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FINAL FINDINGS

EDP standard dialogue visit and pre-euro accession visit **to Lithuania**

5-6 March 2014

Executive summary

Eurostat undertook a standard EDP dialogue and pre-euro accession visit to Lithuania on 5-6 March 2014. The purpose of the visit was to review the existing institutional responsibilities for compiling GFS and EDP statistics, discuss the quality and exhaustiveness of primary data sources, clarify some issues relating to the EDP notification tables, discuss the implementation of ESA 1995 methodology and examine the statistical treatment of specific operations undertaken by the government.

First, the institutional arrangements currently in place were reviewed. The discussion on data sources focused on the current and future plans for the usage in national accounts compilation of the data compiled under the Public Sector Accounting and Financial Reporting Standards. The reliability of the data on hospitals and universities was discussed, as well as the progress made in establishing data sources for specific local government operations such as capital injections, debt assumptions and debt cancellations. The Lithuanian statistical authorities informed Eurostat of their preparedness for the introduction of ESA 2010.

The preliminary April 2014 EDP Notification tables were examined in detail, together with the Questionnaire relating to the EDP notification tables. Some inconsistencies were identified to be corrected/ clarified in the final EDP notification tables to be submitted before the 1st of April 2014.

On the implementation of the accrual principle, Eurostat verified the accrual adjustments for VAT and excises. The accrued interest movements between the years 2012 and 2013 were discussed in detail and it was agreed that further progress should be made in the implementation of Eurostat's decision on the recording of some operations related to trade credits.

The discussion then focused on the recent cases of financial institutions under bankruptcy. Eurostat underlined the importance of the correct statistical recording of these operations and asked the Lithuanian statistical authorities to analyse the cases of Snoras bank and Ūkio bank taking into account the MGDD rules on defeasance structures.

Particular attention was paid to the recent Constitutional Court decisions relating to compensations of the disproportionate cuts in public sector wages and pensions. Due to the very preliminary stage of the draft laws on compensation, only a general discussion on the statistical implications and the amounts involved took place.

A number of planned private-public partnership projects were also discussed. The Lithuanian statistical authorities indicated the possibility of ex-ante consultations on their statistical recording.

Eurostat appreciated the information provided by the Lithuanian Statistical Authorities prior and during the EDP standard dialogue visit and the pre-euro accession visit. Eurostat also thanked the Lithuanian statistical authorities for their co-operation during the mission and considered that the discussions were transparent and constructive.

Final findings

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP standard dialogue visit and pre-euro accession visit to Lithuania on 5-6 March 2014.

The delegation of Eurostat was headed by Ms Lena Frej Ohlsson, Head of Unit D-2 (Excessive Deficit Procedure (EDP) I). Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Lithuanian authorities were represented by Statistics Lithuania (SL), the Ministry of Finance (MoF) and the Bank of Lithuania (BoL).

The previous Eurostat EDP standard dialogue visit to Lithuania took place on 8-9 February 2012.

Eurostat carried out this EDP standard dialogue visit and pre-euro accession visit in order to review the implementation of the 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 Lithuanian EDP and Government Finance Statistics (GFS) data.

The main objectives of the EDP standard dialogue visit and pre-euro accession visit were (1) to analyse the draft tables of the April 2014 EDP notification (2) to review the data sources for in particular public entities and local government (3) to clarify the recording of resolutions or winding up of the financial institutions (4) the analyse the recording of compensation of wages and pensions, following the ruling of the Constitutional court (5) to clarify some points of the methodology relating to the PPP projects.

With regard to procedural arrangements, the *Main conclusions and action points* would be sent to Lithuania for review in a couple of days. Then, within weeks, the *Provisional findings* would be sent to Lithuania for comments. After this, *Final findings* will be sent to Lithuania and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

1. Statistical capacity issues

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

Introduction

Eurostat enquired about the functioning of the cooperation between institutions and any changes which took place since the 2012 EDP visit, in respect of division of responsibilities and organisational structure.

Discussion

The presentation on the recent developments was made by the Deputy Director General of the NSI. A new organisational structure of SL has been adopted by Government Resolution No 1362 of 14 November 2012 where a new unit specialising on government finance statistics has been established. Previously, GFS issues were dealt within the National accounts division and the change in the structure was partly inspired by a similar process in Eurostat, where GFS and NA departments were separated. The Lithuanian statistical authorities explained that, in addition to the responsibility for GFS statistics, the unit is responsible for compilation of financial accounts by institutional sectors and ESA 2010 implementation issues. Currently, there are six persons working in the unit and two more will be recruited. One of the newcomers will be directly responsible for the implementation of ESA 2010 provisions concerning pension schemes. Eurostat observed that the staff turnover is rather high.

The Lithuanian statistical authorities informed Eurostat that cooperation agreements have been signed with nine institutions, responsible for the production of official statistics. These inter-institutional agreements covered such areas as assurance of consistency, use of confidential data and dissemination issues, drafting and contribution to the implementation of the statistical programme. SL believes that the cooperation agreements facilitate the implementation of the Code of Best practice.

SL informed Eurostat that there are plans to update the 2002 government Resolution No 702, which gives the responsibility of government deficit and debt statistics compilation to SL. One of the reasons for this update is a need to change references to ESA 2010. There are also plans to update the 2007 bilateral cooperation agreement with the MoF on EDP issues: *Schedule for the provision of statistical information on the general government deficit and debt*, approved by a joint order of the Minister of Finance and the Director General of SL. The changes would mainly focus on the data flows between SL and the MoF and would reflect the recent organisational changes. Eurostat asked for a copy of this document, once the update is in place.

Findings and conclusions

- (1) Eurostat welcomed the creation of the specific Government Finance Statistics (GFS) unit as created in 2012 and the increased resources for GFS in general.
- (2) Eurostat took note that the Memorandum of Understanding between SL and the MoF will be updated in 2014, in particular in the light of the implementation of the ESA 2010. The NSI will provide Eurostat with a copy, once the Memorandum is updated. Deadline: *December 2014*.

1.2. Data sources, EDP inventory

Introduction

The use of the financial statements as provided in the VSAKIS system was discussed under this point of the agenda.

Discussion

The Public Sector Accounting and Financial Reporting Standards (PSAFRS) in Lithuania were introduced back in 2010 with the aim to harmonise accounting systems and to be able to prepare consolidated financial statements of general government as well as by sub-sectors. The financial statements are fed in the so-called VSAKIS data base, managed by the MoF, to which the NSI has access. As it was explained by the Lithuanian statistical authorities, the first general government consolidated statement was prepared in 2012. The quality of this statement was however criticised by the State Control (National Audit Office).

The PSAFRS reform has been discussed in previous EDP dialogue visits, and the MoF and the NSI was asked to investigate the possibility to use PSAFRS data for EDP purposes.

The Lithuanian statistical authorities explained that there are some limitations in using the VSAKIS data base: only individual reports are available for extraction; there is no possibility to get aggregated data for a group of institutional units; the public institutions provide financial data relatively late into VSAKIS and the data in the financial statements (i.e. statements of financial position and statements of financial performance) are not detailed enough. The Lithuanian statistical authorities informed Eurostat that some improvements are foreseen in the database, as quarterly data for public units will be made available in VSAKIS starting from the first quarter of 2014.

Eurostat asked about the plans to use some PSAFRS based data, available in VSAKIS, for EDP purposes. The Lithuanian statistical authorities explained that the financial statements will be used for public institutions (hospitals, universities). For the main central government unit, “the State”, the budgetary data will be used. The Lithuanian statistical authorities explained that the cash budgetary data is considered of better quality and a more reliable data source. Even though municipalities provide their financial statements to VSAKIS, their usage for EDP statistical purposes is limited mainly due to the fact that each municipality produces consolidated financial statements and that the data includes all the entities owned by municipality.

Findings and conclusions

- (3) Eurostat asked the Lithuanian Statistical Authorities to send the Consolidated financial statement of the State made by the MoF from the Public sector accounting and reporting consolidation information system (VSAKIS), as well as to provide to Eurostat a report on current and future usage of the data based on the PSARS for the EDP and GFS statistics, including shortcomings identified up to date. *Deadline: April 2014 EDP Notification¹.*

Introduction of the ESA2010

The NSI informed Eurostat that there were no intentions to publish ESA2010 based data nationally before September 2014.

¹ A note on this issue has been sent to Eurostat on 31.03.2014

An update of the Questionnaire on the impact on deficit and debt from ESA 2010 was provided by the Lithuanian statistical authorities before the visit. Eurostat commented that it was very unusual to see no expected reclassifications. The Lithuanian statistical authorities explained that all public corporations were analysed taking into account also the qualitative aspects foreseen in ESA 2010 and no cases pending reclassification were identified. Eurostat commented that some ESA 2010 control elements (e.g. the corporation's ability to borrow without approval of the MoF, the right to use assets at its full right, etc.) are not directly observable in the financial statements, and thus an analysis of the company statutes/rules of procedures might be required. Eurostat recalled that the issue of control is discussed in the Task Force on the ESA 2010 MGDD update. Eurostat also draw the attention of the Lithuanian statistical authorities to the fact that the sector classification rules for public holdings that are not actively managing the subsidiaries of the group but are basically acting as a shell have changed with ESA 2010. These types of public units should now be classified inside general government sector. While analysing the Questionnaire on government controlled units, Eurostat together with the Lithuanian statistical authorities identified at least one holding company which sector classification potentially needed to be reviewed – the Joint stock company Lietuvos energija (former *Visagino Atominė Elektrinė*). The Lithuanian statistical authorities were asked to analyse all the holding companies and inform Eurostat on their findings.

- (4) Eurostat took note that the impact on deficit and debt from the implementation of ESA 2010 is expected to be rather limited. However, Statistics Lithuania was invited to analyse further the sector classification of holding companies in the light of ESA 2010 and, if needed, to send an updated Questionnaire on the ESA 2010 impact on government deficit and debt. *Deadline: May 2014*².
- (5) Eurostat invites Statistics Lithuania to check the market/non-market test for the Joint-stock company *Lietuvos energija* (former *Visagino Atominė Elektrinė*). *Deadline: April 2014 EDP Notification*³.

2. Analysis of the draft April 2014 EDP tables

Introduction

Prior to the EDP visit, the Lithuanian statistical authorities provided a complete set of draft *EDP tables* and the *Questionnaires related to EDP tables* of the April 2014 EDP notification. Both sets of tables were analysed together with the supporting information: data on extra-budgetary funds (as included in the adjustment line "*Net borrowing (-) or net lending (+) of other central government bodies*" in the EDP table 2A) and detailed expenditure, revenue and financial transactions fund by fund for the year 2013.

Discussion

Eurostat thanked the Lithuanian statistical authorities for providing a preliminary EDP notification and asked what data sources would become available during the month of March 2014 and what revisions could be expected between the preliminary and the final April 2014 EDP notification. The Lithuanian statistical authorities explained that, in principle, all the entities reported these data earlier this time and thus no new data

² A note on this issue has been sent to Eurostat on 29.05.2014.

³ Implemented before the April 2014 EDP notification (SL note of 31.03.2014).

deliveries are expected at the end of March. It was however stressed that all the entities have the right to submit new data, if they have identified mistakes. The data on State and LG entities is considered final and there should be no revisions (bar mistakes). For the social security funds sub-sector, the financial statements were not finalised yet, therefore the data is considered as preliminary and there could be some minor revisions between the March notification and the official EDP notification by April 2014.

EDP table 1

Eurostat asked to what it refers the increase in AF.2 in the years 2012-2013 (the stock at the end of 2013 amounted to 850 million LTL). The Lithuanian statistical authorities explained that the increase refers to recent issuances of saving notes. It is not excluded that savings notes are perceived by wider public as a good investment instrument due to slightly higher interest rates as compared to commercial banks deposits interest rates.

Eurostat noted that although the stock of the consolidated gross debt had increased in 2013, nevertheless, the flow of D.41 had decreased. The Lithuanian statistical authorities explained that this situation could be explained by the fact that bonds were issued towards the end of the year; also some replacements in debt instruments were done. Redemptions exceeded the issuances and issuances occurred later on in the year. The refinancing was done with more favourable interest rates, thus this contributed to the decrease in the overall interest flow. The Lithuanian statistical authorities explained that all detailed information on government debt and accrued interest is readily available and could be provided to Eurostat.

EDP table 2

The Lithuanian statistical authorities confirmed that in EDP table 2A, under “*other financial transactions*”, the empty cells for coupon sold and derivatives are in fact zeroes. All the borrowing was done in EUR, so there was no need to hedge via derivative contracts.

Eurostat noted that the current reporting of “M”-not applicable under “*Loans granted*” might be misleading as government can grant loans, and suggested that if the phenomenon has not occurred in a particular year, it would be better to report zero.

The Lithuanian statistical authorities confirmed that the mistake under item 5d “*other financial transactions*” in table 2 of the Questionnaire relating to the notification tables was that the 13 million referring to the compensation of salaries in 2013 were missing, and that this will be corrected in the April 2014 EDP notification.

Eurostat asked to what it refers the new adjustment line introduced for the year 2013 only “*Paid back of previous years appropriations*”. The Lithuanian statistical authorities explained that this figure refers to amounts that were recorded as expenditure in the working balance, but in fact were not spent by the appropriation managers and due to the tightened budgetary rules, the money had to be repaid. In national accounts it is recorded on the expenditure side (as positive expenditure) with a plus.

Two issues on the recording of the EU funds were discussed in more detail. The Lithuanian statistical authorities explained the nature of the new adjustment line “*unused EU grants paid back to the State budget by final beneficiaries*” reported in the EDP table 2A under “*non-financial transactions not included in the working balance*”. The Lithuanian statistical authorities explained that the figures reported under this line

refer to the money that was recovered from the final beneficiaries, either because not all funds were used up by the beneficiaries or because the authorities had detected irregularities. The amounts will then be reused to finance projects in the same programming period. In order to ensure that there is no impact on the B.9 the relevant adjustment is introduced in the EDP table 2A.

Another issue is the so called “overbooking practice”. It is rather common for Member States to develop projects bigger in volume than the financial scope of the programme. That is, extra projects are selected, developed and implemented with a view that when some of them are found illegible, are terminated or amended, there will still be enough projects and declared expenditure to draw down maximum EU funds available in the certain operational programme. The Lithuanian statistical authorities explained that whether there is indeed overspending from the national budget on behalf of the EU becomes clear only towards the end of the programming period. The overbooked amounts in 2013 amounted to 98 million LTL and in national accounts they were recorded as a decrease in F.7 receivable with D9 as a counterpart. The 98 million LTL for the year 2013 were included in the EDP table 2A adjustment line “*expenditure of GG on behalf of EU and reimbursement from the EU*”.

During the meeting, Eurostat analysed table 6 of the Questionnaire related to the EDP notification tables. Eurostat asked for the detailed programme by programme data on inflows and outflows of EU funds for the years 2012 and 2013. This information was provided by the Lithuanian statistical authorities. Eurostat noted that the data sources available to the Lithuanian statistical authorities do not allow for the split between the expenditure made on behalf of the EU and the financing from advance payments. The detailed data provided during the meeting were in line with the figures reported in the Questionnaire table 6.

Privatisation proceeds were briefly discussed in the EDP dialogue visit. Prior to the visit, the Lithuanian statistical authorities provided data on privatisations undertaken by central and local government. The data included sales of shares as well as sales of real estate. Eurostat asked to what exactly refers the adjustment line in EDP table 2A and EDP table 2C “*sale of land*”. The Lithuanian statistical authorities explained that the figures reported in this adjustment line represent receivables related to the sale of land. The rule is that 80% of sales proceeds go to the State budget and 20% to the municipal budgets. This is not undertaken via the Property Fund (“*Turto fondas*”). The Lithuanian statistical authorities provided a detailed table reconciling the stocks of government receivables relating to the privatisation of land. The receivables as reported in EDP tables 2A and 2C are net figures and show receivables for the current year and the repayments relating to the earlier years (difference between contractual obligations and cash payments). The Lithuanian statistical authorities confirmed that, for other privatization revenue, the contracted amounts are equal to cash, thus no accrual adjustment is needed.

Prior to the visit, the Lithuanian statistical authorities provided to Eurostat monthly tax revenue for the period 2010-2013. Eurostat noted that the accrued adjustment for VAT and excise duties is in line with the F.7 figures reported in EDP table 2A (and Questionnaire table 5).

Prior to the visit, the Lithuanian statistical authorities provided ESA accounts of the entities reported under the line “*net borrowing (-) or net lending (+) of other central government bodies*”.

Eurostat noted that the B.9 of hospitals almost doubled in 2013 as compared with the year 2012 (respectively, -54.8 million LTL and -25.2 million LTL). The Lithuanian statistical authorities explained that this increase in deficit could be explained by the decreased financing via the health insurance fund. Eurostat recalled that the issue about reliable data for hospitals has been discussed for a number of years now. The two action points from the 2012 EDP visit relating to hospitals are not considered as closed by Eurostat and the Lithuanian statistical authorities are invited to continue their work so that these issues could finally be solved and data be improved.

Eurostat also noted that the B.9 of universities changed from a surplus of 10.9 million in 2012 to a deficit of -9.7 million LTL in 2013. The Lithuanian statistical authorities agreed to investigate this issue further and inform Eurostat on their findings.

Findings and conclusions

- (6) Eurostat took note that the data of the Social Security Funds subsector, as included in the draft April 2014 EDP notification tables, are preliminary, thus minor changes in the data could be expected by the end of March, when the updated EDP notification will be provided. *Deadline: April 2014 EDP Notification*⁴.
- (7) The Lithuanian Statistical Authorities will provide to Eurostat a note, explaining the movement in the accrued interest between the years 2012 and 2013. *Deadline: April 2014 EDP Notification*⁵.
- (8) In relation to EDP table 2A, as reported in the draft April 2014 notification, Eurostat asked the Lithuanian Statistical Authorities to report zero instead of “M”-“not applicable” under the item “loans granted” and to report zero for “other financial transactions” for 2013, instead of leaving the cell empty. *Deadline: April 2014 EDP Notification*⁶.
- (9) In the EDP related questionnaire table 2, under line 5d, for the year 2013, the 13 million referring to compensation of salaries of judges should be reported. *Deadline: April 2014 EDP Notification*⁷.
- (10) The NSI are invited to analyse what are the reasons for the B.9 of universities moving from surplus in 2012 to deficit in 2013. *Deadline: April 2014 EDP Notification*⁸

⁴ Implemented in the April 2014 EDP notification.

⁵ Implemented before the April 2014 EDP notification (SL note of 31.03.2014)

⁶ Implemented in the April 2014 EDP notification.

⁷ Implemented in the April 2014 EDP notification.

⁸ Implemented before the April 2014 EDP notification (SL note of 31.03.2014)

3. Methodological issues and recording of specific government transactions

3.1. Delimitation of general government, application of 50% rule in national accounts

Introduction

The *Questionnaire on government control units classified outside general government* as submitted by the Lithuanian statistical authorities in December 2013 was discussed under this point of the agenda.

Discussion

Eurostat took note that the questionnaire lists 438 units. The Lithuanian statistical authorities assured Eurostat that the list is complete and that all relevant units are included. The Lithuanian statistical authorities confirmed that in case of holding companies, no consolidation is done and all the subsidiaries are shown separately from the mother companies.

While analysing the Questionnaire on government controlled units, Eurostat together with the Lithuanian statistical authorities identified at least one holding company which sector classification potentially needed to be reviewed – the Joint stock company Lietuvos energija (former *Visagino Atominė Elektrinė*). The Lithuanian statistical authorities informed Eurostat that, following the MGDD rules, the holding corporation was classified in S.11 based on the market/non-market criteria at the group level. According to the Lithuanian statistical authorities, the subsidiaries seem to fully comply with the 50% test, showing results above 120. Eurostat asked the NSI to look again into the sector classification of the Joint stock company “*Lietuvos energija*” and inform Eurostat on their findings.

Eurostat took note that the column 7 of the Questionnaire referring to the liabilities towards government is marked as “L”- *not available*. Eurostat suggested including data on loans owned to central government, as these data are available.

On the completeness of the *Questionnaire on government controlled units*, Eurostat noted that the result of the so called 50% test is shown only for the years when entities liabilities were above the established threshold (total liabilities higher than 0.01% of GDP). Eurostat explained to the Lithuanian statistical authorities that the threshold was established in order to exclude very small units, but it does not mean that no 50% test is to be reported for a particular year if a unit’s liabilities go below the threshold in that year, but that all three years should be reported. Eurostat invited the Lithuanian statistical authorities to make sure that the 50% test of all entities having liabilities above the foreseen threshold is reported. Eurostat also commented that the 50% test for all public units should be carried out by the NSI independently of the fact that the established threshold on debt was not reached over all the 3 years of reporting and thus there was no obligation to include the results test in the Questionnaire on public corporations for a single year.

Eurostat noted that no government units classified in S.15 are reported in the Questionnaire. The Lithuanian statistical authorities informed Eurostat that these units are being analysed and step by step reclassified inside the general government sub-sector. The Lithuanian statistical authorities expressed the view that only those government controlled non-profit institutions that are non-market produces are to be classified inside

S.13. Eurostat agreed to investigate whether under the ESA2010, government controlled non-profit entities that are market producers could be classified in the sector S.15.

Eurostat also brought to the attention of the Lithuanian statistical authorities the case of the so called oil stocking agencies. The Lithuanian statistical authorities explained that the Lithuanian oil stocking agency – State enterprise Lithuanian Oil Products Agency (*Valstybės Įmonė Lietuvos naftos produktų agentūra*) is classified in S.11. Eurostat explained that, currently, the information on these entities is being collected and analysed by Eurostat and this might be brought further to the FAWG or to MGDD task force meetings. The main issues to consider are government control over the entity and the nature of fees that are being charged for stocking the reserves. The Lithuanian statistical authorities were asked to analyse this case closely and report to Eurostat on their findings.

Findings and conclusions

- (11) Eurostat will inform the Lithuanian statistical authorities on whether, under ESA 2010, there could be entities that are controlled by government and are market producers, and as such could be classified in the sector S.15. *Deadline: end of May 2014⁹.*
- (12) Regarding the Questionnaire on government controlled units classified outside general government, the Lithuanian Statistical Authorities were asked to make sure that the market/non-market test of all entities having liabilities above the threshold of 0.01% of GDP are reported for every year. Furthermore, the market/non-market test should be carried out and reported for all years independently of the fact that the debt threshold has not been reached in all the 3 years of reporting in the questionnaire. *Deadline: end of December 2014.*
- (13) Eurostat asked the Lithuanian Statistical Authorities to include the data on loans owed to central government in the appropriate column in the Questionnaire on government controlled units classified outside general government, as these data are already available. *Deadline: end of December 2014.*
- (14) SL was asked to prepare a note on the current and future activities of the State enterprise Lithuanian Oil Products Agency (*VĮ Naftos produktų agentūra*) in order to decide on its sector classification. *Deadline: April 2014 EDP Notification¹⁰.*

3.2. Implementation of accrual principle

3.2.1. Taxes and social contributions

Introduction

The Questionnaire on Taxes and Social contributions, as provided by the Lithuanian statistical authorities in December 2013, was discussed during the meeting.

⁹ Implemented; Eurostat email of 03.06.2014

¹⁰ Implemented before the April 2014 EDP notification (SL note of 31.03.2014)

Discussion

From the information provided in the questionnaire it seems that there is no difference in data availability in the first EDP notification (year n in April n+1) and the second EDP notification. The main data provider is the State tax inspectorate; the final tax data become available in t+3 months.

Eurostat noted that the Questionnaire part on tax credits is left empty and asked about the reasons for non-reporting. The Lithuanian statistical authorities explained that, currently, they are investigating on whether tax credits exist at all in Lithuania. Eurostat recalled the definition of tax credits and the differences between payable and non-payable tax credits. Eurostat also brought to the attention of the Lithuanian statistical authorities the fact that, under the ESA 2010, paragraph 20.168, payable tax credits are to be recorded as expenditure in national accounts.

Eurostat invited the Lithuanian statistical authorities to continue their investigation on tax credits and suggested that the NSI to consult the national tax authority. Once the results become available, the NSI will fill in the missing parts and will resend the updated Questionnaire on taxes and social contributions.

Eurostat took note that the coefficient is applied for social contributions. The Lithuanian statistical authorities were asked to provide quarterly cash and accrued data on social contributions.

Payments to private funded pension schemes

Eurostat asked how the transfers from the Social insurance fund to the funded pension scheme are recorded in national accounts. Eurostat explained that this issue has been discussed with some Member States recently and it was found that these flows are impacting government expenditure and revenue, thus contradicting Eurostat decision of 2004: *“the flows of contributions and benefits under the scheme (i.e. defined contributions funded scheme) are not recorded as government revenue or expenditure and do not have an impact on government deficit or surplus”*.

The Lithuanian statistical authorities explained that the Social insurance fund (SODRA) collects the contributions and each month passes them to the funded pension scheme. In case there are time lags between the money collection and the transfer, in national accounts these are recorded as a financial transaction (F.2) with, as a counterpart, other accounts payable.

Eurostat took note of the explanation.

Findings and conclusions

- (15) The Lithuanian Statistical Authorities were invited to analyse, in co-operation with the tax authority, the existence and nature of different tax allowances and tax credits. The Questionnaire on taxes and social contributions should be updated accordingly. *Deadline: end of August 2014*¹¹

¹¹ A note on this issue has been sent to Eurostat on 10.09.2014.

- (16) The Lithuanian statistical authorities will provide to Eurostat quarterly cash and accrued data on social contributions by fund, for the notification years¹².

3.2.2. Calculation of accrual interest

Introduction

Some aspects of the calculation of interest for the local government sub-sector, as well as the reporting of interest related flows in the EDP tables, were discussed under this point of the agenda.

Discussion

Eurostat asked how the accrued interest for the local government sub-sector is estimated. The Lithuanian statistical authorities recalled that this issue has been discussed in the 2012 EDP visit and explained that the accrual adjustment is made by applying the annual interest rates of loans to non-financial corporations, (published by the Bank of Lithuania), and then the interest rates are adjusted by 1 percentage point, making an assumption that the interest rates for the local government should be less than for non-financial corporations. Eurostat took note of the explanation.

While comparing the calculated swap related interest flows as reported in EDP table 1 with the amounts reported in the EDP table 3B under the line “*of which: interest flows attributable to swaps and FRAs*”, Eurostat identified a small inconsistency. The Lithuanian statistical authorities agreed to look into the figures and correct the mistake in the April 2014 EDP reporting.

Findings and conclusions

- (17) SL was asked to ensure the consistency of the swap related flows as reported in EDP table 1 and EDP T3B. *Deadline: April 2014 EDP Notification*¹³.

3.2.3. Trade credits

Introduction

The data availability on trade credits as well as the implementation of the 2012 Eurostat decision was discussion during the meeting.

Discussion

The Lithuanian statistical authorities indicated that reliable information on trade credits and advances (F.71) is available for all the sub-sectors of general government. There are no data source issues for the first EDP notification (year n in April n+1). The main data source for trade credits at the central and local government level comes from the State Treasury Department of the MoF. The information on the SSF sub-sector's trade credits is gathered from the Health Insurance Fund. Starting from the year 2011, trade credits of public hospitals are reported both for the central and local government subsectors and, from 2012, trade credits of public higher education institutions were included in the AF.71 figures.

¹² This information was provided to Eurostat during the meeting.

¹³ Implemented in the April 2014 EDP notification.

Eurostat observed that the stock of trade credits at the end of 2013 was around 25% higher as compared with the 2012 figure. The Lithuanian statistical authorities explained that the increase in stocks of trade credits is mainly due to the municipalities, which have been facing budget freezes and have to cope with the restoration of the public servants wages to the previous levels, starting from October in 2013.

Eurostat asked whether the 2012 Eurostat decision on “*The statistical recording of some operations related to trade credits incurred by government units*” has been implemented and whether the information needed for its implementation is available to the NSI. The decision concerns the refinancing of trade credit via factoring operations without recourse and the restructuring of a trade credit. The Lithuanian statistical authorities explained that as most of the factoring operations are taking place at the local government level, the municipal data is currently being investigated. As for cases of factoring without recourse, the Lithuanian statistical authorities explained that this information is captured by money and banking statistics, where the factoring without recourse are treated as loans. Nevertheless, it is not possible to separate the factoring without recourse from ordinary loans. Eurostat commented that as the factoring without recourse is still booked as AF.71 by government units, there might be a situation where AF.71 stocks are overestimated.

Eurostat asked the Lithuanian authorities to take the necessary steps in order to obtain the information needed for the implementation of the above Decision relating to the renegotiations/restructuring of trade credits.

Findings and conclusions

- (18) The Lithuanian Statistical Authorities should take action to fully implement the 2012 Eurostat decision on *The statistical recording of some operations related to trade credits incurred by government units*, in order to ensure the correct recording of Maastricht debt and trade credits and to avoid possible double counting. SL should further investigate the occurrences of restructuring of trade credits, in particular at local government level. *Deadline: end of August 2014*¹⁴.

3.2.4. Court decisions with retroactive effect

Introduction

The two cases of the Constitutional Court rulings on the due compensations for the disproportionate cuts in pensions and salary cuts for the civil servants were discussed under this point of the agenda.

Discussion

The issue had been already discussed with the Lithuanian statistical authorities and Eurostat had provided its ex-ante advice on the issue. During the meeting, Eurostat asked the Lithuanian statistical authorities about the implementation of the Court decisions. The Lithuanian statistical authorities briefly described the cases: in the context of the financial crisis (2009), the government introduced cuts in pensions and other social benefits as well as in public sector salaries. The Lithuanian Constitutional Court ruled,

¹⁴ A note on this issue together with figures to be included in October 2014 EDP notification has been sent to Eurostat on 10.09.2014.

however, that the disproportionate cuts to pensions and civil servants salaries were unconstitutional. Following the Court rulings, government will have to approve a compensatory mechanism within a reasonable period of time, although considering at the same time the economic and financial situation of the country.

The Lithuanian statistical authorities informed Eurostat that the pensions have been restored to the previous levels from September 2012, while disproportionate cuts of civil servants' wages and salaries were abolished from October 2013 under the Laws adopted by the Parliament, in conformity with the ruling of the Constitutional Court Decision. On none of the above cases there were compensatory mechanisms approved by government in 2012 or 2013.

Eurostat confirmed its opinion that, at the time of the Court decisions, the conditions on sufficient certainty about the amount were not met and thus no corresponding transaction should be recorded in the years 2012 and 2013. Regarding the year in which the government liabilities are to be recorded, Eurostat considers that, once the legal act on the compensatory mechanism is passed, the estimated amount is to be recorded in government accounts for its full amount (D.99 payable with a counterpart in financial accounts F.7 pay).

The two cases were discussed separately:

Compensation of civil servants wages

The Lithuanian statistical authorities explained that, on the 19 of September 2013, Law No XII-523 was passed. This law restored the wages to the previous levels starting from the first of September 2013 and also obliged government to develop and present to the Parliament a compensation mechanism by the first of May 2014. The Lithuanian statistical authorities explained that some civil servants approached the Courts individually, asking for rulings on the compensations, but the proceedings were suspended until the adoption of the compensatory mechanism. Eurostat asked if there were already estimates of the amounts to be compensated. The Lithuanian statistical authorities explained that there is a rough estimate for the categories of civil servants mentioned in the Constitutional Court Decision, of around 350 million LTL (figure without taxes and social contributions). There are however still some uncertainties on what categories of employees are to be compensated (e.g. the inclusion of contract agents, or of those who became civil servants after the cuts) and it is also not yet decided whether compensations are to be implemented for the whole period of the five years, or only for the last three years period (as stipulated in the Law dealing with disputes on wages).

Pension compensations

The Lithuanian statistical authorities explained that a draft law on pension compensation has been circulated to the ministries for consultation. The law foresees compensations for old age pensioners and disabled pensioners. According to the estimates of the Social insurance fund, approximately 450 million LTL will be needed for the compensations. It is planned that this amount be paid out during three years, starting from the 4th quarter of 2014. The Lithuanian statistical authorities clarified that the old age pensioners category does not include those getting state pension, or working pensioners. The draft Law covers only old age and disabled pensioners, as, for the other categories, the compensatory mechanism will be established only in one year time.

Findings and conclusions

- (19) In the context of the recent Constitutional court decisions relating to unpaid wages and pensions, Eurostat took note that, based on the received information, no amounts should be recorded as government expenditure in 2013. Eurostat will decide, in co-operation with Statistics Lithuania, on the time of recording of the wages and pensions compensations after analysing the forthcoming laws on these compensations. Eurostat would like to receive these laws in English. *Deadline: end of March 2014.*

3.3. Recording of specific government transactions

3.3.1. Resolution/winding-up of the financial institutions

Introduction

The recent bankruptcies of the Snoras bank and Ūkio bank were discussed under this point of the agenda.

Discussion

Snoras bank and Ūkio bank

The Lithuanian statistical authorities recalled that the bankruptcy of the Snoras Bank has been discussed in the 2012 EDP dialogue visit. In 2011, the Snoras bank, after allegedly discovered fraud, was nationalised by government. After further investigation the bank of Lithuania revoked its licence, and the bank's bankruptcy procedure was initiated. Following EU legislation, all deposits in the Snoras bank up to 100 000 EUR were insured by the State enterprise Deposit and Investment Insurance (DIF). The DIF had to step in and compensate the deposit holders. In order to raise funds, the DIF borrowed 3.26 billion LTL from the State.

Since the last dialogue visit, another bank – Ūkio bankas, and a few credit unions, went bankrupt.

The Lithuanian statistical authorities described the case of the privately owned bank AB Ūkio bankas. In February 2013, the Bank of Lithuania restricted activities of AB Ūkio bankas, declared it insolvent, revoked the banking licence and a temporary administrator was appointed. The “good” assets of the bank (amounting to 1.9 billion LTL) and the liabilities (amounting to 2.7 billion LTL) were transferred to another privately owned bank, AB Šiauliu bankas, through a bidding process. The transferred assets were valued by an independent body (KPMG) and the DIF paid for the difference (initially 799 Million LTL, followed by another 128 million LTL). In May 2013, the bankruptcy procedure was initiated by the Court and a bankruptcy administrator was appointed. The bank undergoing bankruptcy procedure is managed by the bankruptcy administrator. The creditors meeting is foreseen to take place in March 2014 and only then the value of the remaining assets will be established.

Eurostat noted that the two cases, the Snoras bank and the Ūkio bank, have similarities, but differ in a few important aspects. In the Snoras bank case, government nationalised the shares of the bank and the Snoras bank underwent bankruptcy in its entirety - there has been no transfer of assets/liabilities to another entity. Eurostat raised questions on whether the two banks undergoing bankruptcy could be seen as defeasance structures controlled by government as described in the dedicated part of the MGDD.

The Lithuanian statistical authorities argued that according to their view, the defeasance process involves rescue process of the financial institutions when government assumes risks and ensures long term management of the assets and in this particular case the entities were let to go bankrupt. The laws on deposit guarantees (stemming from the requirements of EU law) obliges to compensate the deposit holders and this is the only reason why the DIF intervened with its money, part of which was raised by a loan from government. Eurostat stressed that an important aspect to consider, is government control over these entities and the role of the DIF. Eurostat asked whether the main decision making body for the disposal of assets was the bankruptcy administrator or the creditor committee. The Lithuanian authorities admitted that the creditor committee had supervisory powers over the administrator's activities and the course of the bankruptcy process, moreover, the administrator had to coordinate the decisions on sales of assets with the creditor committee (as under the Enterprise bankruptcy law the creditors' committee is obliged to supervise the course of bankruptcy proceedings as well as the administrator's activity). The DIF had the majority of representatives in the creditor committee. However it was also stressed that creditors committee is obliged to protect all creditors' interest, and, according to the provisions of Enterprise bankruptcy law, creditors committee could be changed. Eurostat expressed concerns as government, at the same time, was the owner of the unit being liquidated, controlled the liquidation process and was also at risk, having provided a loan to the DIF in order to compensate the deposit holders in the bank. Moreover, when it came to the DIF, Eurostat pointed out that the recoverability of the loan from government should be analysed. The Lithuanian statistical authorities explained that government, while formally being the owner of the shares of Snoras bank, could not exercise any actions as, under the Enterprise bankruptcy law, after the court institutes the bankruptcy proceedings, the enterprise management bodies lose their powers. It was also explained that the DIF used its own funds of around 1 billion LTL, which means that not all the money needed for the compensation of the deposits were raised from government loans. The DIF loan is being repaid in instalments following the sale of bank assets. According to the Lithuanian authorities, in the case of Snoras bank, the total amount of the loan is expected to be repaid from the bankruptcy proceedings.

Credit unions

The Lithuanian statistical authorities described the situation of the credit unions. In 2013, three credit unions were wound - down in a bankruptcy process. The insured depositors were compensated by the DIF. The amounts involved were not substantial. In June 2013, government gave a loan to DIF of 22.8 million LTL and this loan has been repaid in July 2013.

Mortgage Insurance Company

The Lithuanian statistical authorities described the activities of the JSC Mortgage Insurance ("*UAB Būsto paskolų draudimas*"). The company was established in 1998, with the main purpose to insure housing loans. Currently the company is undergoing difficulties, as since 2012 it is not entering into new insurance contracts and it is only managing the existing insurance agreements. In November 2013, its insurance licence had been suspended (but not abolished). The National Audit Office of Lithuania issued recommendations to the MoF to establish a business continuity plan or alternatively introduce proposals for changes in the business model. Currently, this company is classified in sector S.125 and its sector classification has been discussed in the Inter-institutional Working Group on Sectorisation. The Lithuanian statistical authorities assured Eurostat that the sector classification of this entity is monitored.

Findings and conclusions

- (20) SL was asked to provide a note on bank Snoras and Ūkio bank, including an analysis of whether these entities could be considered as defeasance structures controlled by government, according to national accounts rules, as well as to provide detailed figures on revenue/expenditure and assets and liabilities for the last 4 years. *Deadline: April 2014 EDP Notification*¹⁵.

3.3.2. Guarantees

Introduction

Government guarantees as reported in the tables 9 of the questionnaire relating to the notification tables were discussed under this point of the agenda.

Discussion

Eurostat took note that the majority of the reported stocks of debt guaranteed by government refer to the Guarantee agency for SMEs (*UAB „Investicijų ir verslo garantijos“ (Invega)*) and the Agricultural loans guarantee fund (*UAB „Žemės ūkio paskolų garantijų fondas“*). Eurostat took note that the reported stocks also include guarantees granted by municipalities to municipal enterprises (for 2012 the stock was 152.7 million LTL).

From the information reported in the Questionnaire table 9.1, it seems that during the period 2011-2013 there were no calls on government guarantees, but instead there were repayments by the original debtors. In the EDP Table 2A, amounts relating to guarantees (capital transfer revenue and capital transfer expenditure) are reported in the line *“Non-financial transactions not included in the working balance”* under Detail 1 *“Off budget revenue and expenditure (borrowed funds accounts)”*.

Regarding the government guarantee (87 million EUR) issued in 2013 to the companies *“Klaipėdos Nafta”* borrowing from the EIB, the Lithuanian statistical authorities clarified that only the amount actually draw down in 2013 is included in the Questionnaire table 9.1. The remaining amounts will be reported accordingly when the company will borrow.

The Lithuanian confirmed that the existing guarantee scheme for student loans is considered as a standardised guarantee scheme, following the ESA 2010 definition. Eurostat encouraged the Lithuanian statistical authorities to estimate the provisions for calls under standardised guarantees (F.66) for the first EDP reporting under ESA 2010.

Eurostat also asked the Lithuanian statistical authorities to analyse the situation of the calls on government guarantees issued to the Guarantee entities: *Invega and Agricultural loans guarantee fund*, and to analyse in particular whether some of the schemes could be seen as standardised guarantee schemes.

¹⁵ The requested documents were provided by the Lithuanian statistical authorities on 31.03.2014 and 01.04.2014.

Findings and conclusions

- (21) The Lithuanian Statistical Authorities were asked, for EDP purposes, to estimate F.66 relating to the standardized guarantees issued on student loans, as foreseen in the ESA10 implementation. *Deadline: October 2014 EDP Notification*¹⁶.
- (22) As regards guarantees provided by the Guarantee agency for SMEs (UAB „Investicijų ir verslo garantijos“ (Invega)) and the Agricultural loans guarantee fund (UAB „Žemės ūkio paskolų garantijų fondas“) further analysis is to be done on whether at least some of the existing guarantee schemes are to be considered as standardized guarantee schemes and whether government is paying, in case there are calls on these guarantees. *Deadline: end of August 2014*¹⁷.

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

Introduction

Prior to the visit, the Lithuanian statistical authorities provided a detailed list of central government claims, by the entities showing stocks and transactions for the period 2010-2013. This information was analysed alongside the table 8.1 of the Questionnaire relating to the notification tables.

Discussion

Eurostat took note that great majority of the 13 billion LTL stocks of central government loans, were provided to the Social insurance fund (9.7 billion LTL) and to the Deposit Insurance Company (2.7 billion LTL). Debt cancellations of non-performing loans, mainly to corporations undergoing bankruptcy procedures, were recorded in 2011. Eurostat identified a few cases, involving public utility companies in water or heating sectors, when over the last two or three years there were no repayments of the loans. The Lithuanian statistical authorities explained, that these identified cases referred to the on lent loans with a grace period. The government had borrowed from the EIB and then the money was re-lent to the public utility companies. The government loan from the EIB also had a grace period; the same conditions are later on transferred to the on lent loans. The interest payments will start after the grace period has ended, i.e., after three years. Eurostat took note of the explanations and drew the attention of the Lithuanian statistical authorities to the fact the MGDD chapter II.4 on the recording of interest provides guidance on how to accrue interest on debt instruments with grace periods.

Eurostat asked about data availability for the local government debt assumptions, debt cancellations and debt write-offs. The Lithuanian statistical authorities explained that local government data is available in the VSAKIS database, where cancellations of claims are reported in a separate line. The NSI informed Eurostat that there were no local government debt cancellations/debt assumptions recorded neither in 2012, nor in 2013.

¹⁶ A note on this issue together with figures to be included in October 2014 EDP notification has been sent to Eurostat on 10.09.2014.

¹⁷ A note on this issue was provided to Eurostat on 10.09.2014.

Findings and conclusions

Eurostat took note of the explanations and the progress in establishing new data sources.

3.3.4. Dividends, super dividends

Introduction

The dividends, as reported in Questionnaire tables 10.1 and 10.2, as well as the table on dividends paid by companies in 2010-2013 provided to Eurostat by the Lithuanian statistical authorities prior to the visit, were discussed under this point of the agenda.

Discussion

The Lithuanian statistical authorities confirmed that the dividends paid out by public corporations to governmental are regularly monitored and a so called super-dividend test is being applied on a regular basis. The NSI receives data on dividends on an entity by entity basis from the State Tax Inspectorate and data is available for central and local government sub-sectors.

Eurostat noted that in 2012 a number of forest enterprises (*miškų ūrėdijos*) paid dividends for the first time. The Lithuanian statistical authorities explained that, in 2011, a law was passed, which obliged all the companies having the legal status “State enterprise” (“*Valstybės įmonė*”) to pay 50% of their net profit to the State budget. Starting from 2013, not only forest companies but all State enterprises are paying dividends.

Findings and conclusions

Eurostat took note of the explanations.

3.3.5. Privatisation

The issues relating to the sales of non-financial and financial assets were discussed under point 2 of the agenda – Analysis of the EDP tables.

3.3.6. Capital injections in public corporations,

Introduction

Prior to the visit, the Lithuanian statistical authorities provided a list of capital injections for the sub-sectors S.1311 and S.1313. This information was analysed together with the one reported in the Questionnaire tables 10.

Discussion

The data source problem for capital injections undertaken by local government entities had been discussed with the Lithuanian statistical authorities in the 2012 EDP dialogue visit. Eurostat took note that progress has been made and that information on capital injections undertaken by the local government entities is now available. The Lithuanian statistical authorities explained that the data is obtained from the Municipal budgets reports, where they are shown as acquisition of shares, while in national accounts a majority of these capital injections are treated as non-financial transactions (D.9). In some cases municipalities are being contacted for more information.

During the analysis of the Questionnaire tables 10.1 and 10.2, Eurostat noticed that the capital injection into the Mortgage insurance company is missing. The Lithuanian statistical authorities agreed to correct this in the tables submitted for the April 2014 EDP notification.

Findings and conclusions

- (23) Questionnaire table 10.1 should be updated so that also capital injections undertaken into the Mortgage insurance company are reported. *Deadline: April 2014 EDP Notification*¹⁸.

3.3.7. Public Private Partnerships

Introduction

The existing and forthcoming PPP projects were briefly discussed under this point of the agenda.

Discussion

Eurostat took note that, currently, two PPP projects are being implemented in Lithuania. On both of these projects, the Lithuanian statistical authorities have asked for Eurostat advice. At the request of the Lithuanian statistical authorities, Eurostat clarified some aspects of the MGDD chapter relating to evaluation of risks in a PPP project.

The Lithuanian statistical authorities informed Eurostat that a few more projects are in the pipeline: they involve reconstructions of prisons and the building and maintaining of police stations and Courts. All of these projects are still at the procurement stage.

Findings and conclusions

Eurostat took note of the current situation.

¹⁸ Implemented in the April 2014 EDP notification.

Annex I

List of participants

Name	Institution	
Jonas Markelevičius	NSI	First Deputy Director General
Daiva Bersėnaitė	NSI	Head of Government Finance Statistics Division (GFSD)
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Linas Rudelis	NSI	Chief specialist of GFSD
Gediminas Norkūnas	MoF	Deputy Director of State Treasury Department
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Ivona Kušelevičienė	MoF	Chief specialist of FSD
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Ieva Mackevičienė	MoF	Chief specialist of Debt Liabilities Administration Division
Aušra Vičkačkienė	MoF	Director of Assets Management Department
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Aušra Vičkačkienė	MoF	Director of Assets Management Department
Aušra Keniausytė	MoF	Chief specialist of Assets Management and Renewal Coordination Division
Daiva Kamarauskienė	MoF	Director of Budget Department
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Rytis Likša	BoL	Director of Statistics Department
Birutė Grikinytė	BoL	Chief statistician of General Statistics Division, Statistics Department
Lena Frej Ohlsson	Eurostat	Head of Unit D.2: Excessive Deficit Procedure (EDP)I
Luca Ascoli	Eurostat	Head of Unit D.1: Excessive Deficit Procedure and methodology
Denis Besnard	Eurostat	Unit D.1
Rasa Jurkonienė	Eurostat	Unit D.2 - desk officer for Lithuania
Giedrius Šidlauskas	DG ECFIN	
Robert Gatsby	ECB	