of energy companies in several countries. The situation was exceptional and independent of Fortum's business model. The Finnish government proposed a package with similar terms totalling EUR 10 billion also for other energy companies.

Statistics Finland informed that Fortum's results have been positive, except for its subsidiary Uniper that showed losses in 2021 and 2022 affected negatively by, according to Fortum's financial reports, changes in fair values of non-hedge-accounted derivatives and provisions for long-term gas contracts. Fortum was not entitled to use the bridge financing arrangement to cover the collateral needs of Uniper, for which an alternative solution was sought. Fortum announced the sale of its participation in Uniper to the German government in September 2022, before drawing the first tranche of the arrangement. Eurostat inquired whether the German rescue of Uniper, which involved Uniper repaying EUR 4 billion of loans to Fortum and waiving EUR 4 billion of committed guarantees by Fortum, should be treated as a gift from Germany to Finland and whether there would be a capital transfer event. Statistics Finland replied that it was done through Fortum's subsidiary in Ireland, and it seems to them that this would be a transaction from Germany to Ireland. Eurostat argued that in this case they would need to record D.43 from the Fortum subsidiary.

According to data reported to Eurostat⁵⁰, Fortum debt increased from significantly between 2020 and 2021, as it seems that Fortum borrowed a substantial amount of money to cover the losses incurred by Uniper. Eurostat inquired if the government had guaranteed these borrowings. Statistics Finland does not have this information. Eurostat asked Statistics Finland to provide Fortum's consolidated reports in order to clarify the situation. Statistics Finland informed Eurostat that Uniper is consolidated with Fortum and expressed the opinion that the understanding of these accounts will be complex. Statistics Finland stressed that the profit and loss accounts of Fortum for the year 2022 is without Uniper⁵¹.

National accounts treatment of recapitalisation measure to support Meyer Turku

In December 2022, the European Commission approved a EUR 80 million Finnish recapitalisation measure to support the privately owned Meyer Turku Oy, the largest shipyard in Finland, in the context of Russia's war against Ukraine. Statistics Finland informed Eurostat that Meyer Turku has, continuous and substantial number of orders but the war in Ukraine has complicated its operations, especially through the unexpectedly high prices of energy and raw materials. Statistics Finland expects the support to take place in 2023. The aid will take the form of a hybrid equity loan.

⁴⁹ After the dialogue visit, Statistics Finland informed that the directed share issue required an approval by Fortum's Extraordinary General Meeting. It was approved on 23 November 2022.

⁵⁰ Details of data reported in the Questionnaire on public corporations.

⁵¹ Statistics Finland informed Eurostat after the dialogue visit that Uniper's consolidation ended on 30 September 2022. Continuous operations on Fortum's consolidated income statement no longer include Uniper for the year 2022. Fortum's consolidated income statement was modified in 2022 to include Uniper as discontinued operations.

Statistics Finland informed Eurostat that they plan to treat the recapitalization of Meyer Turku as a non-financial transaction (D.9). Furthermore, Statistics Finland explained that the recapitalisation aims at strengthening the solvency of the company, which is essential from both an economic and social perspective. Eurostat inquired if the government would purchase some shares in the company, or whether it will be a sleeping partner. Statistics Finland considers that, most likely, it will be a pure funding measure. Furthermore, Eurostat asked about the likelihood that the loan would not be reimbursed and whether this loan might be transformed into equity. If the later hypothesis will be confirmed, Eurostat suggested that then the transaction should be analysed from the perspective of a capital injection and not as a loan. It would be in any case premature to treat it as D.9 transaction, as there are several elements which still need to be clarified.

According to the list of dividends paid to the government by public companies, which was provided in advance to the meeting, Fortum had paid the largest dividends in the period 2019-2022, on average equal to 0.2% of GDP per year.

Findings and conclusions

Action point 40: *Statistics Finland will provide to Eurostat the consolidated accounts of Fortum, a public corporation (half owned by the Finnish general government) for the last three years.*

Deadline: by 1 February 2024.

Action point 41: *Statistics Finland will also reflect on whether the German rescue of Uniper, which involved Uniper repaying EUR 4 billion of loans to Fortum and waiving EUR 4 billion of committed guarantees by Fortum, despite Uniper having itself very sizeable negative 'own funds' (net assets), de facto entails a gift to Finland (to Fortum, and/or partly to the Finnish government), irrespective of the fact that these operations formally transited through an Irish subsidiary. A key question is whether Fortum had effective leverage on the German government takeover of Uniper (done for national policy reasons) or whether the advantageous arrangement was part of a bilateral intergovernmental negotiation.*

Deadline: by 30 September 2023.⁵²

Action point 42: *Eurostat invited Statistics Finland to carefully analyse the capital injection in Meyer Turku Oy planned for 2023 (EUR 80 million in the form of a hybrid equity loan), recently approved for State Aid by DG competition. While seemingly carried out for public policy reasons, Statistic Finland will nonetheless take into account the good financial position as well as business prospects of Meyer Turku Oy, and thus the elevated likelihood of a repayment of this instrument (that would then need to be recorded as revenue if initially expensed). Eurostat pointed that, Meyer Turku Oy being 100% private, the losses incurred in 2022 or earlier, if any, would not have been borne by government (but by private shareholders) so that past losses should not be a criterium to examine the capital injection, and the analysis should therefore be exclusively forward looking.*

Deadline: by 1 March 2024.

4.3.6. Energy Performance Contracts, Public-Private Partnerships, Concessions

Energy Performance Contracts (EPCs)

⁵² The note was provided on 29 September 2023.

In April 2023, EPCs were included in the compilation of financial accounts for the local government sector, as a result of an action point of the 2021 dialogue visit. For 2021, an additional EUR 6 million were recorded in F.42 liabilities due to EPC contracts, while EUR 10 million were recorded for 2022. In the non-financial accounts of local government, EUR 6 million were recorded as P.51 for 2021. Data for 2022 were not yet available for the April 2023 EDP notification.

Statistics Finland reported that data for the EPCs are taken from the new data source, which contains information on EPC contracts from all Finnish municipalities and joint municipal authorities. This is part of the XBRL-based data collection on municipal finances carried out by the State Treasury, that started in 2021.

Eurostat inquired if standardised EPC contracts are used by government units, but the FSA were not aware.

Public-Private Partnerships

For the April 2023 EDP notification, Statistics Finland confirmed that there have been no changes or amendments to existing PPP contracts. There are three on-balance sheet PPPs for a contractual value of EUR 1,079 million and five off-balance sheet PPPs with a contractual value of EUR 76 million. PPPs exist both at the level of central government and local government.

Central government accounting entries are collected from the State bookkeeping data and recorded as investments or intermediate consumption in central government accounts. Any updates regarding these projects are confirmed each EDP notification by the Finnish Transport Infrastructure Agency. There are five on-going PPP projects at the level of local government sector. These are all treated off balance sheet, so they are not recorded as investments or liabilities in local government accounts.

Prior to the dialogue visit, Statistics Finland informed Eurostat on the current situation as regard the new data source for PPP contracts at local government level. Statistics Finland explained that this is part of the XBRL-based data collection on local government finances. Furthermore, they explained that, due to technical problems, the 2021 data for PPP contracts became available for Statistics Finland only recently in 2023.

According to those data, there are 18 PPPs reported by 14 municipalities that are not yet listed in the EDP Questionnaire table 11, with a total value of EUR 401 million or 0.15% of GDP. Eurostat inquired whether those are new or old projects. Statistics Finland clarified that these are all ongoing projects, meaning that investment is being made or that the investment phase is already concluded, and government is already providing availability payments. At the moment, Statistics Finland had only information on those projects which concern the building of public infrastructure, among which schools are the most common ones. Eurostat advised Statistics Finland to analyse the recording in national accounts made by municipalities in this context, notably whether they are booking GFCF or not, the related expenditure for availability payments and whether the municipalities are following an IPSAS approach.

In the document provided prior to the dialogue visit, Statistics Finland stated that these projects would need to be investigated carefully before any recordings are made. In their experience, it cannot be assumed that municipalities are able to make correct judgements on

the treatment of these projects in national accounts, even though the data collection instructions have a detailed description of what kind of contracts are of interest to Statistics Finland. Statistics Finland considers that it is often the case that projects which a municipality regard as PPP contracts, are already recorded in the balance sheet of the municipality, so that no extra recording is needed in national accounts. Furthermore, Statistics Finland claimed that in some cases, the municipality itself is not part of the contract at all, except through its corporate sector subsidiary which might be classified outside government.

Concessions

Regarding concessions, the government has not entered any contracts. Statistics Finland informed Eurostat on certain projects that are at the planning level, concerning railway infrastructure.

Statistics Finland will follow the progress of three major railway projects. If the projects proceed, Statistics Finland will monitor how the projects are organized and financed and whether they are developed as concession projects. The three development companies (Suomi-rata Oy, Turun Tunnin Juna Oy, Itärata Oy) are currently classified as central government units based on the shareholding criterium. No decisions have yet been made about moving the projects to the construction phase or about financial arrangements. If the projects will proceed, they can also be developed and organized in other ways than concessions.

Findings and conclusions

Action point 43: *Statistics Finland will send to Eurostat the details of existing PPP projects implemented at the level of local government.*

*Deadline: by 30 September 2023.*⁵³

4.3.7 Other specific government transactions

Emission trading permits

The payments related to allowances issued under the EU emission trading system are recorded as other taxes on production D.29. The timing difference between the cash received in auctions and the time of recording of the tax revenue is shown in AF.89 and F.89. The ETS recording has not been changed since the last dialogue visit. The method applied is similar to the method described in the MGDD 2022, sub-section 6.5.2.19, and the only difference is that the related tax revenue is delayed by nine months compared to the cash, and not by one year. Permits are surrendered once a year in the last day of March. In year T, Statistics Finland uses the amount of cash received from the auctions since the last surrender of permits as revenue recorded on D.29 for year T.

Other specific government transactions

There have not been any changes in UMTS and/or LTE contracts signed and foreseen since the last EDP dialogue visit when Statistics Finland reported the auction on 3.5 GHz spectrum in 2018 and the auction on 26 GHz spectrum in 2020.

⁵³ The note was provided on 29 September 2023.

Regarding sale and leaseback operations, Statistics Finland reported no specific data source dedicated to this issue. However, they also use other data sources and information in the field of general government finances to identify significant sale and leaseback transactions, where an operating lease/financial lease test would be necessary. At the moment, they are not aware of any sale and leaseback operations, in which the treatment in national accounts would need to differ from the present accounting treatment.

There are no securitization arrangements in general government that would require the recording of government borrowing as reported by Statistics Finland, nor privatizations in progress.

Findings and conclusions

Eurostat took note of the information provided.

5. OTHER ISSUES

5.1 Implementation of MGDD 2022

For the April 2023 EDP notification, Statistics Finland submitted a detailed table on the status of implementation of the new MGDD edition 2022 detailing its impact on B.9 and gross debt as significant, marginal or with no impact. Eurostat noted that, for some chapters, specifically 2.5, 4.7, 4.8, 7.4, and 8.2, information on the potential impact is missing. Statistics Finland explained that those chapters are still under investigation.

Eurostat suggested Statistics Finland to focus on the implementation of chapters with a sizeable impact as this should be done in the course of 2023, while the rest of the implementation could be done within the benchmark revision in 2024.

5.2 GFS related matters

Statistics Finland raised the issue of the recording of margin deposits in ESA T28 and T27 as AF.41A and AF.41L.

The Debt Management Annual Review 2022 indicated that Finland uses collateral agreements under the ISDA agreements⁵⁴ (Credit Support Annex). The agreements are two-way agreements with some minor exceptions i.e., both counterparties have an obligation to pledge a collateral. Statistics Finland has previously interpreted that the ESA paragraph 5.117 covers that kind of contractual arrangement. Statistics Finland inquired if other Member States record the cash collaterals related to the debt management of the State Treasury in a different way.

Eurostat explained that a recording as AF.2 is more appropriate as it is a cautionary deposit. Another question is to what extent these amounts should be netted. Some netting would be possible if the counterpart would be the same.

Eurostat suggested to Statistics Finland to reflect on whether to record margin deposits as AF.4 or AF.2, as well as whether to discuss the issue during an EDPS WG or to initiate a dedicated expert meeting.

⁵⁴ The ISDA Agreement is an umbrella agreement which sets out the overarching terms between the parties who want to trade OTC derivatives.

Action point 44: Statistics Finland will reflect on whether to record derivative margin deposits as AF.4 or as AF.2. Statistics Finland will review whether it would be helpful to restart discussions (at Eurostat) on netting rules on derivative's cash collaterals.

Deadline: by 1 February 2024.

EDP DIALOGUE VISIT TO FINLAND

4-5 May 2023 (Part I) and 17 May 2023 (Part II)

Agenda

- 1. Statistical institutional issues**
 - 1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation
 - 1.2. Data sources and revision policy
 - 1.3. Compliance with Council Directive 2011/85/EU
 - 1.4. EDP Inventory

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

- 3. Follow-up of the April 2023 EDP notification – Statistical discrepancy**

- 4. Methodological issues and recording of specific government transactions**
 - 4.1. Delimitation of general government, application of the market/non-market test qualitative and quantitative criteria

 - 4.2. Implementation of the accrual principle
 - 4.2.1. Taxes and social contributions
 - 4.2.2. Interest and financial derivatives
 - 4.2.3. EU flows
 - 4.2.4. Military expenditure

 - 4.3. Recording of specific government transactions
 - 4.3.1. Measures to mitigate the impact of high-energy prices in the economy
 - 4.3.2. Recovery and Resilience Facility
 - 4.3.3. Government measure in response to the COVID-19 crisis and of Russia's invasion of Ukraine
 - 4.3.4. Government guarantees
 - 4.3.5. Capital injections in public corporations, dividends, superdividends
 - 4.3.6. Energy Performance Contracts, Public-Private Partnerships, Concessions
 - 4.3.7. Others (e.g., Emission Trading Permits, mobile phone licences)

- 5. Other issues**
 - 5.1. Implementation of MGDD 2022
 - 5.2. GFS related matters

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