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Directorate D: Government Finance Statistics
Unit D-2: Excessive Deficit Procedure 1
Unit D-3: Excessive Deficit Procedure 2



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FINAL FINDINGS

EDP dialogue visit to Finland

21-22 November 2011

Executive summary

Eurostat undertook an EDP dialogue visit in Finland on 21-22 November 2011. The main aims of this dialogue visit were to assess the existing statistical capacity and divisions of responsibilities concerning the compilation of EDP statistics and government accounts, with attention being paid to the compilation of local government accounts; to make sure that provisions from the ESA95 Manual on Debt and Deficit and recent Eurostat decisions are duly implemented and to find out how specific transactions are recorded in the EDP tables.

Eurostat discussed with the Finnish authorities the institutional arrangements and source data used for the compilation of government finance statistics. Eurostat took note of the current arrangements of recent developments and of the newly introduced information system for national accounts. Concerning the data sources for local government, Eurostat took note of the situation and the remaining problematic issues, and encouraged further improvements.

As far as the analysis of the October 2011 EDP notification is concerned, the compilation of EDP tables 2 was discussed. Eurostat took note that the B.9 is compiled from detailed revenue and expenditure and not using the so called "*top-down*" approach, therefore resulting in a *residual* item in the EDP tables 2. Eurostat accepted the proposal of the Finnish statistical authorities to change the presentation of EDP table 2D. The data sources used for compilation of EDP table 3B also were discussed. Some further work is needed to investigate why the other statistical discrepancies in EDP tables 3 for sub-sectors do not sum up at the level of the whole government sector.

Concerning the sectorization practices, Eurostat invited the Finnish statistical authorities to further analyze the classification of real estate and housing public corporations controlled by local government. It has been agreed that a solution is to be found for the issue of non availability of comprehensive data on Universities, in the first April EDP notification, following their recent reform.

On the recording of taxes, Eurostat stressed the importance of using real data for the time adjustments instead of estimations based on other indirect indicators. This information is available at the Tax administration level but is not used in the first April EDP notifications, due to technical/administrative problems.

Regarding the specific government transactions at local government level, Eurostat noted a lack of information and invited the Finnish statistical authorities to investigate how flows relating to guarantees and debt cancellations are recorded in local government accounts. In addition, the Finnish statistical authorities will analyse how to obtain information on capital injections undertaken at local government level.

Regarding dividends, after analyzing the data, super-dividends paid by four companies were identified. The appropriate revisions are to be implemented in the forthcoming EDP notification.

Final findings

Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009, as amended, as regards the quality of statistical data in the context of the Excessive Deficit Procedure, Eurostat carried out an EDP dialogue visit to Finland on 21-22 November 2011.

The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of Eurostat Unit C-3 Statistics for Excessive Deficit Procedure I. The Directorate General for Economic and Financial Affairs (DG ECFIN) also participated in the meeting as observer. The Finnish authorities were represented by the Statistical Office (SF), the Ministry of Finance (MoF) and the National Central Bank (NCB).

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to ensure that provisions of the ESA95 Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in the Finnish EDP and Government Finance Statistics (GFS) data.

In detail, the main aims of the dialogue visit were: to clarify the issues relating to EDP tables raised in the context of previous notifications, to analyse sectorisation practises, to analyse the availability of data sources for the local government sub-sector, particularly for dividends, guarantees, capital injections and debt cancellations.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, as amended, indicating that within days the Main conclusions and action points would be sent to the Finnish authorities, who may provide comments. Within weeks, the Provisional findings would be sent to the Finnish authorities in draft form for their review. After amendments, Final findings will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat very much appreciated the openness and transparency demonstrated by the Finnish authorities during the meeting and the documentation provided before and during the dialogue visit.

1. Statistical organisational issues

1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation

Introduction

Eurostat enquired whether, since the last EDP dialogue visit, there have been any changes in respect of co-operation and division of responsibilities between the different statistical authorities.

Discussion and methodological analysis

The Finnish statistical authorities confirmed that the institutional arrangements and responsibilities in relation to EDP and GFS compilation have remained the same since the EDP dialogue visit in 2010.

Nevertheless, it was explained to Eurostat that, starting from 1 January 2011, the Economic Statistics Division has changed its organisation. Currently, the division consists of four units. There was also some staff mobility within the Division. The new structure was designed in order to fit better the newly introduced integrated information system (IS) for National Accounts. This IS ensures a more integrated production process for statistics and keeps all source data treatment and balancing processes, as well as storage of data, in the same IT environment, with former APL- and Excel-based systems being abandoned. This NA information system renewal project has improved the internal controllability, transparency and quality of the whole system.

As for staffing issues, despite the fact that, on average, the number of staff decreased in SF in 2011, the National accounts area benefited from an increase of 15%. When it comes to EDP related work, the number of staff will increase from 7 to 9, as two new employees are expected to join from 1st January 2012.

Eurostat took note of this positive trend. Eurostat congratulated SF for putting emphasis on and strengthening the national accounts area and welcomed the implementation of the information system renewal project.

The Finnish statistical authorities informed Eurostat that, since the last EDP dialogue visit, the EDP co-operation group, which consists of members from SF, MoF and NCB, has been given an official status as the National Expert group for reporting deficit and debt (the text of the Decision for setting up this group was provided to Eurostat during the meeting). This formalisation did not introduce changes in the way the group functions - it meets a couple of times during the year and discusses EDP related matters (including important ex-ante cases). The minutes are produced for internal purposes and are not available to the public.

Findings and conclusions

1. Eurostat thanked the Finnish statistical authorities for the cooperation demonstrated during the visit and appreciated the fact that all the documentation requested was provided in time.
2. Eurostat acknowledged the progress achieved within the project on integrated information system for National accounts, which will also, in the near future, result in improvements in several areas, such as in consistency of financial accounts.

1.2. Data sources, EDP inventory, Revision policy

Data sources

Introduction

Eurostat enquired in detail on the basic data sources used for the compilation of government accounts and, more precisely, on the sources of figures in EDP tables.

Discussion and methodological analysis

The Finnish statistical authorities explained that there were no significant changes in the data sources, with the exception of Universities (this issue is treated under sector delimitation).

SF mentioned the two forthcoming projects on the new data collection system for local government:

- Quarterly LG data: the improvement project will start in 2012 and will ensure more complete input data for local government, starting from the April 2014 EDP notification.
- Annual LG data: the exact timetable and the content of the project is currently under discussion and no decisions have been taken yet on when the new data collection will take place and more detailed data for EDP will be available. The whole process will take several years, but the new data collection should reduce revisions between the October n+1 and the April n+2 notifications. A working group, including the main data users, has been created in order to establish what their main needs are. After the decisions on scope and timing of the project will be taken, the projects could start (possibly from spring 2012).

Eurostat encouraged SF to speed up the improvement of LG data sources, in particular for guarantees, debt cancellations and capital injections (see action points 12 and 14).

Moreover, the Finnish statistical authorities explained that, starting from 2012, there will be a change in data sources for local government debt. Currently, in the first EDP notification (data for the year n in April n+1) debt figures for local government are derived from General government quarterly financial accounts (QFAGG), which are compiled on the basis of Quarterly local government finance statistics. This is based on a sample survey excluding joint-municipal authorities. The figures for F.7, other than amounts arising from time adjustment of taxes, are not available for the first EDP notification, so the previous year's figures are adjusted and reported. From 2012 onwards, after the implementation of the modifications in the "Inquiry for the Financial Statement Estimates of the Municipalities and Joint Municipalities", this annual data on local government debt will also be exploited and will include new details needed for the EDP notifications.

Findings and conclusions

3. Eurostat also acknowledged that the new forthcoming project on the local government data collection should result in the elimination of substantial revisions for the data of the local government subsector at the time of the April t+2 EDP notification.

EDP inventory

Introduction

The Finnish *EDP consolidated inventory of sources and methods* was last updated in March 2010 and it is available on Eurostat's webpage.

Discussion and methodological analysis

Eurostat invited SF to update the existing inventory for the list of general government units, the recording of guarantees and any other issue if needed. As for the ongoing project on the Inventory update, Eurostat explained that the proposal for the new format of the EDP inventory is in the process of finalization, and most probably the new format will be obligatory only from the second half of 2012 onwards.

Findings and conclusions

4. Statistics Finland will provide an updated EDP inventory in the current format, applying changes to the list of general government units, to the description of the recording of guarantees and to other issues if needed. This will be done before the April 2012 EDP notification¹.

Revision policy

Introduction

Eurostat enquired about the revision policy.

Discussion and methodological analysis

The Finnish statistical authorities explained that there is no separate revision policy foreseen for EDP. The revision practice for EDP is the same as that adopted for National accounts.

For the years n-1 and n-2, errors are eliminated at any time, but for earlier years the revisions are implemented only in the context of major National accounts revisions.

Deficit

For the year n, reported data in the April n+1 notification are based on the first preliminary data which are published nationally in March n+1. The central government data, as reported in October n+1, are based on the preliminary non-financial accounts as published in July and are considered as final. As for local government, the deficit data become final in April n+2 and are based on the non-financial accounts published in January n+2.

The Finnish statistical authorities explained that the whole non-financial accounts are considered as final only in January n+3, the EDP tables for year n being marked as final in the April n+3 notification, even though normally no revisions for year n occur between October n+2 and April n+3.

¹ Statistics Finland (SF) sent the updated EDP Inventory on 29.03.2012, which was published on Eurostat's website on 23.04.2012.

Eurostat recalled that rather substantial revisions are observable from October n+1 to April n+2 for the local government subsector. The Finnish statistical authorities informed Eurostat that in the medium term future they foresee improvements in local government annual input data. Moreover, improvements are expected in quarterly input data: in 2014 there will be more complete data available and these will be used in the April n+1 EDP notification, thus the revisions for local government data should decrease in size.

Debt

In general, debt figures are closer to "final" status in the n+1 October notification than deficit figures. Preliminary data on the year n, in the April n+1 notification, are derived from quarterly financial accounts for general government. The October n+1 EDP notification is based on the annual financial accounts compiled in July n+1. The revisions of data between April and October n+1 mainly concern the local government subsector, as the financial statements of municipalities and joint-municipal boards become available by then. Data reported in the April n+2 are considered as final, as they are based on final annual financial accounts that become available in February n+2.

Findings and conclusions

Eurostat took note of the explanation.

2. Follow-up of the EDP dialogue visit of January 2010

Eurostat noted that a majority of action points were implemented by the Finnish statistical authorities.

Eurostat enquired on the progress made on action point 17 – monitoring existing and planned PPP contracts, especially for local government. The Finnish statistical authorities informed Eurostat that PPPs are to be covered by the forthcoming project on annual Local government data, and thus a more systematic approach will be followed in the future.

3. Actual data October 2011 EDP reporting – analysis of EDP tables

Introduction

Several issues concerning the October 2010 EDP notification were discussed.

EDP table 2A

Discussion and methodological analysis

It was confirmed by SF that the B.9 in EDP table 2A is compiled from detailed revenue and expenditure items and not using the so-called "top-down" approach, that is, by introducing the necessary adjustments to the working balance as a starting point. This compilation practice gives rise to a *Residual* item under *Other adjustments* in EDP table 2A. Also due to this approach, the revisions in the adjustment lines in EDP table 2A can only affect the residual item and have no impact on the B.9. Similarly, revisions in B.9 in some cases affect only the residual and not other items in EDP table 2A.

Net borrowing (-) or net lending (+) of other central government bodies

Under this item, in EDP table 2A, Statistics Finland reports consolidated net-lending of extra budgetary units and, separately, net transfers from extra-budgetary units to the budget. The same approach is followed in table 3 of the EDP questionnaire relating to the notification tables, with the exception that the B.9 of Solidium Ltd and Universities are shown explicitly.

Eurostat recalled that table 3 of the questionnaire asks for a breakdown of B.9 of other government bodies by groups of units and /or individual units. Eurostat invited the Finnish statistical authorities to report B.9 of extra budgetary funds on a fund by fund basis, as this information is easily available.

The impact of the difference in the recording of deferrable budgetary appropriations

The Finnish statistical authorities recalled that this adjustment line shows the net figure between the amounts that were allocated in the budget for the year n (recorded as expenditure in the working balance), but not spent in year n and transferred to the year n+1 as well as the amounts that were transferred from the year n-1 to the year n (as these were not included in the working balance for the year n).

Findings and conclusions

5. The Finnish statistical authorities will amend the *Questionnaire relating to the EDP notification tables*, table 3, by including a list of net borrowing (-)/ net lending (+) of all extra-budgetary funds, for the April 2012 EDP notification².

EDP table 2C

Discussion and methodological analysis

Similarly to EDP table 2A, B.9 in the EDP table 2C is not compiled following the so-called "top-down" approach. The working balance is the annual margin of municipalities and joint municipal boards, while B.9 is derived from detailed non-consolidated expenditure and revenue. The reconciliation between the working balance and B.9 results in the residual item (or discrepancy) under other adjustments in EDP table 2C.

Time adjustment of income tax and difference due to source

This adjustment item, as reported under other accounts receivable, includes a one month time adjustment for taxes and the difference between the income tax cash amounts included in the working balance and included in B.9. The Finnish statistical authorities explained that, in the working balance, data on income tax are derived from the *Statistics on financial statement estimates of municipalities and joint municipal boards* (April notification) or the *Statistics on finances and activities of municipalities and joint municipal boards* (October notification), while in B.9, cash amounts of the income tax are derived from the reports of Tax administration. In October, the cash income tax amounts in the Working balance and B.9 largely match, therefore the adjustment reflects mainly the time adjustment, while in April the adjustment item includes also the difference between tax figures in the WB and in B.9.

² SF provided the net borrowing (-)/ net lending (+) by all extra-budgetary funds for the April 2012 EDP notification.

Findings and conclusions

Eurostat took note of the explanation.

EDP table 2D

Discussion and methodological analysis

Currently, the working balance as reported in the EDP table 2D relates to the Other social security funds (S.13149) whereas the Employment pension schemes (S.13141) are reported under "*Net borrowing (-) or net lending (+) of other social security bodies*". The Finnish statistical authorities proposed to change the presentation in the EDP table and thus report the *Employment pension companies* in the working balance and the *Other social security funds* under the aforementioned adjustment line. SF believes that, in this way, the table could be more informative, as in fact *Employment pension companies* are sizeable (accounting for about half of the subsector S.13141 figures) and some non-financial transaction not included in the working balance could be shown explicitly in the table. Eurostat suggested that maybe all the subsector S.13141 could be reported in the Working balance. SF answered that, at this stage, including every institution in the working balance would not be possible. Eurostat agreed that the proposed change in presentation of the EDP table 2D would give more detail on the social security funds sector and therefore SF were invited to report the "new" table in the next EDP notification.

Findings and conclusions

6. Eurostat agrees with the proposal of Statistics Finland to change the presentation of EDP table 2D, namely by including also the working balance of employment pension companies and the relevant correction lines in the table. The new table is to be reported for the April 2012 EDP notification³.

EDP tables 3

Discussion and methodological analysis

Data sources used for EDP T3B compilation

The Finnish statistical authorities explained that the EDP table 3B is based on quarterly financial accounts in the first EDP notification.

The main data source for central government gross debt is the State Treasury debt report. Information on transactions is available for instruments F.4 and F.5.

As for assets reported in EDP table 3B, central government bookkeeping accounts are used as the main data source as well as some indirect data from the Bank of Finland. Information on actual transactions is available for Securities other than shares (F.3) and equity (F.5), the other instruments (F.2, F.4 (assets)) being calculated as a difference between the closing and starting balance sheet. For F.7, both assets and liabilities are calculated as a change in stocks.

³ The agreed change in presentation in the EDP table 2D was implemented for the April 2012 EDP notification.

Consolidation

The issue of non additivity of *Other statistical discrepancies* in EDP tables 3 was discussed in previous EDP dialogue visits. Even though the seemingly consolidated amounts are not substantial, Eurostat noted that this was not a best practice and it would result in shortcomings in the consolidation. The Finnish statistical authorities explained that their investigations had identified some problems with flows between the CG and SSF subsectors, namely in the case of holdings by the Social security funds of government securities. SF thought that there might be inconsistencies in valuation of stocks and transactions.

Eurostat encouraged SF to continue their investigations on this issue.

Findings and conclusions

7. The Finnish statistical authorities will further investigate why the other statistical discrepancies in EDP tables 3 for sub-sectors do not sum up at the level of the whole government sector (which indicates problems in the measurement of consolidation items) and will inform Eurostat on their progress, by October 2012.

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government, application of market / non-market rule in

NA

Introduction

The Finnish statistical authorities provided a note on the recent changes in sectorisation. Changes in sectorisation since the last EDP dialogue visit in January 2010, as well as the practical application of the so called 50% test, were discussed under this point.

Discussion and methodological analysis

Eurostat took note that, since the last EDP visit, the number of accounting offices (S.1311) as well as the number of municipalities and joint municipalities had diminished. Other changes in the local government sub-sector were: Municipal Guarantee board and Länsimetro Oy (West Metro Ltd.), which have been reclassified inside LG.

Before the EDP dialogue visit, the Finnish authorities provided a list of public corporations that meet the so-called 50% criterion, and for which their sales to costs ratio is between 50 % and 75%. The Finnish statistical authorities explained that most of the companies in this list are owned by local government. Eurostat asked about the data availability for the implementation of the 50% test. SF explained that, in practice, all the information needed for the 50% test is available for statisticians. There is a database of financial statements of all the companies in Finland and public corporations are identifiable in the Business Register (with the exception of some municipal quasi-corporations). SF informed Eurostat that, once a company has failed the 50% test, the results are monitored closely; the reclassification takes place when the 50% criterion is not met over a range of years.

Eurostat noted that quite a number of the companies operating in the area of real estate are just above the 50% threshold. The Finnish statistical authorities explained that those public

corporations are either real estate holding companies or, to a lesser extent, housing companies. The main item of sales for these companies is rent, which seems to be set at market terms, and no subsidy element is identified. Eurostat enquired on the autonomy of those units, on the possibility that these companies undertake activities on behalf of local governments, as well as on whether there have been similarities with sale and lease back operations. It was agreed that further analysis of these companies is to be undertaken by the Finnish statistical authorities, covering all of the above aspects.

Universities

At the beginning of 2010, the Universities (16 in number) started operating outside the state budget. Nevertheless, in national accounts they remain classified in the GG sector, as SF considers that they are controlled and mainly financed by the government. After the 2010 reform, Universities are no longer part of the bookkeeping system of government; no monthly data are available and there are problems with the source data, which are not as detailed as before. Currently, data for Universities are obtained from the financial reports of Universities submitted to the Ministry of Education and Culture, which take place once a year (usually May-June) and the balance sheets are of a rather simple nature. For the April n+1 EDP notification, some indirect data (mainly for most important expenditure items like salaries) are available and there is a potential for revisions in October n+1. Eurostat took note of the situation and suggested that SF considers introducing a survey. The Finnish statistical authorities indicated that some indirect information on universities could be received from the Ministry of Education and Culture as the supervisory authority. SF believes that, for the April notification, B.9 could be assessed with a reasonable degree of confidence and the expected revisions should not be substantial. It was agreed that SF will monitor the situation, try to explore the indirect data and inform Eurostat on the possible solutions of this problem.

Findings and conclusions

8. Eurostat invited the Finnish authorities to undertake a study on the classification of public corporations controlled by LG units, especially in the fields of real estate and housing. More in detail the following elements are to be covered:

- Autonomy of decision
- Whether some activities are undertaken on behalf of government
- Possible sale and lease back operations
- Debt guaranteed by government

The Finnish statistical authorities will inform Eurostat of the results of the study by end-September 2012.

9. Eurostat took note of the fact that comprehensive data sources for the April t+1 notifications will not be available anymore for universities, in the context of the reform of universities (they will not be included in the budget). Eurostat invited Statistics Finland to monitor closely the availability of data for universities, in order to be able to have access to good quality data in the April t+1 notifications, and to report to Eurostat by the October 2012 EDP notification.

4.2. Implementation of accrual principle

4.2.1. Accrual taxes and social contributions

Introduction

The data availability of taxes was discussed under this point

Discussion and methodological analysis

In the October 2011 notification, the receivables relating to taxes on products were revised by -0.1% of GDP in comparison to the April 2011 reporting, and a revision of similar nature undertaken in October 2010 notification amounted to 0.17% of GDP. Eurostat enquired about the reasons for these rather sizeable and regular revisions. The Finnish statistical authorities explained that this is due to the fact that the first April notification data on product tax revenue are not available for the months of January and February. Therefore SF makes estimates on the basis of Christmas sales, car sales and other factors. Consequently, time adjustments, based on estimates, are revised once the final data is available. The issue is that the Tax Administration is not in a position to provide the data until the accounts for the previous year are closed. Statistics Finland has tried to solve this issue in the past but without success. Eurostat noted that this is not an issue of non-availability of data, but rather a problem of administrative arrangements and technical obstacles. Having in mind the importance of the reliability of EDP statistics, Eurostat invited the Finnish statistical authorities to re-address this issue, so that the time adjustment for taxes in April n+1 is made on the basis of real data from the Tax administration on tax revenues of the months of January and February.

Findings and conclusions

10. Eurostat invites Statistics Finland to use for the April n+1 notifications, real data for the time adjustments of revenue from taxes on products, instead of estimations based on other indirect indicators. It is absolutely essential that, at the time of the April n+1 EDP notification, the recording of taxes undertaken on a time adjusted cash basis is made on the basis of real data from the Tax administration, for tax revenues of the months of January and February of year n+1. Eurostat understands that these data are in fact available but are not used due to a technical problem. In line with what it has asked and recently obtained from the other Member States, Eurostat considers this as a great priority, which should be implemented already in the April 2012 notification⁴.

4.2.2. Accrued interest

Introduction

Prior to the EDP visit, the Finnish authorities provided numerical examples on how interest is reported in EDP tables 2A and 3B. This document served as an input for the discussion.

Discussion and methodological analysis

The coupon payments on government securities are recorded on an accrual basis in the working balance. Therefore, the amounts reported in EDP table 2A under the adjustment line

⁴ SF used actual cash data for time-adjustments of product tax revenue, notably VAT, in the April 2012 EDP notification.

"Difference between interest paid (+) and accrued (EDP D.41) (-)", refer to correction of discounts/premiums, amortisation of discounts/premiums and spreads of lump sums received on swap cancelations. The spreading of discounts/premiums is implemented on an instrument by instrument basis and no modelling is applied.

As for the line "Difference between interest (EDP D.41) accrued (-) and paid (+)" in EDP table 3B, the amounts reported there represent a change in the balance sheet of interest payable.

Eurostat enquired whether interest receivable is recorded on an accrual basis in EDP tables. Having in mind recent lending to other Member states, the accrued amounts could be more sizeable. The Finnish statistical authorities agreed to investigate this and inform Eurostat on their findings.

Coupon sold

Following up on the communication in the 2011 EDP notifications, SF confirmed that amounts associated to "coupon sold" enter the working balance as negative interest expenditure and accrued interest payable is recorded under adjustment for D.41, i.e. these flows do not impact B.9. Eurostat took note of this approach and recalled that, after the discussion in the FAWG meeting, the recommendation was to treat coupon sold associated flows as financial transactions.

Findings and conclusions

11. Statistics Finland will check if interest receivable by government is recorded on an accrual basis in EDP statistics and inform Eurostat by end-March 2012⁵.

4.3 Recording of specific government transactions

4.3.1 Guarantees

Introduction

Prior to the dialogue visit, the Finnish statistical authorities provided details on central government and Finnvera guarantees by receiving sub-sector, for the whole period of 2007-2010.

Discussion and methodological analysis

Under this point of the agenda, guarantees as reported in Questionnaire tables 9 were discussed. Starting from the year 2009, stocks of guarantees provided by Local government sector are reported in Questionnaire table 9.1. The amounts are rather significant; nevertheless the majority of guarantees are issued by the Municipal Guarantee Board (in 2010 9.2 billion out of total 15.9 billion). As for Municipalities, the biggest parts of their guarantees are granted to municipal corporations. Statistics Finland informed Eurostat that, according to their knowledge, the guarantee calls amounts are not significant. Eurostat enquired on how these calls are recorded in LG accounts. Statistics Finland thought that some further analysis is needed on this issue, but nevertheless, according to their knowledge, guarantee calls are

⁵ SF confirmed on 30.03.2012 that interest receivable is recorded on accrual basis.

recorded as extraordinary costs in LG accounts. Eurostat invited SF to analyze a few cases, in order to determine what recording practices of flows relating to guarantees prevail in certain Municipalities.

As for CG guarantees, apart from the State treasury, guarantees are provided by the Finnish rural development fund (guarantees on agricultural credits) and student loan guarantees are provided by the Social Insurance Institutions of Finland (KELA). The Ministry of Culture and Education issues guarantees for art exhibitions. It was clarified with the Finnish statistical authorities that these guarantees are neither on borrowing, nor on assets, and in fact are to be seen as insurance. Eurostat noted that in this case these "guarantees" should not be included in table 9.1 of the Questionnaire relating to the notification tables.

Similarly to the previous years, the table 9.1 of the Questionnaire relating to the notification tables includes also guarantees issued by Finnvera. As this company is classified outside general government, the amounts reported could not be crosschecked with the ones shown in the EDP tables. Eurostat invited the Finnish statistical authorities, as a one-off exercise, to provide Questionnaire table 9.1 excluding stocks and flows of Finnvera guarantees.

Findings and conclusions

12. The Finnish statistical authorities will analyse how flows relating to guarantees are recorded in general in local government accounts and by end-March 2012 report to Eurostat on one particular case. The same analysis is to be done for loan cancellations⁶.

13. The Finnish statistical authorities will amend the *Questionnaire relating to the EDP notification tables*, table 9.1, by excluding the amounts associated with guarantees provided by the Ministry of Culture on art exhibitions, for the April 2012 EDP notification⁷.

14. As a one-off exercise for the April 2012 EDP notification, Statistics Finland will provide Eurostat with the *Questionnaire relating to the EDP notification tables*, table 9.1, excluding Finnvera guarantees stocks and flows⁸.

4.3.2. Debt assumptions, debt cancellations and debt write-offs

Introduction

Prior to the EDP dialogue visit, the Finnish statistical authorities provided the stocks and transactions of claims of general government and of its subsectors by the receiving subsectors, for the whole period of 2007-2010.

⁶ SF explained on 29.03.2012 how flows relating to guarantees and loan cancellations are recorded in local government accounts.

⁷ The amounts associated with guarantees on art exhibitions were removed from the EDP questionnaire table 9.1 in the April 2012 EDP notification.

⁸ SF submitted, as one-off exercise, the EDP questionnaire table 9.1 without guarantees provided by Finnvera in the April 2012 EDP notification.

Discussion and methodological analysis

Government claims

Eurostat observed that, for central government, in most cases, net flows were negative, thus new lending was smaller than the repayments. On the contrary, local government is a net lender, as regards loans for non-financial corporations. Stocks of local government claims against non-financial corporations are rather stable over the period 2007-2010 (excluding a one-off operation in 2010) and amounted to around 3 billion EUR.

In this respect, Eurostat recalled that the Manual on Government Deficit and Debt part III on capital injections deals also with cases of government loans: "*in certain specific contexts (financial defeasance, business rescue, export insurance;...), the characteristics of "loans" provided by government (the contractual obligations) should be examined closely to check whether it is correct to classify them in F.4.*"

Debt cancellations

The Finnish statistical authorities explained that detailed information on debt assumptions, debt cancellations and debt write offs is available for central government only. The biggest part of debt cancellations refer to R&D loans. All debt assumptions, cancellations and write-offs are recorded as capital transfers.

Eurostat thought that some further progress is needed on the debt cancellations at local government level. The Finnish statistical authorities were not in a position to answer how debt assumptions/cancellations are recorded in local government accounts. Similarly to guarantees, Eurostat invited SF to analyze a few cases, in order to determine how debt assumptions/cancellations are recorded in the accounts of local government.

Findings and conclusions

See action point 12.

4.3.3. Capital injections in public corporations, dividends, privatization

Capital injections

Introduction

Eurostat enquired on the progress of data availability for capital injections undertaken by local government.

Discussion and methodological analysis

The Finnish statistical authorities confirmed that capital injections, as reported in tables 10.1 and 10.2 of the *Questionnaire relating to the notification tables*, refer mainly to central government capital injections. Currently, a systematic monitoring of capital injections on local government level is not possible. Some improvements could be expected in the future within the forthcoming project on annual LG data. Eurostat considered that a prompt solution is to be found rather than waiting for a few years until the project is implemented.

As for capital injections undertaken by the central government, Eurostat took note that a majority were treated as equity injections in the year 2007 and 2009. A capital injection into Suomen Teollisuussijoitus (Finnish Industry Investment) in 2009 was discussed in more detail. SF treated this injection as acquisition of equity - this company was profitable over the period 2005-2008. The aim of this injection was to provide the company new equity for expanding its investment activities as part of government stimulus package. Eurostat noted that in the 3rd edition of the MGDD part III.4, on capital injections, there is a criteria foreseen for capital injection to be treated as injection in equity: "*The investment of government is to be made predominantly under market conditions and not only for public policy purposes.*" In addition, a sufficient rate of return is to be ensured.

Findings and conclusions

15. Before the April 2012 EDP notification, the Finnish statistical authorities will inform Eurostat on when it will be possible to obtain data on equity injections at local government level. In case it will not be possible to obtain this shortly, Statistics Finland is invited to inform Eurostat on other possible ways of solving the issue in the short term⁹.

Dividends

Introduction

Prior to the EDP visit, the Finnish statistical authorities provided information on dividends paid by companies and their associated profits, for the whole period 2007-2010.

Discussion and methodological analysis

While analyzing the table on dividends provided by the Finnish authorities, Eurostat identified 4 companies that paid dividends in 2010 but had losses in 2009. Eurostat thought that these were clear cases of superdividends and asked SF to reclassify the associated amounts as financial transactions. The Finnish statistical authorities pointed out that in some identified cases, following the MGDD part III.5, a so-called dividend smoothing practice could be identified and thus the smoothed payments could be recorded as dividends. Eurostat explained that, in practice, any amount in excess to the operating profit (used as a proxy for entrepreneurial income) is to be recorded as withdrawal of equity.

Eurostat enquired to what exactly referred the amounts reported in table 10.1 of the Questionnaire relating to the notification tables, item 7, *Distributions by public corporations recorded under non-financial transactions*. The Finnish statistical authorities explained that these are reinvested earnings on direct foreign investment (D.43).

Findings and conclusions

16. Eurostat invited Statistics Finland, for the April 2012 EDP notification, to reclassify as super dividends those dividends paid from companies which incurred losses in the previous year, although Statistics Finland stated that the existing guidance on super dividends might

⁹ SF explained on 29.03.2012 that it anticipates some improvement to coverage of capital injections and distributions by October 2012 EDP notification. It is, however, expected that in a medium/long term the present gaps will be filled by the total renewal of municipal finance statistics.

leave room for a different interpretation. This involves the dividends paid by 4 companies in 2010¹⁰.

4.3.4. Others: EU flows, PPPs, Sale and leaseback operations, securitisation, Swaps, Carbon trading rights

Military equipment

Questionnaire table 7.1 was analyzed under this point of the agenda.

Eurostat identified some inconsistencies between transactions and stocks in other accounts receivable. The Finnish statistical authorities explained that the inconsistency arises because the stock figures include all advance payments (related to both military and non-military expenditure), receivable, of Finnish Defence Forces, whereas the transaction figure is calculated as the difference between the cash payments of military goods and their deliveries. Similarly, the stocks in other payables relate to both military and non-military expenditure of the Defense Forces.

PPPs

The Finnish statistical authorities explained that in the area of PPPs there are no new developments in comparison to the last EDP dialogue visit. Prior to the meeting, the Finnish authorities provided a short note on the potential project for the E18-Kotka-Koskenkylä. The contract has not been signed yet and is currently under negotiation.

Eurostat took note of this information.

¹⁰ The dividends concerned were reclassified as super dividends in the April 2012 EDP notification.

Annex I

List of participants

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