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Directorate D: Government Finance Statistics (GFS)
Unit D-2: Excessive Deficit Procedure (EDP) 1



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FINAL FINDINGS

EDP dialogue visit to Lithuania

8-9 February 2012

Executive summary

Eurostat undertook an EDP dialogue visit in Lithuania on 8-9 February 2012. The main aims of this dialogue visit were to assess existing statistical capacity and divisions of responsibilities concerning the compilation of EDP statistics and government accounts, with attention being paid to problems in compilation of the B.9 of hospitals, the data source problems of specific local government transactions, as well as to assure whether provisions from the ESA95 Manual on Debt and Deficit and recent Eurostat decisions are duly implemented and how specific transactions are recorded in the EDP tables.

Eurostat discussed with the Lithuanian authorities the institutional arrangements and source data used for the compilation of government finance statistics. Eurostat took note of the current arrangements, recent developments and the progress in implementation of newly introduced IPSAS based public sector accounting and financial reporting standards (PSAFRS). Concerning the data sources for local government, Eurostat took note of the situation and encouraged further improvements.

As far as the analysis of the October 2011 EDP notification is concerned, Eurostat took note of a one off operation- compensation of immovable properties to Jewish communities. Eurostat also noted that further work has to be undertaken by Statistics Lithuania (SL) in order to achieve progress in compiling B.9 for hospitals. Among other measures, the hospital data as reported within the PSAFRS is to be crosschecked with counterpart information. Furthermore, the by hospitals followed recording practices of investment grants and EU funds are also to be analysed.

Concerning the sectorization practices, Eurostat invited the Lithuanian statistical authorities to consider reclassifying a couple of public corporations that were not complying with the so called 50% test. For a number of entities undergoing restructuring, business plans are to be analysed. Eurostat stressed that the rules for classification of newly created units need to be precised, so that future prospects of the newly created entities are to be considered, as well as an analysis undertaken on whether they will act on behalf of government.

Eurostat invited the Lithuanian statistical authorities to closely and continuously monitor the development in relation to the bankruptcy of Bankas Snoras. In particular, the analysis should focus on any changes in valuation of existing Snoras assets, that might have implications for government, and any transactions occurring between the government and former subsidiaries of Snoras.

Regarding the specific government transactions, super-dividends paid to government by the Bank of Lithuania were identified. The appropriate revisions are to be implemented in the forthcoming EDP April 2012 recording. Some of the equity injections are to be reclassified into capital transfers, unless the business plans can justify their current classification (as F.5). Eurostat noted lack of information on capital injections undertaken at local government level and invited SL to analyse how to obtain information.

On Public Private Partnerships (PPPs), Eurostat noted that the analysis undertaken by the MoF does not cover all the aspects foreseen in the ESA95 MGDD and stressed the role of SL. The statistical analysis is to be provided to Eurostat before the forthcoming April 2012 EDP notification.

Final findings

Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009 as amended, as regards the quality of statistical data in the context of the Excessive Deficit Procedure, Eurostat carried out an EDP dialogue visit to Lithuania 8-9 February 2012.

The delegation of Eurostat was headed by Ms Lena Frej Ohlsson, Head of Eurostat Unit D-2 Excessive Deficit Procedure (EDP) 1. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Lithuanian authorities were represented by the Statistics Lithuania (SL), the Ministry of Finance (MoF) and the Bank of Lithuania (BoL).

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

In detail, the main aims of the dialogue visit were: to clarify the issues relating to EDP tables raised in the context of previous notifications, to review the implementation of ESA 95 methodology, such as sectorization of units, to analyze the availability of data sources for local government operations, to review the progress achieved in analyzing the data on hospitals, to review the government intervention into bank Snoras and to review the recording of specific government transactions.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, indicating that within days the Main conclusions and action points would be sent to the Lithuanian statistical authorities, who may provide comments. Within weeks, the Provisional findings would be sent to the Lithuanian 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.

1. Statistical capacity issues

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

Introduction

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

Discussion and methodological analysis

The Lithuanian statistical authorities informed Eurostat that the changes in the statistical law, introduced by Law No XI-1085 on 4 November 2010, foresee that NSI is a government agency. This new status assures stronger statistical independence of the NSI. The recent administrative structure of the NSI has been approved on 22 June 2011 by Government Resolution No 749. Currently 28 staff members work in the area of national accounts, including 1 person responsible exclusively for the EDP. There is no separate unit for GFS, and the GFS team (7 persons) is part of the National accounts division. The creation of a separate GFS unit is under consideration.

As for the cooperation with the other institutions, the cooperation with the MoF is regulated by the *Schedule for the provision of statistical information on the general government deficit and debt* approved by the joint order of the Minister of Finance and the Director General of Statistics Lithuania, dated December 2007. There are plans to update this agreement, by incorporating the responsibilities for the *Questionnaire relating to the notification tables* as well as for data from the IPSAS based accounting system.

Eurostat noted that compared to the other Member States, in Lithuania a relatively big part of the work on EDP is being undertaken by the MoF. The latter compiles EDP tables 2 as well as a number of the Questionnaire tables. The Lithuanian statistical authorities explained there is close cooperation between the two institutions; all transitional items in table 2A adjusting the working balance to the B.9 are crosschecked and, if relevant, transposed also into ESA table 2 and SL compiles all ESA transmission programme tables.

Eurostat enquired if anything has changed for the role of the BoL. The Lithuanian statistical authorities recalled that BoL, not being directly involved in EDP is nevertheless an important data provider. The cooperation between the NSI and the BoL is defined by the agreement on the provision of statistical information¹. This agreement, dated December 2009, has been signed by the Director General of Statistics Lithuania and the Governor of the Bank of Lithuania.

The representatives of both institutions, the MoF and the BoL, are members of the *Interinstitutional National Accounts Expert group (INAE)*.

¹ The Agreement has been provided to Eurostat during the EDP dialogue visit.

Findings and conclusions

Eurostat thanked the Lithuanian statistical authorities for the documentation provided prior to the meeting and the cooperation, openness and transparency demonstrated during the meeting.

1. The Lithuanian statistical authorities clarified to Eurostat the institutional set up for EDP in Lithuania, specifying the respective roles of Statistics Lithuania (SL), the Ministry of Finance (MOF) and the Bank of Lithuania (BoL).

1.2. Data sources, EDP inventory

Introduction

The data sources used for the main sub-sectors, as described in the new EDP inventory, were discussed.

Discussion and methodological analysis

Eurostat thanked SL for participating in the pilot exercise, and for completing in full the updated version of EDP inventory. It has been agreed during the meeting that the Lithuanian authorities will clarify the areas identified during the discussion.

Public sector accounting standards reform

The Lithuanian statistical authorities explained that the financial statements for the year 2010 following the new accrual accounting standards were received by the MoF in 2011. The MoF is preparing the first balance sheet of general government and for the subsectors. Up to now, there were no balance sheets available. The Lithuanian statistical authorities informed Eurostat that 99% of central government bodies provided their financial statements, whereas the response rate (88%) was lower for local government (LG) units. The NSI has access to this data. The Lithuanian statistical authorities explained that data for 2010 could not be considered as reliable, that this was the first exercise and a lot of clarifications are to be undertaken.

Eurostat enquired whether the data from the PSAFRS will be used in the EDP tables and whether the working balance in EDP table 2A and other EDP tables will be changed. The Lithuanian statistical authorities explained that the first consolidated financial statement will be adopted in 2013 for the year 2012. In the meanwhile, nothing will change for the EDP reporting, as the cash system will be kept in parallel. Data for the year 2011 will become available in the end of May 2012. Eurostat thought that 2011 data is to be analysed and compared with the 2010 data, as well as with currently used cash data. The Lithuanian statistical authorities were invited to inform Eurostat on the quality and reliability of the accrual data. The Lithuanian statistical authorities informed Eurostat that they intend to use information on shares and on other accounts receivable/payable. Eurostat proposed that the data acquired through the new IPSAS based accounting system is to be crosschecked with Money and Banking statistics. Eurostat asked Lithuanian statistical authorities to inform in advance on any changes regarding the use of new data sources for EDP tables and national accounts.

The Lithuanian statistical authorities indicated that MoF is currently working on the bridge table, on how the data available in the new accounting system could be transposed into ESA

categories. Eurostat stressed that from the experience in the other Member States, it is clear that the standard categories of Profit and Loss account are not detailed enough and further details/splits on revenue and expenditure are essential in order to compile reliable statistics. The Lithuanian statistical authorities were invited to conduct a pilot exercise, to compile financial, nonfinancial accounts and EDP tables 2 and 3 for particular units using data from the new accounting system.

Revision policy

Eurostat took note that, currently, the source data for the State is budgetary data on current and capital revenue and expenditure and financial transactions. The final data for year $n-1$ is available in $t+8$ months. The balance sheet of the State is not available, but it is expected to be available in 2013 for the year 2012, as explained above in the part on *Public sector accounting standards reform*.

Eurostat noted, that when it comes to the revision of the deficit, the data for year $n-2$ is revised in April of the year n and this revision is more sizable than revision from April to October $n-1$. Eurostat asked about the reasons for data not availability in October $n-1$. The Lithuanian statistical authorities explained that this pattern is valid for two main items: "*accrual on current expense*" and "*direct payments related to year n , which will be made in $n+1$* ".

The Lithuanian statistical authorities explained further that the latter refers to compensations paid to farmers. A farmer has a right to receive direct payment on the basis of the square meters of his plot and the type of activity. But it is not automatic and each farmer has to address the Ministry of Agriculture and claim the payment. There are cases when farmers are claiming for compensation two years later. According to the NA, the payment is to be recorded when the activity took place, thus in case the payment has been made in 2012 but it refers to activities of the year 2010, Statistics Lithuania revise 2010 data. The data is received from the Ministry of Agriculture and final amounts for the year 2010 are known only in March 2012.

In addition, the Lithuanian statistical authorities draw Eurostat's attention to the fact that this problem will probably not be solved after full implementation of the new public sector accounting standards. Following the above example under the new IPSAS based accounting system, the Ministry of Agriculture will not show these amounts under the year 2010 (as at that time it was not known that the farmer will claim) and revision of data is excluded in business accounting. Instead these amounts will appear in the following years. Eurostat took note of this explanation and suggested that further analysis is to be undertaken on what data could be taken directly from the financial statements under *PSAS* and on what transactions complementary data sources are to be used. In addition, Eurostat suggested that this issue of data non-availability could be discussed with the Ministry of Agriculture.

Consolidation

The Lithuanian EDP inventory provides a list of other central government bodies (classified in S.1311, but not belonging to the main unit) which are holding CG debt. This debt is consolidated. Eurostat enquired about the nature of the two mentioned entities; Crop insurance fund and Environmental Protection investment fund, as these two entities apparently are not included under other central government bodies. Eurostat also asked why the holdings of central government debt are consolidated. The Lithuanian statistical authorities explained that some financial institutions (S.12) have so called functional resources that are kept in Treasury accounts. The amounts are not significant and are recorded under F.2 in EDP table 3B. Some of the cash is invested in government securities. These government securities belong to government and are recorded on balance sheet of the State. For compilation of government debt, they are consolidated. Eurostat thought that this issue has to be clarified further, in case the Treasury is managing resources belonging to entities classified outside general government, no consolidation should be done. The Lithuanian statistical authorities were invited to provide a note on this issue.

Findings and conclusions

2. Eurostat took note of the intention of the Lithuanian statistical authorities to use, in the future, direct accrual and integrated data sources based on IPSAS, for a number of EDP aggregates. Eurostat asked the Lithuanian statistical authorities to be informed in advance of when and how these data sources will be used for EDP tables and national accounts compilation and to receive an interim report on the quality of this information based on actual results for the years 2010 and 2011. SL should also compare data obtained from money and banking statistics with data gathered from the new accounting system. *Deadline: before April 2013, interim report October 2012.*
3. The Lithuanian statistical authorities will establish bridge tables between the new IPSAS based accounting system to be put in place, and national accounts ESA aggregates. In this respect, a pilot exercise is to be conducted (compilation of EDP tables 2 and 3 as well as non-financial and financial accounts for particular unit/units). *Deadline: before April 2013, interim report by October 2012.*
4. The Lithuanian statistical authorities will inform Eurostat on cases of some securities held and managed by the Treasury which are owned by public entities classified outside general government, and which are not considered as government debt, detailing the amounts for the years 2007-2011 with a view of including them in the future as government debt. *Deadline: before the April 2012 EDP notification².*
5. Eurostat expressed its concern on the fact that, as stated by the Lithuanian statistical authorities, the introduction of the new IPSAS based accounting system is most likely going to result in timing differences in the recording of some revenues and/or expenditures compared to ESA. Eurostat informed the Lithuanian statistical authorities that this would not be acceptable and invited the Ministry of Finance and Statistics Lithuania to meet urgently in order to include these as

² The note was provided to Eurostat on 16.03.2012

adjustments in the pilot bridge table referred in paragraph 3 above. *Deadline: October 2012.*

2. Follow-up of the October 2011 EDP reporting – analysis of EDP tables

Introduction

During the EDP dialogue visit, the EDP notification tables from the October 2011 notification were analysed.

Discussion and methodological analysis

EDP table 2A

Eurostat asked to clarify to what refer the item "*property transfer to Turto bankas for renewal*" included under Non-financial transactions not included in the working balance.

The Lithuanian statistical authorities explained that during several years, state owned land plots and real estate objects were transferred to the Joint stock company Turto Bankas (classified in S.1311). This transfer was recorded as a transaction in national accounts. The transferred property entered the balance sheet of Turto bankas, and a counterpart liability was recorded. For the State the transferred asset disappear from the balance sheet and other account receivable is recorded. The Lithuanian statistical authorities explained that this process is slowing down and eventually will stop. Therefore, the amounts reported for 2010 and 2011 are small and there will be no figures reported in EDP table 2A for the future.

The Lithuanian statistical authorities informed Eurostat about a one-off operation – compensation of immovable property of Jewish religious communities. A compensation of 128 million Litas is to be paid, as stipulated in the Law No. XI-1470 of 21 June 2011. In 2012 only 3 million will be paid in cash, the remaining amount will be repaid within the period 2013-2023. Eurostat and the Lithuanian statistical authorities agreed that following the accrual principle, the full amount of 128 million will be booked as government expenditure in 2011, the year when the government liability arises. Cash repayments by government over the years will be treated as financial transactions.

Prior to the meeting, the Lithuanian statistical authorities provided to Eurostat table of 2010 net lending /net borrowing and details on revenue and expenditure of other central government bodies (OCGB), unit by unit. Furthermore, details on consolidation inside OCGB and consolidation with the State were included in the table. Eurostat noted that B.9 calculated from financial and non-financial side are exactly the same for all the individual units. The Lithuanian statistical authorities explained that currently, data from cash flow statement is used for compilation of non-financial as well as financial accounts of the extra-budgetary funds, and balance sheets and profit and loss accounts are available and used only for Lithuanian Radio and television, Property bank and Property fund. The Lithuanian statistical authorities confirmed that all extra-budgetary funds will produce financial statements according to PSAFRS. Eurostat invited the Lithuanian statistical authorities for the future to double check cash figures with the changes in balance sheets.

Hospitals

The issue of the availability and reliability of the B.9 of public hospitals has been already discussed with the Lithuanian authorities in the previous EDP dialogue visit. Up to now, SL were operating under the assumption that hospitals, being non-profit seeking, have zero B.9. Eurostat's view was that despite the legal status in reality there could be deficit or surplus.

Data on hospitals' revenue and expenditure has been collected by SL in a quarterly survey. The sample survey did not cover all categories of revenue and expenditure (it did not include data on investments). As the implementation of the PASFRS reform was approaching, the Lithuanian statistical authorities were invited to analyse the financial statements compiled by hospitals following the new PASFR standards. In 2011, all public hospitals compiled the financial statements for the year 2010 using the new accounting standards. SL analysed the figures, made the estimation of the B.9 from the financial side, as non-financial data was considered less reliable. The analysis showed positive B.9 for hospitals.

The Lithuanian statistical authorities explained that financial statements on the basis of PSAFRS do not cover the data for the year 2009. The previously conducted analysis of the financial statements on the basis of the old accounting system for the year 2009 (and 2008) did not cover all public hospitals. The problem is that the data available for 2010, and the data available for 2009, are not really comparable. SL informed Eurostat that, in 2012, the financial statements of hospitals for the year 2011 will be provided. This implies that then the comparable data for all units will become available.

Eurostat said that counterpart information should be used to cross-check reliability of data reported by hospitals. Eurostat asked whether the figures for other accounts receivable as reported by hospitals were cross-checked with payables, as reported in financial statements of the Health insurance fund, and if not, asked SL to do this. The Lithuanian statistical authorities agreed that this aspect is to be taken into account. The counterpart information from the Health insurance fund is also to be cross-checked, especially for payments for services and transfers.

Also SL informed Eurostat that data from hospital cash flow statements were not used. Eurostat said that all available data is to be used in order to get the true picture and arrive at satisfactory results. Eurostat invited SL to analyse cash flow statements of a few hospitals in order to crosscheck non-financial and financial transactions and reconcile B.9 with B.9f.

While analysing the standard form of Statement of operational performance, Eurostat noted that so called funding income of hospitals is coming from state or municipal budgets, and also from the EU and other sources. Different ESA codes (D.73, D.74 or D.75) were assigned according to the source of income. Eurostat thought, that as a first step, the Ministry of Health as coordinating institution is to be contacted so that to further understand the nature of "funding income" provided to hospitals. Eurostat thought that the counterpart information within the state budget is to be cross-checked for investment grants in hospitals and other types of grants/transfers. The Lithuanian statistical authorities will check whether, and how, capital and/or current expenditures financed from grants received from the State budget and other organizations have been reflected in the accounts of hospitals.

Eurostat asked for the issue of treatment of the EU funds to be given special attention. The Lithuanian statistical authorities will analyse in detail the accounts of a few hospitals to see how, and if, they record expenditure on amounts received from the EU.

Eurostat noted that the issue has to be solved and in case statistical authorities conclude that the information available in the new PSAFRS system is not really usable for compilation of the B.9 of public hospitals, another solution should be found, i.e. introduction of a new statistical survey.

EDP table 3B1 and reconciliation of cash and B.9

Eurostat noted that following the practice of some other Member States, it would be very useful to have EDP table 3B1 compiled for the State budget. This would allow analysing the link between the data on financial transactions, and other adjustments reported in EDP table 2A.

As it seems that details on financial transactions of OCGB are easily available, Eurostat thought that this exercise would be rather straightforward for the Lithuanian authorities.

Eurostat also invited Statistics Lithuania to undertake an exercise of reconciliation between F.2 (cash as reported in EDP table 3B1) and B.9 of the main unit the State (for the year 2010).

EDP table 2C

Current expenditure arrears

Eurostat asked what is included in the figures of current expenditure arrears. The Lithuanian statistical authorities explained that this item includes all overdue payments. Eurostat thought that the title of the adjustment line in EDP table 2C could be a bit misleading, as in some cases arrears might be associated with payables, that remained unpaid for example 90 days.

The Lithuanian statistical authorities confirmed that 175 million Litas reported for the year 2009 refers to flows and not stocks. During the meeting the data on stocks of current expenditure payables, was provided to Eurostat.

Other accounts receivable

Eurostat asked why "L" – not available is reported for other accounts receivable. The Lithuanian statistical authorities informed Eurostat that currently available stocks of local government receivables are negligible. Eurostat inquired whether some data is expected to become available in the financial statements under the new PSARS. The Lithuanian statistical authorities explained that information for advance payments will be available and thus used in EDP calculation.

B.9 of other local government bodies

Eurostat took note that, in local government subsectors, there are no "other local government bodies" with the exception of public hospitals. It has been agreed that for transparency reasons, the net borrowing\ net lending of hospitals will be shown in a separate line the EDP questionnaire table 3, to make explicit their zero B.9 at present.

Findings and conclusions

6. As far as the compensation for the immovable property of the Jewish Communities is concerned, Eurostat and SL agreed that the total amount to be paid, of 128 million LTL, will have to be reported, according to the accrual principle, as government expenditure in 2011, although actual disbursements will take place between 2012 and 2023. *Deadline: before the April 2012 EDP notification*³.
7. The Lithuanian statistical authorities will further analyze the issue of the surpluses reported by hospitals, analyzing and reconciling counterpart information, in particular for:
 - The state budget for investment grants in hospitals and EU funds and other types of grants/transfers.
 - The Health insurance fund, especially for payments for services and transfers and F.7 receivables/payables.
 - The Ministry of Health, in order to further understand the nature of D.73, D.74 and D.75 provided to hospitals.
 - Cash flow statements of a few hospitals in order to crosscheck non-financial and financial transactions and reconcile B.9 with B.9f.
 - The accounts of a few hospitals to see how and if they record expenditure on amounts received from the EU.

The Lithuanian statistical authorities will check whether and how capital and/or current expenditures financed from grants received from the State budget and other organizations have been reflected in the accounts of hospitals. *Deadline: before October 2012.*

8. Statistics Lithuania will compile table 3B1 for the State budget and the table on reconciliation between F.2 and B.9 at the State level (for the year 2010). *Deadline: before October 2012.*
9. Statistics Lithuania will report, in EDP questionnaire table 3, the net borrowing\ net lending of hospitals in a separate line, to make explicit their zero B.9 at present. *Deadline: before the April 2012 EDP notification*⁴

³ Implemented in the April 2012 EDP notification

⁴ Implemented in the April 2012 EDP notification

3. Methodological issues and recording of specific government transactions

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

Introduction

Eurostat enquired about the recent changes in sectorization.

Discussion and methodological analysis

Eurostat asked whether SL intends to participate in the pilot project for the questionnaire on public corporations. The NSI confirmed that they will fill in the *Questionnaire on public corporation data* as requested by end of March 2012. The input information for the Questionnaire will be available from the *Structural Business Statistics Survey*.

As a follow up from the previous EDP dialogue visit (November 2010), the Lithuanian statistical authorities identified several cases that are possibly pending sector reclassification. During the meeting, Eurostat enquired whether anything has changed after testing for 50% rule on the 2010 results. The Lithuanian statistical authorities informed Eurostat, that since the last EDP dialogue visit, one entity - Energy agency, was reclassified inside general government. The impact on government accounts was negligible. This entity is included in the working balance in EDP table 2A.

The sector classification of JSC Visagino nuclear power plant (UAB Visagino atomine elektrine) and State enterprise Ignalina nuclear power plant (VI Ignalinos atomine elektrine) was discussed. The latter is nuclear power plant that is undergoing decommissioning; the company does not fulfil the 50% test in 2009 and 2010. The Lithuanian statistical authorities thought that it is too early to reclassify the Visagino nuclear power plant (NPP) and explained that the company will be reorganised into nuclear storage manager, thus the cost/revenue ratio is expected to improve.

As regards JSC Visagino NPP, the Lithuanian statistical authorities explained that this company has been created in 2009 only, it is not operational yet, and therefore it is normal to see very low result for 50% test in 2010. According to the Lithuanian authorities, once this company becomes operational, it is expected to receive profits.

One municipal company – *Vilniaus miesto bustas* (social housing), has been recently reorganised, so the Lithuanian statistical authorities will decide on the sector classification on the basis of the results of the new entity.

Eurostat thought that in all three above cases, the Statistical office should analyse Business plans and base their decisions on the sectorisation on these plans. Currently, no business plans were available to statisticians but some information seemed to be available at the MoF. Eurostat invited the MoF to act as intermediary in arranging for the business plans to be provided to the Statistical office. In case the Business plans show that the companies will restart to abide with the 50% rule, there is no need to reclassify. In the absence of business plans, the units will be reclassified in general government.

On the basis of the costs/sales ratio, Kaunas airport has been lower than 50% for the last three years; Eurostat invited the Lithuanian statistical authorities to reclassify the entity inside the general government sector.

Findings and conclusions

10. Eurostat welcomes that Statistics Lithuania will participate in the pilot exercise in respect to the public corporations questionnaire. On sectorization, Eurostat pointed out that there were some companies that did not comply with the 50% criterion in recent years. In this context, Statistics Lithuania will send to Eurostat a note explaining why the following companies – VĮ Ignalinos atominė elektrinė, UAB Visagino atominė elektrinė, SĮ Vilniaus miesto būstas– should not be reclassified in general government, jointly with Business plans which will show when it is foreseen that the companies will restart to abide with the 50% rule. The Ministry of Finance will arrange for Business plans to be provided to the Statistical office. In the absence of business plans the units will be reclassified in general government. *Deadline: before the October 2012 EDP notification.*
11. The State enterprise Kaunas airport (*Kauno orouostas*) will be immediately reclassified into General Government. *Deadline: before the October 2012 EDP notification.*

Algorithm on sectorization

Introduction

Some aspects of the Algorithm for sectorisation were discussed with the Lithuanian authorities.

Discussion and methodological analysis

The Lithuanian statistical authorities confirmed that, as a general rule, new entities with the legal status of State enterprise and Municipal enterprise at the first stage are allocated in the non-financial corporation sector. In the second stage, the 50% tests is applied, and if there is a need, the company could be reclassified. Eurostat enquired on the length of the time lag between these two steps. The NSI explained that the 50% test is done after one year, then the NSI waits and after comparing the 50% test results for the three years, the reclassification decision is taken. Eurostat stressed that this is not best practice for the classification of new units. For the new public entity, the expected profitability trend and perspective should be also taken into account. Business plans are to be analyzed, but in case there is evidence that a company will be profitable, there is no need to reclassify.

Eurostat noted that for some legal forms, including joint stock companies (AB and UAB), only sectors S.11 and S.12 are assigned by SL in the algorithm, and presumably this means such companies could not be classified into general government. The Lithuanian statistical authorities informed that companies having legal forms of Joint Stock Company by definition are profit seeking entities and the decision on their inclusion into general government is taken exclusively by the institutional sectorisation group.

Eurostat enquired what kind of entities fall into the category Municipal budgetary institutions (item 68 in the sectorization algorithm), in what activities they are involved. Eurostat noted that according to the algorithm there is an option foreseen, that Municipal budgetary institutions could be involved in financial intermediation and thus be classified in sector S.12. The Lithuanian statistical authorities agreed to analyze whether there are such cases and inform Eurostat of their findings.

Findings and conclusions

12. Eurostat recalled that when new public companies are created, they should not simply be classified by default in S.11. In order to decide on the sector classification, information should be sought on the future prospects of those companies and on whether they will undertake any activities on behalf of government. Statistics Lithuania will provide to Eurostat a note on this issue which will analyze the present situation. *Deadline: October 2012.*
13. The Lithuanian statistical authorities will provide information to Eurostat on the nature of units having a Municipal budgetary institutions legal form, on their activity and on their classification in national accounts. *Deadline: October 2012.*

Practical aspects of sectorization

Eurostat enquired about the general practice in cases where public companies are entering or undergoing bankruptcy procedure, whether government claims against this company are cancelled and whether government is assuming debt of a particular public company. The Lithuanian statistical authorities agreed to analyze this issue and inform Eurostat on their findings.

In relation to practical application of the so called 50% test, Eurostat asked whether the consumption of fixed capital (CFC) is taken into consideration. Statistics Lithuania answered that currently depreciation from business accounting is used as a proxy. Eurostat noted that usually depreciation is calculated on historical stocks. Therefore, for companies holding huge amounts of non-financial assets, the consumption of fixed capital this is not really equal to depreciation. The Lithuanian statistical authorities clarified that the data on consumption of fixed capital on enterprise by enterprise basis, is not available. The CFC is measured at the level of the institutional sector, but not at the individual level of statistical units. Eurostat stressed that further reflection is needed on this issue. Eurostat encouraged Statistics Lithuania to conduct an exercise – to select a few companies having considerable amounts of non-financial assets and to analyze whether the depreciation as recorded in business accounts could be considered to be a proxy for CFC, which is to be based on replacement costs (not on historical costs) of non-financial assets. Especially big companies being close to 50% could

be looked into. The Lithuanian statistical authorities were invited to inform Eurostat on the outcome of this exercise.

Eurostat asked the Lithuanian authorities to analyze and report on the results the existence of cases of public companies using assets which possibly, for legal reasons, are not included in their balance sheets and for which therefore the cost of depreciation of the assets is not included among costs in the 50% test.

Findings and conclusions

14. Statistics Lithuania will send a note to Eurostat explaining what happens, from an accounting point of view, when a public corporation enters into bankruptcy procedure, which can last for many years. In particular, some clarification is needed on how outstanding liabilities of the company and possible claims from government are treated. *Deadline: before the April 2012 EDP notification*⁵
15. Statistics Lithuania will report to Eurostat on whether there are cases of public companies using assets which possibly, for legal reasons, are not included in their balance sheets and for which therefore the cost of depreciation of the assets is not included among costs in the 50% test. Statistics Lithuania will also analyze the possibility in the 50% test to use consumption of fixed capital instead of depreciation at least for those public corporations which have considerable amounts of non financial assets. *Deadline: October 2012.*

3.2. Implementation of accrual principle

3.2.1. Taxes and social contributions

Introduction

The Recording of social contributions was briefly discussed under this point

Discussion and methodological analysis

Eurostat took note that, since the 2010 EDP dialogue visit, nothing has changed in the method of recording of taxes and social contributions.

Eurostat noted that a coefficient is used to record social contributions. As the experience of Member States using coefficients has shown, it is not always easy to establish reliable coefficients. The Lithuanian statistical authorities were invited to test the reliability of the coefficient by comparing long time series of accrual revenue and cash receipts. The Lithuanian statistical authorities informed Eurostat, that the coefficient for social contributions was introduced back in 1997. Nevertheless the data for the early years may not be really available. The Lithuanian statistical authorities agreed to provide the requested data starting from 2000, as it is readily available.

⁵ A note was sent to Eurostat on 16.03.2012

Findings and conclusions

16. Statistics Lithuania will provide figures in relation to social contributions, including both accrual and cash figures, starting from 2000. *Deadline: before the April 2012 EDP notification.*⁶

3.2.2. Calculation of accrual interest

Introduction

The data sources for accrual interest for the local government subsector were discussed.

Discussion and methodological analysis

Eurostat noted that, after the 2010 EDP dialogue visit, since the April 2011 EDP notification, accrued interest is reported in EDP table 2C for the years 2009 and 2010. The Lithuanian statistical authorities explained that due to the fact that the direct information on local government interest payable is not available the estimation of accrued interest is done. Annual interest rates on loans to non-financial corporations, as published by the Central bank, are adjusted and then applied on outstanding amounts of local government loans. The information on stocks of loans is available at the State Treasury department (MoF) and the BoL. Eurostat considered this method feasible, and invited the Lithuanian statistical authorities to apply it for the past years as well. Statistics Lithuania foresaw including accrued interest for local government for the year 2008 in the forthcoming EDP notification⁷.

Findings and conclusions

Eurostat took note of this information.

3.3 Recording of specific government transactions

3.3.1. Government interventions into Bank Snoras

Introduction

Government interventions in relation to the bank Snoras were discussed under this point.

Discussion and methodological analysis

The Lithuanian statistical authorities recalled the chronology of events. The bank of Lithuania restricted Snoras bank activities on 16 November 2011, on the basis of allegations of fraud and falsification of financial statements. Consequently government nationalized bank Snoras. Currently, the bank is undergoing bankruptcy procedure and the banking licence has been revoked.

⁶ The information has been send to Eurostat on 16.03.2012

⁷ Implemented in the April 2012 EDP notification.

The deposits held in the bank by legal entities and natural persons up to 345 280 LTL (EUR 100,000) were insured by the State Company “*Deposit and Investment Insurance*”. This entity is classified in S.124 and is funded by the insurance contributions of banks, branches and credit unions. Up to date, the fund has accumulated assets of 1.6 billion LTL, which were invested in government and other securities. The total estimated compensations to be paid amounted to 3.26 billion LTL, thus this liability was exceeding the accumulated assets in the Fund. The *Deposit and Investment Insurance* decided not to sell all the assets immediately, but opt for gradual process in order not to incur losses. An interest free loan up to 3.26 billion LTL has been granted from the State to the company “*Deposit and Investment Insurance*” for the period of 6 years.

The loan will be repaid partially by funds collected via gradual selling of securities and partially by funds that will be recovered from the bank Snoras. Eurostat enquired whether any amounts from Snoras are recoverable as the bank was insolvent. The Lithuanian statistical authorities answered that an independent valuation has identified assets of a value of 4.3 billion LTL, which is above the insured deposits. The Lithuanian statistical authorities further explained that Bank Snoras owned around 30 entities and it also owned another bank which is still fully operational. *The Deposit and Investment Insurance* is second in Snoras creditors line (after the employees) thus the amounts in question seem to be recoverable. The *Deposit and Investment Insurance* will be receiving money in parts without waiting for the bulk amount. The value of Snoras assets will be assessed regularly in the future. There is also an intention to do the valuation when assets are about to be sold. Eurostat thought that this information, once available, should be immediately shared with the NSI, as it might have implications for government accounts.

Eurostat noted that if the consequent valuation will identify that Snoras assets will not be enough to cover the loan of *The Deposit and Investment Insurance*, the appropriate amount of loss for government should be reflected in government accounts.

Eurostat asked about the companies that were owned by the bank Snoras. As Government became their shareholder, for public corporations the 50% test has to be applied. The Lithuanian statistical authorities agreed, but added that it is not likely that any of those companies is to be reclassified, as, as far as it is known they are operating normally, and there are no indications of any problems. So far there have been no transactions at all between government and the companies, former owned by the bank. Eurostat stressed that any future transactions between government and companies, that were previously owned by Snoras, have to be monitored. Among others, this could involve guarantees and special clauses included in privatisation contracts and allowing government to get share of a profit from the future resale.

Findings and conclusions

17. Eurostat invited the MoF and the Bank of Lithuania to conduct a regular assessment of any possible loss for government in the context of the bankruptcy of Snoras bank and to provide promptly and regularly this information to Statistics Lithuania (and Eurostat, if possible), in order to analyze any possible implications for government in national accounts. *Deadline: continuously.*

18. The Lithuanian statistical authorities will closely monitor, in the context of the nationalization of Snoras bank, any transaction occurring between government and the companies which used to be owned by Snoras bank, as well as any liability (be it implicit or explicit) incurred by government in this respect at present, or in the context of their future sale. *Deadline: continuously.*

3.3.2. Guarantees

Introduction

Data availability on local government guarantees was discussed under this point as well as some aspects of reporting in tables 9 of the Questionnaire relating to the notification tables.

Discussion and methodological analysis

Eurostat noted that stocks of government guarantees as reported in table 9.1 of the Questionnaire relating to the notification tables, refer not only to guarantees on borrowing but also to guarantees on students loans and mortgage loans. All new guarantees provided in 2010 refer to student loans. There were no calls on guarantees in 2011. Eurostat noted that for earlier years, when there were calls on guarantees, the stock of debt under call but not yet assumed, is to be reported in item 19 of the table 9.1 of the Questionnaire relating to the notification tables.

The Lithuanian statistical authorities informed Eurostat that, as regards local government guarantees, the MoF monitors stocks of guarantees issued by municipalities to municipal enterprises. The law on municipal budgets foresees that, municipal guarantees may not exceed 10 per cent of the municipal revenue as approved. Stock of guarantees by municipality is available on a quarterly basis. At the end of 2010, stock of municipal guarantees was 110.5 million Litass and on the 1st of October 2011 – 122.6 million Litass. Eurostat welcomed progress on this issue and encouraged further efforts in order to gather information on flows relating to local government guarantees. Eurostat thought that the stocks of local government guarantees should be included in table 9.1.

Findings and conclusions

19. Table 9.1 of the Questionnaire relating to the notification tables will be amended to include the stock of debt under repeated calls. The stock of guarantees provided by local government will also be included in the table. *Deadline: before the April 2012 EDP notification*⁸.

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

Introduction

Prior to the EDP dialogue visit the Lithuanian statistical authorities provided a list of debt cancellations for the years 2008-2010. A detailed list of government claims by company was also provided to Eurostat.

⁸ Implemented in the April 2012 EDP notification.

Discussion and methodological analysis

Eurostat took note that on the level of central government, there was no debt cancellation in 2009. As regards the year 2011, zero is reported in the provided tables, whereas 98 million were forecasted in EDP table 2A in the October 2011 notification. The Lithuanian statistical authorities explained that 2011 data was not finalized yet.

Eurostat noted that a debt assumption of 1 million LTL was reported in EDP table 2C for the year 2010 and enquired about data availability on debt cancellations, debt assumptions on local government level. The Lithuanian statistical authorities answered that at the moment no detailed and systematic data for local government sub-sector is available, nevertheless they do not expect to see big amounts under these categories. The Lithuanian statistical authorities agreed that this issue should be investigated further and explained that they intend to analyze whether some data could be extracted from the new accounting system (PSAFRS). In case this would not be possible, the Lithuanian statistical authorities (the MoF together with the NSI) will consider launching a survey.

On government claims, Eurostat noted that there are still differences between the figures as reported in Questionnaire table 8.1 and loans granted/loans repayments as reported in EDP table 3B. The Lithuanian statistical authorities explained that short term loans to municipalities are included in EDP table 3B whereas they are not reported in Questionnaire table 8.1. Statistics Lithuania agreed to reconcile the figures for the April 2012 EDP notification.

Findings and conclusions

20. The Lithuanian statistical authorities will provide to Eurostat a note explaining what are the short term and the medium term plans for gathering information on debt cancellations, debt write-offs and debt assumptions from municipalities. *Deadline: June 2012*⁹.
21. Statistics Lithuania will reconcile data on government claims as reported in table 8 of the Questionnaire relating to the notification tables and in EDP table 3B. *Deadline: before the April 2012 EDP notification*¹⁰.

3.3.4. Dividends, super dividends

Introduction

Prior to the EDP dialogue visit, the Lithuanian statistical authorities provided a list of dividends by company and the associated profits.

Discussion and methodological analysis

The Lithuanian statistical authorities confirmed that the so called super-dividend test is now performed on a yearly basis. On the basis of the provided information it was agreed that

⁹ A Note on this issue has been send to Eurostat on 28.06.2012

¹⁰ Implemented in the April 2012 EDP notification

dividends paid by the Bank of Lithuania in 2010, exceeded bank's operating profit, therefore the excess is to be recorded as withdrawal from equity.

Eurostat also invited the Lithuanian statistical authorities to report the dividends paid by the BoL in tables 10.1 and 10.2 of the Questionnaire relating to the notification tables.

The Lithuanian statistical authorities informed Eurostat that, starting from the year 2010, data on dividends paid to local government is available by company. The NSI uses data from the MoF and the State tax Inspectorate.

Findings and conclusions

22. The Lithuanian statistical authorities will revise the 2010 data for the BoL super-dividends. *Deadline: before the April 2012 EDP notification*¹¹.

3.3.5. Privatisation

Introduction

Detailed lists of privatisation – sale of shares and sale of real estate – were provided by the Lithuanian statistical authorities.

Discussion and methodological analysis

Eurostat welcomed the detailed information received on the privatisations. Eurostat noted that data on sale of non-financial assets, as reported in EDP table 2C for the year 2010, was not fully consistent when compared with the reports of the privatisation fund. The Lithuanian statistical authorities clarified that in EDP table 2C, the realised privatisation receipts are shown, whereas the report of the Privatisation fund include contracted amounts.

Findings and conclusions

Eurostat took note of these explanations

3.3.6. Capital injections in public corporations

Introduction

The treatment of capital injections undertaken in 2010 was discussed. Eurostat enquired on the progress of data availability for capital injections undertaken by local government

Discussion and methodological analysis

Before the EDP dialogue visit, the Lithuanian statistical authorities provided a list of capital injections by company for the period 2007-2010. Eurostat asked about the nature of the equity injections into the JSC Lithuanian research centre (*UAB "Lietuvos tyrimų centras"*) and the Public entity Rehabilitation centre (*VšĮ "Valakupių reabilitacijos centras"*). The Lithuanian statistical authorities explained that The Research centre is a newly created company, and that the injection into the Rehabilitation centre was conducted with the aim to buy shares of some

¹¹ Implemented in the April 2012 EDP notification

other company. Eurostat recalled that for newly established companies, a capital injection could be recorded as equity injection only if there is a business plan showing that the company will be profitable. For the second case, this does not seem to be a classical capital injection as it is doubtful whether government is acting as a private investor. Eurostat thought that in both cases further analysis is to be undertaken by the Lithuanian statistical authorities. Only after taking into consideration business plans and prospects of these companies, the decision on the recording of capital injections, as equity injections, could be taken.

A capital injection of 4 million LTL into Lithuanian Central Credit Union undertaken in 2011 was discussed. The Lithuanian statistical authorities explained that government is buying shares of this credit union with the aim to sell them in a couple of years. The company is not having any financial difficulties, is expected to be profitable and dividends are foreseen for government. The Lithuanian statistical authorities intend to record this injection as acquisition of shares. Eurostat thought that more details on the financial position of this company should be provided and invited the Lithuanian statistical authorities to provide a note on this issue.

Eurostat also asked whether information on capital injections at the local government level is available. Equity acquisitions have been reported as zero in EDP table 3D for the whole reporting period. The Lithuanian statistical authorities explained that according to their knowledge, local government is not undertaking capital injections apart from those that are being done via government investment programmes (in most cases treated as D.92). Eurostat noted that as some disposals of equity are reported in the EDP table 3D, there could be some acquisitions as well. The Lithuanian statistical authorities agreed that this issue needs further investigation.

Findings and conclusions

23. Statistics Lithuania will reclassify capital injections undertaken in 2010 into *UAB "Lietuvos tyrimų centras"* and *VšĮ "Valakupių rehabilitacijos centras"*, as capital transfers, unless a business plan confirming the profitability of these two companies will be received by Statistics Lithuania before the April 2012 notification¹².
24. The Lithuanian statistical authorities will provide a note to Eurostat on the case of capital injections by government into the Central Credit Union. *Deadline: before the April 2012 EDP notification*¹³.
25. Statistics Lithuania will provide to Eurostat a note on capital injections at the level of local government. Such capital injections have always been reported as zero in the past EDP notifications. The note will indicate the source of information for capital injections at local government level, whether the source is reliable and whether the amounts are really zero, as well as if further work will be needed in order to capture this type of transactions. *Deadline: June 2012*¹⁴.

¹²Capital injections were reclassified as capital transfers in the April 2012 EDP notification, in line with the conclusion from the mission.

¹³ A note was provided on 16.03.2012

¹⁴ A note was provided on 28.06.2012

3.3.7. Public Private Partnerships

Introduction

Prior to the EDP dialogue visit the Lithuanian statistical authorities provided a description of the PPP project "Construction, maintenance and Administration Services of Vilnius city Balsiai school".

Discussion and methodological analysis

PPP project covers construction and maintenance of Vilnius Balsiai school. Construction phase is already over (2010-2011), the project will last up till 2035. The contractual capital value is 36.2 million LTL. The project is currently classified of government balance sheet, as the MoF considers that construction and availability risks are borne by the private party.

The Lithuanian statistical authorities explained that since the 1st of January 2010, *the Rules for drafting and implementation of Public Private Partnership projects are in force* (approved by Government resolution No 1480 dated 11 November 2009). These rules foresee that the *"impact on distribution of risk on the indicators of the public sector deficit and debt shall be evaluated by the Ministry of Finance"*. On this basis, SL were not involved in the analysis, neither of this PPP project nor in the forthcoming projects.

Eurostat noted that, as the current analysis covers not all aspects foreseen in the MGDD, Part VI.5 *Public-Private Partnerships*, the *Risks allocation matrix* is not very useful from a statistical point of view. Therefore, the PPP analysis has to be updated and provided to Eurostat together with the opinion of the NSI. Eurostat emphasized the importance of a close cooperation between the national statistical authorities and suggested that Statistics Lithuania should in the future always receive the contracts, in order to provide its analysis on the PPP projects.

Findings and conclusions

26. The Ministry of Finance will provide to Statistics Lithuania and to Eurostat a copy of the contract on the PPP project concerning the construction, maintenance and administration services of the Vilnius city Balsiai School. Statistics Lithuania will provide to Eurostat a first assessment on the allocation of risks between the private and public sector with a view to agree with Eurostat on a final assessment of the project. *Deadline: before the April 2012 EDP notification.*¹⁵

¹⁵ Following the analysis undertaken by the SL, the PPP has been reclassified on government balance sheet in April 2012.

3.3.8. Others: sale and leaseback operations, securitisation, Swaps, Carbon trading rights

Introduction

Prior to the EDP dialogue visit, the Lithuanian statistical authorities provided notes on emission trading permits, the recording of swaps and UMTS.

Discussion and methodological analysis

Emission trading permits

During the period 2007-2010 only one sale of carbon allowances under the EU trading scheme occurred. Government received 114 thousand LTL. In 2011, 20.6 million Litass were received from sales of carbon allowances. In both cases the B.9 was not affected.

In 2011, the Lithuanian authorities sold Assigned amount Units under the Kyoto scheme (AAUs). Total proceeds of these sales were 206 million LTL and were treated in national accounts as government revenue. Therefore, in order to ensure homogeneous treatment of AAUs sales across Member States, Eurostat suggested analysing practices in the other countries and come back on this issue.

Derivatives

Prior to the EDP visit the Lithuanian statistical authorities provided a note on the use of derivatives also illustrating the recording in EDP table 2A.

Eurostat found the recording sound and did not raise any issues.

Other

The Lithuanian statistical authorities confirmed that there were no occurrences of securitisation operations or of sale and lease back operations.

Findings and conclusions

27. Eurostat will inform the Lithuanian statistical authorities on the recording of the carbon allowances under the Kyoto agreement sale which took place in 2011. *Deadline: before the April 2012 EDP notification*¹⁶

¹⁶ Issue clarified; Eurostat email of 14.03.2012

Annex I

List of participants

Name	Institution	
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Gailutė Juškienė	NSI	Head of National Accounts Division (NAD)
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Dalia Žygienė	MoF	Head of Finance Statistics Division (FSD)
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