



EUROPEAN COMMISSION
EUROSTAT

Directorate C: National and European Accounts
Unit C-3: Statistics for Excessive Deficit Procedure I



Luxembourg, 14 October 2011

EDP dialogue visit to Finland

25-26 January 2010

- Final FINDINGS -

Executive summary

Eurostat undertook an EDP dialogue visit to Finland on 25-26 January 2010 as part of its regular visits to Member States and with the aim to assess the existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to clarify the issues relating to EDP tables raised in the context of previous notifications, to examine the statistical classification of some units, to assess the statistical treatment of specific government operations and to assure that provisions from the ESA 1995 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the Finnish EDP notification tables and in national accounts.

First, Eurostat enquired about the **statistical capacity issues**, e.g. the institutional arrangements and division of responsibilities with respect to the reporting of data under EDP. EDP tables are officially reported to Eurostat by Statistics Finland. Statistics Finland compiles all EDP tables, except for the forecast data which are prepared by the Ministry of Finance (MoF). The Central Bank does not directly participate in the EDP compilation process. Eurostat took note of the existing institutional responsibilities of Statistics Finland, the Ministry of Finance and the Bank of Finland in the field of GFS, as well as of the good cooperation within the Group of National Accounts experts, together with research institutes and other researchers and encouraged the Finnish authorities to continue the good cooperation in the future.

Eurostat appreciated the quality and transparency of the **source data**, and took note of the coming revision of the bookkeeping reporting of the Employment pension schemes and invited the statistical authorities to update the EDP inventory with the inclusion of additional new source data.

As a **follow-up to the EDP dialogue visit of 29-30 November 2007**, Eurostat welcomed the fact that all the action points agreed had been completed. Two of the action points have been however discussed during the visit: the classification of YLE Ltd and FINNVERA Ltd.

SF explained once again that YLE Ltd (the national broadcasting company), is a public company, classified in non-financial corporations sector (S.11), mainly because most of the revenue come from television fees collected for each television set in use. The government, through the extra-budgetary Radio and TV fund collects the fees and transfers them to YLE Ltd, after deducting collection costs. The financing system for TV, radio, telephone, etc was being reformed and it would be possible that in the future a so called "media payment" could be introduced. Eurostat took note that the classification of YLE Ltd outside government is at present correct notwithstanding possible future legal developments in the payment of TV licences.

Eurostat and the Finnish statistical authorities discussed the case of Finnvera Ltd. This is a specialised financing company owned exclusively by the state. Finnvera borrows funds on the financial market, which are used for granting loans. The government bears some of the costs of the operations. Eurostat took note of the fact that Finnvera remains classified in the

financial corporations sector (S.12) and of its role in providing loans to small and medium sized enterprises, undertaken at least partly on behalf of the government.

As a **follow-up of the October 2009 EDP reporting** the discussions concentrated on the adjustments in the EDP tables in relation with the Questionnaire relating to EDP tables.

Given the fact that "other accounts payable" and "other accounts receivable" in EDP tables and in the Questionnaire relating to EDP notification are provided on a net basis (the amounts in table 2A are recorded as "receivable" and under "payable" zero is reported), Eurostat invited Statistics Finland to provide the details in all relevant EDP tables as well as in the corresponding Questionnaire relating to EDP (including on taxes, EU transfers and military expenditure, whenever this is applicable).

Concerning the local government sub-sector it was agreed that Statistics Finland will analyse the statistical discrepancies, which are systematically positive.

In connection with the loans provided by social security funds to enterprises, Eurostat and the Finnish statistical authorities agreed that further analysis was needed. The analysis concerns especially the type of collateral provided by the enterprises, the rate of interest of the loans as well as the likelihood that the loans are reimbursed by the enterprises.

Eurostat and the Finnish statistical authorities discussed possible improvements in EDP tables 3 for the local government (detail of shares and other equity) and social security funds (types of loans).

The discussions of methodological issues focussed mainly on the **delimitation of the government sector**, the recording of specific government transactions and the implementation of the accrual principle.

Eurostat enquired about the application of 50% criterion. Eurostat took note of the conventions applied by the statistical authorities for sector classification and discussed the classification outside the government of some entities such as: VR Ltd (responsible for passenger and cargo transport), VR-Track Ltd (responsible for track construction and maintenance) and Destia (former Finnish Road Enterprise).

Eurostat and Statistics Finland discussed also the transactions between the quasi-corporations and the state budget, in the form of annual distributions of profits. The discussion concentrated mostly on the relation between the central government and Senate Properties. Statistics Finland explained that the income received from Senate Properties is recorded in national accounts as interest (for loans originated from the establishment phase of the Senate Properties) rather than dividends (due to the state as shareholder). It has been agreed that the recording for Destia and Schipping enterprise, which seems to be done according to the same criteria, will be checked by Statistics Finland.

The sector classification of the Municipality financing (Kuntarahoitus), a public limited company, was discussed. Statistics Finland explained that the institution is registered in the MFI list of the ECB, as a credit institution. It gives loans to municipalities and companies, especially corporations providing dwelling services. Eurostat was doubtful about the fact that the entity acts on the free market, as the government seems being the exclusive client and/or the loans are guaranteed by the government and argued that the entity does not place itself at

risk on the market. Eurostat concluded that further analysis of the issue is needed, including an analysis of the operations undertaken by the entity.

Further discussions focussed on **specific government transactions**. On the transactions undertaken in the framework of the financial crisis, Eurostat agreed with Statistics Finland that the government's one-off guarantee in the year 2008 related to the commercial and credit risks on the assets of Kaupthing Ltd, is a contingent liability. SF confirmed that the government did not make any capital injections relating to the financial turmoil.

Eurostat and Statistics Finland discussed transactions on guarantees relating to student loans and Finnvera. It was agreed that Statistics Finland will try to improve the quality of data on guarantees given by municipalities and provide the information to Eurostat in the relevant table of the Questionnaire relating to EDP.

On the super dividend test concerning Helsingin Energia, Statistics Finland confirmed that the unit had an operational profit higher than the distribution to the municipality of Helsinki for the year 2008, so it was confirmed that the income received by the municipality of Helsinki was to be treated as a dividend for the entire amount.

Eurostat enquired about the Espoon Kaivomestari project as well as about new planned PPP contracts both for central and local government. It was agreed that Statistics Finland will continue investigating existing and planned PPP contracts, especially for local government, and report them in the relevant table of the Questionnaire relating to EDP notification tables.

Concerning financial derivatives, due to the fact that in Finland the social security funds are heavily involved in this kind of operations, the proper adjustments for streams of interest payments from swaps operations was discussed. It was agreed that Statistics Finland would send a note on the recording. The discussion on operations involving financial derivatives focussed also on the issue of possible collaterals provided by the central government in the form of bonds. Statistics Finland committed itself to check again all the corresponding accounts and inform Eurostat on the issue.

Eurostat and the Finnish statistical authorities reviewed the **implementation of the accrual principle** concerning taxes and social contributions and interest.

Eurostat took note of the explanation given by Statistics Finland that the time adjusted cash method used for taxes and social contributions is based on data from accrual financial statements. The impact of the amounts unlikely to be collected is at the moment where there is an actual insolvency case, which in Eurostat's opinion means a postponement of the recording, however according to Statistics Finland the postponement is for a short period.

Concerning the calculation of interest on an accrual basis, due to the fact that data for local government seems of less good quality, Eurostat enquired if, with the introduction of new data sources some improvement can be expected.

Other issues covered the ESA95 transmission programme, tables 2, 9, 11, 25, 27 and 28 for which no major problems were found.

It should be mentioned that all action points agreed during the EDP dialogue visit were implemented by the Finnish statistical authorities according to the agreed deadline. All action

points, except one, have been implemented for the April 2010 EDP notification. The only exception was the analysis of PPP projects for which the agreed deadline was October 2010 EDP notification.

FINAL FINDINGS

Introduction

According to 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 in Finland on 25-26 January 2010. The delegation of Eurostat was headed by Mr. Luca Ascoli, head of Unit C3. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) participated also in the meeting as observers. The Finnish statistical authorities were represented by Statistics Finland (SF), the Ministry of Finance (MOF) and the Bank of Finland (BoF).

The previous Eurostat mission to Finland took place on 29-30 November 2007.

The aim of this EDP dialogue visit was to assess the existing statistical capacity, to review institutional responsibilities in the field of government finance statistics (GFS) including EDP reporting, to analyse information on data sources provided in the EDP inventory, to clarify issues relating to EDP tables raised in the context of previous notifications, to clarify the sector classification of some units and to ensure that provisions from the ESA95 Manual on Government Deficit and Debt and recent Eurostat decisions are implemented and that specific government transactions are appropriately recorded in the Finnish EDP notification and in national accounts.

Eurostat very much appreciated the quality of information provided by the Finnish statistical authorities prior to the mission.

Eurostat thanked the Finnish statistical authorities for the transparent and comprehensive presentation of the issues during the discussions and congratulated them for the work done in the field of government finance statistics including EDP reporting.

1. Statistical capacity issues

1.1 Institutional responsibilities

Introduction

Eurostat enquired about new developments in the institutional arrangements and division of responsibilities between institutions in the framework of compilation and reporting of EDP tables. No changes occurred since the last EDP dialogue visit of 29-30 November 2007.

Discussion and methodological analysis

EDP tables are reported by Statistics Finland (SF). Actual data are compiled by SF, while the MoF compiles the planned deficit and debt data. Both institutions are the national authorities officially responsible for EDP reporting.

SF is responsible for compiling and reporting Government Finance Statistics (GFS) according to the ESA95 Transmission Programme (annual and quarterly tables on government non-financial and financial accounts as well as on quarterly government debt).

The Finnish statistical authorities confirmed that actual data reported in EDP tables are based on non-financial and financial accounts of general government compiled by SF. SF is also responsible for debt statistics. SF provides to the MOF the preliminary data for general government, before publishing them nationally. The MOF uses the most recent statistical data for preparing the forecasts. SF confirmed that the forecasts are not used to compile actual data for government.

The BoF is not involved in EDP tables and GFS compilation. However, SF provides regularly to the BoF national accounts for the general government sector as well as EDP tables, when they are sent to Eurostat. In addition, the BoF together with the MOF and researchers from four research institutes and universities participate in the Group of national accounts experts led by SF. The Group meets two to four times a year to discuss general national accounting methodology, including GFS and EDP issues (e.g recording of PPP projects, delimitation of government sector, etc). The GFS tables required by the ECB are compiled by SF and BoF, the latter compiling mostly financial statistics.

Eurostat was informed that from December 2010 onwards, the MUFA statistics will be compiled by the SF, instead of the BoF as is currently the case. The main reason is that it is considered more efficient to concentrate the complete and integrated compilation of the accounts (non-financial and financial, annual and quarterly data) in one institution. This action is part of a larger project of revision of the production of national accounts. In implementing this project, SF may face problems linked to the shortage of staff as there is no additional budget foreseen for new staff for these tasks. Therefore SF has to rely on increased productivity of the existing staff.

Findings and conclusions

(1) Eurostat took note of the existing institutional responsibilities of Statistics Finland, the Ministry of Finance and the Bank of Finland in the field of GFS, as well as of the good cooperation within the Group of National Accounts experts, together with research institutes and other researchers and encouraged the Finnish authorities to continue the good cooperation in the future.

(2) Eurostat took note of the future changes concerning MUFA quarterly financial accounts which will be transferred from Bank of Finland to Statistics Finland, without corresponding increase in Statistics Finland staff.

1.2 Data sources – EDP Inventory

Introduction

Eurostat published the consolidated version of the EDP inventory for Finland on its website in September 2007 and SF published it in October 2007. It provides a comprehensive description of data sources and methods used for EDP statistics.

Eurostat had requested, prior to the mission, an updated version of EDP Inventory. Due to limited time and resources, it was not possible to update the EDP inventory prior to the dialogue visit. However, it will be necessary to update the EDP inventory, due to some sector

delimitation issues. SF has foreseen a more comprehensive revision as planned by Eurostat in the new version of EDP Inventory¹.

Discussion and methodological analysis

a) Central government

The central government subsector in Finland consists of the state budget and the extrabudgetary funds.

The data sources for central government did not change since the last EDP dialogue visit and the last EDP notification, except for Solidium Ltd for which a statistical survey has been introduced.

(i) For the State budget the following information is available:

- The budget implementation statement which is publicly available on a monthly basis, covers detailed information on current and capital revenue and expenditure and financial transactions. It is on a mixed (cash/accrual/commitment) basis, and its balance is used as the working balance in EDP table 2A. However, this is not used as the primary data source for the compilation of ESA95 transactions.
- Financial book-keeping (income and expense account and balance sheet) is used for compilation of ESA95 accounts. Data is on an accrual basis except for revenue from taxes and expenditure relating to transfers.
- In addition, the State treasury debt reports are used to compile balance sheets items and financial transactions (F.3, F.4 liabilities).

The source data available for year n-1 are of a preliminary nature in April of year n.

(ii) For the extrabudgetary funds, financial statements (accrual basis) and the investment report of the State Pension Fund (cash basis) are used for the compilation of national accounts.

Concerning data on taxes, which are available on a cash basis, usually 60 days after the end of the month, for the April year n notification of deficit and debt, SF makes estimates. This is mainly due to the fact that data for VAT and other taxes on products is not final. However, final data of year n-1 for taxes on income is available in April year n. For the EDP notification of October, the revisions, in general, are not significant.

Eurostat enquired if forecasts are used for the compilation of taxes. SF confirmed that forecasts are only used for checking the plausibility of the calculations.

b) Local government

According to the information provided in the EDP inventory and confirmed during the mission, financial statements (profit and loss account and balance sheets) on an accrual basis are used for ESA95 accounts, except for year n-1.

SF confirmed that some estimations are needed for EDP and ESA95 data as the data sources for n-1 for the April EDP notification are not comprehensive. For n-1 April EDP notifications, statistical surveys are used for main units, providing information on a mixed

¹ Eurostat presented a proposal for a new structure of EDP Inventory at the FAWG of 7-9 June 2010.

basis (some elements are on a cash, others are on an accrual basis). For the government of Åland only annual data is available, however it concerns small amounts.

c) Social security funds

Social security sub-sector consists of two funds: Employment pension schemes (S.13141) and Other social security funds (S.13149).

According to the information in the EDP inventory, only main aggregates on revenue and expenditure are available for the year n-1 for the April EDP notification. In October, accrual financial statements (profit and loss account and balance sheets) are used for the year n-1. The data is revised between April and October, due to the different coverage of the expenditure and revenue, but the revisions in general are not important.

SF explained that Financial Supervisory Authority which supplies source data for employment pension schemes, will revise its data collection. SF will be involved in the revision process. It is expected that quarterly data will be available from 2011, probably also including property income data.

Findings and conclusions

(4) Eurostat took note of the plans of revising bookkeeping reporting concerning Employment pension schemes and expects that Statistics Finland will regularly inform Eurostat on the future progress.

(6) As far as data sources are concerned, Eurostat considers the general situation as good and transparent. However, the EDP inventory should be updated by Statistics Finland with the inclusion of additional data sources especially for central government sub-sector, e.g. the new survey used in the case of Solidium ltd. Deadline: April 2010 EDP notification.

2. Follow-up of the EDP dialogue visit of 29-30 November 2007

Introduction

SF provided all requested documentation according to the agreed time-schedule, as a follow up of the Eurostat EDP dialogue visit of November 2007.

Discussion and methodological analysis

Eurostat received all requested answers and information within the deadline. The follow-up of two actions (Action 9 relating to the classification of YLE Ltd and Action 13 relating to the classification of FINNVERA Ltd) was discussed in detail.

Classification of YLE Ltd

SF explained that the national broadcasting company, YLE Ltd, is a public TV and radio company, classified in the non-financial corporations sector. Most of the revenue of YLE Ltd comes from television fees collected for each television set in use. The payment is collected by the government through the extra-budgetary Radio and TV fund and transferred to YLE

Ltd. The collection costs are deducted from the income originating from television fees. Although during recent years YLE Ltd has made losses, these have significantly decreased.

SF stressed that ESA95 is not clear on case like this and the amounts involved are very small with almost no impact on the deficit and debt (in fact there would be no impact on the debt, because the only liabilities of YLE are “other accounts payable”, which do not enter the definition of Maastricht debt) of Finland and therefore SF did not consider appropriate to reclassify the entity in government sector. SF would prefer to reopen the issue in the context of the ESA95 revision.

Moreover, the financing system for TV, radio, telephone, etc was under revision and it would be possible that in the future a so called "media payment" could be introduced.

Classification of FINNVERA Ltd

SF explained that Finnvera Ltd is a specialised financing company established in 1999 and owned exclusively by the state. It operates under the auspices of the Ministry of Trade and Industry. Finnvera acts in two areas:

- export credit and special guarantees
- domestic financing : provide financing services to promote and develop business (particularly SMEs), to promote the exports and internationalisation of enterprises and to implement the government’s regional policy goals

Finnvera borrows funds on the financial market, which are then used for granting loans (about EUR 300 million per year). The government bears some of the costs of operations through interest support that is passed on to Finnvera’s clients and through compensation of some of Finnvera's credit and guarantee losses.

Eurostat enquired on the operating balance and debt of Finnvera for the years 2007 and 2008. SF provided the requested information during the mission. The debt of Finnvera slightly decreases during the period, but remained at around EUR 1 billion. Due to the financial crisis, Finnvera increased its borrowing in 2009 in accordance with the government policies. Since January 2009 a new arrangement is in force: the government borrows on the market and then transfers to Finnvera, which lends for export to enterprises.

Eurostat took note of the fact that Finnvera remained classified outside government (S.12) and of its role in providing loans to small and medium sized enterprises, undertaken at least partly on behalf of government. The issue of guarantees provided by Finnvera was further discussed under the Questionnaire relating to EDP, table 9 – Guarantees.

Russian debt

Eurostat had been informed in April 2008 about the recording of the repayment of the Russian debt which will impact two years: 2005 and 2006. The recording will be reconsidered in the context of a larger revision of time series at the end of January 2010.

Findings and conclusions

(3) Eurostat acknowledges that the explanations and additional information on all outstanding issues identified in its previous visit on 29-30 November 2007 had been provided by the Finnish statistical authorities according to the requested deadlines.

(5) Eurostat takes note that the classification of YLE (TV and Radio Company) outside government is at present correct notwithstanding possible future legal developments in the payment of TV licences.

3. Follow-up of the October 2009 EDP reporting

EDP tables 2A-D and 3A-E

Introduction

The EDP notification tables, the Questionnaire relating to EDP notification tables and the supplementary tables on the financial turmoil have been sent to Eurostat on 29 September 2009. Eurostat has sent two requests for clarification which SF has answered according to Eurostat deadlines.

Discussion and methodological analysis

Eurostat appreciated the fact that SF usually sends to Eurostat, together with EDP tables, notes explaining the revisions and other complementary information. Also, Eurostat appreciated the very good cooperation during the EDP assessment period and thanked SF for always providing clear and timely answers.

A. Revisions

Revisions and major events have been always documented by SF in the explanatory notes sent to Eurostat together with the EDP tables and in the Questionnaire relating to EDP tables.

Data on **deficit** notified in October compared with April 2009 was slightly revised for the year 2008 for the central government (S.1311) and the local government (S.1313) sub-sectors. For social security funds, the revision is more relevant. No revision has occurred for the previous years.

For central government, the net lending/net borrowing (EDP B.9) of 2008 and 2009 is impacted by the transfers to university units, which are created in the framework of Finnish university reform expected to be in force at the beginning of 2010. In the new system, all universities operate outside the state budget and will enjoy strong financial and operational autonomy. Despite the increased autonomy, SF has concluded preliminarily that the universities will be controlled (and mainly financed) by the government also after the reform.

For local government, the slight revision (106 mill. euro) of year 2008 data is due to the inclusion of investment expenditure, which is normally not included in the preliminary annual margins recorded in the income statement of municipalities and joint municipalities.

Eurostat took note that revisions always have "-" signs' due to the fact that in April of each year the data is does not have completely coverage.

For social security funds, the revision of 785 mill. euro relates to the increase in the amount of property income receivable, especially to reinvested earnings of mutual funds.

Eurostat took note that the preliminary figure in April is usually not very reliable, although, in the past, for previous years the estimated and preliminary figures were closer than for the year 2008.

Concerning possible further revisions of data for the year 2008 in the forthcoming EDP notifications, SF stressed that the reclassification of the State Pension Fund will result in the revision of both non-financial and financial accounts. This will also be due to the fact that the financial statements are only available in November every year.

Data on **gross debt** has been revised for the whole period, due to the reclassification of margin deposits received by the State from its swap contract counterparts. SF has investigated the operations and found out the existence of cash collaterals for swaps.

This issue was discussed under item 4.2.7 of the agenda.

B. EDP table 2A

Relating to the EDP table 2A the following main issues were discussed:

- a) Financial transactions considered in the working balance
- b) Transfers from extra-budgetary funds
- c) Other accounts receivable/payable F.7

a) Financial transactions considered in the working balance

Concerning equity acquisitions in Finnair and Sponda and equity sales of Kemira the Finnish statistical authorities confirmed that an analysis has been undertaken for the classification of the operations as financial transactions.

Eurostat has inquired about the existence of private investors, and SF confirmed that the state participated with about 50-60% of the total, the rest being other investors. Moreover, it was confirmed that Finnair has been profitable in 2007 and became loss making in 2008.

b) Transfers from extra-budgetary funds

At the occasion of October 2009 notification Eurostat had inquired on the transfers from extra-budgetary funds for the years 2006, 2007 and 2008. SF had explained that this evolution was influenced by the government policies concerning the transfers from the State Pension Fund to the budget (part of the income of the fund is invested and part is transferred to the budget).

During the discussions, it was underlined that the government may change the policy every year and that for 2006 and 2007 those transfers had been very small.

c) Other accounts receivable/payable F.7

EDP table 2A reports net amounts under other accounts receivable and report zero values under payables. According to the Finnish statistical authorities due to practical considerations, a split of net acquisition of F.7 into other accounts receivable and payable does not make much sense.

Eurostat stressed that the information on "other accounts receivable" and on "other accounts payable" is to be provided in EDP tables and in the Questionnaire relating to EDP tables, as the split is needed when analysing the evolution of these transactions. SF agreed to study if the data sources can be adapted in order to provide the requested split.

C. EDP table 2C

Eurostat enquired on one of the adjustment items in EDP table 2C: "*capital transfers (net), not included in the annual margin*" for 2005-2008. A positive adjustment of about 100 mill. is recorded every year. SF explained that the biggest part of these capital transfers receivable by local government has been paid by the central government and it is already included in the working balance in table 2A. Eurostat agreed with the recording as a positive adjustment item in table 2C.

Eurostat requested explanation on "*other local government bodies*" and the Finnish statistical authorities were invited to provide the information separately for Åland and for the Finnish Association of Municipalities, in addition to the detailed information by transactions, already transmitted.

Eurostat enquired on the systematic positive statistical discrepancies. SF mentioned that a revision might occur at the end of January 2010.

D. EDP tables 2D and 3E

The working balance in EDP table 2D relates to "other social security funds", S.13149. The net lending/net borrowing of "Employment pension schemes", S.13141 is shown in the line on adjustment for sector delimitation, including additional information on main revenue and expenditure (property income, actual social contributions, receivable, funded social benefits and other transfers).

Concerning "property income", during the October 2009 EDP clarification rounds, the large increase for 2008 (955 mill, about 27% increase) has been explained by the increase in interest revenue of the employment pension funds, due to the economic situation in 2008. The funds changed their investment portfolio towards interest bearing instruments (loans granted and debt securities). In this context, interest and dividends receivable remained at high level in 2008. This has been observed both in EDP table 2D and EDP table 3E.

Eurostat requested more information on the loans granted by the employment pension funds, the conditions of reimbursement of the loans as well as the level of interest. SF confirmed that the loans are granted to all enterprises paying contributions to the system, mostly SMEs (those enterprises whose funded employer's contributions exceed the minimum amount to be granted, which is 10000 euro). The maturity of the loans is between 1 and 10 years and the interest rate calculated is close to the market interest rate. SF also confirmed that the loans are not used by the beneficiaries to pay social contributions due, but to do their ongoing business under normal conditions. The lending of the funds carries low risk as the enterprises have to

provide collaterals to obtain the loans. Moreover, the general features of the scheme are such that capital injection test has not been considered to be relevant.

E. EDP tables 3

The following issues relating to EDP tables 3 have been discussed:

- a) Split of loans (F4) and shares and other equity (F5)
- b) Statistical discrepancies

a) Split of loans (F4) and shares and other equity (F5)

The Finnish statistical authorities report long-term loans (F.4) and shares and other equity (F.5) partly on a net basis in EDP Tables 3A, due to unavailability of detailed data for local government and social security funds sub-sectors.

Eurostat noted that the reporting of the reduction and increase of F.4 and F.5 for all sub-sectors is important for deficit and debt assessment purposes and asked SF to provide in the future the split according to the structure available in their own data sources.

b) Statistical discrepancies

A note on statistical discrepancies was provided by SF prior to the mission. The issue of statistical discrepancies for local government was discussed under table 2C above.

Findings and conclusions

(7) Eurostat invited the Finnish statistical authorities to provide the "other accounts payable" and "other accounts receivable" in EDP tables and in the Questionnaire relating to EDP notification (in all relevant tables, including on taxes, EU transfers and military expenditure, if applicable). Deadline: April 2010 EDP notification

(8) Statistics Finland will complete Table 3 of the Questionnaire relating to EDP and provide also the split of "other local government bodies" separately for Åland and Finnish Association of Municipalities. Deadline: April 2010 EDP notification.

(9) Statistics Finland will analyse the reasons why the statistical discrepancies for the local government sub-sector in EDP table 2C are always positive and report to Eurostat on the issue. Deadline: April 2010 EDP notification.

(10) Statistics Finland will provide Eurostat with information on loans provided by social security funds to enterprises (type of collateral, rate of interest, likelihood of the repayment of such loans). Deadline: April 2010 EDP notification.

(11) Statistics Finland will provide the requested split of loans (F.4) for social security funds and shares and other equity (F.5) for the local government sub-sector in EDP tables 3. Deadline: April 2010 EDP notification.

4. Methodological issues and recording of specific government transactions

4.1 Delimitation of the general government sector: classification of institutional units according to ESA95- application of the 50% test in national accounts

4.1.1 Classification of institutional units – general approach

Introduction

Prior to the mission SF has provided Eurostat with a note on the sector classification of institutional units and with a list of changes in sector classification since the last Eurostat dialogue visit. Also a note on the classification of quasi-corporations has been provided.

Discussion and methodological analysis

SF explained that the general approach in the sector classification and application of 50% criteria varies between sub-sectors.

For central government the basic approach is to include all the government agencies and/or offices and extra-budgetary funds. Some units outside this basic set are examined in order to decide if they should also be included in the central government sub-sector. The units having a so-called "commercial" legal status and controlled by central government bodies are analysed on a regular basis. Solidium Ltd., having a "commercial" legal status is classified in S.1311.

For local government, the classification of units is done on the basis of "the 50% test" (sales over costs) and a qualitative criterion. For this sub-sector, a complete unit-by-unit analysis seems generally not feasible. Therefore the analysis is done for groups of units; the quasi-corporations are analysed on the basis of the branch (or activity) function in which they operate. The sector classification is assessed annually.

For social security funds, sector delimitation is straightforward as all the relevant units dealing with compulsory social security can be clearly identified.

As a general rule, "the 50% test" is undertaken, including a quality analysis, always when a new unit is established.

Eurostat took note that, in the first half of 2010, the convention that all limited or joint stock companies owned by local government units are classified outside S.1313 (as they operate in industries where market conditions prevail, and as they would be anyway classified outside S.1313 even if they would operate as quasi-corporations) will be analysed by the Working Group on the Application of Sector Classification.

Concerning the recent changes in sector classification, Statistics Finland explained the reclassification of Solidium from S.11 to S1311, and YTV from S.11 to S.1313.

Solidium: At the end of 2008, the State transferred its non-strategic share portfolio to the holding company Solidium Ltd. This concerned state-owned equities in eight listed companies, i.e. Kemira, Metso, Outokumpu, Rautaruukki, Sampo, Sponda, Stora Enso and TeliaSonera. Solidium manage the holdings and operates the State's equity investments and may also invest in other securities and incur debts. In national accounts Solidium has been reclassified in S.1311, following the guidance of MGDD on holding companies.

Joint municipality YTV: YTV and other public transportation units' were reclassified from S.11 to S.1313. These units organise public transportation services, for which they receive subsidies from municipalities. In the past the units were erroneously classified in S.11. The correction caused an increase in subsidies on products to the transport service providers. The change was made in January 2009 and concerns years from 1997.

The State Pension Fund: The classification of the pension scheme for central government employees changed. Until January 2010 the fund was classified in S.1311; in the new time-series to be published at the end of January 2010 it is reclassified in S.1314. The change significantly affects the B.9 of both sub-sectors, but there is no deficit impact at the level of the general government sector. There is also a significant shift in the financial assets (notably the investments of the fund) from one sub-sector to the other. The change also results in an increase of central government debt, as central government bonds and loans held by the fund are no longer eliminated from the debt, as was the case when the fund was classified inside central government. However, it has no impact on general government gross debt after consolidation.

4.1.2 Public hospitals:

SF confirmed that all public hospitals are classified in the general government sector (48 in local government and 2 in central government), except two which are public corporations.

4.1.3 Public universities:

Eurostat was informed that the Finnish university system was reformed in the beginning of 2010. In the new system, all universities operate outside the state budget and they enjoy stronger financial and operational autonomy than before. Despite this increased autonomy, SF has concluded that the universities are controlled (and mainly financed) by the government also after the reform.

Eurostat agreed that they would remain classified in S1311 in national accounts and EDP statistics.

4.1.4 Public TV and Radio:

The classification of YLE has been discussed under item 2 of the agenda.

4.1.5 Public utility companies (railway, motorway and transportation companies):

Introduction

The following items have been discussed:

- a) Railways
- b) Motorway
- c) Public transportation

Discussions and methodological analysis

- a) Railways:

SF explained that **Ratahallintokeskus (RHK)** is a government agency managing the railway

infrastructure and recorded in S.1311, its accounts being part of the state budget.

Concerning the **VR-group**, SF explained that it is classified outside the government sector, in S.11. The group consists of rail services operations (VR Ltd), a unit for track construction and maintenance (VR-Track Ltd) and other units.

Eurostat enquired if **VR Ltd** and **VR-Track Ltd** are still market producers and therefore classified outside government sector. SF confirmed that **VR Ltd** (responsible for passenger and cargo transport) is financed predominantly by its sales. Government provides subsidies in exceptional cases, e.g. the keeping up of some deficit-making railway sections for regional policy reasons. Passenger railway transport is not open to competition, but cargo transport competition is opened since the beginning of 2007. **VR-Track Ltd** (responsible for track construction and maintenance) - sells its services predominantly to RHK. However, it competes on the open market with private units providing track construction and maintenance services. Therefore SF concluded that these sales/purchases reflect real market prices, and that classification of VR Track Ltd in S.11 is appropriate.

b) Motorway: Finnish Road Administration and Destia (former Finnish Road Enterprise)

Eurostat enquired about **Finnish Road Administration** and **Destia**.

SF explained that the **Finnish Road Administration** is a government agency responsible for the maintenance and construction of Finland's highway network and classified inside S.1311. The road assets are recorded in the balance sheet of Road Administration.

Destia (former Finnish Road Enterprise) is a government quasi-corporation classified outside government sector, in S.11. Its main business is the planning, construction and maintenance of roads. The Finnish Road Administration is the most important customer of Destia but Destia sells its services freely in the market (in 2006 Road Administration accounted for 68% of Destia's turnover). On the other hand, Destia is the most important service provider to Road Administration.

c) Public transportation: SF confirmed that all public transportation units are always considered as market producers and classified in S11. Their sales to other clients than government are large and prices economically significant. Public transportation (organised as quasi-corporations) in three Finnish cities is subsidised by the local government units, but the prices (sales) cover more than 50% of the costs.

4.1.6 Employment pension schemes

SF explained that the data sources used in the past for the Employment pension schemes have led to discrepancies between non-financial and financial accounts. During the compilation of national accounts for January 2010 the State pension funds has been reclassified to S1314 and some changes in the data occurred, which will result in some revisions for the April 2010 EDP notification, mostly for financial transactions (see item 4.1.1 above).

4.1.7 Quasi-corporations

Introduction

Prior to Eurostat mission, SF had provided a note on quasi-corporations. For the central government sub-sector only three quasi-corporations (Senate Properties, National Board of Forestry and Finnish State Pilotage Enterprise) exist, the other quasi-corporations having been gradually transformed into limited liability companies.

For local government, in 2008 there were 160 quasi-corporations owned by municipalities and 40 quasi-corporations owned by joint municipalities.

Discussions and methodological analysis

SF explained that, at the beginning of 2010, Shipping Enterprise and Finavia (maintenance of airports and the air navigation system) became limited liability companies. All the quasi-corporations are classified in S.11, because they fulfil the criterion of sales exceeding 50% of the costs.

For local government, the most common branches covered by quasi-corporations are water and energy supply and rental services. About 30 quasi-corporations are classified in S.11. Some quasi-corporations (e.g. education services) are classified inside S1313 since their sales are not considered as being market sales. SF explained that the quasi-corporations have been in recent years profitable and that they distribute dividends. The rules related to superdividends are applied.

Eurostat enquired about the transactions between the quasi-corporations and the state, in the form of annual distributions of profits to the central government, especially for Senate Properties.

SF explained that the income received from Senate Properties (which is a real estate quasi-corporation 100% owned by government) is recorded in national accounts as interest from the loans provided, rather than dividend due to government as shareholder. The loans originate from the establishment phase of the quasi-corporations when state-owned property has been transferred to the quasi-corporations. There is no impact from these operations on the working balance, except for the repayment of loans and the interest. The assets were recorded by SF as a interest bearing loan. Eurostat's opinion was that they should have been rather recorded as equity, bearing dividend. It was agreed that also the recording for Destia and Schipping enterprise, which seems being the same, is to be checked.

Eurostat enquired on the Municipality Finance (Kuntarahoyitus) which is a public limited company public.

SF explained that this is the 3rd biggest credit institution in Finland in the MFI list of the ECB and the owners are 272 municipalities and social security institutions. It gives loans to municipalities and companies, especially corporations providing dwelling services. It issues "municipal bonds" which are guaranteed by municipalities.

Eurostat expressed doubts that the entity acts on the free market, mostly because the loans are guaranteed by the government and argued that the entity does not place itself at risk on the market and it is set-up by government to provide services to government. SF explained that the entity is set-up by the municipalities as a "credit institution", however agreed that it does

not accept deposits but securities, which is acceptable in terms of ESA95 in the case of credit institutions.

Eurostat concluded that further analysis of the issue is needed in order to take a decision.

Findings and conclusions

(12) Statistics Finland will re-analyse the issue of transfer of property from central government to Senate Property as well as to Destia and Shipping Enterprise and report to Eurostat. Deadline: April 2010 EDP notification.

(13) Statistics Finland will provide Eurostat with a note on the classification of Municipality Finance (Kuntarahoytus) including a description of its operations as well as its legal statute. Deadline: April 2010 EDP notification.

4.2 Recording of specific government transactions

4.2.1 Specific government transactions in the context of the financial crisis

Introduction

SF had sent a note prior to the mission, explaining the government support in the context of the financial turmoil.

Discussion and methodological analysis

Eurostat enquired on the financial support provided by government to the financial sector for the years 2008 and 2009. The Finnish government has granted a one-off guarantee for 115 mill. euro in 2008 related to the commercial and credit risks on the assets of Kaupthing ltd. Eurostat agreed on the recording as a contingent liability.

SF confirmed that no fees are received by the government on the guarantees granted.

SF also explained a guarantee scheme which has been put in place, for a maximum amount of EUR 50 billions available until 31.12.2009 to solvent banks for debt instruments up to 5 years maturity. The banks did not make use of the guarantee scheme.

SF confirmed that the government did not make any capital injections with the purpose to support the financial sector in the context of the financial turmoil.

4.2.2 Capital injections in public corporations, dividends/superdividends

Introduction:

SF informed Eurostat that for local government only the acquisitions of significant amounts of equities are monitored, and that it was not possible to monitor all acquisitions case by case. However from the cases analysed, no situations of reclassifications of transactions into capital transfers have been identified. On the other hand, the profits and losses of all public corporations are monitored and until 2008 only a few loss-making corporations have been identified.

Discussions and methodological analysis

Eurostat enquired on the super dividend test concerning Helsingin Energia. SF confirmed that Helsingin Energia, had an operational profit higher than the distribution to the municipality of Helsinki for the year 2008.

Concerning the information in table 10.1 of the Questionnaire relating to EDP, Eurostat took note that the information available does not allow the split for I.1.2 and for II.2.2 there is not detailed breakdown available prior to 2008.

4.2.3 Debt assumptions, debt cancellations and debt writes-off

Discussions and methodological analysis

Eurostat enquired on the completeness of the information provided in table 8.1 of the Questionnaire relating to EDP.

SF explained that for central government the information is complete.

For local government, detailed data on debt assumption, debt cancellation and debt write-offs is not available, so they are not systematically followed also because these operations are not significant. The large transactions are usually noticed from the financial accounts.

4.2.4 State guarantees

Introduction

In addition to the financial turmoil state guarantee, all transactions on guarantees relate to student loans and Finnvera. For student loans - the calls on guarantees are recorded in the government accounts as acquisition of loan assets and the expenditure is recorded at the time of debt cancellation. Finnvera, a public corporation classified in the financial corporation sector, manages the accounts of the extra budgetary State Guarantee Fund (Paris club claims) and grants guarantees on behalf of government. The State Guarantee Fund compensates credit and guarantee losses of Finnvera.

Discussions and methodological advice

SF explained that the stock data on guarantees given by municipalities is available from the year 2008 onwards and the quality needs to be improved in the future.

Concerning table 9.1 of the Questionnaire relating to EDP, SF explained that the data includes the guarantees provided by Finnvera. In the future the guarantees provided by the local government will also be included.

At the request of Eurostat, SF confirmed that there are no cases of debt assumed or cancelled for student loans. This is explained by SF in the footnote of table 9.2 of the Questionnaire relating to EDP.

Findings and conclusions

(14) As regards guarantees, Statistics Finland will check whether the local government guarantees could be included in table 9 of the Questionnaire relating to EDP notification and provide a separate table for FINNVERA on a one-off basis.

4.2.5 EU Flows

Introduction

Eurostat asked about the recording in national accounts of EU funds.

Discussion and methodological analysis

The application of Eurostat decision on EU grants is based on two methodologies, depending on the final beneficiary.

SF confirmed that for Structural funds (Social Fund and Regional Development Fund) the final beneficiary is always the government agency which decides on how the money is spent. SF corrects the revenue from the EU to match the actual expenditure and records the difference in AF.79. This recording practice ensures that EU grants do not affect the deficit. The recording is as close to accrual as it is possible, as the time of the recording of the budget expenditure is close to accrual.

Concerning the agricultural policy funds (EAGGF and FIFG), the final beneficiary is the ultimate recipient of the transfer. All the revenue and expenditure appearing in the state book-keeping is removed from the government accounts, and are shown as paid by the EU and received by domestic sectors other than government. Difference between the annual amounts of removed expenditure and revenue is recorded in AF.79.

Findings and conclusions

Eurostat took note that SF is not able to distinguish pre-payments from interim payments, although the recording of EU flows seems to be in line with Eurostat decision.

4.2.6 Public Private Partnership projects

Introduction

Two motorway projects (the E-18 motorway and the Lahdentie motorway), have been recorded as government investments in national accounts. For local government there is one significant ongoing PPP project called “Espoon Kaivomestari” which is classified outside the government balance sheet.

Discussions and methodological analysis

Eurostat enquired about the Espoon Kaivomestari project as well as about new planned PPP contracts both for central and local government. SF mentioned that for the central government some project might start in the future, however for local government there might be small project but there is little information available. SF confirmed that comprehensive information is available for Espoo, however they are not yet in the possession of the PPP contract.

As for local government all statistical data collection will be revised in a future, including also administrative data, SF expects to obtain more information on existing and future PPP contracts.

Findings and conclusions

(17) Statistics Finland will continue investigating on existing and planned PPP contracts, especially for local government and report them in the relevant table of the Questionnaire relating to EDP notification tables.

4.2.7 Financial derivatives

Introduction

SF provided, prior to the mission, a note on cash collaterals relating to derivatives, which explains the revision of government debt for the October 2009 EDP notification. The revision concerned the reclassification of collateral margin deposits from swap contracts which have been previously recorded as other accounts payable instead of loans, as requested by ESA95 § 5.81c. Quarterly government financial accounts and debt were revised accordingly. The revision concerns the years 2002 to 2008. Before 2002 the amounts were negligible.

Discussion and methodological analysis

SF confirmed that derivatives are widely used in Finland in both the central government and social security funds sub-sectors. SF also confirmed, as already noted in the context of the April 2009 EDP notification, that there were no occurrences of off-market swaps, swaptions, options on interest or forex swaps.

The swap cancellations for central government are identifiable in the data source and are treated according to the Guidance note on financial derivatives and spread over the remaining life of the instrument.

Eurostat asked for confirmation that in both EDP tables and in the financial accounts the net interest flows from swaps are recorded under the item "net incurrence of other liabilities in financial derivatives (F.34)" for both central government and social security funds.

SF also confirmed that the working balance of central government is impacted by streams from financial derivatives interest, however they were not sure if this is the case also for social security funds.

Eurostat requested to be informed on any cash collaterals which might have been provided by the central government for financial derivatives transactions.

Findings and conclusions

(15) Statistics Finland will check if the B.9 of social security funds is properly adjusted for the streams of interest payments from swap operations and provide a short note on this issue to Eurostat.

(16) Statistics Finland will check whether central government provided any collateral (e.g. bonds) in the context of operations involving financial derivatives.

4.2.8 Other: Carbon allowances

SF confirmed that there are no sales of carbon rights and no other transactions with the carbon allowances (no sales or purchases).

4.3 Implementation of the accrual principle

4.3.1 Taxes and social contributions

Introduction

Following the previous EDP dialogue visit, SF provided information on the accrual recording of social contributions, especially concerning the amounts unlikely to be collected.

Discussions and methodological analysis

SF confirmed that the time adjusted cash method is used for taxes. Social contributions are based on data from accrual financial statements. The impact of the amounts unlikely to be collected is recorded only at the moment where there is an actual insolvency case.

Eurostat took note of the explanation given, however expressed the opinion that in this case there will be a postponement of the recording of the cancellation (e.g for amounts relating to 2006 and 2007 and not received, this would mean that the amounts of tax revenue would be higher in 2006 and 2007 and the impact for the amounts cancelled would be recorded in 2008). SF agreed on this, however it also argued that the delay was not long.

4.3.2 Interest

Introduction

Prior to the mission, SF had provided a note on the calculation of accrued interest for each sub-sector of general government.

Discussions and methodological analysis

SF explained that for central government an accrual-based source data is used (the central government book-keeping data from the State Treasury). The data on premiums and discounts, on both cash amounts and accruals, are available in the source data and streams of interest payments resulting from swap-contracts and FRAs are included in the interest expenditure in the source data. For local government the calculation is done on the basis of an accrual-based source data, however no information is available on premiums and discounts and on possible interest swap or FRA payments. For Social security funds the main accrual data sources are from the Financial Supervisory Authority and the book-keeping data of the Social Insurance Institution. The issue of premiums and discounts is in practice not relevant, however the source data do not provide information on possible interest swap or FRA payments.

The consolidation of interest is done on the basis of financial accounts data on intra-government debt stocks (AF331, AF332, AF4), using the assumption that the interest rate on intra-government debt is the same as it is for the total debt for each sub-sector.

Eurostat took note of the explanations and enquired if, taking into account the new data sources concerning local government national accounts, there are any plans to obtain new information for the calculation of accrued interest for local government. SF confirmed that the data for local government will not be changed.

5. Other issues

Eurostat mentioned that there are no major problems for Finland relating to the ESA95 transmission programme. However, there are still some inconsistencies between ESA Table 27 and EDP tables relating to the October 2009 notification.

SF confirmed that ESA Table 27 is still not coherent with EDP tables, but improvements should be expected in the near future.

ANNEX

List of participants

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