



EUROPEAN COMMISSION  
EUROSTAT

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



Luxembourg, 18 October 2007

**- FINAL FINDINGS -**

**EDP dialogue visit to Poland**

**2-3 July 2007**

## Executive summary

An EDP dialogue visit to Poland took place on 2-3 July 2007 with the aim to review institutional responsibilities in the field of government finance statistics including EDP statistics, to analyse the EDP tables and to ensure that the provisions from the ESA95 Manual on Government Deficit and Debt (MGDD) and the recent Eurostat decisions are implemented and that specific government transactions are appropriately recorded in the Polish EDP notification and national accounts.

First, Eurostat enquired about the institutional arrangements and division of responsibilities in the framework of the compilation and reporting of data under the ESA95, EDP and other government statistics. In Poland, the compilation of the government finance statistics is supported by regular meetings of a formal inter-institutional General Government Statistics Working Group (GGSWG) assisted by three dedicated task forces. The working group is formally an advisory body chaired by a representative of the Polish National Statistical Institute (GUS), and decisions of the group require the formal consent by GUS management. As a concrete benefit of such coordination, Eurostat welcomed the clear improvement in consistency of the EDP data with the ESA table 2 that was achieved over the past two years. Eurostat called for extending this consistency improvement to other tables, such as annual financial accounts and quarterly GFS.

Next, the characteristics of the data sources for government statistics reporting were discussed. Eurostat concluded that the source data situation is rather good in Poland, with timely access to public accounting data for most government units, encompassing both budgetary flows on a cash or mixed basis and information for accrual adjustments, as well as balance sheet information.

Concerning the EDP tables, the issue of the statistical discrepancy reporting was clarified, and it was concluded that GUS will report in the October 2007 EDP notification the split in discrepancy, as required in the EDP tables. Further, Eurostat enquired about the reasons for the substantial inconsistencies between EDP tables 3A-E and the ESA95 table 6, and recalled in this context the need for strengthening the efforts for eliminating methodological differences and for using the same source data for compiling these tables. Finally, under this item of the agenda, different methods for recording transactions in equity reported on the EDP and the ESA95 table 6 were discussed. Eurostat recalled that the ESA95 rules did not generally foresee reinvested earnings on equities (unless for limited circumstances not applicable in the discussed case), and that the reporting to Eurostat under the EDP table 3 as well as under the ESA table 6 should be consistent.

Particular attention was focused during the meeting on the issue of a new method proposed for adoption by the Polish authorities for valuation of the direct income taxes. Under this method, for corporate and personal income taxes, the due amounts of final tax settlements of year  $n$  but calculated in year  $n+1$  would be recorded as government revenue of year  $n$ , instead of year  $n+1$ . Eurostat concluded that it will reflect on the methodological implications of the proposed method and will undertake a further dialogue with GUS, upon reception of an official letter from the Polish statistical authorities on the issue.

Further, the compliance with the rules established by the MGDD were examined, e.g. delimitation of general government, treatment of capital injections, EU flows, military expenditure, and recording of other specific government transactions.

Concerning the classification of units, Eurostat concluded that the classification test of railway companies would need to be undertaken by GUS on individual companies, rather than on the group (as currently the case), and that the 50% criteria would need to be closely monitored by GUS.

As regards the issue of capital injections recording, the discussion focused particularly on a specific type of injections when company receives from government shares of another company (usually listed on the stock exchange) instead of cash. Eurostat indicated that the modality of payment (in cash or in kind) was generally not a criterion for classification. It was agreed that GUS will examine, according to the MGDD rules, all capital injections undertaken in the form of shares, in order to determine whether they have the nature of a capital transfer or of an increase in equity.

## **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 Poland on 2-3 July 2007. The delegation of the European Commission (Eurostat) was headed by Mr. Norlund, 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 Polish authorities were represented by the National Statistical Office (GUS), the Ministry of Finance (MoF), the Polish National Bank (NBP) and several other ministries and bodies. The list of participants is attached in Annex 1.

The previous regular EDP dialogue visit to Poland took place on 17-18 February 2005. In the meantime, on 13 September 2005 (i.e. during the September 2005 EDP notification), an additional ad-hoc visit was undertaken in order to discuss the EDP notification, in particular, substantial revisions in other accounts receivable and payable in relation to a proposed change in method for calculation of accrual taxes.

The aim of the 2007 EDP dialogue visit was to clarify issues relating to the EDP tables raised in the context of previous notifications, in particular the recording of taxes, as well as to discuss the sectorisation in national accounts of some units and to examine the application of the Eurostat methodological decisions.

As an introduction, Eurostat explained the new procedural arrangements, in accordance with article 8 of Regulation 3605/93 as amended, indicating that the *Main conclusions and action points* would be sent within days to the Polish statistical authorities, who may provide comments. Within coming weeks, the *Provisional findings* would be sent to the Polish authorities in a draft form for their review. After adjustments, a final version of the *Main findings* will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

### **1. Review of statistical capacity issues**

#### **1.1. Institutional responsibilities for the reporting of data under the ESA95, EDP and other government statistics**

##### *Introduction*

EDP tables are reported by GUS and most of the actual EDP data are compiled by GUS. The MoF compiles actual debt, as well as planned deficit and debt data.

Eurostat enquired further about the institutional arrangements and division of responsibilities in the framework of compilation and reporting of data under the ESA95, EDP and other government statistics. In particular, Eurostat asked about the current areas of work of a special inter-institutional working group for general government statistics.

### *Discussion and methodological analysis*

The Polish authorities explained briefly the institutional arrangement in place in Poland for the compilation of government finance statistics, with the existence of a formal inter-institutional General Government Statistics Working Group (GGSWG) assisted by three dedicated task forces (on EDP reporting, on non-financial accounts and on financial accounts). Eurostat took note that these groups meet regularly and that their work is documented in various written reports, including an annual report of activities to the higher hierarchy of participating institutions (GUS, MoF and NBP).

### *Findings and conclusions*

Eurostat noted that the GGSWG, whilst in practice having a leading role in the government finance statistics (GFS) methodological issues, is formally an advisory body chaired by GUS (national accounts director) and that decisions required the formal consent by GUS management.

As a concrete benefit of such coordination, Eurostat welcomed the clear improvement in consistency of the EDP data with the ESA table 2 that was achieved over the past two years. Eurostat called for extending this consistency improvement to other tables, such as annual financial accounts and quarterly GFS.

It was concluded that GUS will provide to Eurostat a copy of the annual report of activities of the GGSWG<sup>1</sup>.

## **1.2. Source data characteristics and revision policy**

### *Introduction*

Information on data sources and methods used for general government deficit and debt compilation, as described in the EDP Inventory, was discussed.

### *Discussion and methodological analysis*

The Polish statistical authorities informed Eurostat about the organizational arrangements for source data exchanges, with the MoF providing GUS with budgetary and balance sheet information for a largest part of central and local government units. In addition to the annual balance sheet information available in June/July n+1, partial quarterly balance sheet information (RBZ form, covering debt, and RBN form, covering financial assets) is collected and used for the preparation of the April n+1 notification. GUS indicated ongoing discussions with the MoF in order to improve the annual balance sheet information to better serve its needs. Eurostat noted a need to verify the consistency of the EDP inventory with the information provided during the meeting.

GUS indicated that the compilation of the government deficit was based on a detailed compilation of government revenue and expenditure (i.e. ESA table 2), and that a

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<sup>1</sup> The annual report of activities for the year 2005 was provided to Eurostat on 6 July 2007.

reconciliation with the working balance in EDP table 2 was subsequently carried out, although in practice both tasks were conducted simultaneously.

GUS mentioned that the rather late delivery of local government financial data, with a deadline for reporting by local government units to regional centralisers of 15 March n+1, created practical difficulties to GUS compilers for the first annual EDP reporting and scope for some mistakes. GUS however noted that an ongoing computerization project, in which GUS participates, is expected to alleviate these difficulties in future.

It was also explained by GUS that for some government units (such as universities, hospitals or cultural establishments) data are available only once a year in the middle of the year. GUS thus estimates these data, for the purpose of the April n+1 notification, based on the units' budget plans. As a follow up of the September 2005 EDP dialogue visit, GUS tried to liaise with some of the biggest units to obtain early indications of provisional outturns, but with relatively poor feedback. The Polish statistical authorities consider however that, given the scope and budget behaviour of such units, those practices do not materially put at risk the reliability of the notified government deficit and debt in the April n+1 EDP notification. Responding to Eurostat's mention of the community law obligations for Member States to use minimum levels of direct source data at least for quarterly GFS compilation (90%), GUS felt that those units accounted for noticeably less than the allowed 10% threshold.

Under this item of the agenda, Eurostat also took note of the structure of the forms RB27 and RB28 that each state and local budgetary unit compiles and that are used to compile accrual adjustment to the cash data, i.e. to compile the flow of receivables / payables.

#### *Findings and conclusions*

Eurostat concluded that the source data situation is rather good in Poland, with timely access to public accounting data for most government units, encompassing both budgetary flows on a cash or mixed basis and information for accrual adjustments (forms RB27 and RB28), as well as balance sheet information.

It was agreed that GUS will provide the quarterly RBZ/RBN form to Eurostat and will amend the EDP inventory, where necessary<sup>2</sup>. GUS will also provide a quantitative estimate of the coverage of units where direct source data are available in time for the April n+1 notification. GUS will also provide written explanations to RB27 and RB28<sup>3</sup>.

### **1.3. Budget performance in public sector project**

#### *Introduction*

The content and scope of the "Performance budget in public sector project" was discussed with the Polish authorities.

#### *Discussion and methodological analysis*

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<sup>2</sup> The RBZ and RBN forms were provided to Eurostat on 10 July 2007.

<sup>3</sup> The Rb27 and Rb28 forms together with explanations were provided on 10 July 2007.

Eurostat took note of the explanations provided on the budget performance project, which foresees a radical change in the budget presentation (with a target date of 2011 for switching the budget reporting to the new presentation) from a reporting by main administrative units to a reporting by tasks. The Prime Minister office has conceptual and implementation monitoring tasks, while the MoF has realization tasks.

The Polish authorities explained that the project involved a staged changeover over the years (2008-2011), in terms of units' coverage and of parallel reporting (of new and old presentations). In practice, it implies a change of budgetary classification, but with no intervention at the level of paragraphs and, at the same time, it involves implementing an accrual budgeting in parallel to cash budgeting

GUS considers that the project should enhance the compilation of the COFOG reporting of figures and hopes that its needs with respect to the economic classification will be taken into account.

### *Findings and conclusions*

Eurostat welcomed this change, which is also on the agenda of some other Member States and which provides scope for improving the source data of the government sector, for both the accrual recording of transactions and the fair value reporting of balance sheets.

Eurostat took note of these explanations and invited the Polish authorities to ensure that GUS needs are appropriately serviced, given that the information required with respect to the economic classification is necessary for an appropriate measurement of the government deficit.

## **2. Actual data – EDP reporting**

### **2.1. Examination of the EDP tables: April 2007 notification**

#### Reporting of the statistical discrepancy

##### *Introduction*

The Polish statistical authorities report in the EDP tables 3A-3E the item *Other statistical discrepancies*, and not a more common type of statistical discrepancy *Difference between financial and capital accounts (B.9f-B.9)*. The first one arises from stock-flow consistency in Maastricht debt and is recorded in rare cases. Eurostat enquired about the meaning of the statistical discrepancy reported by GUS.

##### *Discussion and methodological analysis*

GUS explained that it maintains in its database complete financial accounts for government units, which allows compiling the discrepancy between the above-the-line measure of the deficit (B.9) and the below-the-line measure (B.9F). Consequently, GUS will be able to distinguish in the EDP notification between the items *Difference between capital and financial accounts (B.9-B.9f)* and *Other statistical discrepancies (+/-)*.

Eurostat clarified that the *Difference between capital and financial accounts (B.9-B.9f)* needed to identify the discrepancy observed between the deficit and the financing of the government sector as compiled by the GUS and reported in EDP table 3, and not the difference between the deficit compiled by the GUS and the financing compiled by the NCB as reported in the ESA95 table 6, in those cases where table 6 figures are compiled based on different source data (and occasionally different concepts) and may reflect differences in vintages.

#### *Findings and conclusions*

It was concluded that GUS will report in the October 2007 EDP notification the split in discrepancy, as required in the EDP tables.

### Consistency between the EDP and the ESA95 Transmission Programme tables

#### *Introduction*

Comparison of the EDP data with ESA95 table 6 (annual financial accounts) delivered in November and December 2006 reveals substantial differences in practice for all years. Eurostat enquired about the reasons for these inconsistencies.

#### *Discussion and methodological analysis*

Eurostat was informed that the financial accounts for general government and sub-sectors as reported under the EDP table 3, deviated from those reported under the ESA95 table 6, due to the use of different source data and occasionally differences in concepts.

#### *Findings and conclusions*

Eurostat invited the Polish authorities to ensure that the EDP table 3 and the ESA95 table 6 generally align, which helps users and reinforces the credibility of the European statistical system.

For the compilation of EDP table 3 and ESA table 6, Eurostat recommended using information from banking statistics only in the absence of direct source data information (i.e. coming from government units) on the financial side, or when there are particularly good and well documented reasons to do so. However, Eurostat thought that statistics compiled based on counterpart information are important quality checks to the fiscal data, and fiscal compilers need to consider them.

Eurostat took note that GUS agreed with these views and will examine how compilation practices will be harmonized between various institutions.

### Measurement of the transactions in equity

#### *Introduction*

Significant differences between the EDP table 3 and the ESA95 table 6 data for equity were discussed.



### *Discussion and methodological analysis*

GUS indicated that differences between the EDP table 3 and the ESA95 table 6 data for equity, aside from differences in source data and in vintages, are also due to a difference in methodological treatment. Under the ESA95 table 6, as compiled by the NBP, transactions reflect both changes in equity due to acquisitions and disposals, as well as due to retained earnings. GUS remarked that the present method for EDP table 3 led to entries into the revaluation accounts (K.11) that seem artificial, as no price changed in the economy.

While taking due note of the soundness of this conceptual remark, Eurostat indicated that ESA95 rules were clear in this respect, and did not generally foresee reinvested earnings on equities (unless for limited circumstances not applicable in the discussed case).

### *Findings and conclusions*

Eurostat concluded that the reporting to Eurostat under the EDP table 3 as well as under the ESA table 6 should be consistent and according to the ESA95 rules. The Polish statistical authorities will modify the ESA95 table 6 compilation for equity to comply with ESA95 rules.

## **3. Actual data – methodological issues and recording of specific government transactions**

### **3.1. Implementation of accrual principle**

#### Changes in method for calculation of accrual tax revenue

##### *Introduction*

The Polish statistical authorities introduced, in the initial EDP April 2007 notification, changes in accrual calculation of direct taxes income (personal income tax – PIT and corporate income tax – CIT). After having analysed the additional documentation provided, Eurostat concluded at that time that a more thorough discussion with the Polish statistical authorities was needed before agreeing to the proposed changes.

##### *Discussion and methodological analysis*

Concerning the procedure for changing tax recording methods, Eurostat recalled that such changes need to be agreed in advance with Eurostat before implementation, as explicitly foreseen under Regulation 2516/2000 of the European Parliament and of the Council, and that appropriate documentation on compilation practices is to be provided to Eurostat.

The Polish authorities (MoF) explained the methods currently used in the EDP notification for the valuation of the VAT, the Corporate Income Tax (CIT) and the Personal Income Tax (PIT). Whereas the VAT recording follows a time-adjusted cash method, the CIT and PIT are deemed to follow, for the purpose of the valuation of these taxes, an assessment method: the amounts considered correspond to the assessed or declared value, and these are appropriately reduced for the uncollectible part, by way of a coefficient. However the time of recording of these amounts is closer to the due for payment, with recording

monthly "prepayments" in the year of declaration (generally the same as the year of payment), and the remainder ("the final tax liability") being recorded in the following year, as permitted by ESA95 paragraph 4.82, that says: *"In some cases, the liability to pay income taxes can only be determined in a later accounting period than that in which the income accrues. Some flexibility is therefore needed in the time at which such taxes are recorded. Income taxes deducted at source, such as PAYE taxes and regular prepayments of income taxes, may be recorded in the periods in which they are paid and any final tax liability on income can be recorded in the period in which the liability is determined."*

The Polish authorities felt that the recording of the final tax liability in the year it is determined, which is the year following the prepayments, was not sound economically and was not best aligned with the general accrual principle of ESA95. In support of their views, they also quoted the Eurostat Manual of quarterly taxes and social contributions. They thought that the behaviour of actors was influenced with the new tax structure in the year when it is known.

As a concrete case, the Polish authorities pointed to a change in fiscal legislation in the end of 2005 that noticeably reduced deductions facilities, with the effect that the final tax liability assessment and settlement would be generally larger than before. They thought that the correlated increase in government revenue should be recorded from 2006 onwards, instead of from 2007 onwards only, as under the current method.

Under the proposed new method for the CIT and the PIT taxes, the final balances of tax obligations pertaining to year  $n$  but assessed (and received) in year  $n+1$  will be recorded as government revenue of year  $n$ , instead of year  $n+1$ . The corresponding amounts of final balances of taxes assessed in year  $n$  but relating to year  $n-1$ , and to be moved to year  $n-1$  (a numerical example based on form RB 27 was distributed), are derived from specific information separately maintained by tax authorities.

The Polish statistical authorities emphasized that the change in method would be without effect on the recording of the total amount of tax revenue, as the collection "coefficient" will not be changed, but only on its time of recording. The Polish authorities consider that under the proposed new method, the economic reality is better reflected and the ESA95 rules are better followed.

Eurostat noted that although the proposal seems to bring the recording of taxes closer to the economic activity, inspired by the accrual principle, however, one conceptual difficulty was that the time of assessment could in fact be deemed to be the more appropriate economic event for accruals, to the extent that taxpayers might not know their tax liability before that assessment.

In addition, Eurostat enquired on the risk that this change in recording would entail for the reliability of the deficit in the first notification of April  $n+1$ . It requested an assessment and quantification of the revisions that may occur due to a change in method, resulting from the fact that only some provisional data on the "final balances" will be available for the April  $n+1$  EDP notification. The Polish authorities acknowledged that the April  $n+1$  notification will generally not be fully based on final data. They indicated that this aspect is being discussed internally and that, in their view, revisions between April and October

notifications would not be substantial under the new method. The Polish authorities indicated that "final settlements" were of the order of 0.5% of GDP.

### *Findings and conclusions*

Eurostat concluded that it will reflect on the methodological implications of the proposed method and will undertake a further dialogue with GUS, upon reception of the official letter from the Polish statistical authorities. This official request would be sent in due time for consideration for the October 2007 EDP notification (before end-July 2007) and would contain methodological explanations<sup>4</sup>.

### Social contributions cancellations

#### *Introduction*

Social security contributions are recorded using an assessment method. The working balance of social security funds in the EDP table 2D is presented in Poland on an accrual basis. Eurostat enquired on the accounting treatment of social contributions payable by some public corporations in bad financial situation that are cancelled (and paid to social security directly by government).

#### *Discussion and methodological analysis*

According to the information provided by GUS, there are two types of social contributions cancellations: (i) law-based (e.g. railways, coal mines), and (ii) others.

Currently the first type is recorded as a capital transfer expenditure (but to the exclusion of interest and penalties cancelled) with an impact on the deficit at time of cancellation; this is reported amongst "other adjustments" items in the EDP table 2D. The second type is captured in the non-collection coefficient, and is therefore excluded from the deficit but in a manner spread over time; this is reported within "accounts receivable" in the EDP table 2D.

Eurostat also enquired whether interest and penalties accrued on social contributions in delay (and eventually to be cancelled) had been recorded as government revenue (reducing the deficit) in past periods. If this was the case, cancellation of these should also be recorded in the deficit.

#### *Findings and conclusions*

Eurostat concluded that the agreement from the previous EDP visits was followed.

The Polish statistical authorities will check the recording of accrued interest and penalties on social contributions in delay, and report their findings to Eurostat<sup>5</sup>.

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<sup>4</sup> The official letter of the Polish statistical authorities concerning a proposal for a change in method for calculation of accrual tax revenue, dated 3 August 2007, was received by Eurostat on 13 August 2007.

<sup>5</sup> The information was delivered by the Polish statistical authorities to Eurostat on 5 September 2007.

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

#### *Introduction*

Eurostat enquired about the institutional arrangements for methodological decisions on national accounts sectorisation of units.

#### *Discussion and methodological analysis*

According to GUS explanations, in practice a leading role is taken by the working group GGSWG, which is chaired by GUS and final decisions are taken by GUS management. GUS described briefly the composition of the general government sector and indicated that few changes occurred from the previous EDP dialogue visit: a reclassification of the Market Regulatory Agency inside general government, and the classification inside general government of new Agricultural Advisory Units and of the Insurance Ombudsman Office.

Further, Eurostat enquired on the activities of the so called Treasury Fund (which, however, impacts only marginally B.9) and on the assets of the Fund for Guaranteed Employee Benefits (a unit that insures workers against the non-payment of their due benefits upon bankruptcy of their employers).

#### *Findings and conclusions*

GUS will provide to Eurostat a short description of the Treasury Fund and a balance sheet of the Fund for Guaranteed Employee Benefits<sup>6</sup>.

#### *3.2.1. Public radio and television (follow-up from the last regular EDP visit)*

##### *Introduction*

As next item, the sectorisation of public radio and television was discussed. Eurostat enquired about the source of revenue of these institutions.

##### *Discussion and methodological analysis*

The Polish statistical authorities explained the arrangement for public TV and radio licences or fees (paid by households) in Poland and informed that these receipts accounted for approximately 30% of TV revenues. According to the information provided, these entities (TV and public radio) are currently profitable.

Eurostat indicated that a general reflection was ongoing to clarify the appropriate classification of these payments in national accounts, with a view that these often met the criteria to be classified as taxes. A clarification on the issue will be discussed and disseminated in the appropriate general forum.

##### *Findings and conclusions*

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<sup>6</sup> The information was delivered by the Polish statistical authorities to Eurostat on 5 September 2007.

Eurostat concluded that an eventual reclassification of TV and radio licence revenues as taxes in Poland would apparently be without immediate consequences for the sectorisation of public television and radio, currently outside general government, and advised GUS to monitor the evolution of the sales ratio in future.

### 3.2.2. Railways - PKP (follow-up from the last regular EDP visit)

#### *Introduction*

Eurostat enquired about the sectorisation in national accounts of the railway companies. In this context, the organisational structure of the railway companies in Poland, as well as their financial situation, were also discussed.

#### *Discussion and methodological analysis*

The Polish authorities presented the main aspects of the railway company (PKP) restructuring since 2001, including the creation of separate functional entities (infrastructure company, regional transport company, etc) under the roof of the PKP Group. GUS provided the financial statement of the PKP Group, PKP Regional Services (PKP PR) and PKP Polish Railway Lines (PKP PLK) and informed that the 50% test had been carried out on the PKP Group as a whole, and that as a result all its entities are currently classified outside the general government sector.

Eurostat recalled, that according to national accounts rules, the market/non-market sectorisation test needs to be undertaken on individual institutional units, rather than only on groupings. The MGDD Part I 1.1.1 states: "*Sectorization decisions must be taken at the level of institutional units, defined in the system as units having autonomy of decision and a complete set of accounts.*" GUS indicated that such analysis is planned to be undertaken in the GGSWG during the next month.

Further, Eurostat enquired about the financing of PKP PR and PKP PLK. In particular, the amounts of subsidies or transfers provided by central and local government to these entities, the nature of long-term liabilities of PKP PLK (approx 12.1 bn PLN in year 2003) and the level of revenue of PKP PLK coming from the access fees for use of the infrastructure by the service operators, were discussed.

Eurostat also noted that a significant share of PKP PR receipts seemed to have a transfer nature and that the 50% criteria needed to be closely monitored.

The Polish authorities also explained that the level of access fees to be charged from the operators is fixed by PKP PLK on the basis of some general guidelines stipulated in the law on the PKP restructuring. GUS noted that capital injections for infrastructure in PKP (in accordance to article 15 paragraph 7 of the law) had been treated as subsidies (D.3) with an impact on the government deficit.

Eurostat took note that there was no plan to privatise (sale of shares) PKP PLK. Other PKP subsidiaries will be considered for privatisation after the restructuring process and according to "The strategy for railway transport up to 2013", which was confirmed by the Council of Ministers.

## *Findings and conclusions*

Eurostat took note of the partial information provided during the meeting and underlined that the full picture of the financial situation of PKP PR and PKP PLK needs to be taken into account for the forthcoming sectorisation decision.

Eurostat concluded that GUS will carry the market/non-market test on individual units, and will inform Eurostat in due time (enough in advance before the next EDP notification in October 2007) about the sectorisation decision of the entities within the PKP Group, together with a methodological note explaining the decision. GUS will co-operate with the Ministry of Transport in order to obtain the necessary information required for the sectorisation decisions.

GUS will provide the required documentation and explanation concerning financing of PKP PR and PKP PLK by government<sup>7</sup>.

### **3.3. Review of Eurostat decisions and other important methodological issues**

#### *3.3.1. EU flows*

##### *Introduction*

Eurostat enquired about the details of the recording in national accounts of the EU funds.

##### *Discussion and methodological analysis*

The Polish authorities explained that the flow pertaining to the main EU funds, in particular those of the EU Structural Funds, transit through special accounts of the MoF at the NBP, and not via the National Fund. These flows are routed by the different agencies directly to final beneficiaries. As regards operational programmes implemented from 2007 onwards under the National Strategic Reference Framework 2007-2013, these flows will systematically enter the agencies/line ministries budget, i.e. with an impact on their working balance as reported under the EDP tables 2A-D.

In addition, concerning transactions when government units are the final beneficiary, the Polish statistical authorities explained that the budget classification identifies, since 2004 for local government and since 2005 for central government, the expenditure conducted on behalf of the EU, as well as receipts collected from the EU. Thus compilers have all the information necessary to neutralize the impact of EU flows for the measurement of the government deficit (except for some limited operations that transit via local government accounts and where the beneficiary is in fact a non-government unit). Adjustment entries for EU flows within other accounts receivable / payable in EDP table 2A and 2C (for central, as well as for local government) neutralise the impact on the working balances of time differences between expenditure and reimbursements by the EU.

Furthermore, GUS confirmed that the balances of MoF's special central bank accounts at the NBP were included in the item currency and deposits in the EDP tables 3, but was unsure whether matching entries in payables were recorded, as would then be appropriate.

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<sup>7</sup> The information was delivered by the Polish statistical authorities to Eurostat on 5 September 2007.

### *Findings and conclusions*

Eurostat concluded that the Polish statistical authorities apply rather precisely the relevant Eurostat decision on EU flows of 15 February 2005, acknowledging good data availability for this purpose both at the central and local government level.

GUS will clarify if entries in other accounts payables in EDP table 3B neutralise the balances of specific MoF special central bank accounts for EU flows, and, if not, will incorporate this entry in the next EDP notification in October 2007.

#### 3.3.2. Market Regulatory Agency (Agencja Rynku Rolnego – ARR)

##### *Introduction*

The EDP Inventory states that the ARR is currently classified inside the general government sector. Eurostat enquired about the operations undertaken by the agency on behalf of the EU and their recording in national accounts.

##### *Discussion and methodological analysis*

The Polish statistical authorities informed that the ARR is currently classified inside the general government sector, with limited impact on government accounts as no EU flows transit through this entity.

First, EU agricultural aid is not recorded in the working balance of the ARR, but in those of the Agency for Restructuring and Modernisation of Agriculture and to some extent in those of the Ministry of Agriculture. The national co-financing of this aid is recorded as expenditure.

Second, the stocks of inventories of agricultural products held by the ARR on behalf of the EU are recorded in the non-financial corporations sector. Only the stocks of "national inventories", such as "strategic inventories", are recorded in general government.

##### *Findings and conclusions*

Eurostat took note of this information and concluded that the recording of GUS aligned with Eurostat guidance.

#### 3.3.3. State guarantees

##### Recording in the EDP

##### *Introduction*

Eurostat enquired about the unavailability, in the table IIIa of the questionnaire related to the notification tables, of the breakdown of total stock of outstanding government guarantees by "public corporations" and "other".

##### *Discussion and methodological analysis*

The Polish authorities replied that such a split is currently not provided due to the fact that both types of guarantees are equally treated in public accounts. Eurostat suggested that, as an interim solution, the reporting could focus on guarantees provided to the largest public

corporations (such as to PKP, with a total guarantee of 7.6 billion PLN in 2006, and others). The MoF indicated that this split could be provided for the next notification after introduction of necessary IT adjustments to the database.

The Polish authorities explained also that calls on guarantees give rise to capital transfer expenditure and conversely, a return of money from the debtor to government implies capital transfer revenue, with in each case an impact on the deficit. Cases of cancellations of state receivables, as recorded in public accounts, are thus without impact on the measure of the government deficit in national accounts, given that no government claim is recognized in ESA95 balance sheet.

Eurostat noted that the receivables (and their cancellations) that arise from the debt cancellations would nonetheless be captured in the changes in public accounts annual balance sheets, and enquired to what extent these amounts were duly excluded from EDP table 3.

#### *Findings and conclusions*

Eurostat welcomed the fact that for the October 2007 EDP the Polish authorities will provide in the EDP related questionnaire the split "public corporations" and "other" for government guarantees.

GUS will also investigate if the receivables are reported in the ESA95 balance sheets of general government and if there is any potential issue of double counting in the EDP tables 3 of state receivables arising from government guarantees that were called. GUS will inform Eurostat about the results of the enquiry.

#### Export Credit Insurance Company (KUKI)

##### *Introduction*

Under this item of the agenda, the classification and activities of the Export Credit Insurance Company (KUKI) were also discussed.

##### *Discussion and methodological analysis*

According to the information obtained, KUKI manages operations of export guarantees on behalf of the State, in addition to a traditional insurance business. The State guarantees these credit insurance provided by KUKI, as well as can provide loans in case KUKI does not have enough resources to cover the insurance claims (this was the case in 2002 and 2003). It was confirmed that so far, there were no cases of unilateral write-offs or debt cancellations of insured export claims that were guaranteed by government.

Eurostat was informed that whereas the total amount of "commitments" were non-negligible (7.9 billion PLN) the amount outstanding of claims was in total very small (3 million PLN).

##### *Findings and conclusions*

Eurostat took note of the explanations provided during the meeting.



### 3.3.4. Debt assumptions, debt cancellations, and debt write-offs

#### *Introduction*

Eurostat enquired about the details of cancellation of third countries debt in 2006 (3 million PLN reported in table IV of the EDP related questionnaire).

#### *Discussion and methodological analysis*

According to information from the Polish authorities, this amount corresponds to a contractual relief of the debt of Mongolia towards Poland. It was also confirmed that for third countries debt, there were no other occurrences of unilateral write offs or debt cancellations by the Polish government.

Further, the Polish statistical authorities informed that in case of other types of debt of domestic units (e.g. public corporations), there were cases of debt write-offs or unilateral cancellations by government. GUS could not confirm during the meeting the amounts and the statistical recording (with or without impact on the deficit).

#### *Findings and conclusions*

GUS will provide to Eurostat the information on the amounts of unilateral write-offs or cancellations of debt by government pertaining to resident debtors, and on their treatment in national accounts<sup>8</sup>.

### 3.3.5. Capital injections in public corporations (increases in equity and equity reshuffling), super-dividends and privatizations

#### *Introduction*

The Polish authorities distributed updated tables for the years 2005 and 2006 on "increases in equity" (including capital injections) of public companies, as reported by different ministries, with indication of their treatment in national accounts. Eurostat enquired about the treatment in national accounts of some specific transactions.

#### *Discussion and methodological analysis*

The source data is heterogeneous, coming from the State Treasury, the Ministry of Economy and the Ministry of Transport. It is recalled that the 2005 EDP dialogue visit had recommended that GUS examines in detail the nature of numerous cases of "equity increases", many being mere equity reshuffling, such as the merger of various small public corporations into a broader one. Other equity increases had been judged genuine capital injections, and the regular capital injection test, as described in the Eurostat ESA95 Manual on government deficit and debt (MGDD) Part II Chapter III, had been applied to determine whether to record a capital transfer or a transaction in equity. The MGDD states in this respect: *"When the government, acting in the same capacity as a private shareholder, provides funds while receiving financial assets in return and expects to earn a future return on its investment (in the form of dividends or a higher value of the financial*

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<sup>8</sup> The information was delivered by the Polish statistical authorities to Eurostat on 24 September 2007.

*instrument which represents government's property rights on the corporation), the capital injection is to be recorded as a financial transaction in shares and other equity. When, on the other hand, the government, acting for public policy purposes, provides funds to a corporation without receiving financial assets and without expecting a future return on the investment, the capital injection is to be recorded as a capital transfer."*

During the meeting, Eurostat focused on a specific type of injections, when company receives shares of another company (usually listed on the stock exchange) instead of cash. GUS confirmed that indeed there had been such cases, e.g. in the coal (for 900 million PLN a few years ago, which was agreed by the European Commission as a state aid) and steel industry, whereby these companies received liquid shares of other corporations from a different business. There were also many other cases of equity reshuffling, e.g. when a holding is created on the basis of several corporations of the same business.

Eurostat considered that cases of transfers/injections of equity of a company from a different business than the benefiting company should generally be considered as capital injections. When the benefiting company is loss making, or not expecting to obtain a satisfactory return on equity in the future, a capital transfer in kind (government expenditure) is to be recorded. In cases of equity reshuffling of companies of the same business and creation of holdings, such operations could be considered as either other changes in volumes or even financial transactions, with no net impact (because increases/acquisitions compensate reductions/disposals). In case of new companies, GUS is invited to assess, pragmatically, whether these companies are genuinely "new" or merely continue previous activities under a different name.

#### *Findings and conclusions*

Eurostat indicated that the modality of payment (in cash or in kind) was generally not a criterion for classification, and therefore that these injections would need to be analysed in the same way as other capital injections, against the criteria specified in the MGDD.

GUS will examine, according to the MGDD rules, all capital injections undertaken in the form of shares in order to determine whether they have a nature of a capital transfer or of an increase in equity.

#### *3.3.6. Military equipment expenditures*

##### *Introduction*

Eurostat sought confirmation that military expenditures are recorded in Poland on a delivery basis.

##### *Discussion and methodological analysis*

The Polish authorities indicated that, whereas military expenditures are recorded in the national accounts on a delivery basis, there are remaining methodological questions on the treatment of some specific military equipment programmes (NATO Security Investment Programme, FMF including grants from foreign armies, and VAT recording of F-16 aircrafts delivery).

### *Findings and conclusions*

Eurostat concluded that these pending questions would need to be tackled first by GUS, in cooperation with the Ministry of Defence, before possible requests for advice to Eurostat, and at the latest by the next EDP notification in October 2007.

#### *3.3.7. Private Public Partnerships – PPP*

##### *Introduction*

Eurostat enquired about the existence of PPP projects in Poland and the meaning of the information provided in the questionnaire related to the EDP tables that this type of projects is not applicable.

##### *Discussion and methodological analysis*

GUS presented the latest developments in this area. Eurostat was informed that a specific law on PPP arrangements was passed in the year 2005. However, the application of the law proved to be difficult, and no single PPP in the meaning of the Eurostat decision has been launched on the basis of that law.

On the basis of the current law, GUS must receive financial data on any PPP arrangements following a standard template. While some information on projects has been indeed received in the last two years, the analysis by GUS showed that these projects were not PPPs, but rather traditional public procurement works.

There is currently some work ongoing in the Polish Parliament to revise the existing legal arrangements. It was confirmed that GUS is responsible for the classification of PPP assets on/off the general government sector.

### *Findings and conclusions*

Eurostat took note of these explanations.

#### *3.3.8. Others: securitisation*

##### *Introduction*

No such operations in 2006 were reported in the EDP related questionnaire.

##### *Discussion and methodological analysis*

GUS confirmed this in the meeting and indicated that there are no such operations planned for 2007.

### *Findings and conclusions*

Eurostat took note of this information.

## **3.4. Restitutions – The Compensation Fund**

### *Introduction*

Eurostat asked for explanations on the activities of the Compensation Fund.

#### *Discussion and methodological analysis*

It was explained by the Polish authorities that the Compensation Fund was introduced by law in 2005. Its main task is to finance compensations, which are to be paid only in cash, for real estate that was abandoned due to changes of Polish borders after World War II.

In 2006, compensations were paid for the amount of 6 million PLN by the Compensation Fund. Claims can be introduced until the end of 2008 and, by now, claims of approx. 400 million PLN have been registered by government. Restitutions will be paid up to 20% of the claimed value.

#### *Findings and conclusions*

Eurostat took note of these explanations.

## **4. Other issues**

### **4.1. Any other business**

#### **4.1.1. Measurement of the pensions reform costs for the purpose of the EDP procedure**

##### *Introduction*

Under this item, the measurement of costs of pension reform for the purpose of application of the Stability and Growth Pact (SGP) were discussed with the Polish authorities.

##### *Discussion and methodological analysis*

The European Commission (DG ECFIN) stated that the pension reform costs should be measured as the sum of items net lending / net borrowing (B.9) of the funded open pension funds (which are classified since March 2007 outside the general government sector) and the adjustment for the change in the net equity of households in pension funds reserves (D.8).

The Polish authorities indicated that they consider also some other additional costs and are in a position to calculate the exact cost of the pension reform based on the available data sources.

##### *Findings and conclusions*

Eurostat took note of the exchange of information. Eurostat concluded that, if necessary, it will examine the appropriate statistical definition for any reporting required by the application of the SGP, and would eventually contact GUS in the usual way for any required provision of statistical data.

## Annex 1

### List of participants of the EDP dialogue visit to Poland of 2-3 July 2007

Name	Institution	Department
Laurs Nørlund – Director	European Commission (DG Eurostat)	National and European Accounts
Philippe de Rougemont	European Commission (DG Eurostat)	
Jean-Pierre Dupuis	European Commission (DG Eurostat)	
Marcin Woronowicz	European Commission (DG Eurostat)	
João Nogueira Martins	European Commission (DG ECFIN)	
Aleksander Rutkowski	European Commission (DG ECFIN)	
Henri Maurer	European Central Bank	
Halina Dmochowska – Vice-President	GUS	National Accounts and Finance Department
Maria Jeznach – Department's Director	GUS	
Jan Krawczyński – Department's Vice-Director	GUS	
Olga Leszczyńska – Department's Vice-Director	GUS	
Andrzej Kościan	GUS	
Ewa Kucharska	GUS	
Hanna Gembarzewska	GUS	
Grażyna Mitura	GUS	
Małgorzata Słowińska	GUS	
Urszula Kapczyńska	GUS	
Konrad Hodzyński	GUS	
Magdalena Smólska	GUS	
Monika Wygoda – Department's Vice-Director	MoF	
Mirosław Błażej – Department's Vice-Director	MoF	
Bożena Borecka	MoF	
Małgorzata Litwin-Staszewska	MoF	
Andrzej Szpak	MoF	
Bogdan Klimaszewski	MoF	
Maurycy Michalski	MoF	
Agnieszka Szczepaniak	MoF	
Małgorzata Gać	MoF	
Agnieszka Rutkowska	MoF	
Beata Jajko	MoF	
Małgorzata Galin	MoF	
Jacek Polowy	MoF	
Marta Busz	State Treasury Ministry	Department of European Integration, Foreign Relations and State Aid
Andrzej Macewicz	Ministry of Economy	Support Instruments Department
Mirosław Weltrowski	Ministry of National Defence	Budget Department
Zenon Topyła	Ministry of National Defence	Budget Department
Magdalena Jasińska – Department's Vice-Director	Ministry of Regional Development	Department of the Coordination of Regional Programmes
Agnieszka Bąk	Ministry of Regional Development	
Anna Szyborska	Ministry of Regional Development	
Roman Chmielewski	Ministry of Regional Development	
Karol Przeździecki	Ministry of Transport	
Ewa Laskowska	NBP	Department of Statistics
Bartosz Piotrowski	NBP	Department of Statistics
Małgorzata Gólik	NBP	Macroeconomic and Structural Analyses Department
Renata Bielak	The Chancellery of the Prime Minister	Task Budget Department

Magdalena Raszewska	The Chancellery of the Prime Minister	Task Budget Department
Mirosław Mięgała	Agricultural Market Agency	Finance and Accounting Office
Anna Pawlak – Director	Export Credit Insurance Corporation Joint Stock Company	
Tomasz Ślagórski - Director	Export Credit Insurance Corporation Joint Stock Company	