



EUROPEAN COMMISSION  
EUROSTAT

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



Luxembourg, 10.12.2007

**- FINAL FINDINGS -**

**EDP DIALOGUE VISIT TO ESTONIA**

**17-18 September 2007**

## EDP dialogue visit to Estonia 17-18 September 2007

### Final findings

#### Executive summary

Eurostat undertook an EDP dialogue visit to Estonia on 17-18 September 2007 as part of its regular visits to Member States and with the more specific aim to clarify issues relating to the EDP tables and to the *Questionnaire related to the notification tables* in the context of recent EDP notifications. Moreover, special attention was devoted to the issues of classification of units (in particular hospitals), recording of EU grants and recording of taxes and social contributions.

Concerning the statistical capacity issues, Eurostat took note of the current internal administrative arrangements and encouraged the Estonian authorities to continue to co-operate closely between themselves on all issues of common concern. Eurostat also took note of the current project of using accrual based data and introducing accrual based recording from the April 2009 EDP notification.

As regards the classification of units, Eurostat noted the high number of government entities and welcomed the fact that the full list is now available on the internet. Moreover, Eurostat encouraged a close monitoring of the issue in the future.

Concerning the classification of hospitals in Estonia, the meeting revealed that there were different opinions among the Estonian statistical authorities on the issue. Eurostat therefore invited the Estonian statistical authorities to officially consult Eurostat as soon as possible in the context of an ex-post consultation, and listed a number of documents to be sent to its attention in this context.

As regards the classification of foundations, Eurostat concluded that the issue needs to be analysed carefully, in particular the issue whether foundations created at the level of local government for specific projects are indeed correctly classified outside government.

Concerning the recording of EU grants and taxes and social contributions, it was found that there were inconsistencies between their recording in EDP tables and in the *Questionnaire related to the notification tables* and that the labelling used was not fully correct. The Estonian statistical authorities were invited to take the appropriate measures in order to correct these shortcomings already from the October 2007 EDP notification and to report to Eurostat on the changes which needed to be introduced in the system. On the issue of EU grants, it was furthermore concluded that although in the long run all EU grants were accounted for and recorded in the system, there was a problem concerning their correct time of recording between different years.

As regards the *Questionnaire related to the notification tables* and the recording of capital injections, Eurostat expressed doubts on the recording by the Estonian authorities of the capital injections in recent years into the real estate company "Riigi Kinnisvara" as well as on the recording of sale and lease-back operations undertaken by the same company. Eurostat therefore invited the Estonian Authorities to provide to Eurostat, as soon as possible, a range

of related documentation in order to decide on the correct recording of the above mentioned operations.

Concerning the recording of some further transactions by government as reported in the *Questionnaire related to the notification tables*, Eurostat concluded that Estonia currently does not fully follow the Eurostat rules on the recording of military expenditure and that there are shortcomings in the monitoring of PPPs in Estonia, in particular at local government level.

Finally, Eurostat took note that there had been operations by government relating to carbon allowances in Estonia and that, as far as the recording of carbon trading rights are concerned, Eurostat will need to reflect on the appropriate accounting of the exceptional dividend received by government in the context of the selling of trading rights by "Eesti Energia".

## **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 Estonia on 17-18 September 2007.

The delegation of Eurostat was headed by Mr. Nørlund, Director of National and European Accounts. 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 (SE), the Ministry of Finance (MOF) and the Estonian Central Bank (CB).

Eurostat introduced the meeting by referring to the procedural arrangements as indicated in article 8 of the Regulation 3605/93, as amended, and by stating that *Main conclusions and action points* from the meeting will be sent within days after the mission to the Estonian authorities for comments. Within weeks, *Provisional findings* will be sent to the Estonian authorities in draft form for review. *Final findings*, including possible comments from Estonia, will be sent to the Economic and Financial Committee (EFC) and published on the Eurostat web site.

The agenda covered the examination and follow-up of the EDP reporting tables and the *Questionnaire related to the notification tables* from previous notifications, as well as the issues of classification of units (in particular hospitals), recording of EU grants and recording of taxes and social contributions.

## **1. Review of statistical capacity issues including administrative arrangements and key data sources**

### **1.1 Administrative arrangements**

#### *Introduction*

The Statistical authorities explained the current internal administrative arrangements. The responsible EDP reporting agency is Statistics Estonia and forecasts are undertaken by the Ministry of Finance.

#### *Discussion*

There is currently no signed formal co-operation agreement between the involved institutions, but there exist internal working groups, where specific topics of common concern are discussed. SE holds bi-annual meetings with the Central Bank while the co-operation with the Ministry of Finance is on an ad-hoc basis. There is currently an active working group dealing with health care classification, involving all three parties. There are also regular discussions on the classification of units. In the context of this co-operation, it should be noted that Statistics Estonia is always responsible for the final decision.

Within the "General government and financial sector statistics department" at SE, four persons (in addition to the Head of Unit) work directly with government finance statistics, which can be considered as a relatively low number. There are however currently several vacant posts in the unit.

#### *Conclusions*

Eurostat takes note of the administrative arrangements as explained by SE and encourages the Estonian authorities to continue to co-operate closely on all issues of common concern.

Eurostat furthermore stresses the importance of ensuring sufficient manning of the unit responsible for government finance statistics and EDP.

### **1.2 Key data sources and the EDP inventory**

#### *Introduction*

SE is currently using data sources which are fully cash based, except for data on internal aid and for some foundations, which are on an accrual basis. The General Government accounts from the State Treasury are already fully on an accrual basis.

SE provided a list of all institutional units inside government together with the updated EDP inventory. Currently there are around 500 units in central government, 2600 units in local government, as well as two units in social security. Estonia has no quasi-corporations.

#### *Discussion*

SE is currently developing its IT system in order to be able to use the accrual General Government accounts. This development will represent a large improvement and it is

expected that the project will be finalised at the end of 2008 and that Estonia will be able to report full accrual data from the April 2009 EDP notification onwards. There have been some delays in the IT development, which is done in a different department from the "General government and financial sector statistics department", but normally the deadline should still be kept. The transition from cash data sources into full accruals will result in a break in time series, as data will not be revised backward. Several accrual adjustments will disappear from the April 2009 notification onwards.

The Statistical authorities confirmed that all units in the provided list are real institutional units. SE makes a review of units twice a year and the classification issues are also discussed in the common meeting with the Ministry of Finance and the Central Bank. The classification issue was discussed in detail during the visit and SE explained that the review is done in line with the criteria as laid out in ESA 95, i.e. whether the units have their own accounts and whether they can be recognised as independent. As a second step the 50% test is made in order to decide whether the unit is market or non-market. SE reported that if more than 50% of the financing comes from government, then the unit is classified inside government. In the cases where less than 50% of the revenue comes from government, the 50% rule check is done. It is also checked whether the unit is acting on behalf of the government.

All educational units are classified inside government. For the classification of hospitals, see below.

The full list of public units is published on Statistics Estonia's web-site.

### *Conclusions*

Eurostat takes note of the information given relating to data sources, and in particular about the current project of introducing accrual based data and introducing accrual based recording as from the April 2009 notification, and wishes to be informed about future developments.

Eurostat furthermore takes note of the information given relating to the work on sector classification and encourages further close monitoring of the issue.

Eurostat also welcomes that the full list of government units is available on the internet, which is considered as best practice among EU Member States.

## **1.3 Classification of hospitals and foundations**

### *Introduction*

The issue relating to classification of hospitals and foundations has been the object of discussions between Eurostat and the Estonian statistical authorities since some time. In the context of the 2005 Eurostat mission, it was agreed that the Estonian authorities should look into the subject and report to Eurostat where necessary. This however did not happen.

An ad-hoc working group, consisting of the three involved institutions in Estonia, has discussed the issue of classification of hospitals and foundations since some time.

## *Discussion*

Today there are 61 hospitals in Estonia and they are classified both inside (37) and outside (24) the government sector. Out of the public hospitals, 11 are classified in the corporation sector, seven in central government and 19 in local government. Previously, hospitals were classified in social security, but this classification changed a couple of years ago. Most of the hospitals have the legal status of foundations.

During the meeting the health care system was discussed in detail and in particular the financing of the hospitals, the issue of whether they are market entities and the legal features of the foundations. There exists a price list common for both public and private hospitals. The main part (around 80%) of the revenue of hospitals comes from the Estonian Health Insurance Fund (EHIF).

According to SE, as most hospitals and foundations have more or less balanced accounts, the effect on net lending/net borrowing of government of a possible future reclassification of hospitals is expected to be small. However, there might be an impact on the government debt. No figures concerning the possible impact were however specified in the meeting.

In the working group on the classification of hospitals, SE and the CB have come to different conclusions in their analysis and take different positions concerning the classification. SE is of the opinion that hospitals should be classified outside government as their analysis shows that healthcare services have all the features of market production, the price list is the same for public and private hospitals having a contract with the Estonian Health Insurance Fund, hospital compete for quotas and, finally, they are paid on the basis on the actual treatments. The CB on the contrary thinks that the hospitals should be classified inside government as they are to a great extent controlled by government and that government is responsible for organising their development, financing and the availability of health services. Furthermore the services are provided free of charge and there is no real competition between public and private hospitals and consequently no real market price for health care services exist.

SE has also consulted in the past experts from some NSIs, which also have given slightly diverging views on the issue. The working group expects to continue the analysis and to ask for an official consultation to Eurostat by the end of 2007.

The statutes and features of the foundations which are created by local government for specific projects or activities (as for instance tourist offices or sport infrastructure) were also discussed. Until now, newly created foundations at the local level were automatically classified outside government. The issue is currently being analysed at SE. As in the case of hospitals, accounts are normally balanced and the effect on net lending/net borrowing of a possible future reclassification is expected to be small. However, there might also here be an impact on government debt.

## *Conclusions*

Eurostat takes note that there are different opinions among the Estonian statistical authorities concerning the classification of hospitals, and invites the Estonian statistical authorities to officially consult Eurostat as soon as possible on the issue in the context of an ex-post consultation. The following information should be sent to ESTAT in this context:

- The accounts of two average public hospitals for the last three years;
- The price list applicable to both private and public hospitals;
- A complete description of how the system works, including an assessment of whether there is real competition between hospitals;
- An analysis by the Estonian authorities on the situation concerning the finance system of hospitals;
- A list of the planned major investments into public hospitals in the coming five years.

The statutes of foundations will need to be assessed carefully in the context of the classification of foundations at the level of local government. In particular, Eurostat will analyse in detail whether foundations created at the level of local government for specific projects are indeed correctly classified outside government. The following information should be sent to Eurostat in this context:

- The statutes of foundations (an example of legal texts of such foundations);
- Example of contracts between foundations and local government;
- Description of the financing system;
- Description of the projects involved;
- The accounts of the foundations involved in such projects.

## **2. Data revisions**

### *Introduction*

SE has undertaken major data revisions in GDP, financial and non-financial accounts in 2006 and 2007. The financial accounts have been revised for 2000-2004 and the non-financial accounts for 1998-2006. The scope of these revisions has been explained to Eurostat.

### *Discussion*

SE is currently working on revisions for the historical years 1995-2000. This ongoing work is expected to be finalised by the end of 2007.

Whereas SE has undertaken overall data revisions in the last two years, as a general policy, SE makes the annual national accounts revision in September, implying unchanged data for historical years in the April EDP notification and revised data in the October notification only.

### *Conclusions*

Eurostat takes note of the information received on the major revisions undertaken in recent years and on the revision policy in general, which allows for revising data only once a year. Eurostat requests however information on major events also in the context of the April EDP notifications and even in-between notifications in case of major revisions with effects on deficit and debt data.

## **3. EDP Tables**

### *Introduction*

During the meeting, the EDP notification tables from April 2007 were analysed. In some

cases references to previous notifications were also made.

## **EDP Table 1**

### *Discussion*

In table 1 only the item "currency and deposits" was discussed.

### *Conclusions*

Eurostat takes note that the current reporting of "M" (not applicable) for "currency and deposits" in table 1 should instead be 0.

## **EDP Table 2**

### *Discussion*

The discussion concerning table 2A focused on the recording of EU grants and taxes and social contributions and consistency with the data reported in table I and II in the *Questionnaire related to the notification tables* and EDP tables.

For the data reported on EU grants in the April notifications, SE uses cash data combined with accrual data from general government accounts. Thanks to the use of new data sources, full accrual data can however be used in the second notification, starting from the October 2007 notification (and for 2004 and onwards). This is an improvement, but it may lead to revisions of data between the two notifications each year. There exists data on EU grants from the Treasury, but these lack some details on the counterpart. A new coding is however expected to improve the situation in future notifications.

In the April 2007 notification, Estonia did not report any 2006 data for EU grants in the questionnaire or in the EDP tables due to unavailability of data. SE reported figures for EU grants in EDP table 2A for 2003-2005 (in the adjustment line), but these included also amounts for foreign aid, making it impossible to check consistency with the data in the *Questionnaire related to the notification tables*. These data could however be split in future notifications according to SE<sup>1</sup>.

In general, in the Estonian accounts, amounts for EU grants are neutralised at the government level only when an expenditure by government takes place. There may therefore be a problem of time of recording, and the difference between revenue and expenditure relating to EU grants for government, impacting B.9, may be overestimated or underestimated from one year to another. In the case of pre-financing of multi-annual programmes, revenues may be overestimated at the beginning of the period and expenditures at the end of the period. However, in the long run all expenditures and revenue should be accounted for.

Concerning taxes and social contributions, Estonia is using time-adjusted cash for all taxes, except for some minor ones which are reported cash. Furthermore, income taxes are recorded cash (no time-adjustment). The time-adjustment for VAT and social contributions is one month. The final settlement of taxes relating to year n is recorded in the year in which the

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<sup>1</sup> Estonia did provide the requested split of data in the October 2007 notification.



settlement is made (n+1). Data are therefore not revised backwards. There exist no capital taxes in Estonia. Corporate income taxes are only paid on dividends and they are recorded in the year when the settlement is made (t+1 relating to year t).

Concerning the reporting of taxes and social contributions in the April 2007 notification, inconsistency was found between the adjustments in EDP tables and in the *Questionnaire related to the notification tables*. The adjustments in EDP tables were furthermore not fully transparent. In addition, only few compulsory items were provided in the questionnaire table I (transactions in other accounts receivable starting from 1999 and in other accounts payable starting from 2003, stocks in other accounts receivable starting from 1998 and in other accounts payable starting from 2003). In the meeting it was agreed that a split and appropriate labelling of all accrual adjustments should be done in future notifications<sup>2</sup>. Consistency between EDP tables and the *Questionnaire related to the notification tables* should also be ensured.

No further adjustments in EDP table 2 were discussed in the meeting.

### *Conclusions*

Eurostat takes note that there are some shortcomings in the recording of EU grants in EDP tables and in the *Questionnaire related to the notification tables*. Eurostat stresses the importance of a correct labelling of EU grants in EDP tables and of consistency between these and the *Questionnaire related to the notification tables*. Furthermore, although in the long run all EU grants are accounted for, there is a problem concerning the time of recording of EU grants between different years. It seems therefore as if at present Eurostat rules are not fully complied with. Eurostat invites the Estonian statistical authorities to take the appropriate measures in order to correct the shortcomings concerning the recording of EU grants already in the October 2007 EDP notification, and to report to Eurostat on the changes introduced in the system.

Eurostat takes note that there is an inconsistency for taxes and social contributions between EDP tables and the *Questionnaire related to the notification tables* and invites the Estonian statistical authorities to take the appropriate measures in order to correct these shortcomings already in the October 2007 EDP notification, and to report to Eurostat on which changes in the system were introduced

### **EDP table 3**

#### *Discussion*

The main issues discussed under EDP table 3 were the accrual adjustments and the relatively high statistical discrepancies.

#### *Conclusions*

Eurostat stresses that, in line with the requested revisions of accruals in EDP table 2, the corresponding recording and adjustments in "other financial assets" and "net incurrence of other liabilities" should be made.

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<sup>2</sup> Estonia did provide the requested split of accruals in the October 2007 notification

Eurostat furthermore asks the Estonian authorities to monitor the statistical discrepancies, while waiting for the implementation of the new accrual accounting system, which should result in a decrease of these discrepancies.

#### **4. Examination and follow-up of the issues in the "*Questionnaire related to the notification tables.*"**

##### *Introduction*

The Estonian reply to some of the tables in the *Questionnaire related to the notification tables* was discussed in detail in the meeting. The first two tables relating to taxes and social contribution and EU grants were however treated under agenda item 2, EDP tables.

##### Table I Other receivables and payables relating to taxes and social contributions

The issue on taxes and social contributions was already treated under agenda item 3, EDP table 2.

##### Table II Other receivables and payables relating to EU grants

The issue on EU grants was already treated under agenda item 3, EDP table 2.

##### Table III Guarantees

##### *Discussion*

The situation relating to government guarantees was discussed in the meeting. The total stock of outstanding guarantees is small in Estonia (around 0.3% of GDP on average in recent years). There have furthermore been no called guarantees in recent years.

##### *Conclusions*

Eurostat takes note of the situation in Estonia concerning guarantees and of the fact that there have been no calls on debt guaranteed by government in recent years.

##### Table IV Debt cancellations

##### *Discussion*

Estonia has provided information concerning the total stock of claims. Currently there are no loans to third countries or public corporations. There have been no cancellations of debt in recent years.

##### *Conclusions*

Eurostat takes note of the situation in Estonia concerning debt cancellations and of the fact that there have been no cases of debt cancellations in recent years.

## Table Va and Vb Capital injections

### *Discussion*

The discussion on capital injections, as reported by SE in tables Va and Vb, focused on the capital injections into the real estate company Riigi Kinnisvara AS. This issue was already flagged in previous notifications.

Riigi Kinnisvara was established in 2001 with the aim to manage real estate (mainly office buildings) that belong to the public administration. Riigi Kinnisvara received several buildings in 2002, which were reported by SE to Eurostat as capital transfers in kind. Furthermore, the company received capital injections in 2003 (amounting to 350 mn EEK or 0.26% of GDP) and in 2004 (amounting to 600 mn EEK or 0.4% of GDP), recorded as equity injections and reported in questionnaire table Va and Vb.

In the meeting, it was also confirmed that there had been further equity injections into the company in 2005 and 2006, but these did not reach the requested threshold (0.05% of GDP) to be separately reported in table Vb.

Finally, SE told Eurostat that Riigi Kinnisvara is involved in sale and lease-back operations relating to Tallinn schools and to other government buildings. This information had not been reported to Eurostat before.

### *Conclusions*

Eurostat expresses doubts on the recording of the capital injections in recent years into Riigi Kinnisvara as well as on the appropriate recording of the sale and lease-back operations. Eurostat therefore invites the Estonian Authorities to provide to Eurostat, as soon as possible:

- The accounts of Riigi Kinnisvara for 2006
- A full description of the operations undertaken by Riigi Kinnisvara in recent years
- A full description of transactions between government and Riigi Kinnisvara in recent years including capital injections, list of buildings sold and lease-backed by government, dividends paid etc.

## Table VI Military expenditure

### *Discussion*

Estonia records military expenditure entirely on a cash basis. However, the plans are to start using accrual data from the April 2009 notification.

Data on deliveries of military equipment are already available at the Ministry of Defence, but they have not been used due to confidentiality aspect.

### *Conclusions*

Eurostat takes note that Estonia currently does not fully follow the Eurostat rules on the recording of military expenditure, and encourages SE therefore to use the information currently at their disposal while awaiting the accrual data, to be used from 2009 onwards.

Table VII Public-Private-Partnerships, Securitisation operations and Sale and leaseback operations.

Table VII has never been filled by Estonia (indicated with not available – L).

Public-Private-Partnerships (PPPs)

*Discussion*

There is currently no serious monitoring by SE of Public-Private-Partnerships in Estonia. A law concerning local government is however underway, including the obligation by local government to report on any PPPs. This should substantially improve the access to information. The Statistical authorities are today not aware of any specific PPP projects on any levels undertaken up to now.

*Conclusions*

Eurostat takes note that there are shortcomings in the monitoring of PPPs in Estonia in particular on local government level and recommends SE to strengthen its monitoring while waiting for the approval of the new law.

Securitisation operations

*Discussion*

The issue of possible securitisation operations in Estonia was raised in the meeting.

*Conclusions*

The Statistical authorities confirm that there have been no securitisation operations in Estonia.

Sale and leaseback operations

*Discussion*

SE has reported to Eurostat no sale and leaseback operations. However, in the context of the discussion on Riigi Kinnisvara, it was indeed reported that there are currently some sale and leaseback operations relating to schools.

*Conclusions*

While SE has reported to Eurostat that there have been no sale and leaseback operations in Estonia, the meeting revealed new information that there are indeed ongoing projects by Riigi Kinnisvara related to schools and other government buildings. SE was asked by Eurostat to investigate on the issue and report back to Eurostat (see also above concerning tables Va and Vb).

## **5. Follow-up of other Eurostat decisions and methodological advices in recent years not covered under agenda item 4.**

In the meeting the latest Eurostat decisions and methodological advices in recent years were discussed.

### Payments to government by public corporations in the context of the transfer to government of their unfunded pensions obligations.

#### *Conclusions*

The Statistical authorities confirm that there have been no such lump-sum payments in Estonia.

### Classification for the payments of roads

#### *Conclusions*

The Statistical authorities confirm that there are no road tolls/vignettes in Estonia.

### New ways of debt cancellation

#### *Conclusions*

The Statistical authorities confirm that there have been no such debt cancellations in Estonia.

### Market Regulatory Agencies

#### *Conclusions*

The Statistical authorities confirm that there are no market regulatory agencies in Estonia which hold inventories connected with intervention activities.

### Carbon allowances

#### *Introduction*

In 2006, government gave for free carbon trading rights to an Estonian company (Eesti Energia). In exchange, government received an exceptional dividend in 2007 from Eesti Energia due to the resale of the carbon trading rights provided by government.

#### *Conclusions*

Eurostat takes note that there have been operations relating to carbon allowances in Estonia and that, as far as the recording of carbon trading rights are concerned, Eurostat will reflect on the appropriate accounting of the exceptional dividend received by government in the context of the selling of trading rights by Eesti Energia and report back to the Estonian statistical authorities. Eurostat invites in the meantime the Estonian statistical authorities to provide

more precise information on the issue and to provide the balance sheets and the profit and loss accounts for Eesti Energia for the years 2005 and 2006.

#### Swaps / swaptions / interest options

Eurostat takes note that there are no occurrences of swaps/swaptions or interest options in Estonia.

### **6. Review of the implementation in Estonia of Council Regulation 2516/2000**

The issue was discussed under item 3 of the agenda (EDP tables)

### **7. Other issues**

#### *Introduction*

Under this item some issues relating to the ESA95 transmission programme and historical EDP data were discussed.

#### *Conclusions*

Eurostat takes note that SE is currently working on the missing historical years for ESA95 tables 2, 6, 7 and 11, as well as missing time-series and items in the historical EDP table data. SE aims at providing missing years for ESA95 tables by the end of 2007. The complete historical EDP tables will only come in 2008 or later.