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Unit C-3: Statistics for Excessive Deficit Procedure I



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FINAL FINDINGS

EDP dialogue visit to Slovakia

28 February – 1 March 2011

Executive summary

An EDP dialogue visit to Slovakia took place on 28 February – 1 March 2011.

Eurostat carried out this EDP dialogue visit with the aim to analyse the October 2010 EDP notification, to review the sector classification procedures, 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 notifications and national accounts.

First, Eurostat enquired about the institutional arrangements and division of responsibilities with respect to the reporting of data under EDP. Eurostat took note of the current organisation framework for EDP purposes involving the NSI, the MoF and the NCB and welcomed the good cooperation between these institutions.

Second, Eurostat appreciated that all action points resulting from the March 2008 EDP dialogue visit were completed on time. The Slovak statistical authorities informed that after the structural changes in the NSI which took place in 2010, the department dealing with government accounts and the EDP issues is rather understaffed.

Concerning the EDP tables, no particular issue was raised, as the Slovak statistical authorities usually provide consistent EDP Tables, complemented by metadata and a comprehensive Questionnaire relating to the EDP notification tables.

Concerning the classification of units, Eurostat concluded that so-called 50 % test is to be applied on an annual basis. Eurostat encouraged the Slovak statistical authorities to also look at the involvement of government when deciding about the sector classification of a unit.

Regarding the estimates of the final settlement for corporate income tax and personal income tax for the year T-1, Eurostat found the current method of estimation inappropriate. The Slovak statistical authorities should find a solution that would ensure stability of reported data for tax receivables. As for accrued interest, Eurostat appreciated the fact that starting with data for 2011, interest for local government will be recorded on an accrual basis. Eurostat took note that coupons sold will no longer be a part of revenue of government for the April 2011 EDP notification.

Eurostat appreciated the work done by the Slovak statistical authorities when analysing dividends and super dividends, guarantees and capital injections. Eurostat took note of the recording of debt cancellations and debt assumptions as well as of the recording of purchases of military equipment and of the EU funds. The Slovak statistical authorities acknowledged to Eurostat that there were no privatisation receipts and derivatives in recent years. The non existence of securitisation and sale and lease back operations was noted as well. Eurostat was also informed about the treatment of the sale of emission permits which took place in 2008.

Eurostat will study the amendments to the PPP contract for the construction of the R1 express way and will provide its view to the Slovak statistical authorities before the April 2011 EDP notification.

The Slovak statistical authorities will provide a note about the issuance of bonds by ARDAL¹

¹ Agentura pre riadenie dlhu a likvidity (ARDAL) = Debt management agency

to the portfolio of the MoF.

Eurostat very much appreciated the openness and transparency demonstrated by the Slovak statistical authorities during the meeting and the documentation provided prior to the visit.

Final findings

Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009, as amended, as regards the quality of statistical data in the context of the Excessive Deficit Procedure, Eurostat carried out an EDP dialogue visit to Slovakia on 28 February - 1 March 2011.

The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of Eurostat Unit C-3 Statistics for Excessive Deficit Procedure I. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Slovak statistical authorities were represented by the Statistical Office (NSI), the Ministry of Finance (MoF) and the National Central Bank (NCB). In addition, representatives from other government institutions were present at discussions for certain points of agenda.

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to assure that provisions of the Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in the Slovak EDP and Government Finance Statistics (GFS) data.

In detail, the main aims of the dialogue visit were: to clarify the issues relating to EDP tables raised in the context of previous notifications, to analyse the sector classification practices, to discuss the recording of final settlement for taxes and social contributions and to analyse the practices for recording of specific operations undertaken by government.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, indicating that within days the Main conclusions and action points would be sent to the Slovak statistical authorities, who may provide comments. Within weeks, the Provisional findings would be sent to the Slovak statistical authorities in draft form for their review. After amendments, Final findings will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

1. REVIEW OF INSTITUTIONAL ISSUES

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

Introduction

Eurostat enquired about the co-operation and division of responsibilities between the statistical authorities (NSI, MoF and NCB), as well as on whether there have been any changes in this respect since the last EDP dialogue visit.

Discussion and methodological analysis

The Slovak statistical authorities confirmed that the cooperation between the NSI, MoF and NCB is good. There are two levels of co-operation: a more formalised one at the level of

General Directors and a less formalised one at the level of compilers of statistics. In addition to regular meetings, ad-hoc meetings are organised when a problem (either methodological or on compilation issues) arises. A report summarising discussions is written after each meeting.

The NSI informed Eurostat about staff cuts which took place in this institution at the end of 2010 due to structural changes. Eurostat asked whether such shortcuts could affect the quality of data of the forthcoming (April 2011) EDP notification as the departing employees have not yet been replaced. The NSI representatives confirmed that the lack of experts for national accounts methodology is also their concern. However they assured Eurostat that the risk of deteriorating quality of the EDP data was not big. On the other hand, similar structural changes within the MoF did not touch the department of statistics.

Findings and conclusions

1. Eurostat took note of the good cooperation between the institutions involved in the compilation of government statistics.
2. Eurostat underlined possible risks of insufficient quality of future EDP notifications due to the recent decrease of NSI staff in the field of national accounts and public finance especially regarding EDP reporting and related methodology. Eurostat urged the NSI to find a solution in the short term.

1.2. Data sources, compilation practices

Introduction

Eurostat enquired about any changes in data sources compared with the situation in March 2008. The Slovak statistical authorities confirmed that the situation as presented during the 2008 EDP dialogue visit remains unchanged with one modification: the NSI now has online access to the State Treasury database (as indicated during the March 2008 EDP dialogue visit).

Discussion and methodological analysis

Data sources

The NSI confirmed that 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.

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 detailed government expenditure and revenue.

Bridge table

The NSI also confirmed that there have not been any changes with respect to the bridge table between the national budgetary classification and the ESA95 items. The bridge, maintained by the NSI, is updated every time there are some modifications to the budgetary classification.

Report on budget execution

Eurostat asked why detailed EDP Tables (by entities / group of entities involved in general government sector) were not presented in the "State final account" document for 2009 produced by the MoF. The MoF representatives explained that the main reason was to reduce the volume of the document. However the detailed EDP Tables will be reintroduced in the document on the budget execution for 2010.

The MoF representatives added that the document informing on the budget execution for 2010 will change in terms of structure but also in terms of timing. The MoF intend to inform the public on cash budget balance for 2010 as well as on the net lending / net borrowing results in April 2011. Later on, in autumn 2011, an annual report on the budget execution on an accrual basis will be issued.

EDP Inventory

The Slovak statistical authorities informed Eurostat that they published the current version of the EDP Inventory on their website (as requested by the Regulation).

Eurostat reminded the Slovak statistical authorities that data sources and compilation methods relating to the EDP Tables should be well reflected in the EDP Inventory and that if any change occurs in the former or the latter, an update of the Inventory should be sent to Eurostat.

With respect to the amended version of the EDP Inventory, Eurostat encouraged the Slovak statistical authorities to participate in the pilot exercise and to choose a topic to complete.

Findings and conclusions

3. Eurostat took note of the situation for data sources and the bridge table.
4. Eurostat invited the MoF to continue publishing the net lending / net borrowing for entities included in general government in its annual publication "State final account", which was stopped in 2010 (for the 2009 results), as for the years before 2009..
5. Eurostat thanked the NSI for publishing the EDP inventory on its website and asked the NSI to send to Eurostat any update of the current version of inventory, which has not been updated since 2007 and needs to be amended on some points.
6. Eurostat welcomed the initiative of the NSI to participate in a pilot exercise relating to the new version of the EDP inventory and invited the NSI to choose a methodological part to be completed and sent to Eurostat².

² The NSI sent an email to Eurostat on 20 April 2011 specifying which part of the new version of the EDP Inventory will be completed by them.

2. Follow-up of the visit of 10 – 11 March 2008

Eurostat noted that the majority of action points were implemented by the Slovak statistical authorities or information on progress was received on time.

3. Follow-up of the October 2010 EDP reporting – analysis of EDP tables

3.1. General review of the October 2010 EDP reporting

The main issue during the October 2010 EDP reporting was the revision in tax receivables due to estimates of the final settlement of taxes on income. The discussion on this issue is described in the section 4.2.1. below.

Similarly, the reclassification of some equity injections into capital transfers is described in the section 4.3. below.

4. Methodological issues and recording of specific government transactions

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

Semi-budgetary organisations

Introduction

Semi-budgetary organisations are legal entities established by the State, higher territorial units or municipalities and they receive subsidies from the budget of their owner. The Slovak authorities undertake regular tests of these organisations for compliance with the 50% classification rule.

Discussion and methodological analysis

The NSI examines the semi-budgetary organisations on a regular basis – every three years. The last exercise took place in December 2010. The basis for testing the entities is the register of organisations and their profit and loss accounts. Each unit is looked at individually. Usually only the 50% criterion of market / nonmarket is taken into account but in some cases, a unit is given more attention and also other criteria (such as control) are taken into account.

The NSI noted that the results of the last tests showed the impact of the financial crisis and that some units failed the 50% criterion in 2008 and 2009.

Eurostat was particularly interested in the correct classification of "Dom Matice Slovenskej"³ and some schools, especially with respect to the involvement of government control of these entities.

³ Slovak Culture Institute

Findings and conclusions

7. Eurostat invited the NSI to conduct the 50% test for the semi-budgetary organisations on an annual basis and to reclassify, if needed, those units which did not comply with the test in the last two years, in the context of the financial crisis. The same should be done for newly established entities. Furthermore, Eurostat recommended to also consider the involvement of government in decision making processes when deciding about the sector classification of some units (e.g. for schools).

8. The NSI will review the sector-classification of some public schools as well as of "Dom Matice Slovenskej" which appear on the list of semi-budgetary units and are classified in the sector S.15⁴. Eurostat will be informed about the results (and possible impact on net borrowing / net lending and on the debt of government) by the April 2011 EDP notification at the latest.

Hospitals

Introduction

The issue discussed during the March 2008 visit was whether the public hospitals should be classified inside or outside the general government sector. Eurostat had doubts on whether the classification was done correctly, based on the explanations provided during the meeting. Furthermore Eurostat found difficult to understand why some hospitals seem to be classified in the sector S.15. It was also not fully clear how revenues were calculated for the purpose of the market and non-market test (50%). As a follow-up of the 2008 visit, the Slovak statistical authorities sent an explanatory note on the issue, which however needed further clarification.

Discussion and methodological analysis

There are currently 93 public hospitals in Slovakia, and among these, 26 hospitals are classified inside the government sector (and 67 outside, as nonfinancial corporations – S.11). The NSI made a presentation showing the calculations of the 50% rule hospital by hospital. Eurostat expressed concern on the correct classification of eight of these.

Eurostat enquired about the decreasing number of hospitals during the last years (e.g. 114 of public hospitals were examined for the 50% rule in 2006, while there were only 93 of them in 2010). This was explained by the health reform which resulted in the transformation of some hospitals into joint stock companies, privatisation, merging some hospitals, or even their winding up. Eurostat further enquired on how the "disappearance" of those hospitals was managed from the economic point of view, in particular with respect to the liabilities of hospitals. In cases of privatised hospitals, Eurostat was interested in whether government intervened in this process through, e.g. capital injections. The NSI thought that those were sold retaining their debts (very often for a symbolic price) but promised to investigate the issue in depth and send an explanatory note.

Eurostat also asked whether public hospitals may have any other source of revenue (such as a subsidy from the state budget). The Slovak representatives explained that law provides such

⁴ Non-profit institutions serving households

possibility but in practice the budget does not allow any subsidy for public hospitals. As those do not have enough financial resources, they cumulate "debt" (more precisely F.7 payables), which is not guaranteed by government.

Eurostat was interested in the system of pricing for procedures undertaken in hospitals. An employee of the Health ministry (MH) was present to explain how pricing and payment for procedures work. The current situation is that a health insurance company signs a contract with a health care / service provider (hospital) and orders a certain amount of "events" to which it allocates prices. In practice, the same procedure may have different prices in different hospitals. In fact a template of a price list exists at the MH but is not strictly followed by the health insurance companies (currently they are not obliged to follow it), thus it serves only as a guideline. A new catalogue of prices to be applied by all health insurance companies to hospitals is being developed and will be put in force after the new reform of the health care system. The reform also foresees transformation of all public hospitals into joint stock companies by the end of this year and perhaps also the disappearance of some more public hospitals.

Eurostat pointed out the fact that the Slovak public hospitals are persistently in deficit and that the cumulation of the payables is not sustainable.

Findings and conclusions

9. The NSI will verify the application of the 50% test for the April 2011 EDP notification for the eight hospitals in question and will inform Eurostat on whether their classification outside the government sector was justified⁵.

10. With respect to the merged / liquidated / transformed hospitals, the NSI will investigate and will report to Eurostat before the April 2011 EDP notification: a) who was the purchaser (public or private units); b) whether there were any interventions of government (and if so, how these were treated in national accounts); c) what happened with the debt of these hospitals⁶.

Pension funds

Introduction

The pension system established in Slovakia since the beginning of 2005 consists of three pillars:

The first pillar is an unfunded social security pension scheme and is mandatory for the majority of population. The contributions of the covered population are obligatory and the level of pension benefits is determined by a formula taking into account the length of insurance and the average salary. As a pay-as-you-go-system the contributions to the scheme in a certain period are deemed to finance the benefits in the same period. The scheme is managed by the government and the payments are managed by the Social Insurance Agency. This pillar is classified in the social security funds subsector.

⁵ A note and supporting documents were sent by the NSI on 8 April 2011.

⁶ A note was sent by the NSI on 8 April 2011.

The second pillar is a fully funded defined contribution scheme managed by private companies (currently six such companies exist). At its introduction, it was mandatory for all policyholders entering the labour market for the first time after 2005. Since January 2008 this pillar has become mandatory only for those who opted to enter it within six months after their first entry into the labour market. There is a close relation between the first and the second pillar – 50% of the contributions of its participants remain in the first pillar and another 50% is transferred to personal accounts of the contributors. After reaching the pensionable age, the saver can buy from its saved funds a lifelong annuity from a life insurance company or, if the amount of savings allows, that he/she can withdraw a part of the saved funds as a one-off payment in cash. The level of pension benefits directly depends on the amount of accumulated savings and on the rate of their capitalisation. The pension management companies are classified in the financial auxiliaries subsector while the pension funds are classified as Insurance corporations and pension funds.

The third pillar is a voluntary one. It operates independently from the other two schemes and is fully funded. It is available for individuals who are 18 at the date of signing the participation agreement. The contributions are cumulated on personal accounts of contributors, managed by private supplementary pension management companies (currently 5 of them). The pension management companies are classified as financial auxiliaries and the funds are classified as insurance corporations and pension funds.

Discussion and methodological analysis

Eurostat wanted to know how the element of "optionality", introduced in 2008, to enter the second pillar, was received by the contributors. The Slovak authorities explained that those willing to quit the second pillar were not many and they could only move back to the first pillar. This was then reflected in the increase of social contributions in national accounts. However the NSI has not investigated the actual impact of these movements.

Eurostat also asked about the owners of the funds of the 2nd pillar. These are, according to the NSI, private entities, mostly from the insurance sector.

Findings and conclusions

11. Eurostat took note of this situation.

National motorway company (NDS)

Introduction

The issue of the classification of the National Motorway Company (NDS) was discussed thoroughly during the previous two visits.

The NDS is an entity established in 2005 with the construction of motorways as its main activity. It has other activities like the maintenance of motorways and roads and some other minor ones. The maintenance of roads is made through contracts with regions and higher territorial units against payments.

The NDS is the owner of motorways and express roads; these assets cannot be sold. The NDS cannot decide on its investment policy (on when and where to build) and it is obliged to

follow the government decisions in this respect. On the other hand, the NDS decides about the specifications of construction. The NDS can act on its own when organising PPP projects for building infrastructure. The Board of the NDS consists of five executive board members (none is a representative of government). The NDS borrows without guarantees. It does not issue bonds or other instruments.

Discussion and methodological analysis

The NSI representatives confirmed that the financing of the NDS consists of: 1) sales of vignettes; 2) contributions from the State budget; 3) EU financing; 4) loans from financial markets. In addition to that, revenue from electronic tolls (for trucks) was introduced at the beginning of 2011.

The NSI confirmed that according to the results of the 50% market/nonmarket test for the last five years, the NDS should be classified outside government.

Findings and conclusions

12. Eurostat took note of the classification of this entity outside the government sector.

4.2. Implementation of accrual principle

4.2.1. Accrual taxes and social contributions

Introduction

After the change of the calculation method, approved by Eurostat in 2007, from the coefficient one, 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 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, to the year of economic activity, which implies an estimate for the first EDP notification of April.

During the discussions in March 2008, Eurostat suggested to possibly use a cash method (for the sake of stability of data) for recording final settlements while the MoF representatives argued that such an approach is not ideal from the point of view of accuracy of data (see Final findings of the visit⁷).

Discussion and methodological analysis

In the October 2010 EDP notifications the data on taxes were substantially revised compared to the April 2010 EDP notification. This was due to the estimates of final settlement for corporate income tax and personal income tax for self-employed, for which the final data is only available in October. As the tax assessment for the year "T" is based on the results for year "T-1" and the final assessment is only available later in "T+1", the risk of substantial

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http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/FF_SK_2008.03.10_2611.pdf

revisions of data is present in particular in the case of two consecutive years with very different level of economic performance. This was the case for instance for the 2009 data. The MoF representatives confirmed that the 2009 will be revised again for the April 2011 EDP notification; however they assured that the revision would be negligible.

Eurostat explained that the revision of tax receivables, which occurred in October 2010 (0.52% of GDP), was rather worrying as regards to the stability of data reported for the EDP notification. The MoF representatives recognised that the estimates of the final settlement for the year 2009 (based on a model combining tax elasticity and macroeconomic development) were not correct also due to the wrong estimate of the impact of the financial crisis. However, the MoF felt that this was an exceptional situation which should not be repeated. Eurostat agreed on that but expressed doubts about the accuracy of the method under any circumstance and asked how this can be guaranteed because of the existing method of estimation based on the data from tax returns which are completed only in the October following the reference year. Supported by the ECB (which cannot accept to have final data 1.5 years after the reference period) and DG ECFIN (which had to make its own estimates for the 2009 data for forecasts), Eurostat proposed two solutions: either to change reporting deadlines for tax returns or to consider the recording of the final tax settlements on a cash basis (stressing that this would be in a way a step back). The MoF was against the latter, while the former was not administratively possible. The NSI understood the point of Eurostat but repeated that the revision in tax receivables that occurred in October 2010 should be seen as unique, in the context of the financial crisis. The NSI further suggested to discuss the issue with the MoF and the NCB within the working group and to find a solution which would ensure to provide more stable data for tax receivables.

Eurostat pointed out that the stock of other accounts receivable relating to taxes as reported in the table 5 of the Questionnaire relating to the EDP notification tables seems to be erroneous – the difference between stocks in two successive years did not give the amount for transactions. The NSI explained that the stocks are calculated based on the transactions and the error seemed due to the fact that the transactions in social contributions were not accounted for when calculating the stocks. The NSI promised to verify this and to correct the Table for the April 2011 EDP notification. Eurostat also invited the Slovak statistical authorities to report stocks for social contributions. Furthermore, Eurostat wanted to know how the stocks for 1997 (starting point of the Table) had been calculated. The NSI will provide an answer in due time.

Findings and conclusions

13. Eurostat invited the NSI to correct the mistake in Table 5⁸ of the Questionnaire relating to the notification tables for the April 2011 EDP notification. In addition, Eurostat invited the Slovak statistical authorities to also report stocks for social contributions in this table in April 2011⁹.

14. Eurostat considered as inappropriate the current method of estimating final settlements payments for corporate income tax and for a part of personal income tax, based on macroeconomic models, for the April notification. Eurostat took note of the proposal of the NSI to find an appropriate method for recording such events,

⁸ Table 5: Taxes and social contributions: other accounts receivable / payable (F.7) of general government

⁹ The mistake was corrected for the April 2011 EDP notification.

eliminating the risk of possibly substantial revisions for the October EDP notifications¹⁰.

4.2.2. Calculation of accrual interest

Introduction

No particular issue relating to the recording of interest had been observed by Eurostat. Slovakia was among the countries that recorded the coupon sold¹¹ from the bonds issued in fungible tranches as revenue of State budget, which is to be changed after Eurostat provided guidance on the issue.

Discussion and methodological analysis

The Slovak statistical authorities provided detailed tables on the *recording of interest flows in EDP tables*, showing cash and accrual amounts by instrument as reported in EDP table 2A.

Eurostat recalled that the coupon sold is not an income of government. The Slovak statistical authorities informed that this used to be the case in the past but an appropriate adjustment in EDP Table 2A will be made for the April 2011 EDP notification. Eurostat further recalled that that the adjustment should be clearly indicated in the table.

The issue of the recording of interest for local government (in EDP table 2C) was re-opened by Eurostat which recalled that, under ESA95, interest must be recorded on an accrual basis for all the sub-sectors of general government. The Slovak statistical authorities informed that there are no bonds issued at the local government level and that interest from loans at the level of municipalities is not significant. Nevertheless, an effort has been made and accrued interest for local government will start to be reported in 2012 for data for 2011.

Findings and conclusions

15. Eurostat took note that, in the case of bonds issued in fungible tranches, the coupon sold will no longer be considered by the Slovak statistical authorities as revenue of the government. Eurostat recalled that the NSI should identify an adjustment line in EDP table 2 where the coupon sold will be recorded for the April 2011 EDP notification and inform Eurostat about its choice¹².

16. Eurostat welcomed the commitment of the Slovak statistical authorities that, for the data starting from 2011, local government interest will be recorded on an accrual basis.

¹⁰ After an exchange of views following the EDP dialogue visit, the solution proposed by the Slovak statistical authorities in their note of 9 March 2011 (to take into account also the results of the survey on profitability of corporations conducted by the NSI) was approved by Eurostat and used for the data of the April 2011 EDP notification.

¹¹ *Coupon sold* refers to the amount that government receives in addition of the issue price for the principal of issued securities, due to the fact that the new tranche of a bond (holding all the characteristics such as coupon rate and payment dates, maturity, etc) is issued between two coupon payment dates and thus the investor pays to the issuer the accrued coupon since the last payment. The investor is entitled to receive full coupon amount at the next coupon payment date.

¹² This was done for the April 2011 EDP notification.

4.3. Recording of specific government transactions

a) EU flows

Introduction

The issue of EU flows was extensively discussed in the EDP dialogue visits of 2007 and 2008.

Discussion and methodological analysis

The Slovak statistical authorities confirmed that when cash is received from the European Commission, this is recorded in the extra-budgetary accounts, leaving the working balance of the State unaffected. No timing difference exists between revenue and expenditure for measuring the reported deficit.

Findings and conclusions

17. Eurostat took note of these arrangements.

b) Military equipment

Introduction

According to the Questionnaire relating to the EDP notification, the basis for recording military equipment in the Slovak national accounts is cash. If late payments or prepayments are involved, the cash payments are within one year of delivery.

Discussion and methodological analysis

The Slovak statistical authorities confirmed that the source of information on purchases of military equipment is a questionnaire regularly sent to the Ministry of Defence (MD). A copy of a recent return was provided to Eurostat.

According to the Questionnaire relating to the EDP notifications, there are six military contracts for equipment built over many years. The deliveries are not supposed to differ by more than 0.05% of GDP from the amount of cash. During the October 2010 EDP exercise, the Slovak statistical authorities confirmed that there are no receivables or payables relating to the purchases of military equipment.

Based on international experience, Eurostat found rather surprising that there are no receivables or payables to be reported relating to this kind of purchases. The MoF representatives explained that for the contracts covering several years there are yearly allocations attributed and these have to be paid within a corresponding year. In this context, Eurostat reminded that a "delivery" should be understood as a physical delivery of military material and not as budget allocations and asked to verify that this is understood as such also by the MD officials responsible for the compilation of Questionnaire relating to the EDP notification tables.

Findings and conclusions

18. The NSI will confirm, for the April 2011 EDP notification, with Ministry of Defence representatives, that the notion of "deliveries" is well understood when completing the questionnaire on government expenditures for military equipment and will consider if receivables / payables should be reported in the Questionnaire relating to the notification tables (Table 7)¹³.

c) Guarantees

Introduction

For provision and follow-up of guarantees, a unit has been established in the MoF. This unit follows and analyses all guarantees provided by the State. According to the information from the Slovak statistical authorities, there were no guarantees called during 2006-2010 and there were no repayments by the original debtors.

Under this point the export credit insurance system was also discussed.

Guarantees

Discussion and methodological analysis

The Slovak statistical authorities confirmed that there have been no guarantees called since 2006. They also explained that it has been a policy of the last two governments not to provide any more guarantees. Should such a situation occur, the guarantee has to be approved by the Parliament.

The Slovak statistical authorities also confirmed that they have no information on guarantees at the local level.

Eurostat spotted a mistake in the Table 9.1 (line 10.a) of the Questionnaire relating to the EDP notification. The Slovak statistical authorities promised to correct the mistake for the April 2011 EDP notification.

Findings and conclusions

19. The NSI will correct for the April 2011 EDP notification mistakes that occurred in Tables 9¹⁴ of the Questionnaire relating to the notification tables¹⁵.

EXIM Banka

Discussion and methodological analysis

EXIM Banka was established by a special law, with the aim to improve the trade exchange of the Slovak Republic with other countries. It supports the export and import activities of

¹³A note was sent by the NSI on 8 April 2011.

¹⁴ Guarantees recording

¹⁵ The mistake was corrected for the April 2011 EDP notification.

entrepreneurs by financing export credits, insuring export credits and funding import credits with a view to increasing the competitiveness of domestic products and promoting economic relations with other countries. It is classified outside the general government sector. The Slovak statistical authorities confirmed that the Bank has been profitable and that there has not been any guarantee from government.

Eurostat enquired about the capital injection provided to EXIM Banka in 2009. This was an injection in equity from the State in the context of the financial crisis, to reinforce long-term insurance activity, when the Slovak entrepreneurs were searching for new markets to place their products. The Slovak statistical authorities confirmed that no other injection has been received by the bank.

Findings and conclusions

20. Eurostat took note of those explanations.

d) Debt assumptions, debt cancellations and debt write offs

Introduction

The Slovak statistical authorities provided a list of debt assumptions prior to the visit. Table 8¹⁶ of the Questionnaire relating to the EDP notification was also discussed.

Discussion and methodological analysis

Eurostat took note that the debt assumptions relating to the debt of Railways and Metro Bratislava (which took place in 2006-2009) were the latest ones. The Slovak statistical authorities also added that there had been no debt cancellations or debt write-offs during the years 2006-2009.

Eurostat enquired about the sale / transfer of claims reported in Table 8.1 for 2008. According to the Slovak statistical authorities, this was a mistake and it will be corrected for the April 2011 EDP notification.

Findings and conclusions

21. Eurostat took note of these explanations.

e) Capital injections in public corporations

Introduction

It should be noted that, in the October 2010 EDP tables, several capital injections previously reported as financial transactions (injections in equity) were reclassified as non financial transactions (capital transfers). This was done after re-examination of the beneficiaries by the MoF and it caused a revision of the government deficit. An exhaustive list of capital

¹⁶ Central government claims, debt cancellations.

injections for 2006-2009 with details on their treatment in national accounts was provided prior to the visit. They are treated as capital transfers, equity acquisition or loans.

Discussion and methodological analysis

According to the Slovak statistical authorities, 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.

Eurostat reviewed the list of capital injections and was particularly interested in the background of some capital injections provided, e.g., to health care facilities, to the Slovak guarantee and development bank or to the National centre of cardiovascular diseases. The classification of the first two cases as injection in equity was justified by the Slovak statistical authorities, whilst the equity injection in the National centre of cardiovascular diseases appeared to be rather an investment grant and was to be reclassified as such.

Findings and conclusions

22. The NSI will reclassify the capital injection to the National centre of cardiovascular diseases made by government in 2009 from equity acquisition (F.5), into an investment grant (D.92), given the character of the injection for the April 2011 EDP notification¹⁷.

f) Dividends, superdividends

Introduction

The information available in tables 10.1 and 10.2¹⁸ of the Questionnaire relating to the EDP notification tables, as well as additional information provided by the Slovak statistical authorities prior to the dialogue visit, was analysed under this point.

Discussion and methodological analysis

Eurostat noted that the most significant superdividend was reported by the Slovak gas company. Eurostat enquired whether no superdividends from the NCB were to be reported. This was confirmed by the Slovak statistical authorities.

Findings and conclusions

23. Eurostat appreciated the analysis made with respect to this issue.

g) Privatisation

Introduction

An entity called Fond národného majetku (National Property Fund) classified inside government sector is an agency of the government dealing with sale of state property.

¹⁷ Done for the April 2011 EDP notification.

¹⁸ Capital injections, superdividends, privatization.

Currently, its role has extended also to manage permanent equity ownerships of the State.

Discussion and methodological analysis

The Slovak statistical authorities confirmed that there have been no privatisation receipts since 2008 (and a very small amount in 2007) to be reported, as the main privatisation operations had taken place before that period.

Findings and conclusions

24. Eurostat took note of this information.

h) Public private partnership (PPP)

Introduction

Contrary to the three potential PPP contracts in Slovakia that had been discussed during the previous visit, there was only one actually carried out – the construction of the R1 Expressway (the construction of two phases of motorway D1 was cancelled by the government at the end of 2010). A representative from the Ministry of Transport (MT) was also present at the discussion.

Discussion and methodological analysis

According to the Slovak statistical authorities, the project is 100% financed by the private partner, with no government guarantee. There is no impact on the government debt. The deficit should be affected by availability payments.

The MT representative confirmed that the projects for construction of D1 were definitely closed due to the incapacity of concessioners to reach the final closing of the contract. He also informed that there is a possibility of reviewing the current decision for the construction of D1, however this would not be done within the next two years. Currently there are ongoing discussions on the construction of the Bratislava bypass (D4).

The MT representative further recalled that there have been amendments made to the existing contract for the construction of R1. These were results of the financial crisis and imposed stricter conditions of lending, slightly increased the price of the project and reinforced the role of the public authority in the project (in particular in terms of refinancing). Nevertheless, according to the MT, the main risk still remains on the private partner. The works undertaken on this project are on time and no delay is expected.

Findings and conclusions

25. Eurostat will study in detail the PPP project of the R1 expressway and its amendments and will provide the Slovak statistical authorities its view on the treatment in national accounts before the April 2011 EDP notification¹⁹.

¹⁹ Eurostat's view was communicated to the Slovak statistical authorities by an e-mail sent on 31 March 2011.

i) Derivatives: Swap cancellations, Off-market swaps, Options

Introduction

Eurostat enquired about the existence of such operations with derivatives.

Discussion and methodological analysis

The CB confirmed that no such operations took place in the years 2006-2009.

Findings and conclusions

26. Eurostat took note of the non-existence of those operations.

j) Other government transactions: notably Sale and lease back operations, Securitisations, UMTS, Carbon trading rights

Sale and lease back operations, Securitisations, UMTS

Introduction

Eurostat enquired about the existence of sale and lease back operations, securitisations and UMTS.

Discussion and methodological analysis

The Slovak statistical authorities confirmed the non-existence of these operations.

Findings and conclusions

27. Eurostat took note of this information.

Carbon trading rights

Introduction

According to the Slovak statistical authorities, there has been one sale of emission permits up to now, which took place in 2008 (Kyoto Protocol).

Discussion and methodological analysis

The Slovak statistical authorities explained that the proceeds from the sale improved the working balance of the state funds²⁰ (Environmental fund) by 75 mill eur. This sale was recorded as disposals of intangible non-produced assets.

Findings and conclusions

28. Eurostat took note of this treatment.

²⁰ Reported under "Other central government bodies" in EDP Table 2A.

5. Other issues

5.1. ESA95 Transmission Programme and consistency between EDP Tables and ESA95 Tables

Introduction

Apparently there are persisting problems with the quality of COFOG level 2 data and the data has not been published yet.

Discussion and methodological analysis

The Slovak statistical authorities recognized that the quality of the data is not sufficient and pointed out that there are ongoing discussions with the units providing the data in order to improve their quality. Nevertheless the data currently reported to Eurostat are still not ready to be published.

Findings and conclusions

29. Eurostat took note of the ongoing work.

5.2. Debt issued by ARDAL²¹ for the MoF portfolio

Introduction

The ECB raised the issue of the issuance of the debt, which is held in the own portfolio of MoF (the very recent issuance taking place on 24 February 2011). The question was about the reason for this issuance and how it is recorded in national accounts.

Discussion and methodological analysis

A representative of ARDAL explained that such issuance already took place in March 2010. These issuances are made within benchmarking issues, 2 - 3% of issuances remain in the portfolio of MoF and are strictly to be used for primary dealing. It was confirmed that these bonds will not be used for securities lending without cash. Eurostat asked for some details of the transaction in order to be in a position to assess the correct treatment in national accounts.

Findings and conclusions

30. The NSI will provide a note about the debt operation that took place on the 24 February 2011, when ARDAL issued bonds for government's own portfolio. The note should explain a) the reasons why such an operation took place, b) whether such an operation had already taken place in the past, c) how it was / will be treated in the national accounts. This note should be sent before end of March 2011²².

²¹ ARDAL = Agentura pre riadenie dlhu a likvidity (Debt and liquidity management agency)

²² A note was sent on 8 April 2011.

Annex I: List of participants

František Bernadič	SO SR	Director General of the Macroeconomics Section
Alena Illiřová	SO SR	Director of the National Accounts Department
Albert Antolik	SO SR	Director of General Government and ROW Sector Accounts Department
Jaroslav Dolinič	SO SR	General Government and ROW Sector Accounts
Katarína Uhlířová	SO SR	General Government and ROW Sector Accounts
Margita Kupková	SO SR	General Government and ROW Sector Accounts
Vladimír Tvaroška	MoF SR	State Secretary of the MoF SR
Katarína Kaszasová	MoF SR	Director General of the State Reporting Section
Miriám Majorová	MoF SR	Director of Legislation and summary state reporting Department
Pavol Beňo	MoF SR	Director of Statistical Department
Jana Kolesářová	MoF SR	Director of PPP Project Department
Michal Gajdzica	MoF SR	Department of PPP Projects
Dana Czikoová	MoF SR	Statistical Department
Daniela Ilavská	MoF SR	Statistical Department
Milan Horváth	MoF SR	Director General of Financial market Section
Marián Podolák	MoF SR	Director of Special activities of the financial market Department
Viktor Novysedlak	MoF SR - IFP	Director of Tax Revenue and Fiscal Analysis Department
Ján Seman	NBS	Director of Section on quarterly financial accounts and IT support
Marcela Duffeková	NBS	Section on quarterly financial accounts and IT support
Zuzana Ďurčenková	NBS	Department of Public Finance Analysis
Iveta Klimová	MZ SR	Director General of Financing Section
Tomáš Kapusta	ARDAL	Director of Debt management department
Luca Ascoli	Eurostat	Head of Unit C.3 – Statistics for Excessive deficit Procedure I
Denis Besnard	Eurostat	Unit C.3 – Statistics for Excessive deficit Procedure I
Jean-Pierre Dupuis	Eurostat	Unit C.3 – Statistics for Excessive deficit Procedure I
Ivana Jablonská	Eurostat	Unit C.3 – Statistics for Excessive deficit Procedure I (desk officer)
Vladimír Solanič	DG ECFIN	
Pasquale d'Apice	DG ECFIN	
Henri Maurer	ECB	