



EUROPEAN COMMISSION  
EUROSTAT

Directorate D: Government Finance Statistics (GFS)  
**Unit D-3: Excessive deficit procedure (EDP) 2**

Luxembourg, 20 January 2014

# **FINAL FINDINGS**

**EDP dialogue visit to Finland**

**18-19 November 2013**

## EXECUTIVE SUMMARY

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 dialogue visit to Finland on 18-19 November 2013.

The delegation of Eurostat was accompanied by observers from the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB). Statistics Finland (SF), the Finnish Ministry of Finance (MoF) and the Bank of Finland (BoF) represented Finland (please see the list of participants in Annex 1).

Eurostat undertook this visit in order to review the implementation of ESA95 and MGDD methodology and to assure that Eurostat decisions are duly implemented in the Finnish EDP. The visit focused on data sources of local government and sector delimitation of local government quasi-corporations, financial derivatives and the special refinancing programme related to export credit. The participants also reviewed issues relating to the forthcoming introduction of the new accounting standards ESA2010 (the agenda of the visit is included in Annex 2).

SF confirmed that the institutional responsibilities have remained unchanged since the 2011 EDP dialogue visit and Eurostat took note of the migration of Quarterly Financial Accounts (QFA) and the Balance of Payments (BoP) from BoF to SF in 2011 and 2014 respectively.

Eurostat also took note of the improved data sources for Local Government quarterly financial accounts and debt to be used for April 2014 EDP notification, which should lead to reduction of future revisions. Eurostat welcomed the collection of detailed information on PPP-projects, debt cancellations and assumptions, and some balance sheet items from 2016 onwards for the reference year 2015. However, Eurostat underlined the importance of detailed annual information at local government level and expressed its regret that GFS compilers' requests for detailed EDP information were not included in the on-going reform of local government financial statistics. Eurostat urged the Finnish authorities to collect this information at local government level, in particular data on capital injections in corporations and quasi-corporations and distributions of profits of such units.

Eurostat welcomed the good progress made by SF on the drafting of the new EDP inventory.

As a result of the review of the October 2013 EDP notification tables, SF agreed to investigate the recording of PPP unitary payments in EDP tables 2 and to reconcile relevant information reported in EDP questionnaire tables, to provide a breakdown of the central government deferrable budgetary appropriations, to further investigate the residual row in EDP table 2A, and to split the larger "various/other" items in two EDP questionnaire tables. Eurostat, in turn, agreed to check if European Commission bank accounts in other Member States are reported as liabilities in deposits.

Concerning the delimitation of general government, the meeting focused on sector classification of local government quasi-corporations. Eurostat suggested to further investigate the application of the 50% test for local government quasi-corporations by checking the nature of fees collected by the quasi-corporations and by making a more detailed analysis of the municipalities by function. Eurostat also asked SF to determine the classification of Turun Seudun Vesi Oy under ESA95.

Concerning time of recording issues, Eurostat took note of the introduction and recording of the new taxes (bank tax and public broadcasting tax) and to check recording of VAT refunds. The meeting participants also reviewed the assumptions underlying the consolidation of interest and Eurostat invited SF to use securities and loans information of the BoF in order to ensure that consolidation of accrued interest is properly carried out. Besides taxes and interest, the participants also discussed time of recording of gross fixed capital formation of local government quasi-corporations. As buildings and structures of quasi-corporations appear to be recorded as expenditure when they are finished and not gradually during construction, Eurostat asked SF to further investigate the issue.

As a result of the review of guarantees granted by the Finnish government, Eurostat asked SF to confirm the public accounting recording of guarantee repayments (in particular, relating to student loans) to ensure that they are correctly recorded in EDP data.

With regard to recording of transactions involving financial derivatives, Eurostat concluded that, in general, the recording by SF is appropriate. However, Eurostat suggested to check the use of BoP data in the case of derivative contracts between local government and non-residents and to reflect further on recording of financial derivatives on a net basis (on the liabilities side) when implementing ESA2010.

SF agreed to investigate further the refinancing programme related to export credit, notably if the euro-denominated loans are disbursed to financial institutions from the State Treasury, how losses will be recorded and the overall impact on the Maastricht debt.

Concerning other issues, Eurostat took note of the rationale of classification of motorway PPPs on government balance sheet and suggested SF to check if the proceeds from the recent auction of the 4G licenses may need to be recorded differently under ESA95 and ESA2010 rules.

Finally, as regards the Jalasjärvi-case, which was included in the meeting agenda at the request of SF, the participants concluded that a debt cancellation by the central government should be recorded in case the municipality would not pay back the full amount.

Eurostat welcomed the good co-operation of the Finnish authorities and the work that has been undertaken since the last EDP dialogue visit in November 2011, notably on quarterly local government data and communication in the classification group. Eurostat looks forward to the future co-operation between SF and the BoF concerning securities and lending statistics. Eurostat very much appreciated the documents provided by SF before the visit.

## 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 dialogue visit to Finland on 18-19 November 2013.

The delegation of Eurostat was headed by Mr John Verrinder, head of unit D3; Eurostat was also represented by Mr Denis Besnard (unit D1) and Mr Peeter Leetmaa (unit D3). Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meetings as observers. Statistics Finland (SF), the Ministry of Finance (MoF) and the Bank of Finland (BoF) represented Finland (the list of participants is in Annex 1).

Eurostat undertook this visit in order to review the implementation of ESA95 and MGDD methodology and to assure that Eurostat decisions are duly implemented in the Finnish EDP. The visit focused on data sources of local government and sector delimitation of local government quasi-corporations, financial derivatives and the special refinancing programme related to export credit. The participants also reviewed issues relating to the forthcoming introduction of the new accounting standards ESA2010 (the agenda of the visit is included in Annex 2).

With regard to procedural arrangements, the Main Conclusions and Action Points would be sent to Finland for review. Then, within weeks, the Provisional Findings would be sent to Finland for review. After this, Final Findings will be sent to Finland and the Economic and Financial Committee (EFC), and published on the website of Eurostat.

Eurostat welcomed the good co-operation of the Finnish authorities and the work that has been undertaken since the last EDP dialogue visit in November 2011 and very much appreciated the documents provided by SF before the visit.

## 1. STATISTICAL ORGANISATIONAL ISSUES

### 1.1. Institutional responsibilities

SF confirmed that institutional responsibilities have remained unchanged since the 2011 EDP dialogue visit. There is an on-going migration of production of statistics from the BoF to SF – quarterly financial accounts were transferred in 2011 and balance of payments statistics will follow in 2014. Recently the Government Finance Statistics team at SF has been reinforced with two new staff members.

### 1.2. Data sources, EDP inventory, Revision policy

#### *Background*

SF informed Eurostat that quarterly local government finance statistics have been significantly re-designed based on the needs of non-financial and financial accounts and of the first EDP reporting after the year-end. The new statistics were introduced in May 2013, for the reference period 2013Q1 onwards. The information required was substantially increased, especially in the case of balance sheet data (instrument coverage and details), but some amendments were also made for income statement and other data. In addition, the coverage of statistics was improved by the addition of joint-municipal bodies and part of quasi-corporations (non-market activities) to the survey. Quarterly data is still based on a sample survey, but balance sheets as well as cumulative annual aggregates for non-financial transactions are collected from the whole population. The quarterly sample has also been re-designed and tested for appropriate accuracy.

The new quarterly data source is already in use in quarterly financial accounts (QFA, QFAGG), government debt and non-financial accounts (QNA, QSA, STPFS). This source will be used for the year 2013 in the April 2014 EDP notification. SF anticipates that, as a result, the accuracy and completeness of statistics on local government debt and financial transactions will considerably improve, which should also lead to a reduction in the magnitude of revisions between the April and October EDP notifications for the latest reported year.

Concerning annual local government finance statistics, SF had informed Eurostat at the 2011 EDP dialogue visit about its plans to include the needs of EDP into the project for renewal of municipal statistics, which has been initiated and financed by the MoF. This concerned the correct treatment of specific transactions between municipalities and public corporations, such as equity injections and distributions, as well as debt assumptions and cancellations. In addition, there has been a lack of supplementary information on guarantees, as requested in the EDP-related questionnaire.

Meanwhile, independently of this renewal project, SF has placed an emphasis on identification and measurement of major equity injections and distributions and some limited progress was achieved. However, in the absence of comprehensive data sources, a systematic evaluation of injections or other relevant transactions between municipalities and municipal corporations is still not possible.

It is anticipated that at least some of the outstanding data source issues will, however, be resolved by the project: more comprehensive information on PPP-projects, debt cancellations and assumptions, and some balance sheet items such as interest accrued, but not yet paid.

## *Discussion*

At the meeting SF informed about the renewal of the financial accounts compilation process, which builds on three main elements: (1) migration of quarterly financial accounts in 2011 from BoF to SF, (2) integration of general government into the system and (3) complete integration to a single set of quarterly based financial accounts (FA). SF expects to reach complete consistency between quarterly and annual FA within the ESA2010 implementation project. Progress has also been made in the development of the relevant IT systems. Since 2012 SF has published quarterly general government non-financial data by subsector, including seasonally adjusted data.

Concerning local government source data, SF explained that most of the identified needs were not eventually included in the renewal project's core objectives, as they were perceived to go beyond the financial reporting requirements of municipalities and to be beyond the project's budget constraints. SF noted that Finnish municipalities have a high level of administrative independence, including for reporting obligations.

However, SF also confirmed that the renewal project will presumably result in the availability of detailed information on PPP-projects, debt cancellations and assumptions, and some balance sheet items from 2016 onwards for the reference year 2015. In addition, in SF's view the further development of the European Public Sector Accounting Standards (EPSAS) may lead to improvements in local government source data for compilation of EDP statistics.

Eurostat stressed the importance of detailed information at local government level. It expressed its regret that the request of GFS compilers for detailed EDP information was not fully included in the renewal project of local government statistics.

Finally, concerning the drafting of the new EDP inventory, Eurostat welcomed the good progress made by SF. Eurostat intends to publish the new inventories of the Member States in December 2013<sup>1</sup>.

## *Conclusions*

*Action point 1. Eurostat underlines the importance of detailed information at local government level. It regrets that GFS compilers' request for detailed EDP information was not included in the on-going reform of local government financial statistics. Eurostat urges the Finnish authorities to collect this information and requests a progress report by end-March 2014.*

## **2. FOLLOW-UP OF THE EDP DIALOGUE VISIT OF NOVEMBER 2011**

Eurostat thanked SF for accomplishing the action points of the last dialogue visit on time.

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<sup>1</sup> The new EDP inventory of Finland was published on Eurostat's website in December 2013.

### 3. ANALYSIS OF THE OCTOBER 2013 EDP TABLES

#### *Discussion*

The meeting participants reviewed the October 2013 EDP notification tables and EDP questionnaire.

SF explained that the adjustment line “PPP” of EDP table 2A presents solely the investments relating to PPP projects classified on the general government balance sheet. Eurostat enquired about the recording of PPP unitary payments of on-balance sheet PPP projects within the central government working balance and the related adjustments in EDP table 2A. SF agreed to provide further information on this matter.

Eurostat asked about the large negative value reported in the adjustment line “The impact of the difference in the recording of deferrable budgetary appropriations” of EDP table 2A for 2012. SF had explained in April 2013 that this figure primarily reflects the cancelling of loans recorded as revenue in the 2012 working balance of central government. These unused loans were recorded as expenses in the working balances of 2010 and 2011. SF agreed to provide detailed information on this adjustment line.

Eurostat drew SF’s attention to a small inconsistency between the change in debt and gross debt levels in EDP table 3D (local government). SF agreed to correct this, and Eurostat in turn agreed to introduce suitable automatic checks in EDP tables 3.

Eurostat pointed out that, as government deficit includes accrued interest and the Maastricht debt should be reported at face value, there should be an adjustment in EDP tables 3. Eurostat enquired about reporting of such adjustment in EDP table 3D, as there are “M”-s (not applicable codes) reported under the item “Difference between interest accrued and paid”. SF informed Eurostat that the relevant adjustment is included under “Net incurrence of other liabilities (F.5, F.6 and F.7)”, which is allowed by ESA95. The participants concluded that no such flexibility is allowed by ESA2010, and therefore accrued interest should be recorded under the respective instruments when ESA2010 is implemented.

The participants also discussed the “Residual” rows in EDP tables 2, the item “Various transactions” in EDP questionnaire table 1.1 (deficit revisions) and the large “Other unspecified items” in EDP questionnaire tables 4 (Other accounts receivable / payable reported in EDP table 3A). SF agreed to further investigate the residual row in EDP table 2A and to split the larger “various/other” items in EDP questionnaire tables 1.1 and 4.

Eurostat enquired about the adjustment line for the EU Commission account at the Finnish State Treasury reported in EDP questionnaire table 4.1.2 “Other accounts payable reported in EDP table 3A”. SF explained that the Treasury offers deposit account services to the Commission, which is reported under AF.7L (other accounts payable) in central government accounts. Eurostat agreed to check how such deposit accounts are recorded in other EU Member States.

#### *Conclusions*

*Action point 2. SF will investigate the recording of PPP unitary payments in the working balances of EDP tables 2 and will reconcile relevant information reported in EDP*

questionnaire tables 2 and 11. Eurostat will be provided with the feedback by end-December 2013<sup>2</sup>.

Action point 3. Alongside the April 2014 EDP notification the Finnish authorities will provide a breakdown of the central government deferrable budgetary appropriations (EDP table 2A) into new deferrals, used deferrals and cancelled deferrals.

Action point 4. SF will correct EDP table 3D for the data on changes in debt by the April 2014 EDP notification.

Action point 5. Eurostat will create an automatic check between change in debt and gross debt levels in EDP tables 3 for the next notification<sup>3</sup>.

Action point 6. SF will investigate the residual row in EDP table 2A for the year 2011 and will report its findings to Eurostat by end-September 2014.

Action point 7. SF will break down, as much as possible, other accounts receivable / payable rows (Other unspecified items) in EDP questionnaire tables 4.1 by April 2014 notification.

Eurostat also encourages to split large “various transactions” items in EDP questionnaire tables 1.

Action point 8. Eurostat will check if European Commission bank accounts in the Member States are reported as liabilities in deposits. It will inform SF by end-December 2013<sup>4</sup>.

#### **4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS**

##### **4.1. Delimitation of general government, application of 50% rule in national accounts**

###### *Background*

The focus of the meeting was on sector classification of local government quasi-corporations.

In 2012 there were about 160 quasi-corporations classified to the local government sector, which are legally part of the municipality under which they are operating (these units do not have an independent legal status). The data for local government are available by units: a municipality or a joint municipal authority is divided to the “basic” unit and to quasi-corporations. Quasi-corporations are not reported on the unit-by-unit basis within the municipalities, but by function.

The 50% criterion for market/non-market distinction is applied for municipal quasi-corporations and public corporations. However, as a complete unit-by-unit analysis cannot be undertaken, quasi-corporations acting in certain industries (water supply, energy supply, public transport, port authorities and waste management) are always, by convention, considered as market producers in the corporations sector. On the other hand, some quasi-

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<sup>2</sup> On 19.12.2013 SF provided an explanation on the reporting of the unitary charge payments relating to PPPs in EDP tables and in the EDP questionnaire tables.

<sup>3</sup> In November 2013 Eurostat introduced the check in EDP tables 3, to be used in the next notification.

<sup>4</sup> Eurostat provided its provisional view on 20.12.2013 and the final view on 14.01.2014: the EC's deposits held by the Treasury meet the characteristics of AF.22 “Transferable deposits” as defined in ESA95 (and ESA2010).



corporations (e.g. education, internal services) are classified inside the local government sector since their sales are not considered being real market sales (e.g. sales to the municipalities may have a character of transfers).

### *Discussion*

SF explained at the meeting that according to a new law municipalities should incorporate their quasi-corporations engaged in certain market activities before the end of 2014. This would help in obtaining data on individual units in the future. Eurostat agreed that the incorporation would help, but also suggested to further investigate the application of the 50% test for local government quasi-corporations, for example by checking the nature of fees collected by the quasi-corporations (e.g. how they are set) and by making a more detailed analysis of the municipalities by function.

The participants also discussed the coverage of units and the results of the market/non-market test within the questionnaire on public corporations. SF confirmed that the questionnaire covers all QCs classified outside the general government sector. The participants also discussed the classification of Turun Seudun Vesi Oy, which did not pass the 50% test over the last three years.

### *Conclusions*

*Action point 9. SF will investigate the application of the 50% test for local government quasi-corporations and report to Eurostat by mid-May 2014.*

*Action point 10. SF will determine the classification of Turun Seudun Vesi Oy under ESA95 and inform Eurostat by end-March 2014.*

## **4.2. Implementation of accrual principle**

Besides taxes and interest, there was also a discussion of the time of recording of gross fixed capital formation of local government quasi-corporations. SF had explained in the new EDP inventory that buildings and structures of quasi-corporations are recorded as expenditure when they are finished, not gradually during construction. SF agreed to further investigate this issue.

*Action point 11. SF will check the recording of gross fixed capital formation for local government (quasi-corporations) to determine the public accounting time of recording and inform Eurostat by end-December 2013<sup>5</sup>.*

### **4.2.1. Taxes and social contributions**

#### *Background*

Two new taxes have been introduced after the last EDP dialogue visit in 2011: bank tax (Pankkivero) and public broadcasting tax (Yleisradiovero). Both were collected for the first

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<sup>5</sup> On 19.12.2013 SF informed Eurostat that, as a result of the foreseen renewal project of the local government statistics, gross fixed capital formation of municipal quasi-corporations will be recorded gradually during construction, as it is already the case for the municipalities (main bodies).

time in 2013. The income from auction of emission permits will be also recorded as a tax, and this was discussed further under another agenda item (4.3.6).

The bank tax, which concerns only deposit-taking banks, is temporary and planned to be collected during a period of three years, from 2013-2015. The tax is to be recorded on a cash basis in annual accounts (approx. 130 MEUR in 2013).

The public broadcasting tax replaces the television license fees collected at present by the public broadcasting company Yleisradio Ltd. The tax base is the income of the person or the corporation's profit. As the tax is collected with the income tax of households and corporations, its time of recording is identical to these taxes (time-adjusted cash with 1-month lag).

### *Discussion*

Eurostat took note of the introduction and recording of the new taxes. Besides the new taxes, Eurostat enquired about the recording of reimbursements and refunds in Finnish government accounts. SF explained that refunds are included on a cash basis, together with the relevant tax, and are therefore time adjusted together with the tax receipts. SF also explained that the income tax refunds take place once per year in December and agreed to check the time adjustment of VAT refunds.

### *Conclusions*

*Action point 12. SF will check if VAT accounts are used by VAT taxpayers and thereby ensure that time adjustment of VAT refunds is appropriate. Eurostat will be informed by end-December 2013<sup>6</sup>.*

## **4.2.2. Interest**

### *Background*

Consolidation of interest is made on the basis of financial accounts data on intra-government debt stocks (F.331, F.332, F.4), using the assumption that the interest rate on intra-government debt is equal to that on the total debt for each sub-sector. The consolidation item is then calculated by multiplying the total interest expenditure of each sub-sector by the ratio: intra-government debt stock/total debt stock of that sub-sector. The same method is implemented on the assets side.

In the budget accounts, annual premiums and discounts are recorded on a cash basis. Redemption/issuance of debt above/below par is recorded as a budget revenue or expenditure, but in national accounts they are recorded as financial transactions not affecting the deficit, and premiums/discounts are spread over time on the basis of annual book-keeping accounts. In EDP Table 2A the adjustment is shown for these differences under the item "difference between interest paid (+) and accrued" (EDP D.41) (-).

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<sup>6</sup> On 19.12.2013 SF provided Eurostat with a description on the declaration, payment and refund of VAT. SF confirmed that VAT is recorded in national accounts with two months' time-adjustment and the amounts recorded are netted with refunds, so the refunds have also two months' time-adjustment.

## *Discussion*

Eurostat expressed the view that the assumption about the interest rate on intra-government debt may not lead to results with sufficient accuracy. SF informed Eurostat that, in fact, new data sources have become available, which should ensure reduction of uncertainties regarding consolidation.

Eurostat enquired whether premiums or discounts exist for other government bodies, which are not part of the main units of government. SF was not aware of such cases.

## *Conclusions*

*Action point 13. SF will use securities and loans information of the BoF to ensure that consolidation of interest accrued is properly carried out by end-September 2014.*

### **4.3 Recording of specific government transactions**

#### **4.3.1. Guarantees**

##### *Background*

This agenda item concentrated on guarantees relating to student loans. Payments relating to guarantees called are generally treated as capital transfers from central government to the relevant sector. However, guarantees called relating to student loans are treated as the acquisition of loan assets. Generally, repayments related to guarantees called are treated as capital transfers from the relevant sector to central government. Concerning student loan guarantees, repayments are treated as disposal of loan assets.

##### *Discussion*

Eurostat enquired about the details of recording in public accounts of guarantees called relating to student loans and the respective repayments. SF explained the general system, however acknowledged that it would be helpful to confirm how guarantee repayments are recorded in public accounts.

##### *Conclusions*

*Action point 14. SF will confirm the public accounting recording of guarantee repayments to ensure that they are correctly recorded in EDP data. Eurostat will be informed by end-December 2013<sup>7</sup>.*

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

##### *Background*

Source data on debt cancellations are available on an accrual basis at the central government level. Interest accrued is not included in the debt cancellations. Debt cancellation or write-offs can only be implemented once it has been reliably established that the debtor lacks the

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<sup>7</sup> On 19.12.2013 SF confirmed that the guarantee repayments have been recorded correctly in the Finnish EDP data and that guarantee repayments are recorded as revenue in the working balance and in the national accounts.

means for repayment or there is other similar cause. Even after such decision is made, the relevant offices have to monitor the debtor's financial position for a possible repayment. Debt cancellations are enacted on the orders of the MoF. In the central government all debt cancellations are recorded as capital transfers, with a corresponding reduction in loans in the financial accounts.

The state bookkeeping system includes special accounts for debt cancellations, which is the source for recording the related capital transfers in national accounts. The source data enables the monitoring of debt cancellations by government agency and, sometimes, by budget account.

The local government data sources do not provide comprehensive information on debt cancellations.

#### *Discussion*

As mentioned under item 1.2 above, SF confirmed that the complete renewal of municipal statistics project would presumably result in the availability of detailed information, among other items, on debt cancellations and assumptions, starting in 2016 for the reference year 2015.

### **4.3.3. Capital injections in public corporations, dividends, privatization**

#### *Background*

Information about capital injections is available to SF through the government's financial statements and financial statements of Solidium Ltd, the state holding company. The public announcements of Valtioneuvoston kanslian omistajaohjausosasto (Ownership steering department of Prime minister's office) and Solidium Ltd., are also followed.

SF applies the capital injection test annually and to all cases. Data sources for the test are government's financial statements and financial statements of public corporations. Injections to quasi-corporations are recorded similarly to the injections made to regular corporations owned by the government.

Concerning dividends, the data source for the central government is the state bookkeeping data and the financial data of Solidium Ltd. For the local government, the main data sources are the statistics compiled by SF on "Finances and activities of municipalities and joint municipal authorities".

SF applies the super dividend test annually and to all dividends paid to central government. So far the profit definition in use has been the profit after taxes (net profit).

SF explained that there are gaps in local government data sources. Similarly to debt cancellations, the existing sources do not allow a comprehensive and sufficiently detailed analysis and measurement of equity injections and distributions. However, SF checks larger cases.

#### *Discussion*

Eurostat expressed its concern about the lack of comprehensive information on (1) capital injections in local government corporations and quasi-corporations and (2) distributions of

profits by such units, and urged the Finnish authorities to collect this information (see action point 1 above).

The profit concept currently used in the super dividend test was discussed. SF informed Eurostat that it would use operating profit concept from the April 2014 EDP notification onwards.

### *Conclusions*

Eurostat regrets the lack of comprehensive information on local government capital injections and distributions.

*Action point 15. SF will undertake the super dividend test using operating profit data for the April 2014 EDP notification.*

### **4.3.4. Financial derivatives**

#### *Background*

The following instruments are used in state debt management: interest rates swaps, cross-currency swaps, FOREX swaps, FRAs, Bond futures, and Money market futures. Employment pension institutions use a variety of derivatives (option-, swap- and other forward rate agreement type) for hedging and other purposes in their investment portfolios. The biggest municipalities also occasionally use derivatives.

The State Treasury provides specific reports of the derivatives operations. The data for swaps is accrual data, the Maastricht debt is valued as after swaps.

The quarterly report on investments of employment pension institutions provides data on the value of derivative contracts (stocks). However, it does not provide comprehensive data on derivative transactions. BoP statistics can be used for transactions, as cross-border contracts dominate derivative activities. However, BoP collects the transaction data on an aggregate level, not by instrument.

The data situation is not fully satisfactory at the local government level. Only the biggest municipalities use financial derivatives and the data source is MFI statistics.

The flows relating to derivatives are recorded on a net basis, under the liability side in the financial accounts.

#### *Discussion*

The participants discussed the recording of financial derivatives in the Finnish government accounts. Eurostat enquired about the recording of derivatives on a net basis on the liability side. In general, Eurostat considered the recording by SF as currently appropriate.

### *Conclusions*

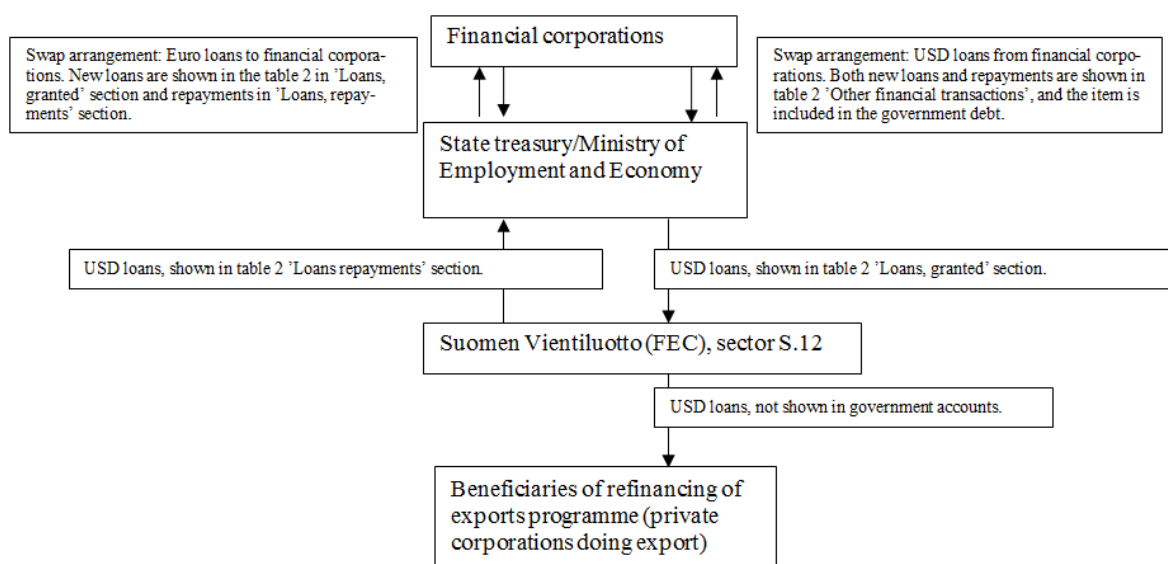
Eurostat suggested to check the use of BoP data in the case of derivative contracts between local government and non-residents, and to reflect further on the appropriateness of recording of financial derivatives on a net basis (on the liability side) when implementing ESA2010.

### 4.3.5. Refinancing programme related to export credit

#### Background

In 2009 the government of Finland decided to create a financing programme for Finnish private companies engaged in export activities, because commercial banks had tightened their lending operations during the financial crisis. The government decided to secure export financing of Finnish export credit Ltd (FEC) via the central government budget. Within this programme, the State Treasury acts on behalf of the Ministry of Employment and the Economy. The programme for supporting export credit, called the "Refinancing programme", was launched in 2010 and it was closed to new beneficiaries at the end of 2012.

The operation consists of two related activities: (1) loans from Treasury to FEC and (2) hedging to avoid currency risk related those loans. Central government budget funds are lent to FEC, which in turn provides loans to private companies (final users of credit). Loans provided to final users are US dollar denominated loans provided on OECD export credit terms. The scheme of operations, as reported in EDP questionnaire table 2, is as follows:



The loans of the programme have not yet been completely withdrawn by the final beneficiaries – loan withdrawals can be executed until end-2015. The final maturity of the loans ranges from 2015 to 2025. The loans are repaid each year in accordance with the redemption profile.

Flows between Treasury and the financial corporations ensure that the Finnish State does not have currency risk related to the original USD denominated loan provided to Finnish Export Credit. The State Treasury is responsible for managing the currency exposure relating to these refinancing loans dominated in currency other than euro. The same currency risk policy applies to these loans as to state debt management in general.

#### Discussion

Eurostat enquired how the amount of the euro-denominated loans is being decided. Moreover, Eurostat also wondered whether the FEC is acting on behalf of government for

this programme, who ultimately bears possible losses resulting from this programme and what is the overall impact on the Maastricht debt.

### *Conclusions*

*Action point 16. SF will investigate further the refinancing programme related to export credit, notably if the euro-denominated loans are disbursed to financial institutions from the State Treasury, how losses will be recorded and the overall impact on the Maastricht debt. A report will be provided to Eurostat by end-January 2014.*

### **4.3.6. Others: PPPs, Sale and leaseback operations, Securitisation, UMTS, Carbon trading**

#### *Background*

PPPs exist at both the central and local government level. In September 2013 there were 8 PPPs with the total contractual value of 777 MEUR, of which 701 MEUR was recorded on the government balance sheet. All three motorway PPPs are recorded on the central government balance sheet and other PPPs (real estate) are recorded off the government balance sheet. The Lahdentie (Järvenpää-Lahti) motorway PPP has been classified on the government balance sheet based on the analysis of demand and availability risks, and the two E18 motorway PPPs (Lohja-Muurla, Kotka-Koskenkylä) based on analysis of demand and other risks.

At the central government level, the information on PPPs can be obtained from budget authorities and/or the State Treasury. For local government PPPs, there is no direct source to identify such projects. However, significant projects are identified in co-operation with experts of the Association of Finnish Municipalities. Once a new project has been identified, SF requests a copy of the contract(s) between the partners and makes an evaluation of risks relating to the PPPs based on the contracts.

Concerning 4G mobile spectrum licenses, according to the Ministry of Transport and Communications the latest auction finished on 30 October 2013, when government received 108 MEUR from three operators. The government would award the winning bidders 20-year licences starting from January 2014; each operator must launch operations within two years of the start of the licence period.

#### *Discussion*

Eurostat enquired about the other risks as identified in the E18 PPP projects. SF informed Eurostat that "other risks" related the E18-project refer to significant residual value risk, which has been taken into consideration as there are doubts about the relevance of both the availability risk and the demand risk in the context of this motorway project. The evaluation on the existence of such risks has been made following the guidance given in MGDD VI.5.3.3 "Allocation of the assets at the end of the contract" (2013 edition, based on ESA95) and through careful reading of the relevant contracts.

Concerning the local government PPPs, as mentioned under item 1.2 above, the situation is expected to improve from 2016 onwards for the reference year 2015.

For the 4G licenses, the participants concluded that 108 MEUR revenues should be recorded under ESA95 rules in 2013. The operation should be analysed under ESA2010 rules. To this end, SF would analyse the transferability of the 4G spectrum contracts.

### *Conclusions*

Eurostat took note of the rationale for classification of motorway PPPs on the government balance sheet and asked SF to check if the proceeds from the recent auction of the 4G licenses may need to be recorded differently under ESA95 and ESA2010 rules.

#### **4.3.7. Jalasjärvi-case**

##### *Background*

SF sought Eurostat's advice on the appropriate recording of the transactions relating to financial dispute between the central government and a municipality.

In 2011, the Ministry of Education and Culture decided to recover 35 MEUR of conditional state grants that were paid to the adult education centre of Jalasjärvi municipality over several years. The decision to recover was based on an alleged misuse of the grant, and the municipality appealed against the decision to the court, which gave its ruling in May 2013, dismissing the municipality's appeal. Later, Jalasjärvi and the ministry negotiated a payments schedule: Jalasjärvi would pay 9 MEUR in 2013 and 26 MEUR in 2014.

In 2011, Jalasjärvi municipality recorded an obligatory provision (expenditure) of 30 (not 35) MEUR in its profit and loss account, which is also included in the working balance of EDP table 2C. The claim is not shown in 2011 in national accounts; for this reason the working balance is adjusted by the item "Other known differences between working balance and EDP B.9". As a result of SF's analysis and following the guidance in the MGDD ("Court decisions with retroactive effect"), the 35 MEUR would be recorded in national accounts in 2013 as local government expenditure and central government revenue.

However, according to SF, Jalasjärvi is a small municipality, which may have difficulties in returning the full amount and therefore may need some kind of assistance from the central government. SF sought Eurostat's confirmation of how such situation should be treated in national accounts.

##### *Discussion and conclusions*

The participants reviewed several recording options, but concluded that debt cancellation by the central government should be recorded if the municipality would not pay back the full amount of 35 MEUR. The time of recording would be the point in time when the ministry makes a decision not to recover the full amount.



## 5. OTHER ISSUES

### 5.1. Implementation of ESA 2010

See the results of the discussion on the sale of 4G mobile spectrum licenses under item 4.3.6.

#### *Discussion*

Eurostat informed SF about recent developments as regards methodological issues relating to introduction of ESA2010 and the further amendment of the Council Regulation 479/2009. SF informed Eurostat that it has established a special website describing the process of ESA2010 implementation in Finland<sup>8</sup>.

According to the provisional analysis carried out by the SF, the introduction of ESA2010 would lead to the reclassification of several (mostly small) units from the corporations sector to the general government sector, including a number of local real estate corporations. Eurostat requested SF to check the classification under ESA2010 of several larger units (VR-Track Oy, public hospitals, Finnvera and Kuntarahoitus), which have special relationships with government. Among other issues, Eurostat asked SF to check the tendering process of services provided by VR-Track, to check the qualitative classification criteria in the case of hospitals and to study whether Finnvera would be classified as a financial auxiliary under ESA2010. The participants also discussed the modelling of losses in the case of standardised guarantees.

#### *Conclusions*

*Action point 17. SF will confirm the classification under ESA 2010 of the following units: VR-Track Oy, public hospitals, Finnvera and Kuntarahoitus (Municipality Finance Plc). It will inform Eurostat of its analysis by mid-May 2014.*

### 5.2. ESA95 Transmission Programme (tables 2, 6, 7, 9, 11, 25, 27 and 28)

Eurostat welcomed the reduction of inconsistencies between EDP tables 3 and ESA95 table 27 (QFAGG).

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<sup>8</sup> [http://www.stat.fi/til/ekt2010\\_en.html](http://www.stat.fi/til/ekt2010_en.html)

## **Annex 1.**

### **EDP dialogue visit to Finland on 18-19 November 2013**

#### **List of participants**

##### Statistics Finland:

Ms Leena Storgårds, Director of Economic and Environmental Statistics

Mr Matti Okko, Head of Unit of Government and Sector Accounts

Ms Mira Lehmuskoski, Senior Statistician

Ms Anu Marttila, Senior Statistician

Ms Anu Karhu, Senior Statistician

Mr Timo Ristimäki, Senior Statistician

Mr Martti Pykäri, Senior Statistician

Mr Jukka Hytönen, Senior Statistician

##### Ministry of Finance:

Mr Arvi Suvanto, Economist

Ms Tanja Rantanen, Economist

##### Bank of Finland:

Ms Hanna Häkkinen, Economist

Mr Hannu Viertola, Economist

##### Eurostat:

Mr John Verrinder, Head of unit D3

Mr Denis Besnard, unit D1

Mr Peeter Leetmaa, unit D3

##### ECB:

Ms Stanimira Kosekova

##### DG ECFIN:

Mr Peeter Soidla

## **Annex 2.**

### **EDP dialogue visit to Finland on 18-19 November 2013**

#### **Agenda**

1. Statistical organisational issues
  - 1.1. Institutional responsibilities
  - 1.2. Data sources, EDP inventory, Revision policy
2. Follow-up of the EDP dialogue visit of November 2011
3. Analysis of the October 2013 EDP tables
4. Methodological issues and recording of specific government transactions
  - 4.1. Delimitation of general government, application of 50% rule in national accounts
  - 4.2. Implementation of accrual principle
    - 4.2.1. Taxes and social contributions
    - 4.2.2. Interest
  - 4.3 Recording of specific government transactions
    - 4.3.1. Guarantees
    - 4.3.2. Debt assumptions, debt cancellations and debt write-offs
    - 4.3.3. Capital injections in public corporations, dividends, privatization
    - 4.3.4. Financial derivatives
    - 4.3.5. Refinancing programme related to export credit
    - 4.3.6. Others: PPPs, Sale and leaseback operations, Securitisation, UMTS, Carbon trading
    - 4.3.7. Jalasjärvi-case
5. Other issues
  - 5.1. Implementation of ESA 2010
  - 5.2. ESA95 Transmission Programme (tables 2, 6, 7, 9, 11, 25, 27 and 28)
  - 5.3. Any other business