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**- FINAL FINDINGS -**

**EDP dialogue visit to Lithuania**

**9-10 June 2008**

## Executive summary

An EDP dialogue visit to Lithuania took place on 9-10 June 2008.

Eurostat carried out this EDP dialogue visit with the aim to analyse the April 2008 EDP notification, to review the sectorisation of some units, to ensure that the provisions from the ESA95 Manual on government deficit and debt (MGDD) and the recent Eurostat decisions are implemented and that specific government transactions are appropriately recorded in the Lithuanian EDP notifications and national accounts.

First, Eurostat enquired about the institutional arrangements and division of responsibilities with respect to the reporting of data under EDP. EDP tables are officially reported to Eurostat by Statistics Lithuania (SL). The Ministry of Finance (MoF) compiles EDP tables 2A-D (actual as well as forecast data), SL compiles EDP tables 3. The Central bank (LB) does not directly participate in the EDP compilation process; it provides data on financial transactions and stocks. Eurostat took note of the current organisation and encouraged further cooperation between SL, the MoF and the LB.

Second, the data sources for the main sub-sectors were discussed. Eurostat took note of the relatively good level of source data availability in Lithuania, particularly for the first estimate. Efforts could be made on balance sheet information and on more detailed and comprehensive information on hospitals.

Concerning the EDP tables, Eurostat invited SL to indicate the nature of the working balance in EDP tables 2A-D. The adjustments in EDP table 2A for "*Other accounts receivable/payable*" were discussed. Eurostat noted that the adjustments for EU flows are booked in EDP Table 2A mainly under other accounts payable and considered that amounts of receivables/payables should be more correctly identified as such in EDP table 2A.

As regards the adjustment for sector delimitation, Eurostat noted that the current system does not identify if an individual hospital has a profit or loss, for both central and local government hospitals. The adjustments for hospitals were not reported in EDP table 2A and 2C. Eurostat took note that Statistics Lithuania will investigate this issue and report the results to Eurostat. The source data used for compilation of EDP tables 3 was discussed. Eurostat recommended Statistics Lithuania to consider, for EDP table 3, using source data of government units instead of money and banking statistics, unless there are very appropriate and documented reasons for not doing so.

Concerning the classification of units, Eurostat concluded that the Statistical Business Register list, used for the EDP reporting, is not systematically updated and invited the Lithuanian authorities to do so. Particular attention was given to the sectorisation of some units: public infrastructure companies: railways, road companies, transportation companies, public utility companies, as well as public hospitals, public TV and Radio. Eurostat took note of the classification of the railway company *AB Lietuvos geležinkeliai* outside general government and the classification of Public TV and Radio as well as Hospitals inside general government. Eurostat suggested that all public units must be screened to see if they should be classified inside the general government sector or not. In particular, the public transportation companies and public utility companies are to be checked against the 50 percent rule. 11 units, motorway

construction companies, should likely be reclassified inside general government. The sector classification of agencies that are established by ministries is to be checked.

Regarding the recording of accrued interest, Eurostat took note that the recommendations for the recording of discounts and premiums and of “coupons sold” are followed for foreign currency bonds. The Lithuanian statistical authorities should check the recording of discounts and premiums on Litas bonds and reconcile the data.

Eurostat raised a question about the funds for decommissioning of the Ignalina nuclear power plant. The Lithuanian statistical authorities will investigate the issue and provide a note to Eurostat.

Eurostat took note of the explanations provided regarding the treatment of guarantees. Eurostat acknowledged a very good level of information on EU funds, allowing to correctly record the flows, and that Eurostat rules in this respect for a correct deficit (B.9) measurement were fully followed. Eurostat concluded that further efforts are needed for regular monitoring of dividends paid to government by public corporations. Further information on the alleged quasi-corporations and clarification of the treatment of capital injection into railways will be provided by SL. The non-existence of securitisation, sale and lease back operations and PPPs was noted.

The meeting was constructive and Eurostat appreciated the explanations provided by the Lithuanian authorities during the dialogue visit and the documentation provided prior to the visit. Eurostat also thanked the Lithuanian authorities for the comprehensive accompanying explanations to the EDP notifications, which are sent with each reporting, and encouraged to continue this good practice in future.

## **Final findings**

### **Introduction**

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005, amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in Lithuania on 9-10 June 2008.

The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of Unit C.3 Public Finance. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers.

The Lithuanian authorities were represented by Statistics Lithuania (SL), the Ministry of Finance (MoF) and the National Central Bank (LB).

Eurostat carried out this EDP dialogue visit with the aim to assess the existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to clarify the issues relating to EDP tables raised in the context of previous notifications, to review the progress achieved in implementing ESA 1995 methodology (sectorisation of units, accrual principles), to assure that the provisions from the ESA 1995 Manual on Debt and Deficit and recent Eurostat decisions are duly implemented, and that specific government transactions are properly recorded in the Lithuanian EDP tables and national accounts.

In relation to procedural arrangements, Eurostat explained the new procedure, in accordance with article 8 of Regulation 3605/1993 as amended, indicating that the *Main conclusions and action points* would be sent within days to the Lithuanian statistical authorities, who may provide comments. Within weeks, the *Provisional findings* would be sent to the Lithuanian statistical authorities in draft form for their review. After adjustments, *Final Findings* will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

### **1. Statistical capacity issues**

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

##### *Introduction*

EDP tables are officially reported to Eurostat by SL. The MoF compiles EDP tables 2A-D (actual as well as forecast data), SL compiles EDP tables 3. Statistics Lithuania is also responsible for the compilation of ESA 1995 tables. The Central Bank does not directly participate in the EDP compilation process; it provides data on financial transactions and stocks.

### *Discussion and methodological analysis*

Eurostat recalled the insufficient national interinstitutional cooperation observed during the 2005 and 2006 EDP missions, and enquired on progress achieved since, with respect to formal arrangements as well as to existing practices.

It was recalled that the Government Resolution No 702, which gives the responsibility of government deficit and debt statistics compilation to SL, has been in force since 2002. In December 2007 a *Schedule for the provision of statistical information on the general government deficit and debt* was approved by a joint order of the Minister of Finance and the Director General of Statistics Lithuania. This Schedule identifies the institution producing statistics (division or department) and the institution receiving statistical information (division) and defines, as well, the deadlines for the submission of particular statistical information. The Lithuanian authorities explained that this Schedule is *de facto* a formalisation of the cooperation arrangements already in place and is meant to provide more transparency to the system.

In addition to the aforementioned formal arrangements, the statistical authorities work in close cooperation in the context of a few established working groups as well as in less formal working teams. Although there is no separate working group for EDP and GFS matters as such, methodological issues may be raised in an Interinstitutional National Accounts Expert group (INAE), chaired by SL, comprising representatives from SL, the MoF, LB, the Ministry of Economy (MoE) and some others. This INAE provides advice directed to SL or LB. Sectorisation questions are discussed within a Sectorisation technical group, chaired by the head of the Business Register Unit of SL, although it has not met for a while. Issues of a more general nature are discussed within a Methodological commission composed of SL staff.

### *Findings and conclusions*

1. Eurostat took note of the current organisation involving Statistics Lithuania, the Ministry of Finance and the Central Bank and encouraged their further cooperation.

## **1.2. EDP Inventory and data sources**

### *Introduction*

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

### *Discussion*

Eurostat noted that the Lithuanian *EDP consolidated Inventory of sources and methods* was updated by SL before publication on Eurostat's webpage. SL confirmed that the EDP inventory has been published nationally (both in English and in Lithuanian). Some inconsistencies between the descriptions in the EDP inventory and the data in EDP tables or other information were pointed out under various points of the agenda.

### Central government

Central government consists of 1212 entities covering the State budget (comprising budgetary units, among others also universities and non profit institutions) and other central government bodies: hospitals, 6 extra-budgetary funds (The Guarantee Fund, the 1990 Blockade fund, the Savings Restitution Account, The Privatisation Fund, The Fund for Decommissioning of Ignalina Nuclear Power Station and Reserve (Stabilisation) Fund), as well as Turto bankas and Turto fondas.

All budgetary units provide statements on their expenditure to the MoF, on a quarterly basis (annual data available end February) and aggregated annual data by central government transmitted to SL (available end March), on both cash and "actual" basis. On a monthly basis, the MoF also has information on expenditure on a "transfer" basis (appropriations transferred to the appropriation managers) from the treasury accounts. There are no balance sheets or profit and loss accounts, just budgetary reporting unit by unit and cash flows statements for budgetary operations and for the so-called "borrowed funds" (covering borrowing as well as off-budget transactions). Since 2005, the detailed database on expenditure covering all transactions grouped by each appropriation manager (about 250) is transmitted to SL Accounting Division, which conducts an aggregation. This aggregation, complemented with some units, is subsequently verified by the MoF. SL National Account Division uses only aggregated information. For revenue, SL receives reports on a cash basis from the MoF. Information on financial leasing is collected on an *ad hoc* basis by a MoF survey.

The information on the extra-budgetary funds is available at the MoF, while Turto bankas and Turto fondas provide their financial statements directly to SL. Information on hospitals is gathered through a survey, which covers all entities both at central and at local level, though they comprise only data on expenditure used for the composition of expenditure.

The description provided on the page 6 of the EDP inventory on the data used will be clarified by the Lithuanian statistical authorities, as the wording "*actual expense on commitment basis*" is unclear.

### Local government

Municipalities report their revenue and expenditure to the MoF on a quarterly and annual basis, by end February. Municipal data is on a cash basis.

Eurostat enquired about the "*Statistical surveys for extra-budgetary funds* mentioned in the EDP inventory. The Lithuanian statistical authorities explained that since 2005 there have been no extra-budgetary funds.

In addition, Eurostat enquired about the data sources on GFCF. The MoF informed that for EDP tables 2 the information on GFCF is gathered from aggregated budgetary data, Turto bankas reports and reports on borrowed funds. SL conducts a survey on GFCF on a quarterly and annual basis. For ESA table 2 the budgetary information is privileged, and the survey is used for cross-checking the budgetary information as well as for obtaining breakdown information.

### *Findings and conclusions*

2. Eurostat took note of the explanations provided and of the relatively good level of source data availability in Lithuania, particularly for the first estimate. Efforts could be made on balance sheet information and on more detailed and comprehensive information on hospitals.
3. Eurostat invited SL to correct a typo in the EDP inventory concerning extra-budgetary funds of local government, as well as to change the confusing wording "actual expense on commitment base" on p.6 of the EDP inventory<sup>1</sup>.

## **2. Actual data – EDP reporting**

### **2.1. Examination of the EDP tables: April 2008 notification**

#### *Introduction*

Eurostat thanked the Lithuanian statistical authorities for sending the EDP notification table and the questionnaire related to the notification tables on 28 March 2008, ahead of the legal deadline, following a request by Eurostat for Member States to do so in spring 2008 when possible – in consideration of a pressing user request. Detailed explanations of revisions were provided, together with the notification tables. The Lithuanian statistical authorities also provided additional information in an Annex (excel) to the request for clarification, requested on a voluntary basis.

During the meeting, the EDP notification tables from the April 2008 notification were analysed.

#### ***EDP table 2A***

##### *Discussion*

##### The working balance

The working balance in Table 2A reflects the execution of the State budget as voted by Parliament and as audited by the State Control Office. The measurement of B.9 is based on a top down calculation using EDP table 2A. The B.9 derived from detailed expenditure and revenue using ESA table 2 is calculated by Statistics Lithuania. The two institutions, the MoF and SL, are using the same source data, thus the results usually do not differ significantly. In case of marginal discrepancy, SL attributes it to other current transfers D.7 (for the year 2007 the difference was about 3 million Litas).

*Eurostat took note that the working balance in EDP table 2A is cash-based and suggested to indicate this in EDP table 2A.*

##### Other adjustments

The item "off budget revenue and expenditure (borrowed funds accounts)" was discussed in more detail. The Lithuanian statistical authorities explained that this adjustment line shows

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<sup>1</sup> An updated *EDP consolidated Inventory of sources and methods* was provided on 29 September 2008.

government revenue and expenditure from borrowed financial resources, which are not in budget, i.e. not reflected in the working balance. The biggest part of this expenditure comprises direct payments to farmers. In addition to borrowed funds, other sources (marginal part) of revenues are repayments on guarantees and repayments of bad loans managed by Turto bankas.

#### Other accounts receivable/payable

Eurostat noted that the Lithuanian Statistical authorities provide a detailed split of other accounts receivable/payable in EDP table 2A.

Eurostat suggested that an adjustment for "*real estate restitutions to HH through financial compensation*" currently reported under the item "*other financial transactions*" be moved for presentational reasons to the item "*other accounts payable*" (F.7-Table 2A). (Adjustments for EU flows were discussed under item 3.3.1. below).

#### Adjustments for sector delimitation

The adjustment for extra-budgetary funds as well as Turto bankas and Turto fondas are reported under the item "*net borrowing or net lending of other central government bodies*". The Lithuanian statistical authorities confirmed that government non profit institutions (NPI) and universities are included in the budget (that is, their operations are included in the working balance of the EDP table 2A).

As regards hospitals, the Lithuanian statistical authorities consider them, being non profit institutions, as having by definition zero deficits: thus with no need for adjustment in table 2A. In case a hospital exceeds the funding assigned from Health insurance fund, some subsidies from government are to be paid. Only aggregated information from the survey on hospitals on expenditure is available at SL. SL does not have revenue or balance sheet information. Eurostat recalled that a non profit institution status does not preclude having profits. Statistics Lithuania explained that the situation is similar for the hospitals classified in the local government sector.

#### *Findings and conclusions*

4. *The Lithuanian statistical authorities in the forthcoming notification will report the amounts pertaining to "real estate restitutions to HH through financial compensation" under the item "other accounts payable" F.7 in EDP Table 2A instead of the current recording under "financial transactions considered in the working balance"*<sup>2</sup>.
5. *Eurostat took note that the current system does not allow to see if an individual hospital has profit or loss, for both central and local government hospitals. Statistics Lithuania will investigate this issue and report the results to Eurostat. Appropriate adjustments in EDP Tables 2A and 2C will eventually be introduced for the October 2008 EDP notification by the Lithuanian statistical authorities, who will also check whether hospitals accumulate debt.*

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<sup>2</sup> Issue solved before October 2008 notification.



## ***EDP table 2C***

### *Discussion*

Eurostat took note that the working balance in EDP table 2C is cash-based and suggested to indicate this in EDP table 2C.

Eurostat took note that an adjustment for "*difference between interest paid and accrued*" is not implemented, as appropriate information on loans of local government is not available at the MoF. The MoF noted that municipal loans amount to about 5% of all government debt, thus an adjustment would not have a significant impact. Eurostat recommended making an estimation of the accrued interest to date, as data on stocks of debt and interest paid are available.

The Lithuanian statistical authorities explained that municipalities receive transfers from the central budget. As a general practice there are no differences between the data reported by municipalities and the data available at the Treasury, which are systematically compared.

There are no adjustments on receivables/payables in EDP table 2C.

### *Findings and conclusions*

6. *Eurostat recommended the Lithuanian statistical authorities to estimate accrued interest on loans of local government in the absence of source data.*

## ***EDP table 2D***

### *Discussion*

Eurostat enquired about the nature of the working balance. The Lithuanian statistical authorities explained that the Health insurance fund and Employment fund, although having accounts on a cash basis, are able to provide to the MoF data on an accrual basis. Thus the working balance in EDP table 2D is accrual based.

### *Conclusion*

Eurostat took note of these explanations.

## ***EDP Table 3B***

### *Discussion*

The issue of a big discrepancy of 0.5% of GDP reported for the year 2004 was discussed. The Lithuanian statistical authorities committed to reduce the discrepancy for 2004 for the October 2008 notification.

SL explained that for EDP tables 3A-E information from banking statistics is used. The MoF pointed out that direct information originating from government units on the financial side is available and is used in the fiscal reporting to the IMF (i.e. IMF GFS). Eurostat pointed out that it would be more appropriate if the same data were reported to Eurostat and the IMF, and invited the MoF and SL to cooperate towards this objective. Eurostat advised privileging the use of

direct general government source data when they exist. Information from banking statistics is to be used in the absence of direct source data information or in case there are good and well documented reasons to deviate from government source data. And in this case, the difference with money and banking would be allocated in the relevant items of the financial accounts where appropriate, and should generally not lead to entries in discrepancies. Counterpart information would also generally be useful for quality checks.

#### *Findings and conclusions*

7. *Eurostat recommended Statistics Lithuania to consider, for the EDP table 3, using source data of government units instead of money and banking statistics, unless there would be very appropriate and documented reasons for not doing so. And in this case, any difference should generally not enter the discrepancy but should be allocated where appropriate in the financial accounts<sup>3</sup>.*

### **3. Methodological issues and recording of specific government transactions**

#### **3.1. Delimitation of general government sector: classification of institutional units according to ESA95 – application of 50% rule in national accounts**

##### *Introduction*

Eurostat enquired about the institutional arrangements as well as procedures of methodological decisions on sector classification of units. The sector classification of individual units/groups of units, such as public infrastructure companies, public hospitals, public TV and Radio were discussed during the meeting.

##### **Sectorisation practises**

##### *Discussion*

SL is responsible for the delimitation of General Government. The SL unit managing the Statistical Business Register follows in principle the methodology set in the ESA 95 MGDD. Although the Statistical Business Register is not publicly available, it is used by government institutions. The same unit list of Statistical Business Register is used for the EDP reporting.

Some complex borderline cases can be discussed within the Inter-institutional working group on sectorisation involving the experts from SL, MoF, LB, the Tax inspectorate and the MoE. Although it seems that the basic elements for a proper sectorisation of units are in place in Lithuania, nevertheless, no systematic approach is actually followed. There have been no new reclassifications since 2005 (when the reclassification of hospitals as well as Turto bankas and Turto fondas inside government took place). The Lithuanian statistical authorities explained that this unsatisfactory circumstance is due to practical difficulties rather than to policy reasons, including insufficient human resources at SL (and the lack of capacity due to the increased work load in relation to changes in NACE classification).

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<sup>3</sup> Issue solved before October 2008 notification

SL named some cases as pending for reclassification: road companies and certain agencies established by Ministries. These agencies, established by Ministries, although being separate legal entities and having separate accounts, provide services exclusively to their sponsoring Ministries. SL is considering incorporating these agencies with the units that control them. The issue of sectorisation of public transportation companies and utility companies is discussed further under item 3.1.1.

#### *Findings and conclusions*

8. *Eurostat expressed concern that the current Statistical business register list is not systematically updated and invited the Lithuanian authorities to do so.*

### **Sector classification of individual institutional units**

#### *Discussion*

#### **3.1.1. Public infrastructure companies**

##### Railways

AB “Lietuvos geležinkeliai” is the only railway company in Lithuania. It was not yet split into passenger carriers, cargo operators and infrastructure company. The Lithuanian statistical authorities were not aware of concrete plans for splitting the railway company, but indicated that there had been such intentions in the past. AB “Lietuvos geležinkeliai” is a joint stock company established by the Ministry of transport and communication and is currently classified in the sub-sector S.11011 public non-financial corporations. As stated by the Lithuanian statistical authorities, AB “Lietuvos geležinkeliai” recorded profits in 2006 and 2007. The Lithuanian statistical authorities explained that the result of the 50% test indicates that the railway company is a market producer.

##### Road companies

The issue of the sector classification of road companies had been discussed during the previous EDP missions in 2005 and 2006. There are 11 road companies that are divided by region. Their main activity is to maintain motorways and roads.

In Lithuania, there are no vignettes or toll roads. There only exists the so called Eurovignette, as foreseen in the *Directive 1999/62/EC on the charging of heavy goods vehicles for the use of certain infrastructures*. Road construction/maintenance is financed from the state budget. Currently the roads are, in national accounts, on the balance sheets of these 11 companies, although the investments are recorded in the accounts of government (leading to artificial reconciliation entries in other changes in volumes). The Lithuanian statistical authorities explained that from September 2008 they plan to reclassify road assets on the balance sheet of the State starting from the year 2000. Consumption of the fixed capital for roads will be calculated for the October 2008 notification (leading to an increase in GDP of close to 1%).

Eurostat noted that a classification of such units outside government is debatable, as the companies may be seen as government units and encouraged SL to reconsider their classification.

The financial statements for the road companies were not available prior and during the dialogue visit. Reference was made to the information provided as a follow up of 2006 mission showing that road companies generally had positive B.9. The Lithuanian statistical authorities will provide to Eurostat information on the B.9 of road companies for the period 2004-2007.

#### Transportation companies

Public transportation companies are owned by municipalities and are currently classified in the sub-sector S.11011 public non-financial corporations. SL informed that for the year 2005 sales covered costs for the majority of public transportation companies. It seems that out of 85 companies, 2 or 3 do not comply with 50% rule. Eurostat noted that only a preliminary analysis had been done covering the information for one year (2005) and invited the Lithuanian statistical authorities to conduct an in-depth analysis of the classification of transportation companies and to inform Eurostat before the October 2008 notification.

#### Public utility companies

Public utility companies (water, heating companies) are owned by municipalities and are currently classified in the sub-sector S.11011 public non-financial corporations. SL considers that sales are covering more than 50% of production costs. Eurostat invited the Lithuanian statistical authorities to undertake an in depth analysis of compliance with the 50% rule and inform Eurostat of the results.

#### Seaports, airports

The Lithuanian statistical authorities confirmed that the sea port “Klaipėdos valstybinio jūrų uosto direkcija”, established by the Ministry of Transport and Communication, is considered a market producer and is classified in the sub-sector S.11011 public non-financial corporations.

There is one state owned airport – “Kauno oroostas”. It is considered a market producer and classified as a public corporation. Other airports have private ownership and are classified as private corporations.

### **3.1.2. Public hospitals**

The Lithuanian statistical authorities confirmed that the hospitals established by the central government, about 30, are classified in the central government while hospitals and rest establishments established by the municipalities, around 300 units, are classified in the local government. The issue of data availability for hospitals is discussed under the item "EDP table 2A" (see above).

### **3.1.3. Public TV and Radio**

The Lithuanian statistical authorities confirmed that the public TV and radio “Viešoji įstaiga Lietuvos nacionalinis radijas ir televizija” is classified inside general government. This entity is fully financed from the state budget. There is no TV license fee paid by the public in Lithuania.

### **3.1.4. Funds for decommissioning of the Ignalina nuclear power plant**

Eurostat raised a question about the funds for decommissioning of the Ignalina nuclear power plant. It seems that there are two separate funds: an extra-budgetary fund for decommissioning of Ignalina nuclear power plant, for which the Ministry of Economy is responsible, and an Ignalina Decommissioning Support fund at the EBRD. The Lithuanian statistical authorities explained that the EU financial support goes to the EBRD fund, while in the extrabudgetary fund only national resources are accumulated. Eurostat enquired about the accumulated amounts and the type of activities in the fund managed by the EBRD (and whether any such flows had an impact on government finances). The Lithuanian statistical authorities agreed to investigate the issue further and provide a note to Eurostat.

### *Findings and conclusions*

9. *Eurostat suggests that all public units must be screened to see if they should be classified inside the General government sector or not. In particular, the public transportation companies and public utility companies are to be checked against the 50 percent rule. 11 units, motorway construction companies, should likely be reclassified inside general government. The sector classification of agencies that are established by ministries is to be checked. The Lithuanian statistical authorities are invited to report to Eurostat the results of these exercises before October 2008 notification<sup>4</sup>.*
10. *The Lithuanian statistical authorities will provide to Eurostat a note on the EU funds for the decommissioning of Ignalina nuclear power plant, including the amounts of stocks accumulated to date, flows for the period 2004-2007 and the recording in national accounts.*

## **3.2. Implementation of accrual principle**

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

#### **Recording of taxes**

##### *Introduction*

Some aspects related to the recording of taxes described in the Lithuanian EDP Consolidated inventory of sources and methods were clarified.

##### *Discussion*

The Lithuanian statistical authorities apply a simple time adjustment method for recording VAT and excises (one month lag). All other taxes are recorded on a cash basis. Eurostat enquired on the reasons why no time adjustment is applied for personal income tax (PIT) and Corporate tax. SL explained that, as PIT is paid every month and corporate tax is paid in advance every month, a one month shift would not be meaningful. For both taxes the final tax settlement is recorded on a cash basis, in the year when it is paid: final settlements are recorded in the following year to which the tax liability refers (t+1), benefiting from the flexibility allowed by ESA 1995 paragraph 4.82.

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<sup>4</sup> A note was provided by the Lithuanian statistical authorities.

### *Conclusion*

Eurostat took note of the explanations provided.

## **Recording of social contributions**

### *Introduction*

Eurostat enquired about the method of calculation of accrued social contributions, particularly for the calculation of the amounts unlikely to be collected.

### *Discussion and methodological analysis*

The recording of social contributions is based on assessments. The method for calculation of the social contributions unlikely to be collected was described by the Lithuanian statistical authorities.

Coefficients for uncollected contributions are estimated for each payer of social contributions, every quarter, according to its past pattern, taking into account the difference over the last two quarters between the actually paid contributions and the amounts assessed as well as the delay in payment. These coefficients are calculated by Social security fund (SoDra) itself. Thus, the working balance of the EDP Table 2D excludes amounts unlikely to be collected.

Eurostat asked whether the coefficients are applied to the stock or to the flow of assessments for a given period, how exactly the “recent payments” are calculated, and what amounts are taken as numerator and denominator. When changes in pattern are observable, the accountants may change the level of provisions; the question is whether such further provisions on existing claims or reversals in provisions enter the deficit (B.9). A question was raised on the treatment of penalties. The Lithuanian statistical authorities will investigate this and come back to Eurostat.

### *Conclusion*

11. *Statistics Lithuania will investigate if coefficients used by SoDra are applicable to flows or to stocks, what is done in case of realisation of loss, and also whether penalties and reversals of provisions enter the working balance (and therefore the. B.9). A note should be provided to Eurostat*

## **3.2.2. Calculation of accrual interest**

### *Introduction*

The recording of interest on government bonds had been extensively discussed with the Lithuanian statistical authorities in the context of October 2007 and April 2008 notifications.

### *Discussion*

The Lithuanian statistical authorities confirmed that the Eurostat recommendations for the recording of discounts and premiums and of “coupons sold” are followed for foreign currency bonds and that there are no further changes expected in the future in relation to the recording of interest. Eurostat invited the Lithuanian statistical authorities to analyse how the premiums and discounts on domestic bonds were recorded and to introduce adjustments when necessary. The

MoF indicated that the discount/premium amounts on Litas bonds are small (around 3 million Litas), nevertheless a detailed analysis will be conducted before the October 2008 notification.

#### *Conclusion*

12. Eurostat took note of the improvement in the measurement of the interest accrued in the April 2008 notification compared to April 2007. As far as the discounts and premiums on Litas bonds are concerned, the Lithuanian statistical authorities should check the recording and reconcile the data<sup>5</sup>.

### **3.2.3. Court decisions with retroactive effect**

#### *Introduction*

The Lithuanian statistical authorities confirmed that the Eurostat advice on the recording of transactions related to repayments of unpaid employees compensations and pensions has been followed (see Eurostat advice – letter dated 27 February 2007). Eurostat enquired about an issue concerning unpaid salaries to judges.

#### *Discussion*

The MoF indicated they are monitoring the case. Currently the case is still in the court under an appeal procedure. The outcome is unclear and for the moment government has no obligation to pay these compensations. According to preliminary estimates, the total amount for compensations could amount to 140 million Litas.

#### *Conclusions*

Eurostat took note of the explanations provided.

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

#### **3.3.1. EU flows**

##### *Introduction*

Eurostat enquired about the application of Eurostat decision on EU grants and treatment of the funds from the EU.

##### *Discussion and methodological analysis*

EU funds transit through the budget and are included in the working balance, except for some flows related to EAGGF, e.g. direct payments to farmers that transit through borrowed funds accounts. All the necessary information is available at the MoF.

For the meeting, the MoF provided a detailed split of the other accounts payable related to EU Structural funds flows, as well as a detailed split relating to the adjustments introduced in EDP table 2A to neutralise the impact of EU flows for the measurement of the government deficit (B.9). The adjustment lines of EDP Table 2A were analysed and verified with other information

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<sup>5</sup> Issue solved for October 2008 notification

accessible to the public. Eurostat noted that, currently, adjustments for EU flows are booked in EDP Table 2A mainly under *other accounts payable*, except for direct payments to farmers from borrowed funds accounts and some payments related to SAPARD (they are reported under *other accounts receivable*, instead). Eurostat pointed out that the proper split between receivables and payables would be preferable to avoid confusion of data users.

In addition the Lithuanian statistical authorities confirmed that grants from EEA countries and Norway as well as flows associated with “Transitional facility” and “Schengen facility” are treated accordingly to the Eurostat decision on EU flows.

#### *Findings and conclusions*

*13. Eurostat acknowledged that the Statistical authorities have access to a very good level of information on EU funds, allowing them to correctly record the flows, and that Eurostat rules for a correct deficit (B.9) measurement were fully followed. Nevertheless, Eurostat considered that amounts of receivables/payables should be more correctly identified as such in EDP table 2A.*

### **3.3.2. State guarantees**

#### *Introduction*

The issue of the recording of guarantees was discussed with the Lithuanian authorities during the 2005 and 2006 EDP dialogue visits. On 17 January 2007, a meeting was held with the Lithuanian statistical authorities. Also numerous email exchanges took place in 2007.

#### *Discussion and methodological analysis*

The Lithuanian statistical authorities confirmed that Eurostat's recommendation is followed: a government expenditure is recorded on guarantee call, and in case of repayments by the company to government, a government revenue in the form of a capital transfer is recorded. The MoF informed that from 2005 onwards there had been no issuance of new guarantees.

From the documentation provided prior to the mission, calls on guarantees seemed to have been exercised all along the period 2004-2007 for some municipal water and heating companies, while only a few of these companies were making repayments to government. Eurostat enquired whether the repeated call rule had been followed. The Lithuanian statistical authorities confirmed that in general they follow the 3 times rule, with the exception of the utility companies (water and heating suppliers). Eurostat noted that the amounts involved were limited.

In addition, the Lithuanian statistical authorities explained the existing arrangements for export credit insurance. The system is managed by the MoE. In its budgetary programme the annual budget foreseen for this purpose is 0.5 million LTL. A compensation to the insurance companies of 0.2 million LTL for 2007 has been treated as government expenditure in national accounts.

#### *Conclusion*

Eurostat took note of the provided explanations.



### **3.3.3. Debt assumptions, debt cancellations**

#### *Introduction*

Table IV of the *Questionnaire related to the notification tables* as reported by the Lithuanian statistical authorities in April 2008 notification was discussed.

#### *Discussion and methodological analysis*

The Lithuanian statistical authorities confirmed that Lithuania has no Paris club and third countries debt. Eurostat enquired about the meaning of “not applicable” (M) status for item “debt cancellation for public corporations”. It was agreed that zeros should be filled in instead. In 2007, there were no debt cancellations.

As regards debt assumptions of the local government sector, Eurostat pointed out the apparent inconsistency between the description in the EDP Inventory (referring to no debt assumptions) and the reporting in EDP table 2C. Lithuanian statistical authorities were invited to correct the EDP inventory accordingly.

Eurostat enquired about the availability of data on debt cancellations. The Lithuanian statistical authorities indicated that information for central government sector is available at the State Treasury, while local government data is obtained from municipal reports on borrowing.

Eurostat observed that the stocks of loans had been falling faster than implied from transactions. The MoF explained that a noticeable share in loans is labelled in USD (amount reported to be around half the stock): thus observable other economic flows result from the movements in exchange rate (dollar). In case of loans write-offs, the MoF records a capital transfer.

#### *Conclusion*

*14. The Lithuanian statistical authorities will correct in the EDP inventory the description of debt assumptions for Local government<sup>6</sup>.*

### **3.3.4. Capital injections, super-dividends and privatisations**

#### *Introduction*

The information available at Eurostat, table V of the *Questionnaire related to the notification tables*, as well as some additional information provided by the SL prior to the meeting were analysed under this point.

#### **Capital injections**

#### *Discussion and methodological analysis*

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<sup>6</sup> An updated *EDP consolidated Inventory of sources and methods* was provided on 29 September 2008.

The source data for capital injections is the execution of the State investment programme. This programme covers 3 year periods, but measures are approved annually together with the State budget. The State investment programme provides information on the amount assigned for certain company or project as well as which government entity (Ministry) is the appropriation manager.

The Lithuanian statistical authorities explained that as a general rule, a government decision on each capital injection is taken in a form of Government Resolution. As an example, Government Resolution No 25 dated 9 January 2008 was provided, deciding on three capital injections, two of them being reported by the Lithuanian statistical authorities as equity injections in 2007 (i.e. below the line). Eurostat enquired the basis for recording an equity injection. The MoF clarified that the time of recording of the amounts is when they are paid to a company: this particular case of decision by government taken after the amounts were spent is more an unusual situation. Eurostat further enquired how the third capital injection mentioned in the Resolution No 25 into railways (amounting to 355 million Litas) had been recorded and when. In relation to this latter point, Eurostat wondered whether this amount was erroneously reported under item 5 "*capital transfers to other sectors and subsectors*" in the table Va of the *Questionnaire related to the notification tables*, instead of under item 4 "*capital transfers to public corporations*". The Lithuanian statistical authorities will check whether the list of capital injections provided prior to the mission is exhaustive, and in particular will clarify the issue of the capital injection into railways.

In addition, the Lithuanian statistical authorities confirmed that no capital injection, if any, is recorded as a financial transaction at local government level. Budget operations are all booked as expenditure, borrowed funds financed only acquisition of nonfinancial assets, and Turto Fundas does not conduct such operations on behalf of local government. Municipalities also provide a report on their assets every year; they report the stocks and not the flows. However, SL indicated that for EDP purposes this information is not used.

#### *Conclusion*

15. *Statistics Lithuania will review the list of capital injections, will analyse the capital injection into railways mentioned in the Government Resolution No 25 and will clarify the time of recording (in 2008 or 2007) before October 2008 notification. In addition, it will check whether the table Va is correctly reported and will inform Eurostat on its findings and will implement any required changes.*

### **Super-dividends**

#### *Discussion*

SL explained that aggregated information on dividends is derived from the Structural Business Survey. It seems that individual data by companies which paid dividends to government could be derived and also actually available. Currently all dividends from public corporations are recorded as property income. The Lithuanian statistical authorities informed that so far the dividends from public corporations have not been tested against the profits from which they were distributed. Thus the so called super-dividend test was not applied, except for the distributions of the Central bank where the super-dividend test is regularly conducted. The MoF explained that the Central bank does not pay interim dividends.

While Eurostat noted that the amounts of dividends paid by public corporations are not substantial, the main sources for dividends are to be identified and the super-dividend test is to be conducted.

*Conclusion*

16. *The Lithuanian statistical authorities are invited to introduce a regular monitoring of dividends paid to government by public corporations, and verify the rule of the super-dividend test.*

**Withdrawals from income of quasi-corporations (D.422)**

*Discussion*

SL reports in item 28 of table Va of the *Questionnaire related to the notification tables* the amounts of withdrawals from income of quasi-corporations D.422. Eurostat enquired about the nature of these quasi-corporations and whether these entities have no independent legal status. The Lithuanian statistical authorities explained that these entities are State enterprises and that there were in fact no quasi-corporations in the Lithuanian Business Register. The reported withdrawals of income are a tax paid by these companies on their "state capital" (nominal capital). SL reasoned that these companies do not have genuine share capital and there was a question on whether these were institutional units. Eurostat invited SL to analyse this issue further and to come back to Eurostat with their findings.

*Conclusion*

17. *Statistics Lithuania will clarify the issue of the alleged quasi-corporations, enquire whether these have independent legal status, and if yes, whether they have autonomy of decision, and reclassify them accordingly if needed.*

**Reconciliation between stocks and flows of equity of government**

*Discussion*

The Lithuanian statistical authorities indicated that the information on privatisations is provided by Turto fondas (State property fund). Eurostat enquired about data availability at the local government level. Eurostat noted that in EDP table 3D only the amount under reduction in shares and other equity is reported, and enquired whether these are net amounts. SL explained that Turto fondas provides information on privatisation by local government but information on the acquisition of shares is not readily available.

*Conclusion*

Eurostat took note of these explanations.

**3.3.5. Military equipment expenditure**

*Introduction*

Table VI of the *Questionnaire related to the notification tables* as reported by the Lithuanian statistical authorities in April 2008 notification was discussed.

### *Discussion*

SL confirmed that there are no long-term contracts and thus no meaningful advance payments for acquisition of military equipment. There might be cases of prepayments, but these are made within a period of one year, thus at the end of the year cash data and delivery data are equal.

Eurostat indicated that, as some acquisition of military equipment seemed to have been carried out from the Privatisation fund, the associated amounts are to be reflected in the Part 2 item 12 "amounts in EDP table 2A correction line 1" of the table VI of the *Questionnaire related to the notification tables*. Eurostat asked SL to amend table VI accordingly for the October 2008 notification.

### *Conclusion*

*18. Statistics Lithuania will report, in Part 2 item 12 of table VI of the Questionnaire related to the notification tables, the amounts pertaining to military equipment purchase that were carried through the Privatisation fund<sup>7</sup>.*

## **3.3.6. Public Private Partnerships**

### *Introduction*

Eurostat enquired about the existence of contracts of a private-public-partnership character.

### *Discussion*

The Lithuanian statistical authorities confirmed that there are currently no PPP contracts as the legal basis for such contracts has not yet been updated. Necessary amendments were incorporated into the Law on Investments, which draft is being discussed by Government.

Concerning concession-type contracts, the MoF informed that there are about ten such arrangements at central government level and, as far as they are aware, a few contracts at the local government level. For the contracts of local government, no data base is available, but for the central government the MoF has full information.

### *Conclusion*

Eurostat took note of this information.

## **3.3.7. Securitisation operations**

The Lithuanian authorities noted that there has been no securitisation operation in 2004-2008.

## **3.3.8. Derivatives**

The Lithuanian authorities noted that derivatives are used neither on central government nor on local government level.

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<sup>7</sup> Issue solved before October 2008 EDP notification

### **3.3.9. Other government transactions**

#### *Introduction*

Eurostat enquired about the existence of sale and leaseback operations as well as on the operations on carbon allowances and their treatment in national accounts.

#### *Discussion*

The Lithuanian authorities noted that there are currently no sale and leaseback operations. Regarding carbon trading right, the Lithuanian statistical authorities informed that, at the end of 2007, one auction for selling carbon allowances was held. The proceeds from the sale were recorded as disposal of intangible non-produced assets, reducing the central government deficit (negative expenditure) in 2007. Eurostat recalled that the appropriate accounting recording of transaction on these carbon trading rights were still under discussion in various fora.

#### *Conclusion*

Eurostat took note of this information.

## Annex I: List of participants

Name	Institution	
Luca Ascoli	Eurostat	Head of Unit C.3 - Public Finance
Philippe de Rougemont	Eurostat	Unit C.3 - Public Finance
Rasa Sodeikaitė	Eurostat	Unit C.3 - Public Finance
Julda Kielytė	DG ECFIN	
Dagmar Lojschova	ECB	
Jonas Markelevičius	SL	Deputy Director General
Ms Irena Tvarijonavičiūtė	SL	Head of National Accounts Division
Gailutė Juškienė	SL	Deputy Head of National Accounts Division
Jūratė Šinkūnienė	SL	Deputy Head of National Accounts Division
Kristina Tylaitė	SL	National Accounts Division
Vaida Savickaitė	SL	National Accounts Division
Živilė Dragūnaitė	SL	National Accounts Division
Audrius Želionis	MoF	Director of the State Treasury Department (STD)
Gediminas Norkūnas	MoF	Deputy Director of the State Treasury Department
Dalia Žygienė	MoF	Head of Finance Statistics Division of the STD
Danutė Skėrytė	MoF	Finance Statistics Division of the STD
Gedminė Bertulytė	MoF	Finance Statistics Division of the STD
Rūta Rudokaitė	MoF	Debt Liabilities Administration Division of STD
Eglė Každailytė	MoF	Debt Liabilities Administration Division of STD
Aušra Vičkačkienė	MoF	Director of the Assets Management Department
Ieva Ragainienė	MoF	Financial Assets Management Administration Division
Rimantas Vaicenavičius	LB	Director of the Department for Statistics
Diana Liberienė	LB	General Statistics Division of the Department for Statistics