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Directorate C: National and European Accounts  
**Unit C-3: Public finance**



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## **FINAL FINDINGS**

**EDP dialogue visit to the Czech Republic**

**24-26 August 2009**

## **Executive Summary**

A regular EDP dialogue visit to the Czech Republic took place on 24-26 August 2009 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 Czech EDP and Government Finance Statistics (GFS) data. The recording of specific government transactions in the Czech national accounts and EDP notification was also discussed during the visit.

First, in the context of the institutional arrangements and division of responsibilities for the compilation and reporting of data under the EDP and ESA95 Transmission Programme, foreseen changes in information and accounting system (“Integrated Information System of the Treasury”) were discussed. As was explained by the Czech authorities, this new system would improve quality and accessibility of basic data sources for main general government units and would develop details of the input data used for GFS compilation. Introduction of this system would potentially eliminate the majority of currently observed problems in GFS of a technical as well as of a methodological nature and thus would significantly contribute to improvements in quality and reliability of GFS data transmitted to Eurostat. The system should be introduced in 2010. Eurostat welcomed these actions undertaken by the Czech authorities.

Next, EDP notification tables and EDP relating questionnaire (April 2009 reporting) were analysed and the outstanding issues were examined in detail. Most of the outstanding issues related to hidden inconsistencies between non-financial and financial accounts and were of a long-term nature, since they had already been discussed during the EDP dialogue in 2007 and were closely monitored by Eurostat in the context of following EDP notifications. In the meantime, the Czech authorities made an effort to clarify the recording of accrual adjustments to acquisitions of non-financial assets, recording of extrabudgetary accounts, transactions in currency and deposits as well as in other accounts receivable/payable. Nevertheless, as concluded during the meeting, additional actions are to be taken in order to verify amendments of transactions in currency and deposits from Money and Banking statistics, justify adjustments in other accounts receivable/payable and harmonise accrual adjustments in non-financial accounts with related recordings in financial accounts. In addition, identified noticeable inconsistencies between direct data on financial transactions and those reported in financial accounts, particularly for local government, are to be clarified.

Concerning issues of sectoral classification, Eurostat expressed worries that the so called 50 % test has not been implemented for public units having a “commercial” status. As a general rule applied by the CSO, the latter are classified outside general government. The Czech authorities were invited to perform the 50 % test for all those units, and particularly for units established by the local government and for hospitals (semi-budgetary organisations and joint-stock companies currently classified as non-financial corporations).

As far as recording of specific government transactions is concerned, attention was given on the issue of regular significant revisions of taxes. It was claimed by the Czech authorities that the revisions had an exceptional nature and that the most recent data would always be provided to the CSO, and consequently, EDP data would be more stable.

Regarding foreseen transactions relating to environmental guarantees granted in the past to privatised companies, it was concluded that government expenditure linked to removal of

environmental damage should be recorded at the moment when the related cleaning would be certified at end of each project.

Particular attention was given to the identified drawbacks in the recording of specific transactions undertaken at local level due to unavailability of appropriate data sources. The Czech authorities would ensure in the near future that related information is available and transactions realised by local governments, such as debt assumptions, debt cancellations, capital injections, dividends, guarantees, etc., are always recorded in accordance with ESA95 rules.

In addition, other methodological issues have been reviewed: Public-Private Partnerships (PPP), sale and leaseback operations, UMTS licences, carbon trading rights, financial derivatives. For the latter, the Czech authorities were invited to examine the reasons for repetitive negative adjustments to swaps. Regarding PPPs, no projects have been approved so far. The Czech authorities were invited to enquire further on possible sale and leaseback operations.

Finally, it was confirmed by the Czech authorities that operations relating to ex-ante advices provided by Eurostat in 2008 have not occurred, since a court decision on the case CSOB versus CKA had not yet taken place and legal acts on restitution as well on private health insurance companies have not been approved yet.

## **Final findings**

### **Introduction**

In accordance with article 11(1) of Council Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the Excessive Deficit Procedure, Eurostat carried out an EDP dialogue visit to the Czech Republic on 24-26 August 2009.

The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of Unit C-3 Public Finance at Eurostat. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Czech authorities were represented by the Czech Statistical Office (CSO), the Ministry of Finance (MoF), the Czech National Bank (CNB), as well as, for the specific items of the agenda, by the representatives of various government departments.

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 Czech EDP and Government Finance Statistics (GFS) data. In detail, the main aims of the dialogue visit were: to analyse some outstanding technical issues of EDP reporting; to clarify the sectoral classification of some units (public hospitals, universities, TV and radio companies and some units established by local government); to review the application of ESA95 rules, particularly on taxes, EU flows, financial derivatives, environmental guarantees and on some other specific government transactions at local level. As far as the technical issues of EDP reporting are concerned, the following outstanding problems relating to hidden inconsistencies between non-financial and financial accounts were analysed: accrual adjustments and reporting of other accounts receivable/payable; adjustments from Money and Banking statistics; recording of extra-budgetary accounts.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, indicating that the Main conclusions and action points would be sent within days to the Czech authorities, which may provide comments. Within weeks, the Provisional findings would be sent to the Czech authorities in draft form for their review. After adjustments, the Final findings will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat very much appreciated the amount and quality of the very detailed information provided by the Czech authorities prior to the mission as well as the openness and transparency demonstrated by the Czech authorities during the meeting.

## 1. REVIEW OF INSTITUTIONAL ISSUES

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

#### *Introduction*

Institutional responsibilities for compilation of government finance statistics (GFS) in the Czech Republic remain unchanged: EDP tables are compiled (current data) and reported by the CSO, planned deficit and debt data are compiled by the MoF. The CSO is also responsible for compiling and reporting GFS according to the ESA95 Transmission Programme and according to the EU Regulations on quarterly government non-financial and financial accounts and government debt. The Czech National Bank (CNB) provides GFS statistics to the ECB.

The Czech authorities informed Eurostat about the foreseen changes in the government accounting/information system, which would potentially create a room for improvements in GFS.

#### *Discussion*

A new "Integrated Information System of the Treasury" and a new accounting system for government units are currently being developed in the Czech Republic. This system will cover state and local budgetary organisations, state extra-budgetary funds, state and local semi-budgetary organisations, the Land Fund and at a later stage health insurance companies<sup>1</sup>. In addition, selected data on 100% government-owned public corporations will be also collected for the purpose of compilation of consolidated accounts for the public sector. The system is planned to be introduced in 2010.

The representative of the MoF explained that this system would not be based on an international accounting standard (IPSAS), but would follow national accrual accounting standards. Depending on the precise data, information would be available on a daily, monthly, quarterly or annual basis. Cash flows will also be recorded and a cash flow statement (reconciliation of cash and accrual balances) would be one of the outputs of the system. The system would ensure access to various analytical data as defined by statisticians, which would be possible to bridge into ESA95 items. Data will be audited and would ensure complete, detailed and accurate information which would largely replace existing statistical surveys. The MoF also stated that an access to individual data might be granted to the statistical authorities.

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<sup>1</sup> According to the information provided by the MoF after the mission, "*the Integrated Information System of the Treasury will include health insurance companies, but due to differences in accounting system there won't be available detailed information in the structure suitable for government financial statistics (these are covered by existing statistical survey of CSO). Only final accounts will be audited. Certain more detailed structures of accounting data in accordance with needs of government statistics (usage of classifiers) won't be audited*".

The CSO confirmed that the requirements for analytical information were defined taking into account statistical needs. However, some further statistical requests on the new information and accounting system are still being discussed. During a transitional period, while assessing the first outputs of the new system, the existing statistical surveys will be performed in parallel.

### *Findings and conclusions*

- Eurostat congratulated the Czech authorities for their work on the new government information and accounting system, which would ultimately result in an increase of the quality of statistical data and replacement of surveys. In this respect, Eurostat encouraged the Czech authorities to continue to co-operate closely and to investigate whether all government operations and related analytical information are covered by the new system, in order to enable the CSO to have all the necessary data to apply ESA95 national accounts rules for EDP purposes. (**Action point 1**) *Deadline: continuously*<sup>2</sup>
- Eurostat encouraged the MoF to grant, to the CSO and the CNB, access to the data of individual units in the database of the new government accounting system in order to facilitate their needs for classification of units and recording of transactions. (**Action point 2**) *Deadline: after completion of the new information system*

## **1.2. EDP inventory**

### *Introduction*

The current version of EDP inventory has been published nationally, as foreseen by the Regulation No 479/2009. The CSO provided prior to the meeting an updated EDP inventory, where comments from Eurostat as well as a few amendments relating mainly to sector delimitation and to the foreseen changes in the information and accounting system have been incorporated.

### *Discussion*

Due to lack of time, the EDP inventory was not discussed, but it was agreed that Eurostat would contact the CSO after the October 2009 EDP notification in order to clarify and improve some descriptions. An amended version of EDP inventory would then be published on the Eurostat website.

In addition, the CSO provided, prior to the meeting, a bridge table between the individual items from public accounts and ESA95 transactions. This bridge table refers to the cash based budgetary classification which is used by state and local budgetary organisations and by state extra-budgetary funds. In this respect, Eurostat indicated that there would be a need to explain

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<sup>2</sup> In the framework of the April 2010 EDP notification, the CSO expressed strong worries about the recent developments in the anticipated new "Integrated Information System of the Treasury". Allegedly, the recommendations of Eurostat expressed during the meeting have not been followed since it seems that the required details and analytical information on government operations would not be available for application of ESA95 rules for EDP purposes. This fact, and also taking into account the recently observed problems in GFS caused to large extent by the lack of appropriate data sources, might constitute a risk of reporting of non-reliable EDP data by the Czech authorities to Eurostat.

the nature of some revenue and expenditure items and their classification in national accounts and reporting in EDP table 2.

### *Findings and conclusions*

- Eurostat congratulated the Czech authorities for providing a bridge table between public accounts and ESA95 items, and will ask after the October 2009 EDP notification clarifications on the classification of some selected items in this table. **(Action point 3) Deadline: after the October 2009 EDP notification**<sup>3</sup>

## **2. Follow-up of the visit of 18-19 June 2007**

Following up on the 2007 mission conclusions, the Czech authorities implemented recommended revisions of data in EDP tables in October 2007 and provided Eurostat with the requested documents.

Extensive bilateral contacts between Czech authorities and Eurostat in the context of the follow-up of the 2007 EDP mission took place and were focused on the following outstanding issues:

- Transactions relating to the split of the Czech railways
- Accrual adjustments of gross capital formation (P.5) and acquisitions less disposals of non-financial non-produced assets (K.2)
- Reporting of other accounts receivable/payable (F.7) and hidden statistical discrepancies
- Adjustments of currency and deposits (AF.2) from Money and Banking statistics

Except for the issue relating to the split of the Czech railway company, the other outstanding issues had not been closed by the time of the August 2009 EDP dialogue visit and were therefore further discussed during the meeting under the related items of the agenda.

## **3. Follow-up of the April 2009 EDP reporting – analysis of EDP tables**

### **3.1. General review of the April 2009 EDP reporting**

#### *Introduction*

The CSO provided complete and consistent EDP tables and related questionnaires, responded to clarification questions within the set deadline, and transparently and promptly provided numerous requested details on a voluntary basis in the context of the April 2009 EDP reporting. Nevertheless, several outstanding issues remained. Most of them were discussed during the meeting under the respective items of the agenda (see below items 3.2- 3.6).

Under this item, Eurostat enquired about financial accounts compilation practices, since some issues have been observed and some uncertainties occurred in the context of the previous EDP reporting.

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<sup>3</sup> The CSO provided Eurostat with an updated bridge table in April 2010.

## Discussion

The issue of consistency of financial transactions reported in the working balance and in financial accounts (and thus in EDP table 3) was raised in April 2009. The working balance in EDP tables 2A and 2C is cash based and also includes financial transactions. These financial transactions should be linked to those reported in financial accounts, taking into account some specific ESA95 adjustments, such as adjustments due to debt cancellations, debt assumptions, superdividends, etc. When comparing data for local government, as notified in April 2009 in EDP tables 2C and 3D, the following differences were observed:

<b>EDP T2C</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Loans (+/-)	-338	-55	685	74
Equities (+/-)	-116	-511	837	977
<b>EDP T3D</b>				
Loans (F.4), net	-1096	-134	434	-1138
Shares and other equity (F.5), net	3220	1414	-2321	1844
Increase (+)	4815	3752	1366	2227
Reduction (-)	-1595	-2338	-3687	-383

Eurostat noted that one of the reasons for these differences might be different sector coverage, since local semi-budgetary organisations are not included in the working balance, while they are reported in EDP table 3D. However it is assumed that occurrences of financial transactions in these organisations should be limited.

The CSO confirmed that they do not use integrated direct data sources for financial transactions calculations, as they are compiled as change in stocks derived from balance sheets. In this respect, Eurostat recalled that change in stocks include not only transactions but also other changes in volume and revaluations, and stressed that as far as financial transactions are concerned, these should also include non-monetary flows such as debt cancellation in case of claims, when relevant. Since actual data on transactions in loans (F.4) reported by the CSO in EDP table 3D shows negative amounts, which differ noticeably from those included in the cash based working balance, one might think that some non-monetary flows (such as debt cancellations) which are reflected in the balance sheets, are not reflected in B.9 and consequently, the deficit might be underestimated.

The CSO explained that in their experimental calculations undertaken prior to the mission (see item 3.5), data from EDP table 2C have been used for financial transactions calculations and EDP table 3D. However, since data on specific, non-monetary transactions at a local level are not available, no further adjustments of cash flows have been made. Eurostat noted that in this case, large other economic flows would not contribute to the plausibility of national accounts.

## Findings and conclusions

- Eurostat took note of the explanation provided by the CSO and recalled the importance of the issue. It is believed that the new information system will ensure the availability of relevant data.



### 3.2. Accrual adjustments on gross capital formation (P.5) and net acquisition of non-financial non-produced assets (K.2)

#### *Introduction*

At time of the previous 2007 EDP dialogue visit, the representatives of the CSO were not in position to fully justify the noticeable negative values reported in the adjustment line on accrual P.5 and K.2, particularly in EDP T2C. These adjustments were based on the statistical questionnaire data. Clarification of this issue was the subject of a detailed follow-up to the 2007 EDP dialogue visit.

#### *Discussion*

It was clarified that the "accrual" adjustments reported in EDP T2A and T2C refer to:

- the difference between cash data reported in the working balance and accrual data (reflecting in F.7) for units using cash reporting (budgetary units and State extra-budgetary funds), as well as imputed flows for net acquisition of P.5, which are neutralised by the recording of the related imputed capital transfers D.9 (transfers of buildings free of charge and transfer of flats to households reflecting the difference between sale and market prices). The counterpart (D.9) is reported in a separate line in EDP T2;
- net acquisition of P.52 (inventories, mainly state material reserves). This item does not refer to a difference between cash and accrual data, since related cash flows are recorded in extra-budgetary accounts and do not enter the working balance.

The CSO provided, prior to the mission, a table with simplified accrual adjustments on P.5 and K.2, where accrual values which are neutralised by capital transfers (regular imputations relating to transfers free of charge) were eliminated. This table shows feasible entries for the accrual adjustments.

As far as previously observed regular revisions of data on accrual P.5 and K.2 are concerned, the situation seemed to have improved, since revisions for t-2 have been almost eliminated, even if some revisions in October for t-1 are still observed.

#### *Findings and conclusions*

- The CSO will report in the context of the October 2009 EDP notification net accrual adjustments for gross capital formation (P.5) in EDP table 2A and 2C (i.e. excluding amounts which are neutralised by capital transfers). (**Action point 4**) *Deadline: October 2009 EDP notification*<sup>4</sup>

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<sup>4</sup> The action point has been fulfilled in the context of the October 2009 EDP notification.

### **3.3. Extra-budgetary accounts/funds and their recording in national accounts and EDP tables**

#### *Introduction*

The issue of recording of "extra-budgetary accounts" in EDP tables and national accounts relates to the follow-up of the 2007 discussion on the recording of "internal transfers" and of some other adjustments in EDP table 2. The issue relates to state and local budget.

The correction line "internal transfers" in EDP T2A, reflects net balance of the transfers from the working balance into the extra-budgetary accounts and vice versa. As clarified during the 2007 mission, this correction line reflects money set aside by budgetary units and not spent during the budget year. Budgetary organizations are entitled to set aside in their own balance sheet unspent budgetary credit, for subsequent spending. At time of setting aside of funds, a budget expenditure is recorded, with an impact on the working balance. Conversely, at time of actual expenditure, a budget revenue is also recorded, with an impact on the working balance, neutralizing the budgetary effect of the expenditure in that accounting period. So, the issue of "extra-budgetary accounts" does not refer to flows of individual institutional units such as "extra-budgetary funds". "Extra-budgetary accounts" (EBA) refer to the special purpose bank accounts of the state (or local) budgetary units. These are e.g. accounts of the reserve fund, the cultural and social needs fund, the state guarantee fund, etc.

However, it was discovered that not all flows of the EBA enter the working balance (WB) through "internal transfers", and that some flows of extra-budgetary accounts have not been fully reflected in national accounts and in EDP table 2. Their inclusion would imply an impact on B.9. The Czech authorities were asked to clarify the issue.

#### *Discussion*

The Czech authorities provided prior to the mission a note explaining the relationship between the EBA and the WB and quantifying related financial and non-financial flows. According to this note and the explanation provided during the meeting, two situations (links of the EBA with the WB) may occur:

**Case A.** Inflows and outflows of the EBA are always compensated by the outflow/inflows of the WB. It means that all revenues of the EBA are coming from the WB (expenditure in the WB). And all expenditures of the EBA firstly enter the WB (revenue) and then are spent via expenditure of the WB.

**Case B.** Inflows or outflows of the EBA are not linked to the WB. In this case, the EBA could record revenue from other sources than the WB account, and when the funds from the EBA are used, those flows do not enter the WB.

As the Czech note explains, a combination of both cases might occur, e.g. case "A" for inflows of the EBA (when special purpose funds are transferred to the EBA from the WB) and case "B" for related outflows (spending of these special purpose funds does not enter the WB).

Consequently, if "internal transfers", as reported in EDP table 2 are correctly recorded, and EBA are completely linked to the WB (case A), this will not be an issue since all flows are reflected in the WB, so the impact is neutralised. However, in case "B", non-financial flows

which do not enter the WB should be imputed in national accounts and in EDP table 2 with an impact on B.9.

The MoF provided during the meeting an updated table showing an impact of flows of some EBA which do not transit via the WB (case B) at the level of central government. Those flows concern the so-called "reserve fund", "other financial funds" and the "social and cultural needs fund". Regarding the latter, outflows of this fund (case B) have been regularly imputed via an adjustment line in EDP table 2A "wages in kind" and reflected in national accounts. The table was completed on the basis of a special one-off survey performed by the MoF. As far as local government is concerned, the MoF claimed that extra-budgetary accounts do not exist.

The table provided by the MoF showed the following revenues of the reserve fund for 2005-2008, which have not been included in government national accounts so far: 915 mill CZK, 1438 mill CZK, 526 mill CZK, 1261 mill CZK, respectively. In addition, negligible values have been reported in other financial funds. The MoF proposed not to include the latter amounts in EDP tables in the October 2009 EDP notification, since the reliability of the figures would need further justification.

Eurostat appreciated the work that has been made by the Czech authorities in order to quantify EBA flows. On the other hand, Eurostat noted that it seems that there are still some additional extra-budgetary flows, which have not been recorded in national accounts and might require further investigations (e.g. material reserves EBA, development fund). However it is assumed that an impact of those flows might be rather small.

#### *Findings and conclusions*

- Regarding flows of extra-budgetary accounts which have not been included in EDP reporting so far, the CSO will include revenues of the reserve fund in the context of the October 2009 EDP notification, as documented in the table provided during the meeting. (**Action point 5**) *Deadline: October 2009 EDP notification*<sup>5</sup>
- Eurostat believes that the new information and accounting system will result in the full coverage of flows, including those recorded in extra-budgetary accounts. Eurostat also understands that, at present, not all extra-budgetary flows enter the working balance in EDP table 2 and considers that the Czech authorities should jointly work in order to reconcile transactions in currency and deposits (F.2) with inflows and outflows of budgetary and extra-budgetary accounts of the state budget and report on the results by September 2010. (**Action point 6**) *Deadline: September 2010*<sup>6</sup>

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<sup>5</sup> The adjustments related to EBA have been incorporated in the October 2009 EDP tables and national accounts for 2007 and 2008 only. The CSO intends to revise data for 2005 and 2006 in the context of the next national accounts revision. However, the related newly amounts reported in EDP table 2A for 2007 and 2008 noticeably differ from those presented during the mission by the MoF. As was explained by the CSO, it appeared that a part of the EBA flows had always been reflected in B.9 via the adjustments implemented in the past for nonfinancial assets based on the statistical questionnaire. In addition, the original data were also revised by the MoF.

<sup>6</sup> According to the explanatory note provided by the CSO in April 2010, the announced changes in the accounting system, that would facilitate ESA95 needs, have been postponed and would be implemented by January 2011 only.

### 3.4. Adjustments of transactions in currency and deposits (F.2) and other accounts receivable/payable (F.7) based on information from Money and Banking Statistics

#### *Introduction*

Starting with 2005, the structure of financial assets and liabilities based on public accounts balance sheet data has been modified by the CSO on a regular basis, using information from money and banking statistics (MBS), though leaving the totals of assets and liabilities unchanged. The modifications relate to currency and deposits assets (F.2) and other accounts receivable (F.7). The amounts involved have been significant. Eurostat recommended during the mission in 2007 to use information from banking statistics only in the case of an absence of direct data sources or, possibly, in case good reasons and well documented methodological differences exist.

The issue was closely monitored by Eurostat since 2007 and the CSO was requested to clarify and justify the adjustments. Therefore, a special Task Force was established by the Czech authorities at national level (the CSO and the CNB), in order to investigate and to solve the problem. However, due to practical/technical difficulties, significant progress had not been achieved by April 2009 since exact reasons for these differences had not been identified. The issue was further discussed during the meeting.

#### *Discussion*

The following significant adjustments of transactions in F.2 based on data from MBS have been implemented by the CSO for 2005-2008 (mill CZK):

<b>Adjustments in F.2</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
S.1311	-3 155	-2 352	30 744	-18 664
S.1313	-635	-335	-25 919	26 710
S.1314	-399	-67	-99	-583

The Czech authorities provided, prior to the meeting, an explanatory note and presented during the meeting the most recent results of their investigation. The investigation was based on quarterly data on stocks AF.2 for 2007 and 2008. Significant differences between balance sheets and MBS data were observed for general government sector as of 31 December 2008, particularly for central government (28 bill CZK). It was found out that the differences between data on general government deposits derived from administrative data sources and as reported in MBS, fluctuate within the range of -60 bill CZK to +50 bill CZK. When comparing outstanding amounts of government deposits for 2008 based on MBS and on balance sheets, deposits in the CNB are 20 bill CZK lower, while deposits held in commercial banks are 47 bill CZK higher according to MBS. According to the CNB authorities, data on deposits held by the CNB are reliable, while data on deposits held by commercial banks have not been analysed yet. Nonetheless, the CNB stated that banking statistics should be accurate and reliable given the fact that the sector delineation is fully computerised in MBS.

Due to the unavailability of individual data from commercial banks, further investigation was focused on deposits of central budgetary organisations, state funds and central subsidised organisations in the CNB. It was concluded that 97% of the difference (19.3 bill CZK) refer to the deposit of the MoF (state budget chapter 312). Further investigations have been carried out in cooperation with the MoF, but final results have not been available yet. The CNB mentioned that one of the reasons for these differences might be an existence of a technical,

so called "regulatory" account, but this statement was not confirmed by the representative from the MoF.

The MoF confirmed during the meeting that the deposits of the MoF include not only accounts of the MoF, but also a big package of ten accounts which are under the responsibility of the MoF: e.g. State financial assets, state debt, National fund, general treasury administration account (VPS), privatisation fund, other financial funds.

Eurostat appreciated the ongoing work on reconciliation of government deposits data based on MBS and on administrative balance sheets and encouraged the Czech authorities to speed up this process in order to implement the results by April 2010. Since the reasons for such large deviations have not been clarified yet, Eurostat recommended continuing in the current practise of using the information from MBS for the October 2009 EDP notification.

#### *Findings and conclusions*

- As far as the present inconsistency of deposits held by government in the CNB and in commercial banks derived from administrative data sources (balance sheets) and Money and Banking statistics is concerned, Eurostat asks the CSO, the CNB and the MoF to continue in the reconciliation exercise and to report to Eurostat on the output of this exercise in order to implement the results by the time of the April 2010 EDP notification. The note should include a description of the results and a proposal for recording, as agreed by all national authorities. (**Action point 7**) *Deadline: April 2010 EDP notification*<sup>7</sup>

### **3.5. Reconciliation of accrual adjustments from non-financial accounts with transactions in other accounts receivable/payable (F.7) reported in financial accounts and EDP table 3A-E; adjustments relating to the rebalancing; hidden statistical discrepancies**

#### *Introduction*

Transactions in F.7, as reported in financial accounts and EDP table 3, are derived by the Czech statisticians from balance sheets and calculated as change in stocks. By contrast, when compiling non-financial accounts, accrual adjustments are constructed by the CSO for selected revenues and expenditures, in order to transit from cash to accrual basis (e.g. taxes, social contributions, P.5 and K.2, some transfers, UMTS, EU flows entering the working balance). These adjustments relate to the units using cash reporting (state and local budgetary organisations and extra-budgetary funds) and are explicitly reported in EDP table 2.

Several issues have been identified in this respect:

- when comparing accrual adjustments from non-financial accounts with those recorded in financial accounts (F.7), very significant differences are being observed (up to 0.8% of GDP);

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<sup>7</sup> Eurostat appreciates very much the progress achieved in this field, since according to the explanatory note provided by the Czech authorities in April 2010, the issue of government deposits in the CNB has been largely clarified. However it was understood that further investigations relating to the deposits in commercial banks should be undertaken by the Czech authorities, in order to close the issue. Eurostat would expect results before the October 2010 EDP notification.

- a statistical discrepancy has never been reported in EDP table 3, even though some gaps identified in EDP tables should have been accompanied by the existence of a discrepancy;
- data on F.7 are regularly adjusted by noticeable amounts due to the amendments of data on F.2 from MBS (see item 3.4 of the agenda).

The issue of reconciliation of accrual adjustments from non-financial accounts with transactions in other accounts receivable/payable (F.7) reported in financial accounts and in EDP tables 3A-E was intensively discussed during the dialogue visit in 2007 and as a follow-up, in the context of EDP clarifications. Since the issue had not been clarified and solved by the Czech authorities, Eurostat enquired further during the meeting on the progress in this field.

### *Discussion*

#### Experimental exercise

The CSO provided, prior to the mission, several tables with experimentally adjusted figures on other accounts receivable/payable (F.7) for 2007 in order to harmonise financial and non-financial accounts: (i) a table on split of transactions in F.7 by subsectors (table 4 from the new questionnaire) (ii) and a table on transactions in F.71 and F.79 by units/groups of government units. In addition, (iii) an experimental EDP table 3 for 2007 was provided, where transactions in F.7 were also harmonised with accrual adjustments in non-financial accounts to a large extent, and transactions in F.2 were based on balance sheets instead of MBS. As for other units using accrual profit and loss accounts, F.7 was not revised, since it is calculated as the change in stocks from balance sheet assuming that these should be in line with non-financial accrual flows in the profit and loss accounts.

More precisely, the experimental revision of F.7 was undertaken for units using cash reporting in such a way that data on transactions in other accounts receivable/payable except trade credits and advance ( F.79) based on the balance sheet for the state and local budgetary organisations and for the state funds were replaced by the accrual adjustments implemented in non-financial accounts. However, data on transactions in trade credits and advances (F.71) derived from the balance sheet were kept in EDP T3, assuming that this aggregated amount includes also accrual adjustments on P.5 and K.2 (as reported in EDP table 2 and applied in non-financial accounts).

Eurostat noted that the accrual adjustment of P.51 from non-financial accounts for the central budgetary organisations is (+) 0.4 bill CZK. However, according to the experimental calculations of F.71 (financial accounts), a total transaction in F.71 receivable is (-) 4.8 bill CZK and in F.71 payable is 0.2 bill CZK, so it seems that a quite significant residual is not reflected in non-financial accounts. In this respect, Eurostat asked further details on what might be included in this residual and on possible time lags between cash payments and accrued transactions.

The Czech authorities explained that there should not be any large time lags between cash payments and accrued amounts as far as intermediate consumption is concerned, which is reported in national accounts on a cash basis. The same situation should be applicable also to other current transactions, since special purpose funds, as included in the budget, are to be spent by the end of the year. Referring to the fact that transactions in claims F.7 derived from the balance sheet might possibly include debt cancellations, the Czech authorities stated that, according to the national legislation, irrecoverable claims might be "written-off" after 5 years

and the amounts are not available. Besides, it was stated by the CSO that transactions in F.71 also include amounts relating to the net acquisition of the state material reserves (P.52) which are also reflected in EDP table 2, but the amount of the related transaction in F.71 is not identifiable. Therefore it is impossible to quantify the residual amount of transaction in F.71 receivable, for the time being.

Eurostat stressed that the accrual adjustment relating to the inventories in material reserves is to be quantified and a residual part of transaction in F.71, which is not reflected in B.9 calculation, should be quantified and further analysed.

#### Consolidation

Concerning consolidation flows of noticeable values in F.7, the CSO explained that this relates mainly to consolidation of flows between the former CKA and the state budget, as well as the STIF (infrastructure fund) and the RIA (railway infrastructure company).

#### Discrepancy

Regarding the non-reporting of the statistical discrepancy by the CSO, Eurostat informed the Czech authorities that 24 Member States follow a practice of explicit reporting of statistical discrepancy in EDP table 3 and encouraged the CSO to do so in the future.

Finally, Eurostat recommended the CSO to keep the current approach used in the previous EDP notifications relating to the reporting of transactions in other accounts receivable/payable (F.7), since this issue closely relates to the adjustments in F.2 from MBS. As soon as a final agreement on transactions in F.2 is reached, the CSO should reconsider the current recording of transactions in F.7, while reconciling stock flow adjustments in EDP table 3.

#### *Findings and conclusions*

- The CSO will provide to Eurostat by the end of 2009 a note on the nature of the residual left in trade credits and advances (F.71) for the state budgetary organisations after taking into account the state material reserves. (**Action point 8**) *Deadline: December 2009*<sup>8</sup>
- The CSO will further investigate the issue of other accounts receivable/payable (F.7) after the conclusions on adjustments in currency and deposits (F.2) from Money and Banking statistics will become available. The CSO will check that the introduction of the new accounting system will allow a thorough clarification of the remaining uncertainties on this issue. The CSO will inform Eurostat on the results of their investigations by April 2010. (**Action point 9**).*Deadline: April 2010*
- The CSO will also consider explicit reporting of a statistical discrepancy in EDP table 3 for April 2010 EDP notification. (**Action point 10**) *Deadline: April 2010*<sup>9</sup>

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<sup>8</sup> Some explanations have been provided by the CSO in the context of the April 2010 EDP notification.

<sup>9</sup> Eurostat appreciates very much explicit reporting of statistical discrepancies by the CSO starting with the April 2010 EDP notification.

### 3.6. Foreseen revision of debt

#### *Introduction*

In April 2009, the CSO revised upwards debt level for 2007 and reported +3967 mill CZK in "other volume change in financial liabilities" in EDP table 3. This entry was explained by a new accounting methodology. Eurostat however expressed doubts about the applied treatment, since it was clarified that the revision related mainly to the incorrectly imputed government debt in the past due to guarantees (-2 bill CZK) and to the misreporting of the issued state securities (+ 5 bill CZK) in 2007. The change in debt should not have been recorded as other change in volume in 2008, but as transactions, and the debt should have been revised also for previous years. Eurostat had proposed to the Czech authorities to revise data for previous years.

The issue on the forthcoming revision of the debt has been further discussed during the meeting.

#### *Discussion*

The CSO presented, prior to the mission, a table on the proposed revision for 2005-2007 including an updated EDP table 3. The revision will be implemented in the October 2009 EDP notification<sup>10</sup>.

The Czech authorities explained that the misreporting of the state securities for 2007 was an exceptional situation relating to erroneous data sources and would not constitute a risk for further systematic revisions.

Eurostat also enquired on the related revision of transaction in F.7 for 2007 in EDP table 3. This revision will be explained by the CSO in October 2009.

#### *Findings and conclusions*

- The CSO will clarify the adjustment in other accounts payable (F.7) for 2007 relating to the revision of debt in EDP T3 in the context of the October 2009 EDP notification. **(Action point 11)** *Deadline: October 2009*<sup>11</sup>

## 4. Methodological issues and recording of specific government transactions

#### *Introduction*

As a follow-up to the 2007 EDP dialogue visit, Eurostat enquired about the general approach applied by the Czech authorities for sector classification of institutional units. In addition, Eurostat enquired about the sector classification of some specific units, such as public hospitals, universities, TV and radio and public companies established by local government.

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<sup>10</sup> The revision for 2005-2007 has been implemented in October 2009. The CSO is invited to revise also historical data in this respect.

<sup>11</sup> Some explanation has been provided by the CSO in the context of the October 2009 EDP notification.



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

##### *Discussion*

While discussing the sector classification of some specific government units, it was found out that the CSO performs the 50% test for semi-budgetary units only and units having a "commercial" legal status have not been tested so far (e.g. joint stock companies, limited companies). When such a unit is established, a decision on sector classification takes into account the expected financing by government, but a subsequent more detailed examination is not performed in the following years.

The CSO confirmed that the last 50% exercise was carried out on data for 2002 and 2003 and was applied in data for 2004 onwards, and informed Eurostat that next test would be based on data for 2008-2009.

##### *Findings and conclusions*

- As far as the classification of units is concerned, Eurostat invites the CSO to perform the 50% test for public corporations with a "commercial" legal status (e.g. joint stock companies, limited companies) and to repeat the 50% test regularly for semi-budgetary organisations and to inform Eurostat on the results by September 2010. (**Action point 12**) *Deadline: September 2010*<sup>12</sup>

##### **Public hospitals**

There are 105 public hospitals in the Czech Republic and all are classified outside the general government sector. The same pricing rule is applied for private and public hospitals. Public hospitals are mainly semi-budgetary organisations and after examining the 50% criterion they have been considered to be market institutional units. However, there are also 40 public hospitals which have a "commercial" legal status and following a general rule applied by the CSO, the 50% test has not been performed on those units.

The CSO stated that the main revenues of all public hospitals are payments from health insurance companies, classified as sales. Public hospitals can also rent buildings and premises of hospitals to private persons.

Eurostat asked how the public hospitals cover their losses. The CSO explained that **semibudgetary organizations** they cannot issue bonds and receive loans. Unavailability of funds for payments for goods and services is reflected in increases of other accounts payable.

Eurostat recommended to identify hospitals which have systematically received subsidies from government over several years and to carry out further investigations on their market/non-market nature in terms of ESA95.

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<sup>12</sup> The CSO informed Eurostat in April 2010 that the 50% test has been carried out on the basis of data for 2007 and 2008 for public non-financial corporations, as well as for semi-budgetary organisations classified as market producers (the latter including 2009 data). The 50% test took into account also amounts of "net interest". An analysis of the results and possible sector reclassification will take place in the context of the main ESA revision.

### *Findings and conclusions*

- The CSO will provide to Eurostat the accounts (profit and loss account and balance sheet) of a few hospitals which are semi-budgetary organisations as well as those which have a “commercial” legal status by February 2010<sup>13</sup>. Eurostat encouraged the CSO to perform the 50% test for hospitals which are semi-budgetary organisations and for those which are joint stock companies and limited companies. The CSO will inform Eurostat on the results by September 2010. (**Action point 13**) *Deadline: September 2010*

### **Public universities**

Public universities (28 units) are classified in the general government sector. There are also private universities (46 units, of which 31 market). Eurostat asked for further details on non-profit universities classified in S.15.

The CSO explained that non-profit universities have a freedom in spending funds and in administrative issues (e.g. on staff), they do not receive subsidies and are financed by fees from students and sponsoring.

### *Findings and conclusions*

- Eurostat took note of this explanation.

### **Public TV and Radio**

Public TV and Radio companies are classified in S.11. The main revenues of these companies are licence fees and revenues from advertisement (both classified as sales). Only owners of TV/radio pay the fee, and the amount of a fee is defined by a special law. If a fee was not paid, a debtor would pay penalties to TV and radio companies. Fees are collected directly by these companies.

### *Findings and conclusions*

- Eurostat took note of this explanation.

### **Public companies established by local government**

The CSO provided, prior to the mission, notes on the sector classification of public infrastructure and utility companies established by local government. According to this notes and explanation provided during the meeting, joint stock companies and limited companies are not tested by 50% rule. Regarding semi-budgetary organisations, the last 50% test was performed on data for 2002 and 2003 and was applied in data for 2004.

### *Findings and conclusions*

- Eurostat recalled that the 50% test should be applied also for public corporations with a “commercial” legal status (e.g. joint stock companies, limited companies) and it should be repeated for semi-budgetary organisations. See action point 12.

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<sup>13</sup> Financial statements for semi-budgetary hospitals, and results from the statistical questionnaire for hospitals having "commercial" legal status have been sent to Eurostat in April 2010.

## **4.2. Recording of specific government transactions**

### **4.2.1. Accrual taxes and social contributions**

#### *Introduction*

According to the information provided in the past by the Czech authorities, time adjusted cash method is used for calculation of accrual taxes and social contributions. The time lag is 1-2 months, depending on the tax. For corporate income tax, the final amounts of settlement are available in July – August of the following year.

Eurostat enquired on regular revisions of taxes which relate not only to income taxes (D.5), but also to taxes on production (D.2), even if actual data on D.2 for t-1 should be available at the time of the first EDP notification, as described in the note provided by the Czech authorities prior to the meeting. The issue on regular revisions of taxes was discussed also during the dialogue visit in 2007 and it was stressed by Eurostat, that the most updated information on taxes should be used while calculating the deficit in April for the year t-1.

#### *Discussion*

The most recent revisions related to the following two issues:

a) Revision of excise duties on tobacco (D.214) for 2006 and 2007 in October 2008 and in April 2009. The revision related to the unusual increase of inventories in tobacco products due to forthcoming increase of the related tax rate. In the context of the October 2008 EDP notification, the exceptional revenues from tobacco tax (duty stamps) were shifted into the following year. However, in April 2009, the Czech authorities decided to change the treatment and to record revenues from tobacco taxes in the period when they were paid (using simple time adjusted method), since the tobacco products have been part of inventories. The Czech authorities confirmed that this revision was an exceptional one and would not take place again in future notifications.

b) Revisions due to VAT refunds. The Czech authorities explained that when compiling EDP tables in April, actual data for t-1 on VAT refunds which is one of the component of the VAT revenue, have not been processed by the MoF and provided to statisticians due to some delays, therefore the CSO used preliminary estimations available at t+45 days for EDP purposes. It was agreed during the meeting, the MoF would also provide the CSO in March 2010 (and in the following years) with the most updated figures on VAT refunds for the previous year at t+65 days (or at a period close to this date). This would eliminate further noticeable revisions observed in the past in the context of the October EDP notification.

The Czech authorities raised an issue on the recording of accrual taxes in the context of the global economic crisis, since measures taken by government would allow small companies to postpone payments of corporate income taxes which would cause a fall in revenues for 2008. On the other hand, for big companies, quarterly tax prepayments for 2008 have been based on the results for 2007 which would result in higher negative final settlements (and consequently adjustments) for 2008. Eurostat pointed out that it is important to keep the current recording - to continue using the time adjusted cash method as a proxy of accrual recording - and to avoid any exceptional shifting. Anticipating some unusual movements in tax revenues data, it is important to document that data on tax revenues recorded in national accounts are based on actual settlement figures.

## *Findings and conclusions*

- Eurostat invited the Czech authorities to continue to use the time adjusted cash method for the recording of taxes, including corporate income tax and VAT. Eurostat also invited the MoF to provide the CSO with the actual data on VAT refunds at t+65 for the April 2010 EDP notification in addition to the preliminary estimations at t+45, in order to allow the CSO to have more stable data at the time of the first EDP notification and to reduce the size of the October revisions. (**Action point 14**)  
*Deadline: continuously*

### **4.2.2. EU flows**

#### *Introduction*

The CSO provided prior to the meeting a note on the EU flows recording (including information on cash facilities and Jeremie and Jessica schemes<sup>14</sup>), as well as completed table 6 on EU flows from the new EDP questionnaire.

#### *Discussion*

Eurostat asked the CSO to explain the link between adjustments relating to EU flows from EDP table 2 with entries in table 6 of the questionnaire, and noted that the observed discrepancy should not appear in the table, even if of insignificant amounts. Due to the lack of time, the issue of EU flows recording was not discussed in detail and the CSO agreed to clarify the link between entries in the questionnaire with EDP table 2 in the context of the forthcoming EDP notification in October 2009.

Eurostat thanked the Czech authorities for providing the information on Jeremie and Jessica schemes. According to the note, the issue is not relevant for the Czech Republic for the time being. Eurostat encouraged the Czech authorities to follow in the future the Eurostat guidance (when relevant) which is currently being prepared.

## *Findings and conclusions*

- Eurostat encouraged the CSO to reconcile the EU flows reported in EDP tables and in the table 6 of the EDP questionnaire, to remove any small discrepancy in the context of the October 2009 EDP notification and to report briefly on the issue in comments in the EDP questionnaire. (**Action point 15**) *Deadline: October 2009*<sup>15</sup>

### **4.2.3. Guarantees**

#### *Introduction*

The CSO provided, prior to the meeting, a table quantifying flows relating to guarantees on borrowing and completed tables 9.1 – 9.3 from the new EDP questionnaire for 2005-2008. According to these tables, debt assumptions have not taken place during that period and all calls have been recorded as repayment of debt previously assumed in ESA95 accounts.

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<sup>14</sup> Jeremie: Joint European Resources for Micro to medium Enterprises; Jessica: Joint European Support for Sustainable Investment in City Areas

<sup>15</sup> Some explanations have been provided in the questionnaire. However some discrepancies of negligible amounts, seemingly related to pre-accession funds, remained.

Eurostat enquired further on details on data provided by the CSO. In addition, foreseen events relating to environmental guarantees, involving very significant amounts, have been discussed.

### *Discussion*

It was clarified that an entry "direct repayment by the original debtor" in table 9.2 was not recorded as government revenue since it refers to the repayment of debt previously assumed from the Czech railways by the RIA (railway infrastructure company), currently classified in government sector. Normally, repayments by other than government units should be recorded in this item, and these would be recorded as government revenue. In this respect, Eurostat recommended to record those amounts under cash repayments by government and /or to provide comments under the table for the next EDP notification.

### Environmental guarantees

The issue on "environmental guarantees" does not relate to guarantees on borrowing. The environmental guarantees relating to possible future ecological damages were provided in the past by the National Property Fund (NPF) to privatised companies. Non-negligible amounts were paid by the State regularly. These payments were recorded as capital transfers payable to non-financial corporations at the time when the payment for incurred damage was approved.

According to the available information, the total amount which is still to be paid by government for a removal of the environmental damage is very significant (about 100 bill CZK, i.e. about 2.7% of planned GDP for 2009<sup>16</sup>). The representative of the MoF explained that government has recently announced a tender for removal of the environmental damage. A contract (of a "quasi-concession" nature) with a private partner would be split into 600 individual subcontracts (for 600 localities). The overall length of the contract would be 10-15 years. The private partner would be responsible for the removal of the damage in individual localities. It is expected that a first subcontract would be completed in 2-3 years. A company which will be responsible for this task would bear all economic risks, because government would pay for the provided service/ for the subcontract only after a certificate on completed cleaning of the particular locality is issued by the relevant authority. In addition, if the partner did not respect deadline, government could cancel the contract without any payment. Payments of government would be realised from the funds of the former NPF.

In this respect, a question arises on what is the appropriate time for the recording of government expenditure. Eurostat supported a view that an expenditure of government is to be recorded as payment for service<sup>17</sup> at time when a service has been provided by private partner. In practical terms, the government liability to pay for the purchased service will incur at time when authorised institution certifies that a cleaning of the locality has been completed.

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<sup>16</sup> GDP as notified in April 2009 EDP notification.

<sup>17</sup> According to the comments provided by the CSO after the dialogue visit, "the payment should be recorded as capital transfer from the government (-D.99) to a unit which has real benefit from liquidation of the ecological damage (+D.99). The private unit (designate by government) ensuring the liquidation of the damage receives payment for service (P.1) from final user and the final user pays for the service (P.21)". The proposed treatment might be a subject of further discussion, however the impact on government deficit would remain unchanged in terms of time of recording and amounts for individual years, compared to the original proposal of Eurostat.

### *Findings and conclusions*

- Relating to the environmental guarantees, Eurostat agreed that the government expenditure should be recorded at the moment at which a cleaning would be certified at the end of each project, as it is the final certification process which creates a government liability in the period. (**Action point 16**). *Deadline: continuously*<sup>18</sup>

#### **4.2.4. Transactions at local level - debt assumptions, debt cancellations and debt write-offs; capital injections in public corporations, dividends, privatization**

##### *Introduction*

The Czech authorities provided, prior to the mission, notes on the recording of specific transactions undertaken at local government level. Eurostat enquired further on occurrences of such transactions at local level and on availability of related information for the purpose of application of ESA95 rules.

##### *Discussion*

According to the notes provided by the Czech authorities, and as confirmed during the meeting, specific government transactions such as debt assumption and debt cancellation might take place at local government level, but related information is not available. In addition, detailed information on capital injections and dividends which are needed to perform the capital injections and superdividend tests is also not available for local government. The issue on non-availability of details in order to implement ESA95 rules concerns also operations on sale and leaseback at local level (see item 4.2.7).

Eurostat stressed that this situation is not satisfactory, since Eurostat rules should be followed for transactions realised by all general government units and recommended that the Czech authorities should jointly define missing information and ensure that the new information system would cover those details on transactions at local government.

### *Findings and conclusions*

- As far as transactions undertaken by local government are concerned, the CSO and the MoF will jointly examine what additional modifications are to be introduced in the new information and accounting system in order to cover all the necessary information which would allow the CSO to apply ESA95 rules on a number of operations such as debt assumption, debt cancellations, capital injections, dividends, guarantees, sale and leaseback operations, swaps, sector classification of public corporations established by local government. As an intermediary provisional measure, the Czech authorities will examine the final accounts published by big municipalities in the Czech Republic in order to identify and correctly record local government operations, and will inform Eurostat on the results by April 2010. (**Action point 17**) *Deadline: April 2010*<sup>19</sup>

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<sup>18</sup> As reported by the CSO in April 2010, the new contract has not been realised yet.

<sup>19</sup> See footnote to the Action point 1.

#### 4.2.5. Public Private Partnerships

##### *Introduction*

There is a special unit "Regulation and methodology of PPPs" established at the MoF within the State Budget Department. The representative of this department informed Eurostat that there is an obligation set up by a law, for grantors of PPPs, to consult the initiation of a new project with the MoF and to provide information in order to decide whether the PPP should be recorded on/off government balance sheet. There is also a special institutional unit (PPP Centrum) established in the Czech Republic. The PPP Centrum provides consulting and support to public grantors and is classified in the general government sector.

##### *Discussion*

According to the information provided by the Czech authorities in the background note prior to the meeting (list of PPPs under negotiations), and as confirmed during the meeting, no PPP projects have been approved for the time being.

The MoF raised an issue on the recording of the forthcoming PPP relating to the building of D3 motorway. Eurostat noted that a guidance note on PPPs recording have been recently sent to FAWG members for comments and encouraged the MoF to consult and comment this draft guidance note. Eurostat also invited the Czech authorities to send a written request for methodological advice, when relevant. The request is to be accompanied by the national analysis of the case and by the PPP contract.

##### *Findings and conclusions*

- Regarding the recording of PPPs, Eurostat expressed its willingness to answer to written query coming from the Czech statistical authorities concerning the D3 motorway or any other PPP. A query would include a complete impact assessment of the project based on the examination of the contract. Eurostat invited the Czech authorities to consult a draft guidance note on PPPs recording, currently circulated to FAWG members for comments. (**Action point 18**)<sup>20</sup>

#### 4.2.6. Financial derivatives

##### *Introduction*

The Czech authorities provided, prior to the mission, tables explaining recording of swaps in EDP table 2 and 3. Eurostat observed that adjustments for swaps reported by the Czech authorities are, since 2002, always negative, which not very frequent among other Members States. Eurostat enquired about the reason for these continuous negative adjustments.

##### *Discussion*

Data on swap adjustments which are reported in EDP tables are provided by the MoF to the CSO. The representative of the MoF explained that there have been operations in cross currency swaps, FOREX swaps and interest rate swaps. The MoF confirmed that under the adjustment for swaps the net flows relating to regular interest rate swaps (IRS) and interest

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<sup>20</sup> According to the information provided by the CSO, no PPP contract has been signed by April 2010.

component of cross currency swaps are reported. However the MoF was not in position to fully explain the accrual adjustment for swap settlements and the recording of FOREX swaps.

Eurostat expressed a view that the issue might relate to the recording of long-term FOREX swaps. It was recalled that when calculating EDP adjustments for long term FOREX swaps, two elements should be distinguished: movements in interest rate and exchange rate, and only the interest rate element should be taken into account. Another issue is how the interest rate element is spread over time.

#### *Findings and conclusions*

- Eurostat invites the Czech authorities to examine the reasons why the adjustments to swaps in EDP notification tables, based on data from the MoF, are always negative and to report back to Eurostat on this issue at the time of the October 2009 EDP notification. This note is to be accompanied by the calculations and accrual adjustments on swaps undertaken and description of the methodology followed. **(Action point 19) Deadline: October 2009**<sup>21</sup>

#### **4.2.7. Sale and leaseback operations**

##### *Discussion*

The Czech authorities stated that sale and leaseback operations might have taken place but information on such operations is not available. Eurostat explained the methodological background of the issue and requested that availability of such information is to be ensured for the future in the new information system. It was also suggested that, for the time being, the MoF would enquire further on possible operations on the basis of available data on rents payable by individual chapters (for the biggest amounts).

##### *Findings and conclusions*

- Eurostat encouraged the MoF to share available information on operating leaseback to the CSO. See also action point 17.

#### **4.2.8. Carbon trading rights**

##### *Introduction*

There have not been any transactions in carbon trading rights in the Czech Republic impacting government accounts. In 2008, government granted for the first time carbon allowances. They were granted for free and were recorded in national as a disposal of non-financial non-produced assets counterbalanced by a capital transfer payable, therefore without impact on the government deficit.

Following the previous exchange of correspondence on the issue between the CSO and Eurostat in the context of the April 2009 EDP notification, some aspects related to the recording have been discussed during the meeting.

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<sup>21</sup> The Czech authorities provided in October 2009 an explanatory note.



### *Discussion*

Eurostat noted that the treatment of carbon trading rights applied in the Czech national accounts does not follow the options under discussion in the joint OECD and Eurostat Task Force. As currently discussed by the Task Force, revenues from a sale/transfer of carbon trading rights are to be recorded as taxes D.29 and not as disposals of non-financial non-produced assets. Pending issues which are still being discussed by the Task Force are valuation of transaction and time of recording. A final recommendation of the Task Force should be available at the end of 2009.

### *Findings and conclusions*

- Eurostat encouraged the Czech authorities to follow the recommendation of the Task Force, when available.

## **4.2.9. UMTS licences**

### *Introduction*

The recording of the sale of UMTS licence in the Czech national accounts has been reviewed under this agenda point.

### *Discussion*

Sale of UMTS licence took place in the Czech Republic in 2001 and 2005. Transactions have been recorded as disposal of non-financial non-produced assets at time of sale. Further cash payments to government have been recorded as repayment of other accounts receivable F.7.

### *Findings and conclusions*

- Eurostat found the treatment of UMTS licences in line with the existing methodological guidance.

## **4.2.10. Specific government transactions in the context of the global economic crisis**

### *Introduction*

The Czech authorities provided prior to the mission a table listing government interventions in the context of the global economic crisis including indication of ESA95 treatment of each intervention. The table has been briefly reviewed during the meeting.

### *Discussion*

Eurostat noted that those interventions do not directly relate to a support of banks which treatment is currently discussed by Eurostat. Regarding the capital injection to the Export bank, Eurostat asked for further details on the link between the government support and a use of these funds by the bank. The MoF clarified that the aim of this capital injection is to support the export lending programme and not to rescue the bank.

### *Findings and conclusions*

- Eurostat took note of this explanation.

#### **4.2.11. Ex-ante advice: claim repurchasing (CKA versus CSOB); restitution of confiscated property to churches and religious organisations; private health insurance companies**

##### *Introduction*

Eurostat provided several ex-ante methodological advices to the Czech authorities in the course of 2008<sup>22</sup>. The following foreseen cases have been covered: (i) recording of transfer of claims in the context of repeated court decision (CSOB versus CKA); (ii) restitution of confiscated property to churches and religious organisations and (iii) sector classification of private health insurance companies administrating compulsory public health insurance.

##### *Discussion*

Eurostat enquired whether any operations relating to ex-ante advices provided in 2008 took place. The CSO confirmed that a court decision on the case CSOB versus CKA had not yet taken place and that legal acts on restitution as well on private health insurance companies have not been approved yet<sup>23</sup>.

### *Findings and conclusions*

- Eurostat took note of this information.

## **5. Other issues**

### **5.1.1. ESA95 Transmission Programme**

Eurostat noted that some drawbacks, mainly relating to timeliness, are being observed in the transmission of annual financial accounts and balance sheets, including the fact that non-consolidated data for 2007 have not been transmitted in 2008.

### *Findings and conclusions*

- Eurostat asked the CSO to send a complete set of annual financial accounts including financial balance sheets by the end of September 2009, as foreseen by the ESA95 transmission programme. (**Action point 20**) *Deadline: September 2009*<sup>24</sup>

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<sup>22</sup> The letters have been published on Eurostat website:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/methodology/advice\\_member\\_states](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/methodology/advice_member_states)

<sup>23</sup> According to the information provided by the CSO, related activities have not been undertaken by April 2010.

<sup>24</sup> The CSO sent a complete set of annual accounts including balance sheets at the end of September 2009.

## List of participants

Annex 1

Name	Institution	
Luca Ascoli	Eurostat,C3	Head of Unit C3
John Verrinder	Eurostat,C5	Head of Unit C5
Viera Karol'ová	Eurostat,C3	
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Mariola Przygoda	DG ECFIN	
Dagmar Lojschová	ECB	
Jiří Křovák	ČSU	First Vice-President and Acting Head of the CSO
Marek.Rojíček	ČSU	Director of Macroeconomic Statistics Branch
Jan Heller	ČSU	Director of Quarterly Accounts Department
Vítězslav Ondruš	ČSU	Director of Annual Accounts Department
Ludmila Vebrová	ČSU	Head of Government Accounts Unit
Marie Laštovková	ČSU	
Alena Prokopcová	ČSU	
Veroka Šťastná	ČSU	
Marie Trejbalová	ČSU	
Helena Kratochvílová	ČSU	Director of Statistical Processing Department
Dagmar Strmisková	ČSU	
Antonín Buš	ČSU	Head of Non-business Sphere Statistics Unit
Ivan Matalík	ČNB	Director of Financial Accounts and Economic Statistics Division
Milan Belloň	ČNB	
Jaroslav Kochaníček	ČNB	
Radka Štiková	ČNB	
Bohdan Hejduk	MF	Deputy Minister of Public Budget
Marie Frýdmanová	MF	Head of Public Finance Unit
Dagmar Sojková	MF	
Věra Balounová	MF	
Tereza Havelková	MF	
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