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**Unit C-3: Public Finance**



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**- FINAL FINDINGS -**

**EDP dialogue visit to Finland**

**29-30 November 2007**

## **Executive summary**

An EDP dialogue visit to Finland took place on 29-30 November 2007. The aim of this EDP dialogue visit was to assess the existing statistical capacity, to review institutional responsibilities in the field of government finance statistics (GFS) including EDP reporting, to analyse information on data sources provided in the EDP inventory, to clarify issues relating to EDP tables raised in the context of previous notifications, to clarify sectoral classification of some units (particularly public infrastructure companies, public hospitals, public TV and radio) and to ensure that provisions from the ESA95 Manual on Government Deficit and Debt and recent Eurostat decisions are implemented and that specific government transactions are appropriately recorded in the Finnish EDP notification and national accounts.

Eurostat very much appreciated the amount and the quality of information provided by the Finnish statistical authorities prior to the mission. Eurostat also expressed satisfaction for the transparent and comprehensive presentation of the issues by the Finnish statistical authorities and congratulated them for the work that has been done in the field of government finance statistics including EDP reporting.

First, Eurostat discussed with the Finnish authorities the institutional arrangements and data sources for the compilation of Government Finance Statistics (GFS). Eurostat took note of the existing institutional responsibilities of Statistics Finland, the Ministry of Finance and the Bank of Finland in the field of GFS, and encouraged them to continue the good cooperation in the future. As far as data sources are concerned, Eurostat considers the general situation as good and transparent. However, some weaknesses were identified in this respect at the level of local government, as it is also the case in other Member States.

Eurostat acknowledged that the explanations and additional information on all outstanding issues identified in its previous visit on 25 January 2005 had been provided by the Finnish statistical authorities according to the requested deadline.

As regards the follow-up of the October 2007 EDP notification, Eurostat pointed out few technical issues and agreed with Statistics Finland that EDP tables and the Questionnaire relating to the notification tables will be slightly amended in the context of the April 2008 EDP notification. Requested amendments are however mostly of a pure technical nature. Eurostat encouraged the Finnish statistical authorities to make, for the year n-1, an estimation of some missing data relating to the local government subsector. The Finnish statistical authorities will further provide a breakdown of other accounts receivable/payable from EDP table 3, according to the structure available in their own data sources, in the context of the April 2008 EDP notification. In addition, the Finnish statistical authorities will endeavour in the future, at the request of Eurostat, to provide the split of EDP table 3B, between the state budget and the extrabudgetary funds.

Regarding the sector delimitation issue, the implementation of the 50% rule was reviewed and the classification of public infrastructure companies, public hospitals, public TV and radio, Finnvera Ltd and pension schemes for government employees was discussed. Eurostat indicated some of the features which point to a likely reclassification of the public TV and radio company YLE inside government. The Finnish statistical authorities were invited to reflect further on the issue and to inform Eurostat about their conclusions in this respect before the April 2008 EDP notification. As for the pension scheme for central government employees which is currently classified in the central government subsector, the reclassification into the social security funds subsector could be considered. Eurostat took note of the sector classification of Finnvera outside government and of its role in providing

loans to small and medium sized enterprises, undertaken at least partly on behalf of government. In this respect, Eurostat would like to receive in the next weeks a copy of the guidelines to be followed by Finnvera, issued by government, and will reflect further on this issue.

As far as the implementation of EC regulation 2516/2000 is concerned, Eurostat asked the Finnish statistical authorities to provide a note explaining the methodology behind the coefficients used for determining the amounts unlikely to be collected for social contributions before the April 2008 EDP notification.

In terms of guarantees recording, Eurostat took note of the treatment adopted by the Finnish statistical authorities as far as the recording of student loans and their cancellations is concerned. Both parties acknowledged that in this respect a clarification of the rules concerning guarantees provided by government would be welcome. As far as the issue of repayment of Russian debt is concerned, Eurostat recommended to the Finnish statistical authorities to consider the recording as government revenue at the moment of the repayment by the original debtor. In order to avoid a discrepancy between financial and non-financial accounts, Eurostat recommended reversing the revaluation of the claim undertaken in recent years in financial accounts.

Regarding the capital injections recording, Eurostat acknowledged the appropriate treatment at the central government level. Concerning the local government level, Eurostat took note that although the system does not allow to ascertain into which companies these injections are made and whether these would be profitable companies, in practice this issue does not seem to be critical due to the limited amounts of such injections.

On the issue of application of ESA95 rules concerning investment of government in domestic and foreign funds, Statistics Finland showed to Eurostat a simulation of the impact on government accounts of the proper application of recording of interest and reinvested earnings. It was concluded that the methodological approach chosen was most likely sound, and that further improvements in the methodology would be possible in the future due to the use of the new data sources. Statistics Finland was invited to provide a note describing exactly how the methodology will be implemented in the future. Eurostat will inform in the next weeks Statistics Finland on its position.

Eurostat examined also the treatment of other specific government transactions: EU flows, accrual interest, military equipment expenditures, debt cancellations, dividends, PPPs, securitisation, swap cancellations, sale and leaseback operations, UMTS, payments for the use of roads, carbon trading rights. In this respect, the approach taken by the Finnish authorities was found generally sound. Eurostat took note of the issue raised by Statistics Finland on negative fixed capital formation in Finnish national accounts related to employment pension schemes and acknowledged that relevant transactions are appropriately recorded in the Finnish national accounts.

The EDP mission follow-up actions undertaken to date by the Finnish statistical authorities are indicated in the provisional findings under each related item.

# 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 Finland on 29-30 November 2007. The delegation of Eurostat was headed by Mr. Nørlund, Director of Directorate C, National and European Accounts. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) participated also in the meeting as observers. The Finnish statistical authorities were represented by the Statistics Finland (SF), the Ministry of Finance (MoF) and the Bank of Finland (BoF). The list of participants is attached (Annex 1).

The previous Eurostat mission to Finland took place on 25 January 2005.

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

Eurostat very much appreciated the transparent and comprehensive information provided by the Finnish statistical authorities prior to the mission. In particular, apart from the information regularly requested to Member States, the Finnish authorities provided a split of EDP table 3B between the state budget and extrabudgetary funds.

## 1. Statistical capacity issues

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

#### *Introduction*

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

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

Eurostat inquired further about the institutional arrangements and division of responsibilities in the framework of compilation and reporting of EDP tables.

### *Discussion and methodological analysis*

The Finnish statistical authorities confirmed that actual data reported in EDP tables are based on non-financial and financial accounts for general government compiled by SF. SF is also responsible for debt statistics. SF provides preliminary data for general government before its publishing to the MOF and these are discussed on a bilateral basis, so the MOF is aware of the most recent statistical results that are used for the forecasts compilation.

Publication of EDP data at national level for the year n-1 takes place in February, before it is officially published by Eurostat.

The BoF is not involved in EDP tables and GFS compilation. However, SF provides regularly to the BoF national accounts for the general government sector as well as EDP tables, as soon as they are nationally published. These data are used by the BoF for compilation of GFS tables for the ECB. In addition, SF informs the BoF on problems relating to GFS, including EDP, if any. As for the future, GFS tables required by the ECB will be compiled by SF. SF stressed that even if the BoF is not directly involved in GFS compilation, a co-operation between the two institutions is very good.

### *Findings and conclusions*

- (1) Eurostat took note of the existing institutional responsibilities of Statistics Finland, the Ministry of Finance and the Bank of Finland in the field of GFS, and encouraged them to continue the good cooperation in the future.

## **1.2. Data sources, EDP inventory**

### *Introduction*

The consolidation version of the EDP inventory completed by SF provides a description of the data sources and methods used for EDP data compilation. As was agreed during the FAWG meeting in June 2007, an updated version of EDP inventories completed by Member States, including the EDP inventory for Finland, was published in Eurostat website on 28 September 2007. The updated version of the EDP inventory was published also nationally by Statistics Finland on 2.10.2007.

Eurostat appreciated that SF provided prior to the mission a chart of accounts for the state budget and a bridge table from public accounts items into ESA95 items, as well as an explanatory note on data sources.

### *Discussion and methodological analysis*

#### **a) Central government**

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

- (i) The following information is available for the State budget:
  - Budget implementation statement covering detailed information on current and capital revenues and expenditures and financial transactions. This statement is on a mixed (cash/accrual/commitment) basis, and its balance is used as the working balance in

EDP T2A. This statement is however not used as the primary data source for ESA95 transactions compilations.

- Financial book-keeping (income and expense account and balance sheet) is used for ESA95 accounts compilation. Data are on accrual basis except for revenues from taxes and transfers expenditures. In fact, data coverage recorded in the budget implementation statement and in financial bookkeeping is identical. There are only some differences in terms of time of recording of some transactions.
- In addition, the State treasury debt reports for balance sheets items and financial transactions (F.3, F.4 liabilities) are used for ESA95 accounts compilation.

Data sources for n-1 available in April are of preliminary nature.

(ii) As for the extrabudgetary funds, accrual financial statements are available and used for national accounts (NA) compilation. In addition, cash based Investment report of State pension Fund is used.

### **b) Local government**

Accrual based financial statements (profit and loss account and balance sheets) are available and used for ESA95 accounts compilation.

In October 2007, Statistics Finland revised upwards the positive working balance (annual margin) in EDP T2C for 2006 by 0,14 % compared to the April 2007 EDP notification. Available data sources for n-1 for the April EDP notification are not comprehensive, therefore some estimation needs to be done for EDP tables and ESA95 compiling:

- In February each year, a preliminary version of the so called annual margin (working balance used in the EDP T2C) is produced and published by Statistics Finland. It is the only available public concept - statistically based information gathered from municipalities and join municipalities by Statistics Finland.
- Estimations are done for final consumption expenditure, gross capital formation and transfers to other sectors; transfers from other government bodies are based on counterpart information.
- In addition, a balance of quasicorporations that is included in the working balance and is reclassified from local government into the corporation sector is not available for the year n-1, therefore data for n-2 are used in April. These data are precised in October EDP notification.

### **c) Social security funds**

Social security funds consist of 2 different subsectors: Employment pension schemes (S.13141) and Other social security funds (S.13149).

According to the information provided in the EDP inventory, only main aggregates on revenue and expenditure are available for the year n-1 for the April EDP notification. In October, accrual financial statements (profit and loss account and balance sheets) are available and used for the year n-1. Revisions in October are insignificant.

### *Findings and conclusions*

- (2) Eurostat considers the general situation as far as data sources are concerned, as good and transparent. However, some weaknesses were identified in this respect at the level of local government, as it is also the case in other Member States.

## **2. Follow-up of the visit of 25 January 2005**

### *Introduction*

In the context of the 2005 EDP mission follow-up, Statistics Finland provided all requested information according to the agreed time-schedule:

- the main clarification documents relating to the EDP mission action points were sent on 25 February 2005;
- the issue relating to the Paris club was further discussed in the context of the March 2005 EDP notification;
- the issue on the recording of reinvested earnings from foreign direct investments was solved in March 2007 via official letters on a bilateral basis between Statistics Finland and Eurostat.

### *Discussion and methodological analysis*

Eurostat had received all requested answers and information within the deadline. The results and any other relating follow-up have been discussed in details under the appropriate items of the Agenda, when relevant.

### *Findings and conclusions*

- (3) Eurostat acknowledged that the explanations and additional information on all outstanding issues identified in its previous visit on 25 January 2005 had been provided by the Finnish statistical authorities according to the requested deadline.

## **3. Follow-up of the October 2007 EDP reporting – analysis of EDP tables**

### *Introduction*

EDP notification tables and the Questionnaire related to EDP notification tables were sent to Eurostat on 27 September 2007. There was only one request for clarification sent by Eurostat in October 2007. Answers and the amended Questionnaire were received by Eurostat on 9 October 2007, as requested. Statistics Finland provided almost all information in the Annex to the requests for clarification, which was introduced by Eurostat for the first time. The provision of these data has been requested on a voluntary basis.

### *Discussion and methodological analysis*

Eurostat appreciated the explanatory notes including an explanation of the revisions as well as other complementary information which is sent by SF to Eurostat on a regular basis together with EDP tables. In addition, Eurostat was grateful for the completion by SF the Annex to the requests for clarification on a voluntary basis in the context of the October 2007 EDP notification and for other supplementary information and data breakdowns which were sent to Eurostat prior to the mission.

### **3.1 Revisions**

Data on deficit notified in October 2007 has been slightly revised compared with the April 2007 EDP notification. Revisions have been documented by SF in the explanatory notes sent

to Eurostat together with the EDP tables, as well as in the table annexed to the clarification questions:

- As a follow-up from the April 2007 EDP notification, the recording of early swaps cancellation has been revised for 2004-2006 in line with Eurostat recommendation (-53 mill, +1 mill and +5 mill respectively).
- A minor revision in 2006 (1 mill) concerns the application of Eurostat recommendation on the recording of the Market regulatory agency (MRA). Agricultural inventories of MRA have been reclassified into the nonfinancial corporation sector.
- A revision amounting (-) 102 mill (0,06 % of GDP) in 2006 relates to updated data sources.

### *Findings and conclusions*

- (4) The Finnish statistical authorities agreed to provide in the context of the April 2008 EDP notification a further split of information on revisions due to updated data sources (e.g. by subsectors and by items, if relevant)<sup>1</sup>.

## **3.2 EDP T2A**

The following main issues have been discussed relating to the EDP table 2A:

- a) Financial transactions considered in the working balance
- b) Other accounts receivable/payable F.7

### **a) Financial transactions considered in the working balance**

Statistics Finland provided, prior to the mission, a detailed breakdown of financial transactions considered in the working balance in the EDP T2A for 2003-2006, by units. Eurostat pointed out that there are some differences between financial transactions considered in the working balance and those recorded in EDP table 3B1 for the State budget for 2006, which was provided by SF before the mission<sup>2</sup> (see also item 3.5 e)).

### **Comparison of financial transactions for the state budget from EDP T2 and T3, for 2006**

	EDP T2A 1	EDP T3 B1 2	difference 3=2-1	
Loans, granted	67	259	192	F.4, increase
Loans, repayments	-219	-364	-145	F.4, reduction
Equities, acquisition	1	12	11	F.5, increase
Equities, sale	-1642	-1649	-7	F.5, reduction

*Table compiled by Eurostat on the basis of data provided by FI*

Differences are observed particularly for transactions in loans. These could be caused for example by the inclusion of non-monetary transactions in EDP table 3 (e.g. debt cancellation); by different data sources used for EDP table 3 compilation, and/or by the fact that not all financial transactions of the state budget are considered in the working balance.

SF explained that all financial transactions of the State budget are included in the working balance in EDP T2A (those relating to assets, as well as to liabilities) and they are to be

<sup>1</sup> SF has followed Eurostat recommendation and provided in the context of the April 2008 EDP notification further split of the revisions due to updated data sources by subsectors and by items.

<sup>2</sup> It should be noted that SF provided a split of EDP T3B into the State budget and Extrabudgetary funds on a voluntary basis; such split is not part of the official set of EDP tables.



consistent with financial transactions reported in EDP T3. On the other hand, it seems that available information on financial transactions considered in the working balance referring to real financial transactions of government in market values, is not being used to the full extent when compiling financial accounts (ESA T6) and EDP T3.

SF stressed that EDP table 3B1 had been compiled on an experimental basis, therefore some differences might have occurred. Nevertheless, they will consider the feasibility of using data on financial transactions considered in the working balance for financial accounts and EDP T3 compilation in the future.

### **b) Other accounts receivable/payable F.7**

Statistics Finland provided prior to the mission a detailed breakdown of transactions of other accounts receivable/payable from EDP T2A, for 2003-2006.

EDP table 2A reports *netted* amounts under other accounts receivable and report zero values under payables. SF pointed out that due to some practical problems with data sources, it is not always possible to provide a split of net acquisition of F.7 into other accounts receivable and payable. Eurostat took note on this statement.

Two main details are specified in other accounts receivable in EDP T2A: one refers to time adjustment of taxes, subsidies and EU grants; the second line refers to "accrual recording of other transactions". The latter adjustment is split further into: (a) adjustments relating to the "impact of items included in the budget implementation statement" and (b) "impact of items excluded from the budget implementation statement".

- Item (a) includes prepayments, and also adjustment for unspent funds from the current year, which are following national budgetary rules included in the working balance. SF agreed with Eurostat that it would be more appropriate to move the adjustment relating to unspent funds into the line "other adjustments" in EDP T2A, since the adjustment does not refer to time difference between the transaction and a cash payment.
- Item (b) includes adjustments relating to PPPs recording, i.e. repayment of imputed debt and investment expenditure. Eurostat pointed out that repayment of imputed debt is to be reported under "other financial transactions considered in the working balance" in EDP T2A.

### *Findings and conclusions*

- (5) Eurostat took note that, according to the Finnish statistical authorities, it is not feasible to report separately, in EDP table 2A, other accounts receivable and payable, at the level of central government. Nevertheless, the Finnish statistical authorities promised to move some items (such as unspent funds from the current year, or repayments on PPPs) from other accounts receivable, into the appropriate lines in the EDP table (respectively in other adjustments and financial transactions considered in the working balance).<sup>3</sup>

Eurostat inquired about the reporting of an item "residual" in EDP table 2A while in EDP table 2C, instead, an item "statistical discrepancy" is recorded. SF explained that in the case of the central government, the same data sources as reported in the working balance are used

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<sup>3</sup> The Finnish statistical authorities carried out changes in EDP table 2A in the April 2008 EDP notification in line with Eurostat recommendation

when net lending/ borrowing is calculated and an item “residual” refers to other non specified adjustments. Whilst for the local government subsector, the “statistical discrepancy” in EDP T2C refers to a difference resulting from the use of different data sources for national accounts compilation than those reported in the starting line of EDP table 2C.

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

One of the adjustment items in EDP T2C is a positive adjustment "capital transfers (net), not included in the annual margin" for 2003-2006. Yearly amounts are about 150 mill. According to the information provided by SF in the context of the October 2007 EDP notification, the biggest part of the capital transfer receivable by local government was paid by central government in 2006, and the minor part is transfer payable by EU. SF confirmed that the respective capital transfer expenditure is included in the working balance in the EDP T2A.

Eurostat observed that SF records equal amounts for n-1 and n-2 in the adjustment line “annual margin of departmental enterprises classified outside S.1313”, as well as in the line “annual margin of units of province of Aland, Finnish association of municipalities etc.". SF explained that due to unavailability of data sources, the same amounts are reported when notifying data for n-1.

#### *Findings and conclusions*

- (6) Eurostat encouraged the Finnish statistical authorities to make, for year n-1, an estimation, based on existing available information, of the amounts to be notified in EDP table 2C regarding the “annual margin of departmental enterprises classified outside S.1313” and the “annual margin of units of province of Aland, Finnish association of municipalities etc.”, instead of recording the same values as for the year n-2.<sup>4</sup>

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

EDP T2D was not compiled by Finland before 2005, since a common public balance was not available. Only net lending/borrowing B.9 and a set of ESA95 accounts were available for social security funds subsector. This issue was discussed during the 2005 EDP mission.

As a follow-up of the EDP mission in 2005, Statistics Finland started the compilation of EDP T2D. The working balance in EDP table 2D refers to other social security funds S.13149 and a balance of the employment payment schemes S.13141 is included in the line on adjustment for sector delimitation. In addition, the main revenues and expenditures of S.13141 impacting net lending of the latter are reported in EDP T2D.

### **3.5 EDP table 3**

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

- a) Consolidation issue
- b) Split of other accounts receivable/payable F7
- c) Data sources used for EDP T3 compilation

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<sup>4</sup> SF followed the recommendation of Eurostat and provided an estimation of the “annual margin of departmental enterprises classified outside S.1313” for 2007 in the context of the April 2008 EDP notification.

d) Breakdown of EDP T3B for central government into the State budget and extrabudgetary units

**a) Consolidation issue**

In the context of the April 2007 EDP notification, Eurostat noted some inconsistencies in consolidation flows in EDP tables 3, particularly for 2006. The Finnish statistical authorities had been aware of some discrepancies in intra governmental flows and the inconsistency for 2006 was significantly reduced in the context of the October 2007 EDP notification. However, there are still some differences for 2003-2006. Eurostat encouraged SF to investigate further the issue in order to eliminate the differences, even when negligible.

**b) Split of other accounts receivable/payable F7**

The Finnish statistical authorities were not in position to provide a further split of other accounts receivable/payable as reported in EDP table 3A, using a breakdown proposed by Eurostat in the annex to the request for clarification in the context of the October 2007 EDP notification<sup>5</sup>. SF explained that data sources available from balance sheets that are used for financial accounts and EDP T3 compilation include items which comply with AF.7 definition, e.g. receivables from sales, advance payments, arrears, deferred income and charges, other accruals, etc. However, all these individual items recorded in the balance sheet could be linked to different kinds of transactions, therefore it is impossible to provide the breakdown as proposed by Eurostat (e.g. F.7 relating to capital expenditures, to transfers, etc). SF also stressed that F.7 is not used for any manipulation in Finland in order to reduce the statistical discrepancy, when net lending/borrowing is calculated.

Eurostat noted that a reporting of the split of other accounts receivable/payable is important for the deficit and debt assessment purposes and asked SF to provide in the future the split according to the structure available in own data sources.

*Findings and conclusions*

(7) The Finnish statistical authorities will further provide a breakdown, in EDP table 3, of other accounts receivable/payable, according to the structure available in their own data sources, in the context of the April 2008 EDP notification.<sup>6</sup>

**c) Data sources used for EDP T3 compilation**

Statistics Finland stated that mainly direct data sources are used for all government subsectors when compiling financial accounts. Some additional sources from mutual funds statistics and quoted shares database are used, mainly for local government F.511 and F.52.

**d) Split of EDP table 3B**

Eurostat congratulated the Finnish authorities for providing a split of EDP table 3B into the State Budget and Extrabudgetary funds following the request prior to the mission. The

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<sup>5</sup> Member states had been asked to provide the split of transactions in F.7 from EDP T3A on a voluntary basis.

<sup>6</sup> SF provided a breakdown of transactions in F.7 from EDP T3B in the context of the April 2008 EDP notification.

provision of the split on a regular basis had been proposed by Eurostat during the FAWG meeting in June 2007.

#### *Findings and conclusions*

- (8) The Finnish statistical authorities will endeavour in the future, at the request of Eurostat, to provide the split of EDP table 3B, between the state budget and the extrabudgetary funds.

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

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

#### *Introduction*

SF provided prior to the mission an explanatory note on the implementation of the 50% rule in national accounts and on the sector classification of some institutional units.

#### *Discussion and methodological analysis*

##### **4.1.1 Application of the 50% rule**

As far as the central government sector is concerned, budgetary units and extrabudgetary funds are, by default, classified inside central government sector. Quasi-corporations and limited companies established by central government are by convention, classified outside S.1311, since they are involved in profitable activities. If borderline cases are identified, these are analysed on unit-by-unit basis.

Implementation of the 50% rule is relevant mostly for local government, since borderline cases occur in S.1313 more often than in central government. Statistics Finland has established a special Task Force for examining yearly the classification of municipal units. It consists of national accounts experts and of experts on different source statistics and on business register.

Sector classification of units established by local government is done for groups of units, since a complete unit-by-unit analysis cannot be undertaken due to the unavailability of individual data sources from local statistics. Therefore, classification is partly based on the functional/industrial classification of the units.

Quasi-corporations acting in branches such as water supply, energy supply, public transport, port authorities are always, by convention, considered as market producers, because their sales come mainly from other sectors than the government sector and prices are economically significant. Otherwise, some quasi-corporations are classified inside S.1313 when their sales are not considered as being real market sales. For example, since the last EDP visit in 2005, some educational institutions (quasi-corporations) have been reclassified into the local government subsector.

As for the social security funds subsector, the application of the 50% test is not relevant.

Eurostat took note of the approach taken by the Finnish authorities in terms of the 50% rule implementation.

#### 4.1.2 Sector classification of individual institutional units

The sector classification of the following institutional units was examined during the mission:

- a) Public infrastructure companies (railway, motorway, and transportation companies)
- b) Public hospitals
- c) Public TV, radio
- d) Finnvera Ltd.
- e) Pension schemes

SF provided prior to the mission an explanatory note on the sector classification of individual units/groups of units, mentioned above.

##### **a) Public infrastructure companies (railway, motorway, and transportation companies)**

###### Railways

The following units operate in Finland:

- i. Infrastructure manager **Ratahallintokeskus** (RHK) - a government agency inside the state budget, classified in S.1311. All track constructions are reported in the balance sheet of RHK.
- ii. **VR-group** is classified in the corporation sector S.11. The group consists of rail services operations and of a unit for track construction and maintenance.  
**VR Ltd** - responsible for passenger and cargo transport, is financed predominantly by its sales. Since there is competition in the transport market in Finland, the sales of VR Ltd are market sales. The company receives subsidies from government only in exceptional cases (e.g. keeping up of some deficit-making railway sections for regional policy reasons). The passenger railway transport is not open to competition, but cargo transport competition was opened at the beginning of 2007.  
**VR-Track Ltd** - responsible for track construction and maintenance, sells its services predominantly to RHK. Since there are many private units providing track construction and maintenance services, SF concluded that these sales reflect real market prices, and classification of VR Track Ltd in S.11 is appropriate.
- iii. Recently, a new government "**Railway agency**" which takes care of railway security issues was established. The new agency was set up following the EU railway security directive, which requires the existence of such separate agency.

###### Motorway

- i. The **Finnish Road Administration** is a government agency inside S.1311, which is responsible for Finland's highway network. All road constructions are reported in the balance sheet of the Road Administration. The Finnish Road Administration does not

build and/or maintain the constructions itself but it buys these services from the market.

- ii. **Destia** (former Finnish Road Enterprise) is a government quasi-corporation classified in the corporation sector S.11. Its main business is the planning, construction, upkeep and maintenance of traffic routes. Even if the main purchaser of Destia's output is the Finnish Road Administration (68% of Destia's turnover in 2006), Destia sells its services also in the market to private sector and municipalities. On the other hand, Destia is the most important service provider to Road Administration.

### Public transport

As was explained under the item on 50% rule, for local government, quasi-corporations in certain branches are always considered being market producers. It refers also to transportation activities where the sales are purchased mainly by other sectors for economically significant prices. Public transportation (organised as quasi-corporations) in three Finnish cities is subsidised by local government, but sales cover more than 50% of costs.

### **b) Public hospitals**

All public hospitals are classified inside the general government sector (including quasicorporations), since their sales are actually linked to their costs.

As for the private hospitals, they also receive payments from Health Insurance Company, but the system of pricing applied to private hospitals is different than a pricing system applied to public hospitals.

### **c) Public TV, radio**

The public TV and radio company, YLE Ltd, has been classified in non-financial corporations sector. YLE is being financed by:

- a television fee which is paid for each television set in use (only one fee per household), and
- a licence fee which is paid by companies for a granting of a licence to carry on television or radio operations (the fee is linked to the turnover of the company in question).

These payments classified in national accounts as market sales, are collected by the extra-budgetary Radio and TV fund (classified in S.13) and transferred to the YLE. The Radio and TV fund is seen as acting on behalf of YLE and the revenues from TV fees and corresponding expenditures are removed from government national accounts. The Fund does not charge any service payments from YLE.

Eurostat noted that in some Member States, fees collected by public TV are classified as tax revenues instead of sales. Eurostat also pointed out that in the case of YLE, a fee seemed not to be linked to the provided service, it is not a profitable company (YLE is reported among loss making companies in the Questionnaire relating to EDP tables) and invited SF to reconsider its sector classification.

### *Findings and conclusions*

- (9) On the issue of the sector classification of the public TV and radio company YLE, Eurostat indicated some of the features which point to a likely reclassification of YLE

inside government. The Finnish statistical authorities were invited to reflect further on the issue and to inform Eurostat about their conclusions in this respect before the April 2008 EDP notification.<sup>7</sup>

#### **d) Finnvera Ltd.**

Finnvera Ltd. is a specialised financing company established in 1999 and owned exclusively by the state. From a legal point of view it is a limited company which operates under the auspices of the Ministry of Trade and Industry.

As stated by SF, Finnvera is a profitable company and is classified in the financial corporations sector in line with MGDD rules and SNA93. Its operating balance after deduction of transfers from government was positive in 2003-2006.

Three main tasks of Finnvera are defined by a law:

- to provide risk financing for and to develop SMEs;
- to promote the exports and internationalisation of enterprises;
- to implement the government's industrial policy and regional policy goals. Finnvera acts as Finland's official Export Credit Agency (ECA).

One of the tasks of Finnvera is also the administration of the Paris club claims on behalf of the state.

Finnvera borrows funds on the financial market, which are then used for granting loans (about EUR 300 million per year), but the government bears some of the costs of operations by granting interest support that is passed on to Finnvera's clients and by compensating Finnvera for some of its credit and guarantee losses. The total payment by government to Finnvera (interest support and compensation for losses) is about EUR 40 million per year. The average compensation paid by the state to Finnvera for credit and guarantee losses is 50 % of the total losses.

Eurostat took note of the sector classification of Finnvera outside government and of its role in providing loans to small and medium sized enterprises, undertaken at least partly on behalf of government. The issue of Finnvera was further discussed under the item 4.3.2 on guarantees.

#### **e) Pension schemes**

According to the information provided in the EDP inventory, there are 2 pension funds for public employees in Finland: VEL for central government employees and KuEL for local

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<sup>7</sup> SF provided Eurostat on 5 February with a note explaining that, for the time being, they do not plan to change the recording of television fee or the sector classification of YLE before the application of new ESA and/or before the introduction of a new financing system for YLE due to the following reasons:

- The issue is contentious from the point of view of the present ESA.
- The issue is not important from the point of view of Finnish EDP deficit and debt according to present projections on YLE's finances.
- The financing of YLE will be reformed in the coming years. If the sector classification of YLE was changed now, this could lead to unwanted reclassification back and forth, depending on the outcome of the reform.

government employees. Both funds have been considered by SF to be a part of the social security scheme.

Eurostat noted that according to ESA95, paragraph 4.89, "social insurance schemes organised by government units for their own employees are classified as private funded schemes or unfunded schemes *but not as a social security schemes*".

SF explained that, in addition to the basic compulsory National Pension scheme (KELA - Social Insurance Institution), there are six different sector-related compulsory pension schemes organised by employers, including VEL for central government employees and KuEL for local government employees. It means that VEL and KuEL are complementary first pillar pension schemes in Finland for general government. Consequently, VEL and KuEL are both considered by the Finnish authorities to be classified as a social security scheme, since they are part of the first pillar, they are statutory pension fund based on pension acts and they cover "a large section of the community".

It was discussed, whether these pension schemes organised for government employees are to be classified within the related subsector of the employer (central and local government), or whether it would be more appropriate to classify them in the social security funds subsector.

ESA95 paragraph 2.74 says: "The sub-sector social security funds includes all central, state and local institutional units whose principal activity is to provide social benefits and which fulfil each of the following two criteria:

- a) by law or by regulation certain groups of the population are obliged to participate in the scheme or to pay contributions;
- b) general government is responsible for the management of the institution in respect of the settlement or approval of the contributions and benefits independently from its role as supervisory body or employer (see paragraph 4.89.).

There is usually no direct link between the amount of the contribution paid by an individual and the risk to which that individual is exposed."

SF pointed out that VEL, currently classified in the central government subsector, could be classified in the social security subsector, given that it would fulfil criteria defined in ESA95 on S.1314 delimitation.

Eurostat admitted that current ESA95 rules for subsector classification of such compulsory pension funds are rather flexible.

### *Findings and conclusions*

- (10) On the issue of the classification of the pension scheme for central government employees, the Finnish statistical authorities outlined the reasoning according to which this scheme, at present classified in central government, could be reclassified in the social security funds subsector. Eurostat found the reasoning substantially correct, but will check whether the reclassification would be compatible with the findings and conclusions of the present task force on pensions.<sup>8</sup>

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<sup>8</sup>Following the treatment in the new SNA, the Final Report of the Eurostat/ECB Task Force on the statistical measurement of the assets and liabilities of pension schemes in general government to CMFB (February 2008) indicated that defined benefit schemes for general government employees are to be presented separately from



## 4.2. Implementation of accrual principle

### 4.2.1. Accrual taxes and social contributions

#### *Introduction*

Statistics Finland uses time adjustment method for the recording of taxes. Social security contributions are calculated using time adjustment method (for contributions paid to Social Insurance Institution) and accrual data "net of credit losses" from accrual financial statements (for other social security funds: Employment pension funds, Unemployment funds).

Eurostat further inquired about the method of calculation of accrual social contributions, particularly for the calculation of the amounts unlikely to be collected.

#### *Discussion and methodological analysis*

SF explained that the amounts unlikely to be collected are calculated by pension companies and that data on revenues from social contributions that are used in national accounts, reported in the profit & loss account, are already "netted of credit losses". Details on calculations of the amounts unlikely to be collected had not been available during the mission. As stated by SF, the provision of time series on social contributions cash receipts would be problematic, since these data are not available.

#### *Findings and conclusions*

- (11) As far as the implementation of EC regulation 2516/2000 was concerned, Eurostat asked the Finnish statistical authorities to provide a note explaining the methodology behind the coefficients used for determining the amounts unlikely to be collected for social contributions before the April 2008 EDP notification.<sup>9</sup>

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social security pension schemes. However, the subsector delimitation has not been specified in the context of the above mentioned Task Force.

<sup>9</sup> SF provided to Eurostat an explanatory note on 5 February 2008 on the methods for determining the amounts of social contributions accrued but not received and the updated Questionnaire on the methods used for recording taxes and social contributions. According to the note: "... the credit losses are recorded on the basis of actual insolvency cases faced by the employment pension companies. Accrual-based figures available from the source are net of credit losses. The same accounting principles are applied both in the pension companies' financial statements and in the Insurance Supervisory Authority data used as a source for national accounts. Hence, no coefficients are used, and national accounts figures only include amounts that are actually received by employment pension companies." It is specified in the Questionnaire that "...premiums shown in the profit and loss accounts are net of credit losses of the year...thus the total premium income always excludes the amounts not received".

The issue was further discussed in the context of the April 2008 EDP requests for clarification. SF stated: "...pension companies...record premiums on due basis and the amounts due but not yet received are entered in premium receivables. The reduced amount is indeed the same amount which is also recorded in the business accounting...In our view, this due basis is in practice close to assessment method. However, no coefficient method is introduced in national accounts to take account of amounts unlikely to be paid. This is because the recording practice of the pension companies' credit losses provides is a reliable way to ensure that, over time, no revenue not actually received is recorded in national accounts."

## 4.2.2. Calculation of accrual interest

### *Introduction*

Eurostat asked further clarification on the recording of accrual interest, particularly relating to flows on issuance above/below par.

### *Discussion and methodological analysis*

Starting with data for 2004, interest is recorded on an accrual basis in the budget reporting. Redemption/issuance of discount/premium is recorded as a budget expenditure/revenue, but in national accounts, premium and discount is spread over time and treated as interest expenditure. These amounts are based on data from the State Treasury. In EDP Table 2A an adjustment is shown for these differences under the item difference between interest paid (+) and accrued (EDP D.41) (-). Eurostat pointed out that the description on recording of flows relating to issuance above/below par is not very clear in the EDP inventory and some modifications would be appreciated.

SF follows Eurostat recommendation spreading payments resulting from early swap cancellations over the remaining life of swaps. The adjustment is reported in the line *Difference between interests accrued and paid in EDP T2A and T3B*.

### *Findings and conclusions*

- (12) Eurostat invited the Finnish statistical authorities to modify the wording "emission gains and losses" into "premiums and discounts" in the next version of the EDP inventory.

## 4.3 Recording of specific government transactions

### 4.3.1. EU relating transactions

The recordings of flows relating to EU funds and the issue of time recording of VAT reimbursement from EU to government have been discussed.

#### **a) EU funds recording**

### *Introduction*

According to the note provided by the Finnish authorities, the application of Eurostat decision on EU grants is based on two methodologies, depending on the final beneficiary of the EU-financing in question:

- 1) Structural funds (Social Fund and Regional Development Fund): *the final beneficiary is the government agency* which makes the decision on how the money is spent.

The revenue from the EU is in national accounts recorded at the time when government makes expenditure relating to EU financing. In order to neutralise the impact of actual cash flows, Statistics Finland corrects the revenue from the EU to match the actual expenditures, and records the difference in AF.79. This recording practice ensures that the

EU-grants do not affect the deficit, because the expenditures recorded are practically always reimbursed by the EU.

- 2) Agricultural policy (EAGGF and FIFG): *the final beneficiary (nongovernment unit) is the ultimate recipient* of the transfer financed by the EU-grants.

In the context of agricultural policy, all revenues and expenditures appearing in the state book-keeping is removed from the government accounts, and are shown as paid by the EU and received by domestic sectors other than government. A difference between the annual amounts of removed expenditure and revenue is recorded in AF.79.

SF provided Eurostat, prior to the mission, with data on EU flows for 2003-2006: revenues from the EU and government expenditures on behalf of the EU, separately for Structural Funds and for agriculture policy funds, as well as related data on F.79.

#### *Discussion and methodological analysis*

SF confirmed that it follows Eurostat decision on EU flows recording. Eurostat understands that all EU relating flows enter the working balance in EDP table 2A and related deposits are recorded in EDP table 3B, in currency and deposits F.2. The neutralisation of the impact of EU flows is appropriately reported in other accounts receivable F.79 on a net basis in both EDP table 2 and 3.

### **b) Recording of VAT payment**

#### *Introduction*

Statistics Finland had been asked to provide information on adjustment/reimbursement of VAT from EU to government, in view of the ongoing discussions in Eurostat on the recording of reimbursement of VAT from EU.

According to the information provided by SF, “The VAT payment is recorded in government accounts as it appears in the state book-keeping. No time-adjustments or corrections are applied to the data, and all the corrections to the past years are recorded in the year in which the correction payment is received from the EU or paid to the EU. For example correction payments made and recorded in December 2006 actually concerned years 2000-2005.”

#### *Discussion and methodological analysis*

SF confirmed that the reimbursement of VAT from EU is recorded on a cash basis and pointed out to practical difficulties for the accrual recording of the flows in question. Basically, relevant time adjustments could have been done only in the context of further revision of national accounts. Eurostat took note on this reasoning.

### **4.3.2. Guarantees**

#### *Introduction*

Transactions on guarantees in Finland relate to student loans guarantees and to guarantees provided to public corporations via the special entity Finnvera Ltd. SF had provided prior to

the mission a table on transactions relating to guarantees for 2003-2006, separately for student loans and for Finnvera.

### *Discussion and methodological analysis*

#### **a) Student loans guarantees**

As far as student loans guarantees are concerned, calls on guarantees are recorded as acquisition of loan assets in financial accounts. Government expenditure is recorded at time of debt cancellation, following the recording in public accounts.

Eurostat noted that there are regular calls recorded as acquisition of loans, repayments as well as regular debt cancellations. The amounts involved are not significant and the stock of claims from student loans calls is stable. Debt cancellations are considered in the working balance, therefore no adjustment is needed in EDP T2A.

#### **b) Guarantees realised via Finnvera**

Finnvera, a public corporation classified in the financial corporation sector, involved in export credit activities, administrates the accounts of the extrabudgetary State Guarantee Fund (Paris club claims) and grants guarantees on behalf of government (see also item 4.1.d) on sector delimitation).

Paris club claims are recorded in the bookkeeping of the State Guarantee Fund, even it administrated by Finnvera. The State Guarantee Fund compensates credit and guarantees losses of Finnvera, provides interest support and grants guarantees for the acquisition of loans. On average, state compensates each year 50% of the total losses. These payments are recorded as capital transfer expenditure of the budget.

The issue of the recording of the Paris club claims has been discussed. SF explained that debt cancellations had been recorded in national accounts as capital transfer expenditure when the guarantee was called. Therefore, Paris club cancellations were not reflected in the Finish national accounts, since the expenditures had been already recorded in previous years.

It was noted that late repayment of debt by Russia, relating to export credit guarantee, took place in recent years and it was recorded in ESA95 accounts as a financial transaction, repayment of a claim F.7. However, since the claim against Russia was removed from government accounts several years ago by way of debt cancellation recording, SF recorded an upward revaluation of the claim in question, and subsequently recorded a decrease of the claim as a counterpart of the claim repayment by Russia. SF pointed out that if not, statistical discrepancy would have appeared between nonfinancial and financial accounts.

Eurostat pointed out, that in such case of unexpected repayment by the original debtor, the recording of capital transfer receivable by government would be appropriate with positive impact on B.9. The claim was cancelled in previous years and does not exist in the government ESA95 balance sheet anymore; therefore its revaluation cannot be recorded. Accordingly, Eurostat invited SF to reconsider their treatment in national accounts (see also item 4.3.4 on debt cancellations).

Eurostat also inquired on why fees collected by Finnvera, as reported in the questionnaire relating to the notification tables, are not recorded in government accounts. SF noted that they do not consider the fees in question to be government revenue. SF also confirmed that they are not aware of any debt assumption operations and interest flows arising from guarantees.

Statistics Finland stressed the lack of comprehensive guidance on the treatment of guarantees in national accounts.

### *Findings and conclusions*

- (13) Eurostat took note of the sector classification of Finnvera outside government and of its role in providing loans to small and medium sized enterprises, undertaken at least partly on behalf of government. In this respect, Eurostat would like to receive in the next weeks a copy of the guidelines to be followed by Finnvera, issued by government, and will reflect further on this issue.<sup>10</sup>
- (14) Eurostat took note of the treatment adopted by the Finnish statistical authorities as far as the recording of student loans and their cancellations is concerned. Both parties acknowledged that in this respect a clarification of the rules concerning guarantees provided by government would be welcome.
- (15) As far as the issue of repayment of Russian debt is concerned, Eurostat recommended to the Finnish statistical authorities to consider the recording as government revenue at the moment of the repayment by the original debtor. In order to avoid a discrepancy between financial and non-financial accounts, Eurostat recommended reversing the revaluation of the claim undertaken in recent years in financial accounts.<sup>11</sup>

### **4.3.3. Military equipment expenditures**

#### *Introduction*

According to the information provided in the EDP inventory, military equipment expenditures are recorded on accrual basis in national accounts.

#### *Discussion and methodological analysis*

When analysing information from the Questionnaire relating to the notification tables, different figures are included in the working balance and in the adjustment line in EDP T2A compared with the data on deliveries and cash payments recorded in the table VI, Part 1. SF explained that military expenditures as reported in public accounts and in the working balance in EDP T2A are not on a pure cash basis, in fact they are recorded on a mixed basis. Therefore an appropriate amendment, reported as "other adjustment" under the heading "the impact of the difference in the recording of deferrable budgetary appropriations" refers to the difference between the amount included in the working balance and the amount of the delivery.

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<sup>10</sup> SF provided Eurostat with the background documents on Finnvera on 7 January 2008.

<sup>11</sup> SF informed Eurostat in the context of the April 2008 EDP notification that the recommendation of Eurostat to reconsider the recording of repayments relating to guarantees called which were previously fully expensed will be reflected in the context of a larger time-series revision, which would be published in 2009.

Eurostat has found the treatment of military expenditure and its recording in EDP T2A correct.

#### **4.3.4. Debt assumptions, debt cancellations and debt write-offs**

##### *Introduction*

SF provided prior to the mission data on debt cancellations for 2003-2006. The table comprises information on the debt cancellations benefiting individual countries (Paris club cancellations) and on other debt cancellations (student loans, Enterprise loans for R&D TEKES, state housing loans and other). The issues on debt assumptions and debt cancellations were to a large extent discussed under the item 4.3.2 on guarantees.

##### *Discussion and methodological analysis*

SF pointed out that table IV of the Questionnaire related to the EDP notification will be amended, since for the time being, it has not included information on debt cancellations considered in the working balance (student loans and housing loans).

Eurostat invited SF to exclude data on the Paris club debt cancellations from table IV of the Questionnaire related to the EDP notification, as debt cancellations were recorded in previous years and the currently provided information on Paris club cancellations does not reflect national accounts recording (see item 4.3.2).<sup>12</sup>

##### *Findings and conclusions*

- (16) Eurostat took note that table IV on debt cancellations of the Questionnaire related to the EDP notification will be amended by way of inclusion of additional available information on student loans and housing loans, and the exclusion of information on Paris club debt cancellations, since these do not reflect the current recording in national accounts.

#### **4.3.5. Capital injections in public corporations, dividends, privatization**

##### *Introduction*

The following issues have been discussed:

- a) the issue of the treatment of reinvested earnings on foreign direct investment (Telia Sonera)
- b) recording of capital injections
- c) recording of and dividends /superdividends
- d) planned revision of retained earnings recording (discussion initiated by SF).

SF provided Eurostat with a note on the capital injections and dividends/superdividends recording, as well with a note on a planned revision of retained earnings.

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<sup>12</sup> SF provided amended Questionnaire in the context of the April 2008 EDP notification.

## *Discussion and methodological analysis*

### **a) Telia Sonera**

During the previous 2005 EDP mission, the issue of the recording of reinvested earnings on foreign direct investments (FDI) was disused (Telia Sonera). The question of the recording of revenues from FDI was solved on a bilateral basis between Statistics Finland and Eurostat through official letters. According to Eurostat recommendation, Finland records revenues from reinvested earnings on FDI with positive impact on deficit.

### **b) Capital injections**

Statistics Finland stated that it follows Eurostat guidance on the capital injections recording. There have been only a few cases of major equity injections made to public corporations in recent years:

- 2003: Finnish Industry Investment Ltd, a state owned investment company, EUR 42 million
- 2002: Outokumpu Plc, a minority state owned (34%) metals and technology company, EUR 119 million
- 2001: Sonera Plc, a majority state owned (53%) telecommunications company, EUR 531 million
- 2000: Kapiteeli Ltd, a state owned real estate company, EUR 100 million
- 2000: Finnish Industry Investment Ltd, a state owned investment company, EUR 88 million

There were no capital injections recorded as capital transfer (D.9) for 2000-2006. Capital injections from municipalities to their corporations exist, but are assumed to be small. Since it is not possible to collect detailed information on those, all capital injections to municipal corporations are treated as transactions in equity (F.5). SF believes that amounts involved are rather insignificant.

Capital transfers had been recorded for years 1993-1996, when the state injected equity capital to **Arsenal Ltd**, as a part of bank support procedure. Arsenal Ltd was a government-owned asset management company, which took over bad assets from the benefiting banks. These capital injections had been initially recorded as transactions in equity, but their treatment was reconsidered within the large revision of national accounts in 2006 and flows had been recorded as government expenditures. The amounts in question for 2003-2006 are: 420 mill, 925 mill, 1261 mill, 605 mill EUR respectively.

## *Findings and conclusions*

- (17) As far as the recording of capital injections is concerned, Eurostat acknowledged the appropriate treatment at the central government level. Concerning the local government level, Eurostat took note that although the system does not allow to ascertain into which companies these injections are made and whether these would be profitable companies, in practice this issue does not seem to be critical due to the very limited amounts of such injections.

### c) Superdividends

Statistics Finland has applied the following rules to determine whether dividends are to be recorded as withdrawal of equity (superdividends).

In case dividends are totally or partially originated from sales of assets or holding gains:

(A) When the relevant part of dividends can be clearly determined (it is paid separately as extra dividends or otherwise indicated in financial reports), withdrawal of equity (F.5) is recorded.

(B) When the exceptional part of dividends cannot be determined, withdrawal of equity (F.5) is recorded for the part exceeding the profit.

All other dividends are recorded as property income.

There have not been any examples of case B so far. Two examples of the case A have occurred in recent years in Finland:

- **in 2006 Fortum Plc** paid dividends of EUR 463 million to central government. The company itself announced that this exceptionally high dividend was influenced by proceeds of the sale of shares of its major subsidiary Neste Oil. Government's share of the proceeds, EUR 201 million, was treated as a super dividend and recorded as withdrawal of equity (F.5). Fortum's total dividend did not exceed its profit.

- **in 2006 Kapiteeli Ltd** paid extra dividends of EUR 200 million to central government, in addition to normal dividends. The company itself announced that this extra dividend was a result of sales of real estate property. Kapiteeli's total dividend exceeded its profit notably. The extra dividend was recorded as withdrawal of equity (F.5).

Eurostat has found the approach taken by the Finnish authorities generally sound.

### e) Retained earnings

SF initiated discussion on planned revision of general government revenues relating to capitalised (reinvested) property income earned on mutual funds investments, particularly for employment pension schemes invested in mutual funds abroad.

According to ESA95 methodology, the rule of retained earnings for mutual funds (ESA 4.49b and 5.54b) prescribes that interests and dividends received by mutual funds are to be recorded as property income of its shareholders, even when they are not distributed but capitalised. The property income earned by mutual funds is to be recorded as resource of mutual funds, and, simultaneously, is to be recorded as a use of mutual funds and resource of shareholders, as if distributed.

However, existing data sources available at SF did not provide comprehensive information on reinvested property income for foreign mutual funds. Therefore, reinvested property income (interest and dividends) relating to foreign investment funds, as well as capitalised interest from investments in domestic mutual funds, had not been recorded in the Finnish national accounts in the past.

Since investments in mutual funds significantly increased during the last several years in Finland, property income earned by and on mutual funds has become increasingly important for the Finnish economy. As far as the general government sector is concerned, noticeable



investments of employment pension schemes in mutual funds abroad have been in particular observed.

Therefore, the Finnish statistical authorities felt a need to incorporate the missing part of the property income generated by mutual funds in national accounts. To this effect, estimation methods have been elaborated and calculations done for each sector, including the general government sector.

As far as domestic mutual funds are concerned, information on interest and dividend income, distributions, and share holdings by individual sectors is available for each individual fund from Mutual fund statistics. Concerning foreign mutual funds, such information is not available and there was a need to find a proper estimation approach: based on data pertaining to domestic investment funds property income yields.

SF provided, prior to the mission, preliminary estimations for 2001-2007. The planned revision would have a positive impact on general government revenues and thus a positive impact on the general government net lending / net borrowing. A more noticeable impact is observed in recent years, and is expected to be even higher in coming years.

#### *Findings and conclusions*

- (18) On the issue of application of ESA95 rules concerning investment of government in domestic and foreign funds, Statistics Finland showed to Eurostat a simulation of the impact on government accounts of the proper application of recording of reinvested earnings - interest and dividends. It was concluded that the methodological approach chosen was most likely sound, and that further improvements in the methodology would be possible in the future due to the use of the new data sources. Nevertheless, Eurostat will investigate the methodological treatment adopted by other Member States in similar situations and will inform in the next weeks Statistics Finland on its position. Statistics Finland was invited to provide a note describing exactly how the methodology will be implemented in the future.<sup>13</sup>

#### **4.3.6. Public Private Partnerships**

##### *Introduction*

There have been two PPP projects in central government, which have been classified as government investments in national accounts: Lahdentie and the Muurla - Lohja (E18). Both are motorway projects.

In local government, there is one significant ongoing PPP project, "Espoon Kaivomestari", which is classified as private investment.

##### *Discussion and methodological analysis*

The treatment of the motorway project Lahdentie was discussed during the 2005 EDP mission. As far as the E-18 motorway project is concerned, information is available in the

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<sup>13</sup> Eurostat expressed an official agreement with the approach taken by SF for estimating property income earned by mutual funds shareholders in a letter dated 12 June 2008.

Questionnaire related to notification tables. No new motorway-PPPs are foreseen at the moment.

Regarding the local government ongoing PPP project, “Espoon Kaivomestari”, which is classified as private investment, relevant description was provided for the EDP 2005 mission.

#### *Findings and conclusions*

- (19) Eurostat asked the Finnish statistical authorities to detail further the text relating to the recording of PPPs in the next version of the EDP inventory.

### **4.3.7. Swaps (swap cancellations, off-market swaps, FOREX swaps, options)**

#### *Introduction*

Statistics Finland follows Eurostat recommendation on spreading payments resulting from early swap cancellations over the remaining life of swaps.

#### *Discussion and methodological analysis*

Up to April 2007 notification, the Finnish EDP-interest correction line included payments resulting from early cancellation of swaps for years 2004 (57 me) and 2005 (3 me). Statistics Finland has received calculation of these payments spread over the remaining life of swaps from the State Treasury, and the time of recording of these payments was changed accordingly in October 2007 notification. The impact of this adjustment on EDP\_B9 is as follows: 2004: -53 me; 2005 +1 me; 2006: +5 me.”

The recording of early swap cancellations has been accepted by Eurostat.

### **4.3.8. Securitisation**

#### *Introduction*

There have been no securitisation operations undertaken during the reporting period. However, operations undertaken during 1995-2001 (Fennica) still have an impact on EDP statistics for the reporting period. The issue of securitisation undertaken by Fennica was discussed during the previous EDP mission in January 2005.

#### *Discussion and methodological analysis*

Transactions relate to securitisation of ARAVA loans (housing loans granted by the State Housing Fund). The rights to ARAVA loans had been transfer to the SPV (Fennica), owned by a foreign investment company. Fennica is located in Ireland. The SPV issued bonds on the market, using the transferred ARAVA loans as a guarantee. The treatment in national accounts was the following:

- The sale of loans to Fennica was recorded as decrease in the State loans receivables and increase of cash;
- the debt was classified as a bond liability of Fennica.

Statistics Finland recently informed Eurostat that according to plans, the last outstanding Fennica-securities will be bought back by the government during 2007. No new securitisation operations are foreseen.

Eurostat took note of this explanation.

#### **4.3.9. Others specific government transactions**

##### *Introduction*

The treatment of the following specific government transactions have been reviewed”

- a) Sale and leaseback operations
- b) UMTS
- c) Carbon trading rights
- d) Payments for the use of roads
- e) Negative fixed capital formation

##### *Discussion and methodological analysis*

#### **a) Sale and leaseback operations**

It was confirmed that there have not been any sale and leaseback operations in Finland.

Under this item, the Finnish authorities provided information on the central government quasi-corporation Senaatti, formerly the State Real Property Agency, which owns most of central government real estate used by government agencies. When the Agency was transformed into a quasi-corporation in 1999, it was reclassified into non-financial corporations sector, since:

- it is an independent institutional unit (keeps all accounts, entitled to borrow from markets on own account) and,
- more than 50 % of revenues consist of sales; the customers are invoiced at market prices; the investments are financed from own funds (rents).

Most of the real estates of the state have been gradually transferred to Senaatti. These transfers have been recorded as other changes in the volume of assets, as these transfers are merely a way for the government to reorganise the ownership of the assets in question (MGDD II.3.2.2.b).

Eurostat took note on the applied treatment and it was agreed that the transaction does not refer to sale and leaseback operation.

#### **b) UMTS**

According to the information provided by SF, UMTS licenses were granted for free in Finland and transactions are not recorded in national accounts.

Eurostat agreed that there should not be any impact on the deficit.

#### **c) Carbon trading rights**

There have been no government transactions on carbon allowances themselves (sales or purchases). SF informed Eurostat that in 2005, the Finnish government made an equity investment (of 2,5 me) to The Baltic Sea Region Testing Ground Facility (TGF) which is managed by The Nordic Environment Finance Corporation (NEFCO). TGF is a regional carbon finance facility structured as a partnership between governments and private sector utilities and industrial companies in the Baltic Sea region. It is a vehicle which purchases

emission units from energy related and other projects on behalf of its investors, in the context of a joint implementation mechanism under Kyoto agreement. The investment was recorded as D99K in ESA-tables and EDP-statistics for 2005. In 2006 there were no government operations in the context of TGF.”

**d) Payments for the use of roads**

SF stated that there are no payments for the use of roads, therefore the issue is not relevant for Finland.

**f) Negative fixed capital formation**

SF provided, prior to the mission, a short note by its own initiative on negative fixed capital formation relating to the employment pension schemes.

Traditionally, Employment pension insurance companies have directly invested funds to domestic real estate. Lately, insurance companies have aimed to own more foreign real estate indirectly (through real estate funds). In 2006 over 44 % of all real estate investments were made to foreign real estate funds. At the same time foreign investors bought Finnish real estate from Finnish insurance companies. As a result of this new way of owning real estate domestic insurance companies’ (including Employment pension) direct ownership to Finnish real estate diminished in 2006. Directly owned nonfinancial assets have been sold which leads to the recording of negative gross fixed capital formation in social security funds subsector with positive impact on government net lending. Investments into the real estate funds have been recorded as financial transactions without impact on net lending.

*Findings and conclusions*

- (20) Eurostat took note of the issue raised by Statistics Finland on negative fixed capital formation in Finnish national accounts related to employment pension schemes and acknowledged that relevant transactions are appropriately recorded in the Finnish national accounts.

## **Annex 1**

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