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EDP dialogue visit to the Slovak Republic

5-7 September 2007

Executive summary

An EDP dialogue visit to the Slovak Republic took place on 5-7 September 2007 with the aim to analyse the April 2007 EDP notifications (and discuss possible revisions for the forthcoming October 2007 EDP notification); to review the sectorisation of some units, particularly the unit dealing with building road infrastructure; 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 Slovak EDP notification tables and national accounts.

First, Eurostat enquired about the institutional arrangements and division of responsibilities with respect to the reporting of data under EDP, for ESA95 transmission program and for other government statistics. In the Slovak Republic, the compilation of the EDP Tables 2 and 3 is under the shared responsibility of the National Statistical Institute (NSI) and the Ministry of Finance (MOF), while the compilation of the ESA95 tables is fully under the responsibility of the NSI. Formal and informal co-operation exist between the two institutions. The National Bank of Slovakia (NBS) is also involved at the informal level. Eurostat took note of this situation and appreciated the improvements made since the visit of 2005.

Second, Eurostat was informed on the state of the reform of the accounting system, involving the conversion from a cash to an accrual reporting, with the aim to unify budget reporting of government units and to get closer to international accounting standards.

Eurostat evaluated the situation with the data sources as very good, in terms of classification, timeliness and coverage. With respect to the EDP Inventory, Eurostat noted that the EDP Inventory of the Slovak Republic is comprehensive and suggested only some textual changes.

Concerning the EDP tables, Eurostat focused mainly on reviewing the lines under the section "Other adjustments" of EDP Tables 2. Besides, Eurostat suggested some amendments of a presentational character, with respect to the "other accounts receivable" and "other accounts payable", with no impact on the level of the government deficit. As far as EDP Tables 3 are concerned, Eurostat suggested systematic cross-checking of EDP Table 3 figures with money and banking statistics. Furthermore, it was agreed, that the substantial amounts recorded as transactions in loans in 2006, will be reclassified as currency and deposits. This reclassification has no impact on the deficit or debt.

Particular attention was given to the issue of sectorisation of some units: the National Motorway Company (NDS), public hospitals, and the Slovak Television. In the Slovak Republic, the NSI is responsible for the delimitation of the government sector for national accounts purposes. The 50% criterion allowing to determine market / non-market character of a unit is regularly applied. The MOF and NBS are consulted during the process. The most problematic issue in this context appeared to be the sectorisation of the NDS, a public unit in charge of building and maintaining the road infrastructure as well as selling vignettes. Eurostat was not in a position to formulate a final opinion on the sectorisation of that unit. In the case of the Slovak Television, Eurostat asked for a re-examination of the 50% rule with respect to changing of the treatment of the "concessionary fees" as taxes (instead of sale of services). In the case of public hospitals, Eurostat asked for further information on the financing and on the accounts of hospitals.

As far as the compliance with the rules established by the MGDD are concerned, e.g. treatment of guarantees, debt assumptions, debt cancellations, debt write-offs, dividends, military expenditures, EU flows and other specific government transactions, no particular problem was pointed out by Eurostat, as the treatment of these operations seems to be in line with the rules. Eurostat took note of the non-existence of public-private partnerships, sale and leaseback and securitisation operations involving government units in the Slovak Republic.

A mistake occurred in the recording of a foreign exchange swap operation undertaken in 2005 and 2006. This mistake related to the recording of the deficit for the year 2006 and was requested to be corrected for the October 2007 EDP notification. This correction worsens the deficit by less than 0.1% of GDP.

With regard to the change of the methodology for recording taxes and social contributions requested by the Slovak authorities and approved by Eurostat before the April 2007 EDP notification, Eurostat reviewed the time-adjusted cash method used by the Slovak authorities for the first time in April 2007. In this context, the MOF indicated a forthcoming upward revision in taxes for the year 2006, for the October 2007 EDP notification (by less than 0.1% of GDP), owing to higher settlements than estimated in March /April 2007.

Finally the ESA95 transmission programme was discussed. The Slovak authorities confirmed that the time series of the related ESA95 tables have been revised backwards with respect to the change of methodology for recording of taxes and social contributions. In addition, the NSI indicated its intention to allow Eurostat publishing the data on quarterly financial accounts for general government (ESA95 Table 27).

Eurostat highly appreciated the transparency of the statistical information provided by the Slovak authorities, reflected in the high volume and quality of the supporting documentation provided before and during the visit, as well as in the participation of experts on different fields not directly relating to government finance statistics during discussions on specific issues. Eurostat also appreciated the professional level of the staff involved in the compilation of government finance statistics. Eurostat took note of the staff constraints existing at the NSI and of problems of staff turnover.

Introduction

In accordance with article 8d of Council Regulation (EC) No 2103 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 the Slovak Republic on 5-7 September 2007. The delegation of the European Commission (Eurostat) was headed by Mr. Ascoli, head of unit C.3 "Public finance". The Directorate General for Economic and Financial affairs (DG ECFIN) and the European Central Bank (ECB) participated also in the meeting as observers. The Slovak authorities were represented by the NSI, the MOF, the NBS and various other agencies present according to the points of the Agenda. The list of participants is attached in Annex 1.

It was the second regular Eurostat's visit after the entry of the Slovak Republic into the EU in 2004. The previous regular Eurostat visit took place on 2-3 June 2005. In addition, a joint meeting with the Czech statistical authorities had been organised in the framework of the dialogue visit to the Czech Republic on 22 August 2005 in order to discuss EDP issues common to both countries.

The visit of the 5-7 September 2007 was focused on 1) analysing the April 2007 EDP notification and enquiring on possible revisions in the forthcoming October 2007 EDP notification; 2) clarifying the sectoral classification of some units, in particular the National Motorway Company; 3) reviewing the recording of specific government transactions; 4) monitoring the application of recent Eurostat decisions and advices; and 5) reviewing the new method for recording accrual taxes and social contributions.

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 after the visit to the Slovak statistical authorities, who may provide comments. Within coming weeks, the *Provisional findings* would be sent by Eurostat 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 Eurostat's website.

In addition, Eurostat also shortly explained the procedure of assessment of the Slovak public finance data before the decision on its acceptance for the Eurozone is taken. It should be reminded that the aim of the Slovak Republic is to join the Eurozone in 2009. This implies an analysis of the deficit for year 2007 by mid 2008 and a subsequent decision.

1. Statistical capacity issues

1.1 Institutional responsibilities

Introduction

The Eurostat visit of 2005 had found that the coordination between the institutions was not fully satisfactory, and recommended progress to be made. Until 2006, a working group on public finance, chaired by the State secretary, existed, dealing with budget, accounting reform issues as well as statistical issues.

Discussion and methodological analysis

The Slovak authorities explained that at present, the co-operation between the institutions (NSI, MOF, NBS) is organised at two levels: a more formalised level, a *Steering committee on EDP reporting* – general directors level; and a less formalised level, a *Working team on general government accounts (ESA95)*, led by the government finance statistics coordinator at the NSI, and composed of heads of units and staff from the MOF, NSI and a participant from the NBS, dealing with the actual implementation of methodological and statistical issues relating to the compilation of government finance statistics. This cooperation is effective: the working team meets regularly and minutes are written.

A framework agreement, between the NSI, MOF and NBS, forms the basis for co-operation between the institutions. Its annexes on data provision, updated every year, set up in detail requirements for providing source data for the compilation of statistics. A copy of the Framework agreement, as well as its annexes, was provided during the visit.

The Slovak statistical authorities also described the sharing of responsibilities between the institutions for the compilation of EDP and ESA95 tables. The EDP tables 2 and 3 are compiled by the NSI for earlier years (years T-4 to T-2) and by the MOF for the most recent year and for the current year forecast (years T-1 and T). ESA95 tables are fully under the responsibility of the NSI.

The NSI, MOF and NBS representatives reported an improved cooperation compared to 2005.

Findings and conclusions

Eurostat took note of the existing arrangement for the compilation of statistics on general government sector: ESA95 tables compiled by the NSI, EDP figures compiled in co-operation between the NSI and MOF, and the IMF GFS 2001 data compiled by the MOF. While taking note of an improving cooperation between the NSI, MOF and NBS reported by the representatives of these institutions, Eurostat encouraged further cooperation.

1.2 State budget reform: from cash to accrual

Introduction

The process of the State budget reform started in 2005 with the adoption of a law on unified budgetary classification for all government units, closer to ESA95 requirement, and with a

change in budgetary process, with the inclusion of multi-year budgeting. As a further step, the budget is compiled on a "mixed accrual" basis, implementing some elements of accruals, such as for taxes, social contributions and interest on the revenue side. Since 2005, a budget consolidating all units of government is presented to Parliament and the public.

Discussion and methodological analysis

The MOF explained that the main aim of the conversion of the cash budget to an accrual based one is to unify reporting of all government units and to get closer to the accounting standards, mainly to International Public Sector Accounting Standards (IPSAS). In parallel, a project is ongoing that aims to implement accrual accounting to the maximum extent possible through adopting IPSASs, where appropriate. The implementation of accrual accounting will take place soon, starting January 2008, and will concern 7800 units.

The final aim is to replace the existing State closing account (reporting on budget execution and net borrowing / net lending of government units) with an "annual report" based on accrual consolidated reporting, starting from 2010.

Findings and conclusions

Eurostat took note of the ongoing process of the conversion of the budget from cash to an accrual basis, aiming at obtaining implementation of accrual standards in the budget reporting under the unified budgetary classification.

1.3 Data sources, EDP inventory

1.3.1 Data sources

Introduction

The State Treasury is the agency of the MOF, established in 2004, that collects the accounting statements, deals with daily payment orders and produces summary reports. It maintains a unique database for all the government units (except budgetary and subsidised units of municipalities – a part of local government) based on accounting reports provided by units on a quarterly and annual basis within T+30 days. Accounting reports consist of budget realisation reports and balance sheet, including financial and non-financial assets and liabilities, as well as profit and loss (for budgetary units, only regarding their secondary activities), statements on revenues and expenditures and other reports. Practical arrangements and the flow of the source data between institutions were discussed.

Discussion and methodological analysis

The MOF explained that it has an online access to this State Treasury database, while the NSI receives a copy of it, with a delay of T+50 days (and any necessary updates). EDP and ESA compilers have thus a good and timely access to detailed results of accounting units. The State Treasury data are checked for coherence at several levels: each line ministry checks the data for the units under its responsibility, the data are checked by a software of the State Treasury, and also by a unit of the MOF (Consolidation and Summary State Reporting Division), which approves the data into the database.

Supplementary information of an extra-accounting nature, notably pertaining to Eurostat decisions, is collected by special tables sent by the National Reporting Division of the MOF to the MOF units responsible for specific issues (such as capital injections, debt assumptions, etc.), which can be found as annexes of the EDP Inventory. The results are sent to the NSI. For some elements, a specific statistical survey is conducted by the NSI, with respect to the detailing of expenditure and revenue (i.e. a commodity structure is surveyed with no impact on the B.9 measurement).

Identical information on budgetary and subsidised organisations of municipalities, which are a part of local government, is collected by the DataCentrum.

Both the MOF and the NSI maintain bridge tables to compile the statistics reported to Eurostat, which are compared. The NSI compiles a deficit for the purpose of ESA tables.

The Final Closing Account, approved by government and Parliament, which is published in May – June each year, reports the activities of the State (main central government entity) as well as of other government entities, including a consolidated presentation of general government (consistent in coverage with the sector classification of national accounts). The Final Closing Account reports a budgetary presentation inclusive of financial transactions as well as the transition to ESA 95 deficit (by unit or groupings of units).

Findings and methodological analysis

Eurostat evaluated the situation with respect to data sources as very good, both in terms of classification, timeliness and coverage. The State Treasury is the provider of source data for central government, social security funds and budgetary organizations of higher territorial units and their subsidised organisations included in local government. The Data Centrum is the source data provider for the local government budgetary and subsidised organisations of municipalities, which are also included in local government.

Eurostat took note of the fact that the unified classification of operations enforced in 2005 and the centralisation of data reporting with the State Treasury enforced in 2004, had been instrumental to a noticeable improvement in timeliness and accuracy of the compiled government finance statistics and of the EDP reporting.

1.3.2 EDP Inventory

Introduction

Eurostat planned to publish EDP Inventory in the course of September 2007. Therefore the latest update of the Slovak Inventory, ready to be published, was discussed.

Discussion and methodological analysis

The annexes of the Inventory were reviewed. They contain several tables relating to data on specific government transactions, which are compiled by different services of the MOF and serve as additional information necessary to compile various tables and questionnaires requested by Eurostat.

Findings and conclusions

Eurostat noted that the EDP Inventory of the Slovak Republic is comprehensive and easy to read. Eurostat suggested some textual improvements and reminded that the information in the Inventory should be consistent with other information (e.g. military expenditure) provided to Eurostat, such as the Questionnaire related to EDP Tables.

2. Follow-up of the visit of 2-3 June 2005

The follow-up actions of the previous visit were discussed within the points of agenda they belonged to.

3. Analysis of EDP Tables – follow-up of the April 2007 EDP reporting

Examination of the April 2007 EDP notification

Revision policy on actual data

Introduction

Eurostat enquired about the practice for revising EDP data between two consecutive EDP notifications.

Discussion and methodological analysis

Given the fact that nearly final source data are available in time for the April EDP reporting, revisions in the data for the October and later reporting are mainly due to corrections of errors or changes in methodology (e.g. debt cancellation, implementation of the pension decision, change in tax recording method). The Slovak statistical authorities indicated that changes in the data are usually consulted with the MOF. A mistake that occurred in April 2007, but which was corrected in time before publication, was due to a last minute internal error.

Findings and conclusions

Eurostat took note of the practice used when revising data between the April and October EDP reporting.

EDP Tables

Introduction

Eurostat analysed the EDP Tables of April 2007, focusing on the main issues raised during the April 2007 EDP assessment and on the analysis of the list of “Other adjustments”.

Discussion and methodological analysis

Eurostat enquired about the substantial revisions in interest for year 2005 in EDP Table 1, made in the April 2007 EDP notification.

The NSI explained that this revision was made because of new information received from the MOF, relating to consolidating flows of interest between ARDAL (the Debt and liquidity management Agency) and the State budget, as there had been a practice mostly during 2005, soon to be disrupted, where ARDAL borrowed funds held by budgetary units. Until 2005 such activities did not exist, therefore no consolidation flows relating to this kind of operations were to be recorded.

The working balance of Table 2A is an audited, mainly cash, balance as approved by government and Parliament and as published in the *State Closing Account*. Because the State Closing Account is finalised after the April EDP reporting, minor changes may occur between the working balance reported in the April EDP notifications and in the October EDP notifications.

No financial transactions are reported for years starting with the year 2005. This is due to the abovementioned reform of the budgetary system. The new budget classification does not contain financial transactions for any of the government units.

Eurostat suggested that, for presentational purposes, the main details under "other accounts receivable" and "other accounts payable" be reported (taxes and social contributions, transactions with EU budget) in EDP Table 2.

Eurostat went through the "Other adjustment" items. It was clarified that the items "Balance of state financial assets" and "Balance of extra-fiscal account"¹ are cash balances of these two accounts, reflecting actual transactions, and are in fact deficits/surpluses in terms of ESA95. While these might be reported under "Net borrowing or net lending of other central government bodies", the MOF felt more appropriate to keep these entries under "other adjustments" as these two accounts do not have their own balance sheets (i.e. they are not institutional units). The "State financial assets" account reports high net lending in 2003-2005, reflecting dividend revenue, and a negative entry in 2006 due to a transfer to the Social Insurance Agency.

The item "Previous funds remittance" that was reported in both EDP Tables 2C and 2D prior 2005 excludes an accounting entry that used to report unused funds from the previous year transferred into a current accounting year. This suggests that, for both local government and social security funds, the working balance were not reported on a pure cash basis.

The source data for the compilation of the EDP Tables 3A-3E are exclusively balance sheets of units and budget reporting on financial transactions. The figures reported are not yet checked with money and banking statistics. While Eurostat felt it was appropriate to compile the financial accounts for government using direct source data where they exist, it encouraged a systematic cross-checking with money and banking statistics, noting that the compilation of quarterly financial accounts for the whole economy required by the ECB (for participating countries) was an occasion to do so. The NBS representative explained that this should be made in future and that institutions felt a need to report consistent data. For the moment, the

¹ State financial assets and State extra-fiscal account are off-budget accounts

quarterly financial accounts for general government to Eurostat (ESA95 Table 27) are used as an input for the MUFA reporting to the ECB.

Eurostat enquired about the substantial figure of net transactions in loan assets (3.4% of GDP) reported in Table 3B for 2006. This amount reflects an operation of ARDAL, which placed its cash in several commercial banks in order to receive interest. The commercial banks concerned have not been in financial difficulties, so this transaction was not conducted in the context of restructuring. Eurostat wondered if these operations were repos (repurchase agreements) or possibly purchases of certificates of deposits (or short-term securities). Eurostat suggested that if this was the case, this operation cannot be recorded as transactions in loans but should rather be recorded as transactions in currency and deposits. The MOF explained that a transaction in loans had been recorded in April 2007 due to the lack of more precise information on the operation, and agreed with the reclassification for the October 2007 notification. The MOF indicated that some amounts might be reclassified as transactions in securities. Eurostat recalled that repos or buy-sellbacks were, in national accounts, transactions in currency and deposits and not transactions in securities. The transaction will be reclassified in the October 2007 notification, but this will have no impact on the deficit or debt.

Eurostat noted that the boundary between loans and deposits was somewhat conventional, but that the ESA 1995 indicates (paragraph 5.74) that the classification depends on who takes the initiative. Eurostat reasoned that in a loan, the borrower has a need of funds and approaches a lender to this effect, with the latter having a deliberate intention to finance the former. On the contrary, in a deposit transaction, the lender only aims at placing funds, without any intention to finance the borrower; the latter only aims at providing a useful infrastructure for this placement.

The substantial entry "difference between interest accrued and paid", reported in 2005, is explained by the actual interest payment on the debt against the Czechoslovak commercial bank (CSOB) relating to the CSOB restructuring, following international arbitration. It reflects the difference between the nominal value and the value eventually settled of the Slovenska Inkasna² debt towards the CSOB. The interest accrued was recorded as government expenditure in national accounts in previous years.

Eurostat pointed at the figures reported under the "Issuance above/below nominal value" for 2006, which seemed difficult to reconcile with the noticeable issuance of zero coupon bonds in 2006 (see the State Closing Account information on zero coupon bonds issued in 2006 with maturity of seven years). The MOF will examine the issue.

Findings and conclusions

Eurostat recommended, with respect to EDP Tables 2A-2D, to report in EDP Tables the details on "other accounts receivable" and "other accounts payable". Concerning EDP Tables 3A-3E, Eurostat suggested reclassifying the cash investment transaction ("loans" assets of ARDAL) in 2006. These actions have no impact on deficit or debt. Furthermore Eurostat suggested examination of the recording of zero coupon bonds issued in 2006. All these actions are to be completed by the October 2007 EDP notification.³

² A financial defeasance agency classified inside general government.

³ These two last recommendations were indeed incorporated by the Slovak authorities in the October 2007 EDP notification

Eurostat further suggested introducing systematic crosschecking of the figures reported in EDP Tables 3A-3E with Money and banking statistics.

4. Methodological issues and recording of specific government transactions

4.1 Delimitation of general government

Sectorisation practices

Introduction

Eurostat enquired about the sectorisation of new units and also about the process for assessing the classification of existing units in national accounts.

Discussion and methodological analysis

In the Slovak Republic, the NSI is responsible for the sectorisation of units in national accounts. Each new unit is given an identification number, provides a description of its legal form and its activities using a standard questionnaire, and is included in the Register of Organisations of the NSI. The NSI classifies each unit in an ESA95 institutional sector according to the available information.

The NSI also assesses the 50% rule for all units each year, and undertakes reclassifications if necessary. For the interest of stability of reported statistics, borderline cases are observed for two or three consecutive years before deciding on their classification. At the moment, the NSI is accomplishing its latest assessment and expects results very soon. Reclassification of some semi-budgetary units is expected. The MOF and NBS are consulted during the sectorisation process.

The NSI register of units included in the government sector is the same as the list of public units of the State Treasury and Data Centrum. The list of public units as well as of government units is available on the website of the NSI.

Findings and conclusions

Eurostat took note of the way sectorisation of units in the government sector is undertaken and of the share of responsibilities during the sectorisation process.

National Motorway Company (Narodna diaľnicna spoločnosť - NDS)

Introduction

The issue of the sectorisation of the NDS was only briefly discussed during the previous EDP visit in 2005, given that the NDS accounts did not impact the notified data to Eurostat covering 2001-2004 and that financial reports of the NDS were not available yet. At that time, Eurostat had questioned the proposed classification outside government, as well as the autonomy of this entity, based on its inability of (1) selling its assets, (2) determining its investment policy and (3) determining its pricing policy. Representatives of the NDS,

including the Chief Financial Officer, were present during the discussions. They went briefly through the history of this entity and provided details about its activity and financing.

Discussion and methodological analysis

The National Motorway Company (NDS), established in 2005, is currently classified outside the general government sector, as a public non-financial corporation.

It was explained that its main activity is building infrastructure. Other activities include maintenance of motorways and roads and some minor side activities. The maintenance of roads of 2nd and 3rd class is made through contracts with regions and higher territorial units, against payments (50 million SKK in 2006).

The NDS is responsible for its own financing, which consists of: revenues from vignettes (1.8 billion SKK in 2006), funds received from the State budget (1.9 billion SKK), EU financing (7 billion SKK) and loans from financial markets (7.3 billion SKK). Current expenditure in 2006 amounted to 1.8 billion SKK and capital expenditure to 17 billion SKK. The financing from the State is set up by an agreement between the NDS and the Ministry of Transport, Posts and Telecommunications⁴ and consist, for about half the amount, in an investment grant (part of the co-financing) and the remainder in maintenance contracts. The receipts and outlays of the NDS are predominantly constituted of capital operations, given the active programme of road construction. Maintenance costs and sale of vignettes or maintenance contracts constitute a rather small part of the activity. The NDS passed the 50% rule criterion for market/nonmarket (80.79% for the year 2005, 76.77% for the year 2006) based on the latter activities, but would fail the criteria if one had taken into accounts its building activity; the Slovak authorities pointed out that capital expenditure are not to be taken into account, under ESA95, for the 50% rule criterion.

By a law on priority infrastructure property, the NDS is the owner of motorways and speed roads. However these assets are not re-sellable. The vignettes (stickers) are obligatory for entry on motorways⁵. The price for a one year vignette is 1100 SKK (about 40 Euro), which would seem unsustainably low in the long run. The government decides on the price of the vignette, but increases in prices are proposed by the NDS. Starting from the year 2009, it is envisaged that electronic tolls could be progressively introduced.

Eurostat noted that its recent document on the classification of payments for the use of roads implies that Slovak vignettes sales can be considered as sale for the 50% test, assuming that the low level of the annual vignette reflects a limited network of road availability (i.e. is expected to rise in future).

It was explained that the NDS cannot decide of its investment policy (when to build which motorway), as it is obliged to follow the government decisions in the context of the Slovak Republic commitments to the EU in the framework of the TEN⁶. Nevertheless, the NDS decides on the specifications of construction. The Board of the NDS consists of five executive board members; none of which is a representative of government or a former MOF employee. The NDS can act on its own, in line with the public procurement law, when organising PPP projects for building infrastructure. Its autonomy remains very limited in its function of assets

⁴ The NDS is under the responsibility of the Ministry of Transport, Posts and Telecommunications.

⁵ A vignette can be bought for 1 day, 1 week, 1 month or 1 year.

⁶ TEN - TransEuropean Network

manager/owner: it cannot build without authorization, cannot sell, cannot contract out its assets under concessions, and cannot close roads.

The NDS borrows without government guarantees. It is not clear what would happen in case of bankruptcy, given that assets were not re-sellable and it was wondered whether the lenders had not figured out that a *de facto* guarantee existed in law and suggested that this point may be enquired.

The NSI has been undertaking a detailed analysis of the NDS, but the figures for net lending/net borrowing of NDS are not yet available.

Findings and conclusions

In the case of the NDS, Eurostat was not, at this stage, in a position to formulate a final opinion on the current sectorisation. It requested the statutes of the company⁷, the agreement (maintenance contract) between the NDS and the Ministry of Transport⁸, and the figures for the net borrowing/net lending of the NDS for the years 2005 and 2006⁹, to be provided as soon as possible.

Slovak Television (STV)

Introduction

The STV is currently classified outside the government sector. The main financing comes from the TV licence fees paid by households ("concessionary fees") and from sales of advertisement spots.

Discussion and methodological analysis

Eurostat enquired about the treatment of the "concessionary fees" in the national accounts. The NSI was not immediately able to split the amount collected from fees from the amount collected from the sale of spots, both being currently classified as sales. The NSI indicated a ratio of sales to cost of above but close to the 50%.

Eurostat noted that to the extent that the fees are paid by each household possessing a TV set, regardless whether they intend to watch the public TV or not, it was difficult to recognize a voluntary purchase of a service by consumers. Eurostat noted that the issue was under review in Europe, and that some national accountants had already reclassified these amounts as taxes (IE, UK). The NSI expressed also its opinion that the revenue from the fees should be treated as a tax.

Findings and conclusions

In the case of STV, Eurostat took note of the NSI agreement to reclassify the television fees as taxes. Eurostat requested that the figures for revenue be split between the fees and the sales

⁷ The document was received on 21 September 2007.

⁸ The document was received on 21 September 2007.

⁹ The net borrowing/net lending of NDS for 2005 and 2006 was received on 26 November 2007.

of advertisements, and that the 50% rule be reexamined. The result should be communicated to Eurostat as soon as possible¹⁰.

Slovak Consolidation Agency (Slovenska konsolidacna agentura – SKA)

Introduction

The SKA is classified in general government. Its net borrowing / net lending is reported in the EDP table 2A under the item “Net borrowing or net lending of other central government bodies”. A representative of the SKA was present at the discussion.

Discussion and methodological analysis

The representative of the SKA reminded that the entity was established in 1999 with the aim to conduct, on behalf of government, the restructuring of the banking sector. It bought bad claims from banks and liquidated them (such as reselling them). Altogether, 108bn SKK of bad claims have been transferred to the SKA, with an actual average recovery rate of 4.5%, against an initial expectation of 20%. The MOF indicated that 75 billion SKK of capital transfers were recorded over 2000 (47 billion SKK) and 2001 (27 billion SKK) in national accounts, along with the actual staged transfers of claims.

While the initial aim was to close the SKA after the banking sector was restructured (by 2006), the SKA extended its activities in 2005 with the taking over of portfolios of taxes, custom duties, and social security arrears (transferred in the years 2005 and 2006). The SKA noted that having a unique liquidation agency proved *de facto* instrumental in improving the recovery rates, by pooling the claims (and the expertise) against a given defaulting party. The recovered amounts have been transferred back to the appropriate agencies (respectively, Tax directorate, Customs directorate or Veritel – a government unit dealing with claims of Social and Health Insurance companies).

Findings and conclusions

In the case of SKA, Eurostat took note of the treatment of losses from the bank claims as capital transfer in the years when the claims were transferred to SKA, and of the recent diversification of the SKA activities towards other types of claims in arrears. Eurostat asked for the amounts of the transferred arrears in 2005 and 2006¹¹.

Hospitals

Introduction

A large majority of hospitals are currently classified outside the government sector. Both public and private hospitals exist in Slovakia, although it was unclear to what extent the number and size of for profit private entities was significant.

¹⁰ The STV (together with the Slovak Radio) were classified inside the government sector in the October 2007 EDP notification.

¹¹ The requested amounts were provided by the Slovak authorities on 7 September 2007.

Discussion and methodological analysis

Eurostat asked about the financing of hospitals. The NSI was not able to explain the system of financing in detail. It seems that a price list exists for services provided, but that each hospital has contracts with various "health insurance companies", with varying prices for the "point". Health insurance companies, which compete for insuring households, reimburse hospitals for the services provided to patients according to the payment requests they receive. They are classified in the government sector. It seems that hospitals are not reimbursed according to the actual costs they have.

Findings and conclusions

In the case of hospitals, Eurostat requested a note to be provided as soon as possible¹², explaining the Slovak health care organization, detailing the financing of hospitals, and analysing their accounts, as well as a copy of the price list of services provided by hospitals.

4.2 Recording of specific government transactions

Guarantees

Introduction

A unit dealing with guarantees has been established in the MOF. This unit follows and analyses all guarantees provided by the State. It should be noted that starting from 2003, the State does not provide any guarantee (but some guarantees, very limited, are still provided by the National Property Fund – FNM in the context of privatisations).

Discussion and methodological analysis

It was explained by the MOF that there was a practice in Slovakia where all risky guarantees were recorded as debt assumption, within the debt of government (counterbalanced by a capital transfer), even before a call was made. The other type of guarantees, labelled as "non risky" (about 0.12% of GDP of amount outstanding at present), are recorded as a memorandum item and, if any of these is ever called, analysis will be undertaken before deciding on their recording. The current practice in the public accounts is that whenever there is a call on a guarantee, no assets (loans) are recorded, but the call has an immediate impact on the working balance.

The fact that the State does not provide any guarantee starting 2005 can be observed by the falling stock of guarantees in the Questionnaire related to the EDP tables. It was confirmed by the MOF that this reported stock shows both guarantees provided by the State and the FNM.

Eurostat enquired about the guarantees provided to the Railway Company. According to the MOF, these guarantees were provided in the 90s. Given that the Railway Company was rolling over its loans, it was decided to record a debt assumption and to record a capital transfer at the beginning of 2000.

¹² A note was provided by the NSI on 21 September 2007.

Eurostat noted an interesting case of a large repayment in 2005, by the original debtor to the creditor, of the full amount outstanding of a debt that had been considered a debt assumption for statistical purposes. It was agreed between the Slovak statistical authorities and Eurostat that the disappearance of the government debt should not lead to a government revenue recording. The Slovak statistical authorities eventually agreed (after some debates) with the Eurostat position to record the event as a financial transaction (withdrawal of equity), whilst they had originally proposed an other change in volume.

Findings and conclusions

Eurostat took note of the prudent recording in relation to guarantees where a debt assumption is recognized (counterbalanced by a capital transfer) before a first call is made for the guarantees labelled as “risky”, as well as where a large lump sum repayments by a debtor took place. Eurostat noted the existing situation where guarantees are not currently used as a policy instrument in the Slovak Republic and the outstanding amount of guarantees is falling rapidly.

Debt assumption, debt cancellations, debt write-offs

Introduction

The rules for the treatment of debt assumptions, debt cancellations and debt write-offs are set in the ESA95 Manual on government and debt. In addition, Eurostat issued a paper on the treatment of specific cases of foreign claims restructuring operations.

Discussion and methodological analysis

Eurostat enquired on whether the Slovak Republic had implemented the rules for the treatment of foreign claims cancellation or restructuring, notably with respect to its recent advices relating to non-standard schemes (use of third parties, repurchase by the debtor, disposal at a discount, transfer to public corporations). It should be reminded that the origin of these Eurostat advices had been the analysis of practical examples discussed with the Slovak and Czech authorities during previous meetings in 2005. It was confirmed that the NSI complies with the Eurostat’s advice. The MOF notably confirmed that, in cases of sale of claims to a third party (banks), a capital transfer was recorded for the amount of the difference between the nominal/original value of the claim and the price for which the claim is sold.

Findings and conclusions

Eurostat took note that the NSI complies with its rules for operations relating to foreign claims restructuring.

Capital injections in public corporations, dividends, privatisations

Introduction

Representatives of the FNM (National Property Fund – Fond narodneho majetku) participated to the discussion, including the FNM vice president. The FNM is included in the general

government sector. Its net borrowing / net lending are reported in EDP Table 2A under the item "Net borrowing or net lending of other central government bodies".

Discussion and methodological analysis

The representatives of the FNM recalled that the FNM was established at the beginning of 90s with the aim of managing privatisations. Currently, its role has extended to manage permanent equity ownerships of the State, along with managing still opened privatisation agreements. This permanent ownership concerns profitable companies, the so called natural monopolies (Slovak gas company, Slovak Electricity, etc.). The share of companies under the management of the FNM that show losses is negligible. The FNM co-operates with the line ministries in charge of these companies. The FNM transfers the proceeds of privatisation to the State financial assets (State Treasury), and does not use them for its own use.

The FNM explained that there is no practice of capital injections in non-profitable companies. Cases of capital injections may arise, after partial privatisation, along with the privatising partner. An example of such injections, in a bus company, was given, for the years 2001-2006. Eurostat asked the NSI to clarify where these injections are reported in the Questionnaire related to the EDP tables.

The FNM indicated that privatization proceeds are recorded on a gross basis, separately from privatisation costs (banking fees, etc.). The privatisation proceeds thus appear as financial transactions, while privatisation costs appear as government expenditure, as appropriate under ESA 1995.

Eurostat further investigated on a capital transfer in the year 2006 (for an amount of 8bn SKK) and the consistency between data reported in the ESA95 Table 2 and in Table V (Capital injections) of the Questionnaire related to EDP tables. It seemed that such transfers benefit resident units that are not public corporations.

Findings and conclusions

Eurostat took note of the recording of capital injections. Eurostat requested that this reporting on injections in equity in the Questionnaire related to the EDP be in line with the information on the capital injections made by the FNM (e.g. bus company). Eurostat asked the MOF to investigate which private companies received transfers (8bn SKK) in 2006¹³.

Transfers with the EU budget

Introduction

Eurostat enquired about the treatment of the funds received from the EU in national accounts. Officials of the unit of the MOF in charge of transfers with the EU budget were present.

Discussion and methodological analysis

¹³ The issue was clarified during the October 2007 EDP notification assessment.

National Fund

It was explained that the National fund deals only with the pre-accession funds, PHARE, ISPA and SAPARD. It is classified outside the general government sector. Its flows are therefore essentially transparent from the government accounts point of view.

EU flows

The representatives of the MOF unit in charge of funds between the Slovak republic and the EU clarified that the funds received from the EU are recorded in the extra-budgetary accounts (which functions as bank accounts at the State Treasury), and these are thereafter transferred to appropriate chapters of line ministries.

Each program has its own ("bank") account at the State Treasury. When cash is received from the EU, this is recorded in the extra-budgetary accounts, leaving the working balance of the State unaffected. On transfer of funds from the EU, the Treasury bank account at the Central bank increases together with the Treasury "liabilities" against those extra-budgetary accounts.

The funds are then transferred to line ministries. They enter the working balance at that time as well as when they are spent. The chart of accounts however identifies these operations, which can be excluded from the compilation of the expenditure and revenue. As a consequence, no timing difference exists between revenue and expenditure for measuring the reported government deficit, neither when the beneficiary unit is a government unit nor when it is a non-government unit.

The extra-budgetary accounts cash balances are excluded from EDP Table 3B, i.e. they are deducted from the item currency and deposits (and do not appear under accounts receivable/payable). For the sake of consistency, Eurostat invited the Central Bank to crosscheck whether Money and banking statistics follows the same recording. On the other hand, payable/receivables links pertaining to the line ministries operations (generally pre-financing only) are recorded in EDP Tables 2A and 3B.

Findings and conclusions

Eurostat took note of the recording methods in place in the Slovak Republic for the transfers with the EU budget, and found them to be fully in line with its rules.

Military expenditures

Introduction

Eurostat enquired about the compliance with the rules on treatment of military expenditure with its decision.

Discussion and methodological analysis

The NSI informed that the data source for recording military expenditures is a questionnaire of the NSI sent to the Ministry of Defence, starting from 2006 (for the years 2001-2006). The questionnaire is sent once a year with the return requested before April EDP reporting. The

NSI provided the last return of the questionnaire. The NSI confirmed the existence of purchases of heavy military equipment built over several years.

Findings and conclusions

Eurostat appreciated the way expenditure on military equipment are monitored and took note of its recording, which is in line with its ruling.

Public Private Partnership (PPP)

Introduction

Eurostat enquired about the existence of contracts of a private-public-partnership character. An official of the unit of the MOF in charge of PPPs was present at the discussion.

Discussion and methodological analysis

Eurostat was informed that no contract of a PPP character had been signed yet. A project of building motorways is being prepared and the public procurement procedure should be launched in September 2007. The setting up of the project specifications is still in progress¹⁴.

The MOF pointed out that it is required by Slovak law that PPP assets must be reported in the balance sheets of government. Eurostat noted that it would have no objections against following the same rule in national accounts, i.e. including by convention all PPP assets on the balance sheet of government (rather than on the private partner balance sheet in case of sufficient transfer of risk), as it seemed a good prudent approach.

According to the information of the MOF, no concession involving the building of an asset exists.

Findings and conclusions

Eurostat took note of the non existence of PPPs or of concessions involving the building of an asset in the Slovak Republic at present. It expressed its wish to be further informed on the PPP projects being planned.

Sale and leaseback operations

Introduction

Eurostat asked about the existence of sale and leaseback operations.

Discussion and methodological analysis

The MOF confirmed that no such operations exist in the Slovak Republic. These may exist in the future at the local level.

¹⁴ The Slovak government was discussing the issue during the days in which the Eurostat visit was taking place.

Findings and conclusions

Eurostat took note of the non-existence of such operations.

Swaps

Introduction

In the context of the review of the treatment of the swap operations, Eurostat asked for an explanation of a foreign exchange operation described in the documentation sent by the Slovak authorities before the visit.

Discussion and methodological analysis

The NBS representative described a sequence of foreign exchange swap operations between ARDAL and the Central Bank (for an amount of 840 million euro) that were undertaken in 2005 and 2006. This swap involved a total net gain / proceeds of 2 billion SKK (0.12 % of GDP) in favour of the State. The operation, as recorded by the Slovak authorities at the moment, improves the EDP deficit in 2006 for the amounts received in 2006 (the amounts relating to 2005 were recorded differently and did not improve the deficit of 2005). The MOF indicated that this recording seemed incorrect. Eurostat agreed that the results of the swap should be neutral from both the points of view of ESA and EDP.

Eurostat explained how this operation should be treated. The result on a foreign exchange swap comprises one element that reflects the interest rate differential and another element that reflects a holding gains/losses arising from the difference between the expected and the actual exchange rate. In national accounts, these amounts when settled must enter the category Financial derivatives (F.34). Under EDP, the latter amount – by far the biggest – is unquestionably an holding gain and cannot enter the EDP correction lines for "*streams of interest payments on swaps and FRAs*", while the former amount seems also not to enter this line.

An adjustment is necessary in the EDP Table 2 for 2006, given that the transferred amounts entered the working balance in 2006 (but did not enter the working balance in 2005). In the EDP table 3, transactions in derivatives must be reported for both 2005 and 2006. This will lead to a reduction in the discrepancy in 2005.

Findings and conclusions

Eurostat requested to correct the treatment of the foreign exchange swap before the October 2007 EDP notification (this correction will have a negative impact on the 2006 deficit of less than 0.1% of GDP¹⁵).

Securitisation

¹⁵ The treatment of the foreign exchange swap was corrected in the October 2007 EDP notification.

Introduction

Eurostat enquired about the existence of securitisation operations.

Discussion and methodological analysis

The MOF informed that no such arrangements exist in the Slovak Republic, nor are any planned, despite offers for this kind of operations received from private investment banks.

Findings and conclusions

Eurostat took note of non-existence of such arrangements.

UMTS licences

Introduction

Eurostat enquired whether any UMTS licence was sold in the Slovak Republic and how such an operation was treated in the national accounts.

Discussion and methodological analysis

According to the information provided by the NSI, a sale of mobile phone licence took place in 2006 and is recorded in the working balance of general government. The amount paid for the sale of the mobile phone licence is fixed and will not be changed. In national accounts, it was recorded as a sale of non-financial asset.

Findings and conclusions

Eurostat took note of the recording of this transaction.

4.3 Follow-up of the other recent Eurostat's advice

Carbon trading rights

Introduction

In the context of its advice on the treatment of the trading of the CO₂ allowances, Eurostat enquired about the existence of such operations.

Discussion and methodological analysis

The NSI informed that there is no plan for government trading in CO₂ allowances for the moment. It was also noted that a national allocation program has been adopted for the years 2005-2007, but the Slovak Republic has made an appeal in court, for not having received sufficient amount of allowances from the EU.

Findings and conclusions

Eurostat took note of the current situation.

4.4 Accrual data

Accrual taxes and social contributions

Introduction

In line with the Regulation 2516/2000 and the Code of best practice and following a formal approval from Eurostat, the Slovak Republic changed the methodology for recording taxes and social contributions for the April 2007 EDP notification, using a time-adjusted cash method instead of the assessment method hitherto employed.

Discussion and methodological analysis

Officials from the Institute of financial policy (a unit at the MOF) explained that the reason for the change of method was that the method of assessment based on calculation of coefficient was costly and prone to errors.

The Slovak Republic is currently using the so-called "simple time-adjusted cash method", which only takes into account the administrative time lags between the accrual moment and the "due for payment date" (i.e. neglecting the further delays arising from the delinquency of claims in arrears). For the calculation of the corporate and personal income taxes, the current method in use shifts the final settlements backwards, in the year of economic activity, which implies an estimate for the first notification of April. The MOF indicated that an upward revision in figure for taxes for the year 2006 is expected for the October 2007 EDP notification (by 1.3bn SKK, 0.07% of GDP of corporate tax), due to higher figure for settlements than estimated in March / April 2007.

The MOF uses the monthly cash information on tax from tax authorities, which are consistent with the State Treasury Database on a quarterly basis.

Eurostat requested the estimates of the taxes calculated using the "assessment method" for the year 2006, in order to compare with the results of the time-adjusted cash method.

Eurostat observed that the taxes on production (indirect taxes) had been nearly unchanged from 2005 to 2006 despite a booming economy and in contrast to previous years. The MOF indicated that three factors combine for explaining this result. The change in tobacco tax rates in 2006 led to a marked movement of anticipated imports and purchases at the end of 2005, which was instrumental to shift about four months of tobacco taxes from 2006 to 2005 (4 billion SKK). Marked changes in tax regimes have led to noticeable changes in composition in taxable income, creating a measure of instability in the composition of tax revenue; it was thus wiser to look at the total tax revenue. Finally, the acceleration in GDP is largely driven by net exports and investments, which are less indirect tax-intensive than consumption.

Findings and discussions

Eurostat took note of the method used for recording taxes and social contributions and of the foreseeable revision in taxes. It requested the figures for taxes and social contributions according to the assessment method for the year 2006, when feasible (however no later than before the April 2008 EDP notification).

5. Other issues

ESA 95 Transmission Programme

Introduction

After having changed the method for calculation of taxes and social contributions, the Slovak authorities were supposed to revise backward series of all the relating ESA95 Transmission programme tables.

Discussions and methodological analysis

Eurostat asked about the state of affairs with respect to the revision of the backwards data in the ESA95 Transmission Programme Tables, following the change in methodology for taxes and social contributions recording. According to the NSI, such a revision has already been completed, and the ESA95 Tables submitted in the next transmission will reflect this change for the whole requested time series.

Eurostat reminded that the Slovak Republic is among the three countries not publishing yet their data on quarterly financial accounts for general government (ESA95 Table 27). While the decision made in early 2006 of not publishing could be considered as appropriate owing to quality concerns at that time, the improvements made recently (validated by Eurostat) suggest that publication should be initiated. The NSI agreed with Eurostat, and indicated its intention to allow the publication of Table 27 starting from October 2007.

Findings and conclusions

Eurostat took note of the revision in the backward data in the ESA95 Tables with respect to the change of the method for calculation of accrual taxes and social contributions. Furthermore, Eurostat welcomed the green light for the publication of the quarterly financial accounts for general government.

Annex 1: List of participants

Name	Institution	
Luca Ascoli	EUROSTAT	Director of Unit C.3 - Public Finance
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Alena Illit'ová	SO SR	Director of Accumulation Accounts Department
Albert Antolik	SO SR	Current Accounts Department
Adriana Mindžáková	SO SR	Current Accounts Department
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Katarína Kaszasová	MoF SR	Director General of the Section of National Reporting
Pavol Beňo	MoF SR	Director of Statistical Department, Section of National Reporting
Daniela Czikoová	MoF SR	Statistical Department, Section of National Reporting
Daniela Illavská	MoF SR	Statistical Department, Section of National Reporting
Jana Kolesárová	MoF SR	Director of PPP project department, Section of Strategy
Kvetoslava Brusnická	MoF SR	Director of public finance department, Section of Budgetary Policy
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Viera Dojčárová	NDS, a.s.	Director of Economics department
Emília Fullová	NDS, a.s.	Advisor of the Financial director
Jana Hasilová	NDS, a.s.	Director of the Financial department
Ľudovít Martinovič	SK, a.s.	Director of the Economics Department
Daniel Lukáč	FNM SR	Vice-Chairman of executive committee of FNM SR and Director of the Legal Matters, Supervision and Complaint Settlement Section
Pavol Krištof	FNM SR	Vice-Chairman of executive committee of FNM SR and Director of the Sales Preparation and Implementation Section
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