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FINAL FINDINGS

EDP STANDARD DIALOGUE VISIT TO THE SLOVAK REPUBLIC

28–29 November 2013

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Executive summary

An EDP standard dialogue visit to Slovakia took place on 28 – 29 November 2013 in order to review the implementation of the ESA 95 methodology and to ensure that the provisions of the ESA 95 Manual on government deficit and debt (MGDD) and the recent Eurostat decisions are implemented and appropriately recorded in the Slovak EDP notifications and Government Finance Statistics (GFS).

Eurostat reviewed the institutional arrangements in the context of EDP reporting and the data sources used for the compilation of Government Finance Statistics. Eurostat took note of the existing institutional arrangements in Slovakia and encouraged to further develop the co-operation with the Supreme Audit Office of the Slovak Republic (CoA). It was agreed that the Slovak Statistical Office and Eurostat will co-operate to finalise the new EDP inventory.

Eurostat congratulated the Slovak statistical authorities for the timely implementation of the action points agreed during the previous EDP dialogue visit that took place on 3-4 May 2012. There were no major substantial issues to be followed-up from the April 2013 EDP notification. Only certain technical improvements on the reporting of Table 8.1 of the EDP Questionnaire and the Specific government transactions in the context of the global economic crisis were agreed.

It was agreed that the payments from government to Slovak Railways (ZSR) should be considered subsidies on production. The sales of ZSR do not cover 50% of its costs since 2011 and should be reclassified in the General Government sector from that year.

The sector classification under ESA 2010 of the National Motorway Company (NDS) and Hospitals was discussed and Eurostat confirmed the preliminary advice that had been previously communicated in writing. The Slovak Statistical authorities did not completely agree with Eurostat views.

A detailed plan for changing the calculation of VAT refunds was agreed. A report on the new proposed system will be provided to Eurostat no later than August 2014. The recording of a future EU financial correction was thoroughly discussed. The time of recording will be the moment when there is an agreement between the European Commission and the Slovak authorities on the amount. The amount of the financial correction corresponds to the expenditure on behalf of the EU recorded in National Accounts even if the reimbursement claims have not been yet sent to the EU.

The current practice for analysing capital injections and super dividends was reviewed and the improvement for monitoring dividend payments to local government for amounts deemed significant was agreed. It was also agreed that it was necessary to improve the information available on PPP projects at the level of the local government and to strengthen the institutional co-operation for the monitoring of swap operations.

The eligibility of the planned pension reform as systemic, the preparations and impact assessment of the introduction of ESA 2010 in September 2014 and some specific issues related to ESA 95 tables were also discussed.

Finally, Eurostat encouraged the Slovak statistical authorities to consult Eurostat in advance on the recording consequences of future important operations in order to avoid that Eurostat is only involved after an operation has taken place or not at all.

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 (EDP), Eurostat carried out an EDP dialogue visit to the Slovak Republic on 28-29 November 2013.

The delegation of Eurostat was headed by Ms. Lena Frej Ohlsson, Head of Eurostat Unit D-2 - Excessive Deficit Procedure I. The Directorate General for Economic and Financial Affairs (DG ECFIN) and European Central Bank (ECB) also participated in the meeting as observer. The Slovak authorities were represented by the National Statistical Institute (NSI), the Ministry of Finance (MoF) and the Central Bank (CB). In addition, representatives from other government institutions were present at discussions for certain points of the agenda.

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 Slovak EDP and Government Finance Statistics (GFS) data.

In detail, the main aims of the dialogue visit were (1) to analyse the sector classification of certain units (NDS-Highway company and Hospitals) in the light of the provisions of ESA 2010, (2) to discuss the sector classification of the Railway Infrastructure Operator (ZSR), (3) to review the recording of specific government transactions that will take place in 2013 and 2014 and (4) to review the eligibility of the Slovak planned pension reform as systemic in the framework of the Stability and Growth Pact (SGP).

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 Slovak statistical authorities, who may provide comments. Within weeks, the Provisional findings would be sent to the Slovak statistical authorities in draft form for their review. After amendments, Final findings will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat welcomed the openness and transparency demonstrated by the Slovak statistical authorities during the meeting and the documentation provided before the EDP standard dialogue visit.

(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

During the previous EDP dialogue visit, Eurostat noted the good co-operation among the institutions involved in the compilation of government finance statistics. Eurostat asked about changes in the existing arrangements, specifically about the role of the Council for Budget Responsibility (CBR) and the institutional relationship with the Court of Auditors (CoA).

Discussion and methodological analysis

The Slovak statistical authorities confirmed that there were no changes in the organisation of the co-operation among the institutions – NSI, MoF and NCB. A Memorandum of Understanding between the NSI and the CBR is being drafted. The CBR participates as observer in some meetings but it is not directly involved in the process of EDP notifications. The NSI has contacted the CoA with a view to establish a co-operation between both institutions in certain areas.

As far as the EDP data compilation and transmission is concerned, the NSI compiles data for the years T-4, T-3 and T- 2 and the NSI and MoF share the responsibility for the reporting of the deficit. The MoF is responsible for the reporting of the debt. The MoF is also responsible for the forecasts of the year T. The issues concerning the recording of transactions in year T-1 are discussed with the NSI and the NCB. Overall responsibility for the EDP tables compilation and their transmission to Eurostat is with the NSI. The NSI is also responsible for the transmission of ESA95 Tables.

With respect to the number of the NSI personnel involved in the GFS issues, the NSI indicated that the staff number has remained stable and that there are no plans of any increase. The workload is high but there will be no problems to cope with the implementation of ESA 2010. A Working Group with participation of the NSI, NCB and MoF has been set up to prepare the necessary changes introduced in ESA 2010.

Findings and conclusions

Eurostat took note of the well-functioning cooperation between the institutions involved in the reporting of government finance statistics – the NSI, the MoF and the NCB. Eurostat encouraged the NSI to continue trying to establish a co-operation with the CoA. CoAs have proved to be very useful discovering reporting problems in other Member States, especially at the regional/local level.

Eurostat emphasized the importance of sufficient staffing in the area of EDP and GFS in order to ensure a good quality of the reported data, and in particular in the light of the recent European legislation, imposing new data requirements on Member States.

1.2. Data sources and EDP inventory

Introduction

There have not been significant changes in the data sources used. The State Treasury is the provider of data for central government, social security funds and budgetary organisations of higher territorial units and their subsidised organisations included in local government. The Data Centrum is the source data provider for the local government budgetary and subsidised organisations of municipalities, which are also included in local government. A draft version of the revised EDP inventory was provided before the meeting.

Discussion and methodological analysis

The NSI confirmed that they have access to all the basic information needed to compile GFS and that the current production system is robust. All data sources come from administrative sources and only one survey is carried out for obtaining the information necessary to fill in certain ESA tables, not for EDP purposes.

Eurostat thanked the Slovak statistical authorities for having provided a draft version of the new EDP inventory. The agreed deadlines would not be respected but Eurostat and the NSI will co-operate in order to produce a publishable version of the EDP inventory in the following weeks. Eurostat pointed out a number of changes which should be implemented on the draft provided. Eurostat agreed to provide additional drafting proposals.

Findings and conclusions

AP 1. The Slovak statistical authorities will work together with Eurostat on the finalisation of the new EDP inventory with the objective of publishing it by mid-December[1].

(2) Follow-up of the previous EDP dialogue visit (3-4 May 2012)

Introduction

All the action points agreed in the previous EDP dialogue visit on 3-4 May 2012 have been implemented by the Slovak statistical authorities.

Findings and conclusions

AP 2. Eurostat congratulated the Slovak statistical authorities for implementing all the action points agreed during the previous Standard Dialogue Visit on 3-4 May 2012.

(3) Analysis of the EDP tables – Follow-up of the April 2013 EDP notifications

Introduction

During the April 2013 EDP notification assessment, all important issues identified by Eurostat were resolved during the notification period.

[1] A revised version of the EDP inventory was provided on 12/12/2013. Eurostat provided its comments on 20/12/2013. The inventory was published by Eurostat on February.

Discussion and methodological analysis

Eurostat noted that there is an inconsistency in the stocks of central government claims between Table 3B of the EDP notification and Table 8.1 of EDP Questionnaire. The difference between the amounts reported is very big and can be explained by the non-inclusion of loans related to the European Financial Stability Facility (EFSF) in table 8.1 of the EDP Questionnaire. The Slovak statistical authorities indicated that the figure will be corrected.

Eurostat enquired on the reason why in the first set of the notified EDP tables, no amount had been included for swaps and how this information was obtained by the NSI. The Slovak Authorities explained that 2012 was the first year ARDAL engaged in this kind of operation and it had not been reported at first. Data on swaps are compiled by the NCB and MoF and sent to the NSI. The Slovak statistical authorities confirmed that there have not been any off-market swap operations in 2012.

Findings and conclusions

AP 3. The Slovak statistical authorities will include in Table 8.1 of the EDP questionnaire the amounts that correspond to the European Financial Stability Facility (EFSF), ensuring the consistency with Table 3B of the EDP notification. *Deadline: April 2014 notification.*

(4) <u>Methodological issues and recording of specific government transactions</u>

4.1. Delimitation of general government

4.1.1. Practical implementation of the market/non-market test

Introduction

Part 5 of the new EDP Inventory sent by the Slovak statistical authorities, describes the practices applied when deciding whether a unit is classified inside or outside the general government sector.

Discussion and methodological analysis

All existing units are registered in the Register of organisations which is held and managed by the NSI. Every unit has its identification number (IČO). When a new unit is established, it has to inform on its legal form and type of ownership. It also has to fill in a questionnaire. From 2012, the analysis on the classification of units is done annually instead of in three-year intervals.

The list of units that had been reclassified in 2013 was reviewed. Eurostat enquired on the reclassification of a number of units from sector S15 to Sector S13. The Slovak statistical authorities explained that they corresponded to regional associations of municipalities.

The questionnaire on government controlled units classified outside general government was analysed and no cases of units for which the market/non-market test indicated the need to reclassify units were found. Eurostat pointed out that it would be useful to receive also information for units whose liabilities are below the 0.01% of GDP threshold.

Eurostat enquired how the NSI differentiates between subsidies on products and subsidies on production to perform the market/non-market test. The NSI explained that the budgetary codes do not allow differentiating between the different types of subsidies, but that for the biggest companies the information was available from statistical surveys.

Findings and conclusions

AP 4. The Slovak statistical authorities will send to Eurostat an updated version of the questionnaire on government controlled units classified outside government, including the results of the 50% test, for all statistical units independently of the size of their liabilities. *Deadline: 31 December 2013*[2].

4.1.2. National Motorway Corporation (NDS)

Introduction

The sector classification of the National Motorway Company (NDS) has been discussed in previous EDP standard dialogue visit since its creation in 2005. In 2013, the Slovak authorities consulted Eurostat on whether the implementation of the new ESA 2010 will have any impact on the sector classification of NDS. Eurostat informed by letter on 14/08/2013 that NDS seems to be a market unit but that a majority of its assets (Priority Infrastructure Property) should be classified on the general government balance sheet.

Discussion and methodological analysis

The National Motorway Company (NDS) was established in 2005 and is currently classified outside the general government sector as a public non-financial corporation. The main activities of NDS are building and maintenance of roads. NDS obtain revenues from vignettes, electronic tolls (from 2010), EU and State funds and has contracts for the maintenance of roads. NDS incurs liabilities (loans from commercial banks) without any government guarantee. The government determines the investment policy of NDS and decides the pricing policy of the vignettes and tolls which are considered as sales. Sales exceed 50% of the costs.

In its letter of 14/08/2013 Eurostat pointed out that according to paragraphs 7.16 and 7.17 of ESA 2010, NDS cannot be considered the economic beneficiary of the PIP, as NDS cannot sell the PIP, it needs the approval of the Ministry to rent the PIP and the PIP cannot be used in case of bankruptcy to meet uncovered claims. For all these reasons, Eurostat considers that the PIP should be classified on the general government balance sheet and not on NDS balance sheet. There is also no contractual agreement (rent, concession, usufruct) between the government and NDS on the use of the PIP. This is a distinctive difference from the situation in other Member States, where Eurostat considers that similar assets can remain in the balance sheet of the company.

The Slovak statistical authorities considered that the classification of NDS is a very important issue that should be clarified quite rapidly in order for Slovakia to be ready to implement any change in September 2014. At the same time, the Slovak statistical authorities did not completely agree with Eurostat's interpretation of the relevant ESA 2010 paragraphs and required that the issue is analysed more in depth and that more explicit guidance applicable to all Member States is produced. Eurostat informed that if

[2] The questionnaire was received on 19/12/2013.

sufficient Member States agree, the topic could be included in the forthcoming Task Force meetings on Methodological issues relating to ESA 2010.

Findings and conclusions

AP 5. As stated in Eurostat's letter of 14 August 2013, and based on ESA 2010, Eurostat considers that NDS seems to be a market producer. However, a significant part of the assets of the company are highways legally owned by government, including the highways built by the company from 2005 onwards. These assets should be reclassified in the government sector in the context of ESA 2010 implementation in September 2014. The highways built by the company should be recorded as Gross Fixed Capital Formation of the government impacting government deficit accordingly in the year in which the investment took place.

4.1.3. Slovak Railways (ZSR)

Introduction

Slovak Railways is classified in the non-financial corporations sector. It receives substantial government subsidies and it had to be clarified for the purpose of the market/non-market test if the subsidies should be considered subsidies on products or subsidies on production.

Discussion and methodological analysis

In December 2010, the Railway Operating Contract for 2011 – 2013 was concluded between ŽSR and the Ministry of Transport. The Contract comprised a new charging scheme for the access to the railway infrastructure. In this regard, fixed costs of Infrastructure management should be covered by the State and Railway Operators shall pay charges in the amount of variable costs expended on provided services. The charges for cargo transportation were more than halved between 2010 and 2011, the charges for passenger transportation were also reduced and the payments from government increased. The payments from government are not linked to a volume measure of traffic like tons or passengers but cover the costs of the railway infrastructure operator. They are calculated by subtracting from a series of audited costs the revenues obtained from the fees paid by passenger and cargo railway operators. An increase of the fees received due to increased traffic will imply a lower government subsidy. The government subsidy should be classified therefore as a subsidy on production and not on product. Therefore, it should not be considered as sales for performing the market/non-market test. As a consequence the unit fails to cover with sales at least 50% of their sales from 2011 onwards. It was agreed that the situation changed in 2011 and that it was not likely that it will change in near future.

Findings and conclusions

AP 6. The Slovak statistical authorities will reclassify to the General Government sector the Railway Infrastructure Company (ZSR) from 2011 onwards as it was agreed in the meeting that the unit does not fulfil the 50% test since 2011. *Deadline: April 2014 notification.*

4.1.4. Hospitals

Introduction

The sector classification of public hospitals had been discussed in previous EDP standard dialogue visits. In view of the ESA 2010 changes, the NSI had consulted Eurostat on the proper sector classification of hospitals. Eurostat preliminary view was that, according to ESA 2010, they should be classified in the general government sector.

Discussion and methodological analysis

Representatives from the Ministry of Health attended this part of the meeting and provided useful and detailed information on the way the Slovak health system is organised from both the operational and financial perspective. There are 78 publicly owned hospitals and only two of them are classified in the government sector. There are 62 privately owned hospitals, 20 of which are classified as non-profit institutions and 42 as non-financial corporations.

The prices for hospital services are set according to a negotiated procedure between hospitals (public and private) and health insurers (public and private). The negotiations are based on costs for the hospitals. If an agreement is not reached during the negotiations, government can intervene and impose a solution to safeguard the right of the population to receive medical services. Those hospitals that are part of the minimum health network (public as well as some private) have to engage into contracts with health insurers , sometimes at unprofitable rates, to respect the legal requirements. Public hospitals have been incurring losses during the last years.

The range of services offered by private and public hospitals seems to be different in general, although there are some exceptions. Private hospitals do not perform education of medical students without accreditation and concentrate the services they offer on certain limited areas, for which the prices negotiated with health insurers ensure the profitability of their activities. In recent years self-governing regions have opted to rent underperforming public hospitals to private operators. This implies that there is in fact no actual competition.

Public hospitals do not face the risk of going bankrupt by law. Public hospitals can accumulate debt on their own without government permission, but government has repeatedly assumed the accumulated debt of hospitals in the past at regular intervals.

Eurostat considers that the application of the market/non-market test for public hospitals should not be the only criteria used for their sector classification. Qualitative aspects should also be considered on a case-by-case basis. Public hospital specialised in certain operations for which there is no alternative supply for such operations by private hospitals or public hospitals operating in geographical areas where private hospitals do not operate, can neither be considered operating in a system of economically significant prices, nor operating in a competitive environment[3].

The Slovak statistical authorities do not share Eurostat's view on the sector classification criteria for hospitals and consider that the current sector classification of hospitals in Slovakia, mostly based on the market/non-market test, is relevant also for ESA 2010.

[3] See also point 4.3.3. for the financing of public hospitals.

According to the Slovak statistical authorities, the environment in which public as well as private hospitals operate, is comparable for both groups with involvement of private units on both sides. They pointed as evidence that some public hospitals cover almost all of their costs (payments for the services from health insurance companies –public as well as private- ensures that hospitals sales to cost ratio is well above 50% rule) and the increased number of private hospitals that started to operate during the last years.

Findings and conclusions

AP 7. In the light of ESA 2010, and based on the information provided in the meeting, Eurostat's provisional view is that public hospitals in Slovakia should be reclassified inside the General Government sector. The issue will be further discussed on a bilateral basis and possibly in the framework of a future Eurostat Task Force.

4.1.5. EOSA

Introduction

EOSA (Emergency Oil Stock Agency) was created by a government law Act no 218/2013 Coll. It will be the Central Stockholding Entity of Slovakia according to Council Directive 2009/119/EC. It will perform the functions, regarding storage for emergency situations of oil, previously carried out by the State Material Reserves (a government unit). The sector classification of this new unit and the recording of the planned sale of oil stocks from the State Material Reserves to EOSA were thoroughly discussed.

Discussion and methodological analysis

EOSA has the legal form of "association of legal persons" and does not have shares. Any company operating in the oil industry can participate voluntarily as a member of EOSA. The government has a fixed 70% of the voting power of the agency through a publicly controlled company. There are three levels of governance: executive board, supervisory board and members meeting. The executive board consists of 4 members, 2 from the public unit (one is the Director General) and 2 from private members. The supervisory board has 5 members, 2 from the public unit and 3 from private members. Private members have considerable co-deciding power on the functioning of the agency.

All oil operators are obliged to fulfil their requirements of holding emergency oil stocks by paying fees to the agency, which own the stocks. The amount of the fee is specified in Act no218/2013 Coll. The fee is related to the amount of the obligations that operators should fulfil, based on the volume of their sales on the previous period, ensuring that the costs, including financial costs, of EOSA are fully covered.

Eurostat and the Slovak statistical authorities agreed that the EOSA should be considered as a public unit. Regarding the sector classification, Eurostat expressed doubts on whether the fees paid by oil operators can be considered as sales, given their compulsory nature, and pointed out that the oil stocks stored by EOSA could only be used by government for public policy purposes. Eurostat will investigate the situation in other Member States and after analysing the issue will consult Member States on the most adequate sector classification of this kind of entities[4].

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[4] Eurostat has conducted a survey in Member States and the results will be presented to the Financial Accounts Working Group in June 2014.

EOSA is planning to build up the oil reserves by buying the oil stocks owned by the State Material Reserves. The purchase will be financed through a loan from private commercial banks. The oil will be valued at the market price prevailing at the time it takes place. The Slovak statistical authorities proposed to record this operation as a sale, with a positive impact on government deficit. Eurostat recalled that special attention should be paid to transactions between government units and public controlled corporations. EOSA is buying the oil from the State Material Reserves based on what is stipulated on Act no 218/2013 Coll., which is a government decision. The oil reserves will still be under the control of a public unit, as the reserves are not owned by the members of EOSA. It is therefore to be considered as a reallocation of assets within the public perimeter, with no effect on net worth. Eurostat has confirmed that a similar operation of creating a new agency to store the oil emergency reserves, which immediately after buys the oil reserves from a government unit, has not been observed in any other Member State. Eurostat recalled that in other cases with certain similar features, sale of a non-financial asset from government to a public corporation, Eurostat had decided that the sale should be considered as a financial transaction with no effect on government revenue.

Findings and conclusions

AP 8. It was agreed that the recently created Oil Reserves Agency belongs at present to the public sector. The issue whether it has to be considered as a non-financial corporation or a government unit will be dealt bilaterally in the next few weeks between Eurostat and the Slovak statistical authorities. It was also agreed that the foreseen sale of the oil reserves from the State Material Reserves Agency to the Oil Reserves Agency cannot be considered as revenue for government according to National Accounts rules.

AP 9. Eurostat encourages the Slovak statistical authorities to consult Eurostat in advance on the recording consequences of future important operations.

4.2. Implementation of the accrual principle

4.2.1. Accrual taxes and social contributions

Introduction

The most recent change in the compilation method for the recording of taxes took place in 2011 at the request of Eurostat. It related to the method of estimating corporate taxes in the April notification which previously led to large revisions between notifications. The small revisions observed between April and October in 2012 and 2013 seems to confirm that the new estimation method which uses an indicator on corporation's profitability seems more robust than the previous method.

The MoF has proposed to change the calculation method for VAT refunds and the issue had been discussed between Eurostat and the Slovak statistical authorities in the course of 2013.

Discussion and methodological analysis

Slovakia uses a time adjusted cash method with a time lag of 1 or 3 months for the calculation of taxes and social contributions except for some minor taxes which are recorded cash without time lag. In 2013, the NSI consulted Eurostat on its intention of changing the method for calculating VAT refunds. Instead of using the time-adjusted cash method, they proposed to attribute the VAT amounts refunded to the periods to which they economically relate. Eurostat agreed to this new method as long as the following conditions were met:

– Monthly publication by tax authorities of the two versions of monthly tax refunds (cash and adjusted)

– The publication should be accompanied by a clear document explaining the exact method used to derive the adjusted time series from the cash time series

– The system should be audited by an external audit within the range of a period of two years.

The Slovak authorities agreed with these conditions. It was clarified that Eurostat will ultimately decide if the new method is acceptable after assessing the results and that for the audit of the new method the Court of Auditors (for source data), the NSI (for consistency with National Accounts) and the CBR (for the economic point of view) will be fully involved on the audit.

Findings and conclusions

AP 10. The Slovak statistical authorities will propose whether to change the present recording of VAT refunds to a new system based on its assessment of the accuracy and quality of the figures from January 2012 to June 2014. The SOSR and the Council for Budget Responsibility (CBR) should be involved in the assessment. The Slovak statistical authorities will communicate its proposal to Eurostat before a final decision is taken. *Deadline: 31 August 2014.*

4.2.2. Accrued interest

Introduction

No issues with respect to the accrual interest recording have been detected in the past. The accrual interest is calculated at the MoF on a security by security basis, based on data from ARDAL. A table on the calculation of accrual interest was provided for this visit.

Discussion and methodological analysis

There was not a specific discussion on this topic. The Slovak statistical authorities explained the reconciliation between cash and accrued interest.

Findings and conclusions

Eurostat took note of the explanations.

4.2.3. EU flows

Introduction

At the time of the visit, the European Commission and the Slovak authorities were in the process of discussing financial corrections to be applied to the 2007-2013 Operational Programmes by the European Commission, mainly in the area of the Transport programme.

Discussion and methodological analysis

Eurostat clarified the two important aspects for National Accounts of financial corrections. The first aspect is the time of recording. The time of recording of financial corrections linked to past expenditures is the earlier of (1) the acceptance by the Member State of a financial correction proposed by the EU, or, (2) the final Commission decision. If the financial correction also includes the cancelation of funding to future projects, then the time of recording is the time of the actual future expenditure. Therefore if the Slovak authorities accepted in 2013 the financial correction proposed by the Commission, the financial correction for past expenditures should be booked in 2013 in National Accounts. The second aspect was to clarify what constitutes past expenditures, taking into account also the source data to be used. Expenditure can be grouped in three different categories:

a) Expenditure already incurred for which a claim has been sent to the European Commission.
b) Expenditure already incurred for which a claim has not yet been sent to the European Commission.
c) Expenditure not yet incurred

In national accounts a) and b) are not recorded as government expenditure but as expenditure on behalf of the EU. The expenditure on behalf of the EU is recorded when it takes place and not when it is reimbursed and a receivable from the EU is recorded in the accounts until the amounts are reimbursed. Category c) does not impact National Accounts at the moment the financial correction is agreed. However, in the future, the expenditure on behalf of the EU will be lowered according to the amount of the financial correction.

Eurostat asked the Slovak statistical authorities to provide as soon as possible the amounts of categories a) and b) which, if the financial correction is accepted in 2013, will affect the government deficit of 2013.

Findings and conclusions

AP 11 . The Slovak statistical authorities will impute in National Accounts the financial corrections decided by the European Commission in the year in which the final decision is taken. The correction will involve all expenditures already incurred on behalf of the European Union which will not be reimbursed. *Deadline: when the final decision has been taken.*

AP 12. The Slovak statistical authorities will communicate to Eurostat the exact amount of the financial correction of EU funds that will be imputed in National Accounts. *Deadline: when the final decision has been taken*[5].

4.2.4. Military equipment expenditures

Introduction

The basis for recording the purchases of military equipment in the Slovak national accounts is cash. In the case of late payment or prepayment, the cash is paid within one year of delivery.

Discussion and methodological analysis

The Slovak statistical authorities confirmed that the Ministry of Defence (MoD) returns regularly to the NSI a Questionnaire on purchases of military equipment and that they do not find problems for recording military expenditure properly.

Findings and conclusions

Eurostat took note of this practice.

4.3. Recording of specific government transactions

4.3.1. Specific government transactions in the context of the global economic crisis

Introduction

During the October 2014 notification, Eurostat and the Slovak statistical authorities had different views on whether the capital injection into Eximbanka should be reported in the supplementary table for the financial crisis.

Discussion and methodological analysis

The Slovak statistical authorities explained that their view was that the capital injection took place to expand the activities of Eximbanka and that it was not only related to the financial crisis and therefore, according to the explanatory notes of the table should not be included. Eurostat confirmed that the capital injection should indeed be included in the table.

Findings and conclusions

AP 13. Eurostat invites the Slovak Statistical Authorities to include the operation related to Eximbanka in 2012 in the supplementary table for the financial crisis in the next EDP notification. *Deadline: April 2014 notification.*

[5] The exact amount was communicated to Eurostat on 21/01/2014 and corresponds to 114 million euros (0.16% of GDP).

4.3.2. Guarantees

Introduction

The Slovak statistical authorities had informed Eurostat that the general policy of the government since 2003 was to not provide any guarantees.

Discussion and methodological analysis

The Slovak statistical authorities explained that their policy for guarantees in the past has been to record a capital transfer and a debt assumption the first time a guarantee is called. During the visit, the Slovak statistical authorities informed Eurostat that they have noticed a double counting of expenditure related to guarantees in 2010.

Findings and conclusions

AP 14. The Slovak statistical authorities will revise downwards the deficit in 2010 to correct the double accounting of 77,8 million euros related to a government guarantee call that was recorded as a capital transfer both in 2002 and 2010. *Deadline: April 2014 notification.*

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

Introduction

The Slovak statistical authorities provided a table on debt assumptions in the years 2006-2012, as well as on stock of government claims, prior to the visit.

Discussion and methodological analysis

In the last two years there has been only one debt assumption from the railway company in 2011 (78 €m) and one debt assumption in 2012 (130 €m) for hospitals. Eurostat enquired about the debt assumptions for hospitals and the Slovak Statistical authorities explained that every year they record a provision for the losses of hospitals. For the April notifications, the amounts are estimated by the Ministry of Finance and only in the October notifications, the real losses are known. The provision is recorded as government expenditure D9 every year. Government provides every two to three years cash to hospitals to repay their accumulated debts but it is not recorded as a debt assumption as the annual losses have already been previously recorded as capital transfers.

Findings and conclusions

AP 15. The Slovak statistical authorities will provide Eurostat with a note describing the method and amounts imputed for provisions for expected losses of hospitals from 2010 onwards in national accounts. The note should include a comparison of the preliminary expected losses and the losses finally recorded. *Deadline: 28 February 2014*[6].

[6] The note was provided on 28/02/2014.

4.3.4. Capital injections in public corporations, dividends, privatization

Introduction

The Slovak statistical authorities had informed Eurostat that there had not been any privatisation receipts in the period 2009-2012. Chapter 7.3 of the Slovak EDP inventory describes how the distribution of capital injections into acquisition of equity and capital transfers is done. A spreadsheet showing how the super dividend test is performed was provided before the mission.

Discussion and methodological analysis

The draft budget for the year 2014 includes the plan to shift the regular dividend payments for two public corporations from 2013 to 2014. Eurostat clarified that only under very specific circumstances (smoothing purposes) the payments of dividends above the operational profit of the previous year will not be considered as super dividends. In general only the payments equivalent to the distributable income can be recorded as property income, any amount in excess is to be recorded as transaction in equity.

The Slovak statistical authorities had provided before the meeting the analytic table they use for the super dividend test and amounts of super dividends reported in previous years. Eurostat enquired about the scope of the test and the Slovak statistical authorities informed that it is not performed on corporations controlled by the local government. However checking all dividend payments at the local government level will involve a substantial amount of work as it implies many transactions of very small amounts.

Eurostat reminded the importance of strictly following Chapter III.2 of the MGDD in order to determine the financial or non-financial nature of capital injections. It should be avoided to use a mechanical allocation of capital injections into a capital transfer for the amount of accumulated losses and into acquisition of equity for the remaining amount. Every transaction should be analysed individually and factors as whether private investors participate in the operation and the expected rate of return should be taken into account.

Findings and conclusions

AP 16. The Slovak statistical authorities will improve the monitoring of super-dividends at the level of the local government, focusing on the more sizeable payments of dividends.

AP 17. Eurostat recalls that the dividends paid in one year should always be compared to the operational profit of the company in the previous year. Any amount above operational profits of the previous year should be treated as super-dividends.

AP 18. The Slovak statistical authorities will ensure that capital injections will be analysed strictly following the provisions of the ESA 1995 MGDD. A default split of capital injections between non-financial and financial transactions simply according to previously accumulated losses must be avoided.

4.3.5. Public Private Partnerships

Introduction

There is only one big PPP project in Slovakia that relates to a motorway (R1). The classification on/off government balance sheet was discussed in 2012 and Eurostat finally agreed with its classification off balance sheet.

Discussion and methodological analysis

Eurostat commented that according to information from the press, the government is planning to use PPP in the near future for the construction of new highways and expressways and reminded that it should be consulted for the analysis of the classification on or off balance sheet in case the projects will be executed.

The Slovak statistical authorities informed that they lack information for local PPPs although they believe that amounts involved in local PPPs should be small. Eurostat advised to build a database of PPPs from local government, for example, through the creation of a new questionnaire addressed to local authorities.

Findings and conclusions

AP 19. Eurostat encourages the Slovak statistical authorities to take the necessary measures to ensure the continuous monitoring of PPPs at all levels of government, notably at the local level. *Deadline: a progress report should be submitted in December 2014.*

4.3.6. Others: Sale and leaseback operations, Securitisation, Swaps, UMTS, Carbon Trading rights

Introduction

The Slovak statistical authorities reported that there has been no sale and leaseback operation, no securitisation and no sale of carbon trading rights in the period 2009-2012. There was an extension of the sale of the UMTS licences which took place in 2011, and which were treated as sale of non-financial assets. In 2012 and 2013, ARDAL entered into long-term cross currency interest rate swaps

Discussion and methodological analysis

Eurostat recalled that in 2013, Slovakia has sold 7 million tons of Assigned Amounts Units and that in 2013 15 million tons of European Union Allowances (EUAs) were auctioned. EUAs had been previously distributed for free. Eurostat stressed that for EUAs, the method described in the MGDD Chapter VI section 6 should be followed.

In 2012 and 2013 ARDAL entered into cross currency interest rate swaps for hedging risks from foreign currency issuance in CZK, USD, CHF and JPY. Eight swaps were concluded with a face value of EUR 2.01 bn in 2012 and six swaps with a face value of EUR 0.73 bn in 2013. All swaps were signed at par and there has not been any swap cancellation, re-structuration or novation.

Findings and conclusions

AP 20. The NSI and the NCB will co-operate to monitor if operations in new or existing swaps which could affect government deficit take place.

(5) Other issues

5.1. Implementation of ESA 2010

5.2. ESA 95 Transmission Programme (tables 2, 6, 7, 9, 11, 25, 27 and 28)

Introduction

The GFS team of the unit D.1 (GFS methodology, data collection and dissemination) appreciated the good co-operation with the NSI staff for the ESA95 Tables transmission.

Discussion and methodological analysis

Regarding the National Tax List, the codes related to alcohol, tobacco, environmental and property taxes were missing in the last transmission. Eurostat would also like to encourage the NSI to provide in the future the split between self-employed and non-employed persons of D.61131. Eurostat reminded that the reporting of COFOG level II data will become compulsory in December 2014, these figures are currently being reported as non-publishable. The reporting of transfers of assets from pension schemes to Government in table 25 in D99 instead of D61 needs to be implemented.

Findings and conclusions

AP 21. The Slovak statistical authorities will communicate to Eurostat their answer to a number of issues raised in the meeting related to ESA tables 9 and 11. *Deadline: December 2013*[7].

5.3. Eligibility of the pension reform

Introduction

The Slovak government is planning a reform of their pension system and had consulted Eurostat on whether the reform could be classified as a systemic pension reform as defined in Regulation (EU) No 1467/97, as amended.

Discussion and methodological analysis

The main change that the planned pension reform introduces is changing the voluntary character of the second pillar into mandatory for new entrants to the labour market, but with the possibility to opt out within two years. Under the most favourable assumption made by the Slovak government (only 10% of new entrants opt-out), a 76% participation rate is foreseen for 2060, and in the less favourable option with 20% opt-outs, a 68% participation rate is expected in 2060. According to Eurostat, none of these participation rates are equivalent to the concept of large participation/broad coverage that would allow the pension reform to be considered as systemic despite not fulfilling the criteria of being

[7] The answers were provided to the Eurostat GFS team in December 2013.

mandatory. In addition Eurostat needs to base its assessment on observed facts and cannot judge the soundness of the forecasted participation rate in 40 years' time.

The Slovak authorities argued that the net cost of the second pillar is much higher in Slovakia (1.2% of GDP) than in other countries for which the pension reform has been considered as systemic by Eurostat and that in those countries participation to the second pillar was not mandatory. Eurostat replied that the net costs of the pension reform is not a criteria used to qualify a reform as systemic and in other countries without a mandatory participation which had been considered eligible, participation rates were close to 90% after a few years of implementing the pension reform.

Findings and conclusions

AP 22. Eurostat considers that the pension reform, as described in the letter sent to Eurostat on 31st October 2013, does not satisfy the conditions to be considered a systemic pension reform. The pension reform lacks mandatory nature due to the possibility to opt-out and it does not cover at present a very large majority of the population.

Annex

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