



EUROPEAN COMMISSION
EUROSTAT

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



Luxembourg, 4 December 2009

- FINAL FINDINGS -

EDP dialogue visit to Estonia

4-5 June 2009

Eurostat EDP dialogue visit to Estonia

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Executive summary

Eurostat undertook an EDP dialogue visit to Estonia with the main aims to follow-up on the last EDP dialogue visit in 2007 and the April 2009 EDP reporting, to discuss in detail the transition from mixed cash/accrual to full accrual recording, the recording of receivables and payables and EU grants, and to ensure that the provisions from the ESA 1995 Manual on Government deficit and debt and recent Eurostat decisions had been duly implemented in the Estonian EDP tables and national accounts.

Eurostat thanked Statistics Estonia and the other statistical authorities for the excellent cooperation demonstrated during this EDP visit, for all the documentation provided, and for the openness and transparency shown in the meeting. The main conclusions from the meeting were as follows:

Eurostat welcomed the cooperation between Statistics Estonia, the Ministry of Finance and the Estonian Central Bank on EDP issues, undertaken through regular meetings and discussions and congratulated Statistics Estonia on the considerable amount of work undertaken on EDP issues since the latest EDP dialogue visit of 2007.

Eurostat took note that the transition from cash/accrual to full accrual recording will be implemented in the October 2009 notification and will result in some data revisions for the period 2004-2008. Eurostat welcomed the work being undertaken by Statistics Estonia in order to produce an updated version of the EDP inventory for the October 2009 notification including these changes. Eurostat furthermore asked Statistics Estonia to implement a range of presentational changes to EDP tables 2A and 2C.

Eurostat took note that the rules on the recording of military equipment expenditure seem to be generally followed and asked the Estonian authorities to change the presentation of prepayments relating to military expenditures in the EDP tables and in the Questionnaire relating to EDP tables (table 7).

Eurostat acknowledged that the rules for the recording of EU grants appear to be implemented by Statistics Estonia, taking note that some imperfections currently identified in the recording of receivables and payables relating to EU grants in EDP tables and in the Questionnaire relating to EDP tables (table 6) should be corrected in the context of the next EDP notification.

In relation to penalties imposed on households and corporations due to the non-payments of taxes (recorded in public accounts as "interest"), Eurostat considered that due to the specific features of the system in Estonia (up to 80% of such penalties on taxes are never paid), these amounts should be recorded on a cash basis (as D.75). On the contrary, for "other interest", Eurostat proposed to use accrual data. As regards the securities held by social security funds, currently recorded as portfolio investments, Eurostat considered that interest accrued and revaluation flows should be recorded separately and interest accrued should be treated as

government revenue (which has not been the case up to now due to lack of data), improving "net borrowing/net lending" (B.9). Finally, as far as fines and penalties imposed by tax authorities for tax evasion and similar fines and penalties are concerned (including sugar stock fines), Eurostat concluded that, as not all details could be explained in the meeting, the issue needed further investigation.

As far as the recording of dividends is concerned, Eurostat invited Statistics Estonia to monitor closely the time of recording (which in some cases should rather be on a cash basis (when paid) than when the dividend is announced) and to make the superdividend test on a continuous basis.

As regards the transactions in shares between government and the Estonian Development Fund, Eurostat considered that the decision of Statistics Estonia to record a capital transfer at the moment in which the shares of Eesti Telekom were given to EDF, and a withdrawal of equity when the shares are taken back by government, is correct. Eurostat also agreed with Statistics Estonia that the capital injection in Eesti Raudtee undertaken in 2007 should be considered as a financial transaction, while the transactions undertaken in 2008 should be classified as investment grants.

As far as the planned sale of land by government in 2009 to public enterprises is concerned, Eurostat invited Statistics Estonia to monitor closely the conditions of such sales, with a view to follow the appropriate national accounts rules. Eurostat furthermore invited the Estonian statistical authorities to monitor whether the enterprise Kredex will expand its activities in the context of the economic crisis, with a view to possible rerouting of some transactions through government.

Final findings

Introductions

In accordance with article 11(1) of Council Regulation (EC) No 479/2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Communities, Eurostat carried out an EDP dialogue visit to Estonia on 4-5 June 2009.

The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of the Eurostat Public Finance Unit (C3). The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Estonian authorities were represented by Statistics Estonia, the Ministry of Finance and the Bank of Estonia.

In relation to procedural arrangements, Eurostat explained that in accordance with article 11(4) of Regulation 479/2009 the *Main conclusions and action points* would be sent within days to the Estonian statistical authorities, who may provide comments. Within weeks, the *Provisional findings* would be sent to the Estonian Statistical authorities in draft form for review. After adjustments, the *Final Findings* will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

The agenda covered statistical institutional issues, the follow-up of the previous EDP dialogue visit in 2007 and previous notifications, the transition from mixed cash/accrual to full accrual recording, the recording of EU grants, receivables and payables on taxes and on EU grants, as well as the implementation of Eurostat decisions and of the ESA 1995 Manual on Government deficit and debt in the Estonian EDP tables and national accounts.

1. Statistical institutional issues

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

Introduction

The institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation were reviewed in the meeting, based on a document provided by the Estonian authorities in advance.

Discussion

Statistics Estonia is responsible for the reporting of actual data (non-financial and financial accounts) and the Ministry of Finance for planned data (forecasts). There is no signed formal co-operation agreement between the involved institutions, but there exist internal working groups, where specific topics of common concern are discussed. Statistics Estonia holds bi-annual meetings with the Central Bank (based on a gentlemen's agreement) while the co-operation with the Ministry of Finance is on an ad-hoc basis. Discussions on the classification of units are also regularly organised. As in the EDP dialogue visit in 2007, it was stressed that, in the context of this co-operation, Statistics Estonia is responsible for final decisions on statistical issues. Nevertheless, in the context of the EDP methodological issues brought to the attention of the CMFB, the Estonian Central Bank follows the European Central Bank opinion as far as voting is concerned.

Concerning staffing, the situation is the same as in 2007, with a very small team devoted to government finance statistics and EDP in Statistics Estonia.

Conclusions

- *Eurostat welcomed the cooperation between Statistics Estonia, the Ministry of Finance and the Estonian Central Bank on EDP issues undertaken through regular meetings and discussions (action point 2).*
- *Eurostat invited the Estonian Central Bank to acquire specific expertise in EDP issues in order to be able to participate actively in CMFB consultations in the future (action point 3).*

1.2. EDP inventory

Introduction

Statistics Estonia is in the process of editing the EDP inventory and they informed Eurostat that a revised version will be ready by September 2009. The ongoing work was discussed in the meeting.

Discussion

Eurostat pointed out the importance of producing and publishing a revised version of the current inventory in order to take into account recent changes in the Estonian accounts and in particular the changes relating to the transition from mixed cash/accrual to full accrual recording. Eurostat also asked for some particular chapters to be updated, such as the "other adjustments" reported in EDP tables 2. In the meantime, Eurostat had sent some editing proposals on the current version.

Concerning the list of units annexed to the inventory, Statistics Estonia confirmed that the list is regularly reviewed and published on Statistics Estonia's web site twice per year. There are currently around 3000 government units, and the largest as well as any new units are analysed in detail each year.

Conclusions

- *Eurostat welcomed the work being undertaken by Statistics Estonia in order to produce a revised version of the EDP inventory, incorporating in particular recent developments in relation to the transition to full accrual recording. Deadline: September 2009 (action point 4)*

1.3. Follow-up from the EDP dialogue visit in 2007

Introduction

Eurostat undertook an EDP dialogue visit in 2007, resulting in a number of action points.

Discussion

Eurostat went through all the agreed action points from the last visit, analysing whether there were still any outstanding issues. The discussion revealed that there had been good progress, in particular in relation to the classification of foundations and hospitals and the real estate company Riigi Kinnisvara, and that with the introduction of full accrual recording, which had been slightly delayed, but should be finalised in the October 2009 notification, the remaining open issues would be closed.

Conclusions

- *Eurostat welcomed the considerable amount of work undertaken on EDP issues by Statistics Estonia since the latest EDP dialogue visit of 2007 and noted that almost*

all of the agreed action points have had implemented. The remaining actions will be closed in the next notification. Deadline: September 2009 (action point 5)

2. Follow-up of the April 2009 EDP reporting – analysis of EDP tables

Introduction

Estonia has a policy of revising backward data only once per year, except for correcting mistakes or in the case of major reclassifications. The April notification therefore raises few questions compared to the one in October. In the meeting, the EDP tables were analysed one by one.

Table 2A

Discussion

The working balance in table 2A is cash based. Table 2A includes a number of adjustments and the most important are the accrual adjustments and the delimitation relating to "other central government bodies" for all years, but there are also adjustments in 2006 for a number of "financial transactions considered in the working balance" and in 2005-2008 for capital injections reported under "other adjustments".

Concerning the "financial transactions considered in the working balance", the adjustment in 2006 in relation to the "payments to the pension insurance fund" and the adjustment line for "recovered amounts from bankrupted banks" have been clarified in previous notifications and were therefore not discussed. The same goes for the "capital injections" reported under "other adjustments".

For the accrual adjustments, there are adjustments both in "other accounts receivable" and "other accounts payable". The receivables relate to EU grants, social security contributions and VAT and excises. For the payables, there is an adjustment for EU grants. All these accrual adjustments except EU grants are consistent with the data reported in the corresponding tables in the Questionnaire relating to the EDP notification tables (both the current and the revised one).

The accrual adjustments for EU grants were discussed under agenda item 3.

Concerning the split of "other accrual adjustments" as reported under "other adjustments", the Estonian authorities confirmed that they are not able to fully split this item due to the mix of cash and accrual data sources. They have however, in April 2009, been able to separate the accrual amounts relating to foreign aid and military expenditure.

The recording of military expenditure and the current adjustments in table 2A, and in particular the 2008 adjustment of 740 mn EEK referring to a large prepayment, were discussed in the meeting. Concerning the adjustment for "military goods", the cash amount is included in the working balance and there is an adjustment in EDP table 2A under "other adjustments". A corresponding adjustment in table "7.2 Military equipment expenditure" of

the Questionnaire relating to the EDP notification tables is reported. This adjustment is however booked net under "discrepancy" instead of under "other accounts receivable".

The accrual amounts relating to military expenditure have however not been included in the questionnaire tables 4.1.1 and 4.1.2 relating to EDP table 2A, but only in questionnaire table 4.2.1 and 4.2.2 relating to EDP tables 3. Eurostat stressed that the amounts relating to military expenditure should be the same in both EDP tables 2 and 3 and introduced in the related questionnaires.

Eurostat explained that while the accrual adjustment seemed correct, it should not be reported under "discrepancy" in questionnaire table 7.2 but under "other accounts receivable". Eurostat furthermore pointed out to the Estonia authorities that the qualitative part of questionnaire table 7.2 needed to be updated in order to include the recording of prepayments.

Since the adjustment for military expenditure in EDP table 2A refers to accruals, Eurostat advised that it should be moved from "other adjustments" to "other accounts receivable" or "other accounts payable" depending on its nature.

Concerning the delimitation adjustments, these refer to "other legal institutions, foundations, hospital and enterprises". The same split is found in the questionnaire table 3 "Adjustments for sector delimitation in EDP tables 2A-D". The classification of units and in particular of hospitals, foundations at the level of local government and the real estate company Riigi Kinnisvara, was one of the main discussion points in the 2007 visit and as a follow-up, Statistics Estonia made a complete review of all units, leading to a number of reclassifications. Statistics Estonia also started to implement a new procedure from the April 2008 notification, as advised by Eurostat, for newly created foundations, in particular at the level of local government. The foundations which were created during recent years and for which no accounts were yet available, due to the nature of their main activity, should be temporarily classified inside government, pending analysis of their accounts (when available) and of the degree of control by government.

In relation to the foundations, Statistics Estonia explained that these were normally profitable at the level of central government as they were created for providing services, collecting fines etc. On the contrary, at local government level, foundations tend not to be profitable as they respond to restrictions on local government borrowing for large investments (for example when building new schools etc).

The enterprises Kredex and Enterprise Estonia were also discussed. Kredex is currently 100% government owned and classified in S.11. It provides export and other guarantees (for housing for example) but it is at present being discussed whether its activity should be extended to financial support to companies in the context of the current financial crisis. It was agreed that Statistics Estonia should follow closely the enterprise in order to see whether reclassification or rerouting of some transactions may be needed in the future.

Concerning Enterprise Estonia, the Statistical authorities explained that the company is managing EU funds, provides funds for infrastructure and consulting services etc., but that there are no foreseen changes to its activities. Enterprise Estonia is recorded as an extra-budgetary entity in sector S13.

EDP table 2C

Discussion

The working balance for table 2C is cash based. EDP table 2C includes adjustments relating to "sub-sector delimitation" (similar to EDP table 2A) and some adjustments under "other accrual adjustments".

In line with the discussion under table 2A, Eurostat proposed to move the accrual adjustments reported under "other adjustments" to "other accounts receivable" or "other accounts payable", depending on the nature of the adjustment.

EDP table 2D

Discussion

The working balance for table 2D is on an accrual basis. In table 2D, the adjustments for social security contributions, GFCF and "financial revenue considered to be other changes in assets" are reported as transition items needed to compile B.9. The latter represents the exclusion of the revaluation part of financial revenue for the calculation of B.9.

EDP tables 3

Statistical discrepancies

Discussion

The size of the statistical discrepancies (even if their size has gone down recently) has been pointed out by Eurostat during recent years and has been explained by the use of the different data sources (mix of cash and accrual). With the transition to full accrual recording, the Statistical authorities expect the discrepancy to decrease further. The issue will be further monitored in the October 2009 notification.

- *Statistics Estonia will provide, by the next EDP notification, a further split of the adjustment line in table 2A relating to "other accrual adjustments". Deadline: September 2009 (action point 6)*
- *Statistics Estonia will move, in EDP tables, some of the amounts included under "other accrual adjustments" to the lines "other accounts receivable" and "other accounts payable", where appropriate. Deadline: September 2009 (action point 7)*
- *Eurostat took note that the Eurostat rules on the recording of military equipment expenditure seem to be basically followed. Eurostat furthermore noted that the difference between cash and accrual for 2005-2008 (particularly sizeable for 2008, equalling 740 mn EEK) is only related to prepayments and should therefore be recorded in table 2A under "other accounts receivable" and not under "other adjustments". Deadline: September 2009 (action point 8)*

- *Eurostat asked the Estonian authorities, in Questionnaire table 7 relating to Military expenditure, to move the accrual correction from "other adjustments" to "other accounts receivable" and to update the qualitative information provided in section 3 of the same table. Deadline: September 2009 (action point 9)*
- *Statistics Estonia will provide, by the next EDP notification, a further split of the adjustment line in table 2C relating to "other accrual adjustments". Deadline: September 2009 (action point 10)*
- *Eurostat invited the Estonian statistical authorities to monitor whether the enterprise Kredex will expand its activities in the context of the economic crisis, with a view to possible rerouting of some transactions through government, if appropriate, according to national accounts rules. Deadline: Continuous (action point 11).*

3. Transition from cash to accrual recording in Estonia

Introduction

Estonia is in the process of going from a mixture of cash/accrual recording to full accrual recording. The project was discussed already in the 2007 EDP visit and after some delay, the projects is now in its final phase and will be implemented in the October 2009 notification.

Discussion

The Statistical authorities explained the current situation (data sources, development of the IT-system and progress until today) based on the documentation sent before the meeting, and raised a number of specific issues for discussion and advice from Eurostat.

Description of data sources

Starting from year 2009 the main data source for compiling the general government non-financial and financial accounts will be the General Government Accounts (GGA), which are based on the General Rules of Governmental Accounting. Annual and quarterly balance accounts have been compiled according to this new system since 2004 and monthly balance accounts, for units classified in the government sector, since 2008.

All government units are obliged to report their balance account positions every month through this information system (which can be accessed through the web application on the Ministry of Finance web page). The General Government Accounts data are derived directly from the Ministry of Finance information system once per day.

Progress so far

The use of GGA data for the calculation of ESA95 transactions started already in 2006. Changes undertaken until June 2009 are:

All transactions of public legal units, foundations, health-care institutions and social security funds are on an accrual basis. This is also the case for gross fixed capital formation and acquisitions less disposals of non-financial non-produced assets.

Foreign aid (including EU grants) is based on GGA data starting from the year 2007. Due to the absence of a proper IT-solution, the quarterly calculations of EU grants and the first estimate each year have been mainly based on cash data. The revised data, published in September each year, has however been based on the GGA data source.

Finally, transactions used for calculating final consumption (P.3) have been moved to GGA data starting from September 2008.

Future work

The calculation of all transactions will be based on accrual data of GGA starting from September 2009. From this moment, all quarterly calculations will also be based on GGA data. The transition will lead to revision of data for all years.

Statistics Estonia had, before the meeting, announced a number of pending issues in relation to the transition to full accrual recording, which they would like to discuss with Eurostat. These related to:

- 1) Accrual recording of interest on taxes and "other interest";
- 2) Recording of accrual interest for social security funds;
- 3) Recording of fines and penalties.

Accrual recording of interest on taxes and "other interest"

Introduction

As a preparation for the meeting, the Estonian authorities sent a document proposing how to record accrual interest on taxes as well as "other interest", and in particular how to take the amounts unlikely to be paid into account in the context of the transition to full accrual recording.

Discussion

Currently, in General Government Accounts, taxes and "interest on taxes" are recorded in separate accounts. "Interest on taxes" revenue is recorded at the moment the claim arises as D.41 receivable and it is considered unlikely to be collected after 180 days in the case of enterprises and after 360 days in the case of private persons. Some persons and companies do pay after this time period and these payments have been recorded as cash revenue. A table with the figures for 2005-2008 for accrued interest and the cash amounts was provided for the meeting.

The statistical authorities explained that, until now, the amounts had been recorded cash as D.41, and that the cash figures were very close to the net accrual value (amount of interest to be paid minus the amounts unlikely to be collected). Eurostat took note that the amounts

unlikely to be collected were high and had ranged from 44% to 72% during the last four years.

On the contrary, for "other interest", the amounts unlikely to be paid were negligible.

Eurostat noted that whereas in public accounts the item was called "interest on taxes", the nature, as defined in ESA95, is rather a penalty. It should therefore be recorded under D.75 rather than under D.41. Concerning the method, Eurostat furthermore said that there are two possible options: either to continue to record the amounts cash as in the past or to use accrual data, which would then require reliable time series for the calculation of the coefficient of uncollectible interest. Eurostat stressed that in any case it is not correct to record the amounts in one year and to write them off shortly after, as this is not in line with ESA95 and as it would lead to a timing effect on government revenue. Concerning the accrual recording option, the situation is complicated by the very high and volatile amounts of uncollectible taxes. Therefore, Eurostat was not in favour of the solution proposed by the Estonian Statistical authorities, that is to record the "interest on taxes" on a net basis (total amount of interest to be collected (D.41) minus the part of interest on taxes unlikely to be collected (D.95)). Eurostat proposed instead to record the interest cash as miscellaneous transfers (D.75).

As for the "other interest", where the uncollectible part is very small, accrual data could be used.

Recording of accrual interests for social security funds

Introduction

The Statistical authorities introduced the issue of the recording of interest in the social security sector as a consequence of the transition to accrual recording.

Discussion

In General Government Accounts in Estonia there are three ways to record financial investments; as portfolio investments, as securities that are held until maturity and as other financial investments. For securities that are held until maturity and other financial investments, revaluation and interest accrued have to be calculated and recorded separately. On the contrary, for portfolio investments, all changes have to be recorded as one figure under the heading revaluation. The social security funds (Estonian Health Insurance Fund and Estonian Unemployment Insurance Fund) hold large amounts of securities, which are recorded under the heading of portfolio investments. Therefore, it has not been possible to obtain accrual interest data directly from source data.

However, both the Estonian Health Insurance Fund and the Estonian Unemployment Insurance Fund send a more detailed report on their securities to the Bank of Estonia. This report has separate data for the revaluation of securities and interest accrued. Such data is available starting from the year 2007.

In 2007, the Estonian Unemployment Insurance Fund recorded revaluation of securities for an amount of -15.8 million EEK (this amount was recorded in the balance sheet as revaluation and financial expenditure was included in the working balance of the fund).

Based on the report sent to the Bank of Estonia, where the amounts were detailed, it was seen that the loss from revaluation of securities was -103.8 million EEK and accrual interest amounted to 88.3 million EEK (which resulted in -15.5 million EEK net).

Eurostat took note of the new data available as from 2007 and of the accounting consequences, and concluded that whereas the revaluation does not impact B.9, interest receipts improve government revenue and consequently B.9. This will slightly improve the deficit in 2007. The same is true for 2008.

Recording of fines and penalties

Introduction

The recording of fines and penalties in the Estonian accounts in the context of the transition to accrual recording was raised and the discussion focussed on how to take the amounts unlikely to be collected into account. In this context the fines on sugar stocks were also analysed.

Discussion

In General Government Accounts (GGA) fines and penalties are recorded at the time the claim arises. Fines and penalties are considered to be unlikely to be collected after 180 days in the case of enterprises and after 360 days in the case of private persons. The fines and penalties imposed by tax authorities for evasion or late payment of taxes are currently recorded separately from the taxes and therefore those fines and penalties are recorded as D.75 in ESA95 accounts (see also above).

Other existing fines and penalties concern for example fines for breaking the law (non-respect of speed limits etc) as imposed by the police and the fine on sugar stocks.

Sugar stock fines

Recording of sugar stock fines payable by the government sector to the EU

Before the accession of new Member States in 2004, the European Commission laid down two regulations in order to avoid market distortions. The Commission Regulation (EC) No 60/2004 concerned transitional measures in the sugar sector and laid down definitions of excess stocks and penalty calculation methods.

According to the information provided by the Estonian statistical authorities, the Parliament of Estonia adopted the "Fees on Excess Stocks Act" in April 2004 which laid an obligation for enterprises to declare the amounts of stocks of sugar and agricultural products they owned on 1st of May 2004 and the obligation to pay fines in case of excess stocks, as a consequence of accession. The Government of Estonia did not take any measures to prevent households to create large stocks and concentrated on preventive actions for enterprises, which were given until December 2005 to free themselves from excess sugar stocks.

The Government of Estonia appealed to the Court of Justice of the European Communities about the size of the fines to be paid. The European Commission took the final decision

about fines of excess stocks of sugar in 2006 and other agricultural products in 2007. Both types of fines had to be paid by the Estonian government to the EU over four years 2006-2009, in equal parts.

Recording of sugar fines payable by the government sector to the EU

According to the Estonian statistical authorities, the first claims of excess stock fines on enterprises were raised by ETCB (the Estonian Tax authority) at the end of 2004. At that time, very few companies paid the fee as they did not agree with the size of the fee and made a common appeal to the Court of Justice of the European Communities. The Court decided however on 4th of June 2009 that the calculation method used by the Estonian government, and the size of the fees, were correct.

So far all amounts (payments from the Estonian government to the EU and payments by the enterprises to the Estonian government) have been recorded on a cash basis and the discussion focussed on whether these amounts should be recorded on accrual basis, especially in the light of the high amounts unlikely to be collected and the recent court decisions.

Eurostat took note of the explanation provided in the meeting but stressed that there were many missing elements yet to be identified and that a decision on the recording could not be taken in the meeting. It was therefore concluded that Eurostat would send a list of additional questions to the Statistical authorities in the coming days¹.

- *Eurostat took note that the transition from mixed cash/accrual to full accrual recording will result in reclassification of transactions and revision of data for the period for 2004-2008. This revision will be implemented in the October 2009 notification. Deadline: October 2009 notification (action point 12)*
- *As far as penalties imposed on households and corporations are concerned (due to the non-payments of taxes, recorded in public accounts as "interest"), Eurostat considered that due to the specific features of the system in Estonia (up to 80% of such penalties are never paid), these amounts should be recorded on a cash basis (as D.75). On the contrary, for "other interest", Eurostat proposed to use accrual data. Deadline: September 2009 (action point 13)*

¹ Eurostat sent the request on 11 June with a deadline for replying by 31 August. In the meantime, a majority of the missing elements were provided by the Estonian authorities. Eurostat proposed to record all transactions in relation to fines and penalties, excluding the sugar fines, on a cash basis except for local government, where accrual recording, from 2009, is more appropriate.

For the sugar stock fines, the issue was discussed in a bilateral meeting between Statistics Estonia, the Estonian Ministry of Finance and Eurostat on 9th of October 2009. It was concluded that the payments from the producers to the Estonian government, as well as the payments from the Estonian government to the EU, should be recorded symmetrically, that is in the year of the court decisions (2006). This had already been the case for the payments from Estonia to the EU in the October 2009 notification. However, the payments from the producers to the Estonian government had in the October 2009 notification been recorded on a cash basis. Due to time constraints, the decision of 9th of October will only be implemented fully in the April 2010 notification.

- *As regards the securities held by social security funds, currently recorded as portfolio investments, Eurostat considered that interest accrued and revaluation flows should be recorded separately and interest accrued should be treated as government revenue (which has not been the case up to now due to lack of data), improving "net borrowing/net lending" (B.9). Deadline: September 2009 (action point 14)*
- *As far as fines and penalties imposed by tax authorities for tax evasion and other kind of similar fines and penalties are concerned, Eurostat concluded that the issue needs to be further investigated and that Eurostat would send to Statistics Estonia a written detailed request for documentation in the coming days. Nevertheless, Eurostat underlined that noticeable amounts of fines and penalties should not be recorded as revenue in one year and then be cancelled in the following year. Deadline: 31 August 2009 (action point 15)*

4. Recording of EU grants in the Estonian national accounts

Introduction

The recording of EU grants in Estonia has been discussed on several occasions since the 2007 EDP dialogue visit, where flaws with the existing recording were noted. These related in particular to the time of recording and the risk of over or underestimating B.9 from one year to another, and to the absence of accrual data in the first reporting of the year. In the meantime, the Estonian authorities had taken several measures in order to correct the deficiencies in the recording of EU grants.

Discussion

The EU flows in Estonia can be split into two groups of funds:

- grants from the structural funds, agricultural funds, transition fund and the Schengen facility;
- other grants (grants from EEA countries, "cash-flow facility", other non-specified sources).

For the first group, there is one central financing agency and 12 implementing agencies dealing with transfers of funds to the final beneficiaries. Four of the implementing agencies are extra-budgetary foundations: Enterprise Estonia (Ettevõtlike Arendamise Sihtasutus), the Environmental Investment Centre (Sihtasutus Keskkonnainvesteeringute Keskus), the Foundation for Lifelong Learning Development INNOVE (Elukestva Õppe Arendamise Sihtasutus INNOVE) and the Archimedes Foundation (Sihtasutus Archimedes). In the General Government Accounts (GGA), each of the funds have specific identification numbers which allows the tracking of the transactions from the financing agency to the implementing agencies and then to the final beneficiaries. However, the fact that the implementing agencies are outside government budget has lead to large discrepancies between the data reported in EDP tables 2 and 3 and in the related Questionnaire tables on EU grant receivables and payables.

For the second group of funds there is no central financing unit and in GGA there is only one common identification number for all grants concerned. As this common identification

number is used for all foreign aid, except for the first group of funds as mentioned above, the tracking of the transaction cannot be carried beyond the first unit receiving the grants.

For the first notification every year, a mixture of cash (all government units except the four main implementing units as mentioned above) and accrual data has been available, resulting in revisions of data at the time of the October notification. With the transition to full accrual recording, these deficiencies should disappear and there should be no more revisions of data between the spring and autumn notifications. The problem with inconsistencies of data between the EDP reporting tables and the related questionnaire should also be solved.

Conclusions

- *Eurostat acknowledged that the rules for the recording of EU grants seem to be followed and implemented by Statistics Estonia. Some imperfections currently noticed in the recording of receivables and payables relating to EU grants in EDP tables and in the Questionnaire relating to EDP tables (but not affecting B.9) should be corrected in the context of the next EDP notification. Deadline: September 2009 (action point 16)*

5. Recording of receivables and payables in the Estonian accounts

Introduction

The recording of receivables and payables relating to Military expenditure and EU grants were already discussed above. Therefore the methodological discussion focussed on taxes and social contributions and other receivables and payables.

Discussion

The reporting of receivables and payables relating to taxes and social contributions are consistent between EDP tables 2A and 3B and the Questionnaire relating to EDP tables. As mentioned above, this has not been the case for EU grants until now. Furthermore, whereas military expenditure has been correctly reported and included in EDP table 2A and questionnaire "4.1.1 Other accounts receivable (F.7) reported in EDP table 3A" with a net figure, the item has never been included in EDP tables 3.

The Estonian authorities have in the past claimed that the inconsistencies for receivables and payables relate partly to the fact that the working balances in tables 2A and 2C are not fully on a cash basis, but on a mixed basis, and that there are some receivables and payables included in units which are outside the working balance, like for example the four implementation agencies for the EU funds. Eurostat agreed that these factors may explain a minor part of the inconsistencies, but not all of them, and that the unexplained residual as reported in the questionnaire tables 4.1.1, 4.1.2, 4.2.1, 4.2.2 is still too high. Through the recent effort of Statistics Estonia to analyse and split the "other accrual adjustments" in EDP tables 2, the situation has improved, but further progress is expected with the new accrual recording in October 2009.

In the meeting the receivables relating to financial transactions as reported in EDP table 3A and questionnaire table 4.1.1 were discussed. The Estonian authorities explained that these refer to dividends announced by public corporations but not yet paid to government. Usually the dividends are announced in the first or second quarter of year n+1 but only paid later. Statistics Estonia has recorded the dividends when called/decided balanced by a receivable of government until the payments is executed.

Eurostat concluded that the preferred option in case of delays between the decision and the actual payment of the dividend would be to record the dividends when actually paid (cash) rather than when called.

In relation to dividends, the Estonian authorities confirmed that there had been no interim dividends paid out in recent years and that they undertake the superdividend test on a regular basis.

Conclusions

- *Eurostat took note that the transition from mixed cash/accrual to full accrual recording will result in improved and more detailed data in relation to receivables and payables in the Estonian accounts.*
- *As far as the recording of dividends is concerned, Eurostat invited Statistics Estonia to monitor closely their time of recording (which should in some cases be rather when paid, than when the dividend is announced) and to make the superdividends test on a continuous basis. Deadline: Continuous (action point 18)*

6. Recording of taxes and social contributions in the Estonian accounts

Introduction

Statistics Estonia has sent an update of the reply to the questionnaire on the implementation of Regulation 2516/2000. In principle there had been no changes to the previous reply two years ago.

Discussion

Estonia uses time-adjusted cash or pure cash for the recording of taxes and social contributions. Income taxes are recorded cash, while VAT, excise duties and social contributions are adjusted by one month. There have been no changes to the methods of recording during the last years. No specific issues were raised in the meeting.

Conclusions

- *Eurostat took note of the current system for recording taxes and social contributions in the Estonian accounts.*

7. Further methodological issues and recording of specific government transactions

7.1. The financial turmoil: actual cases and accounting consequences for government

Introduction

According to the information sent to Eurostat by the Estonian authorities, there have been no actions taken by government in relation to the financial turmoil in 2007 and 2008.

Discussion

The Estonia authorities confirmed that there were indeed no government interventions in 2007 and 2008 and added further that according to their knowledge this was valid also for 2009.

7.2. Classification of units – follow-up – issue covered under EDP tables 2, item 2, above

7.3. Capital injections into public corporations, dividends, privatisation

Introduction

Estonia has completed the new questionnaire tables 10.1 and 10.2 relating to Capital injections into public corporations, dividends, privatisations. The tables are more or less complete apart from the unavailability of some data for the last year in the first notification.

Discussion

The discussion focussed on a number of companies and in particular on the capital injections into the Estonian Oil Stockpiling Agency (AS Eesti Vedelkütusevaru Agentuur), the Estonian Development Fund (Eesti Arengufund) and the Estonian Railway company (Eesti Raudtee).

Statistics Estonia explained that the large injections into the Estonian Oil Stockpiling Agency which took place in the past and were recorded as government expenditure, will not occur in 2009 due to the low oil price and accumulated reserves.

Concerning the Estonian Development Fund the discussion focussed on an injection made in 2007. The Estonian Development Fund is a financial corporation, classified in S.12, which provides risk capital in order to help companies' start-up and innovation. The profit of the EDF is reinvested. The EDF was founded in 2006 and in 2007 EDF was given shares in Eesti Telekom by government. The capital injection in EDF was recorded as D.9 (capital transfer from government to EDF) as government did not expect any market return at that time.

In 2009, the Eesti Telekom shares were given back to government. The transaction has been recorded as withdrawal of equity (financial transaction).

Statistics Estonia explained the reason for the asymmetric recording in relation to the Eesti Telekom shares and Eurostat confirmed that in this case it seems fully correct. Eurostat said that if government would have believed in 2007 to recover the money for Eesti Telekom, one could have booked a loan without interest. Or, if in 2007, the assumption was that the company was going to generate profits with a market rate of return, the transaction could have been booked as injection of equity. However, as this was not the case, according to ESA95 rules, it had to be booked as a capital transfer from government to EDF, increasing the government deficit.

For the Estonian Railway company (Eesti Raudtee), Statistics Estonia explained that after showing losses in 2006, the company had an operating profit in 2007. Therefore, the capital injection by government in 2007 should be considered a financial transaction. However, in 2008 Eesti Raudtee paid a dividend to government of 99 mn EEK which government paid back a couple of days later. The grant given by government was earmarked for investments and Statistics Estonia has therefore recorded the transaction as an investment grant.

Concluding the discussion on dividends, Statistics Estonia said that due to the economic downturn smaller dividends had been paid to government in 2007 and 2008 compared to previous years.

Conclusions

- *As regards the transactions in shares between government and the Estonian Development Fund, Eurostat considered that the decision of Statistics Estonia to record a capital transfer at the moment in which the shares of Eesti Telekom were given to EDF, and a withdrawal of equity when the shares will be taken back by government, is correct (action point 19)*
- *Eurostat agreed with Statistics Estonia that the capital injection in Eesti Raudtee undertaken in 2007 should be considered as a financial transaction, while the transactions undertaken in 2008 should be classified as investment grants (action point 20)*

7.4. Military equipment expenditures - issue covered under EDP table 2A, item 2,

7.5. Recording of guarantees

Introduction

Statistics Estonia has completed the questionnaire tables on guarantees. There have been no new guarantees provided in Estonia since 2005 and during 2005-2008 there have been no calls on guarantees.

Discussion

Statistics Estonia confirmed that the reporting in relation to guarantees in April 2009 was correct and that since then there have no new developments in this respect.

7.6. Recording of debt assumptions, debt cancellations and debt write-offs

There have been no reported debt cancellations during 2005-2008. The issue was not further discussed.

7.7. Public Private Partnerships, securitisation operations and sale and leaseback operations

Introduction

Statistics Estonia has completed the questionnaire tables on PPPs, securitisation operations and sale and leaseback operations. It has reported a PPP in relating to the renovation of schools and a sale and lease back operation (Riigi Kinnisvara).

Discussion

Statistics Estonia confirmed that, according to the information currently available, the classification of the PPP relating to the renovation of schools in Tallinn is in line with the Eurostat rules on PPPs, and that these PPPs have been classified inside government. Since the decision in April 2009 to classify the PPPs inside the local government sector, no new information or contracts had been received from the City Council of Tallinn².

In relation to potential PPPs on a local government level, a new legislation is under development, requesting local governments to send all contracts to the Ministry of Finance. This new law is expected to raise the quality of the monitoring of PPPs on central government level.

The sale and leaseback operation by the real estate company Riigi Kinnisvara has been classified inside government. The issue was agreed with Eurostat in spring 2008. Statistics Estonia said further that there may exist sale and leaseback operations by foundations at local government level, but they are not fully informed on these issues.

Statistics Estonia confirmed that there are no securitisation operations in Estonia.

8. Other issues

The next revision on GDP

Statistics Estonia explained that there will be some revisions to GDP data in 2009 (for 1995-2008) relating to the price of land where the imputed rent had been underestimated. No other major revisions are expected.

² Since the EDP dialogue visit in June 2009, Statistics Estonia received information and copies of the PPP contracts from the Tallinn City Council. Based on this information, Statistics Estonia reclassified the PPPs relating to the renovation of schools outside government in the October 2009 notification. Eurostat confirmed in a meeting on 9 October 2009 that the recording of Statistics Estonia was correct and that the PPPs should indeed be classified in the private sector accounts.

Planned budgetary measures in 2009

Introduction

In the meeting the budgetary consolidation measures for 2009 as announced by the Estonian government were discussed. The measures and their accounting implications will however only be visible to Eurostat in the April 2010 notification.

Discussion

The discussion focussed on the planned sale of land as announced in the supplementary budget and Eurostat invited Statistics Estonia to follow the issue closely for the 2010 reporting of 2009 data. The issue in relation to the Estonian Development Fund was already discussed above under item 7.3.

Conclusions

- *As far as the planned sale of land by government in 2009 to public enterprises is concerned, Eurostat invited Statistics Estonia to monitor closely the conditions of such sales, with a view to follow appropriate national accounts rules. Deadline: April 2010 (action point 17)*