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FINAL FINDINGS

EDP dialogue visit to Poland

5-6 September 2011

Executive Summary

A regular EDP dialogue visit to Poland took place on 5-6 September 2011 in order to review the implementation of ESA95 methodology and to assure that the provisions of the ESA95 Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in Polish EDP and Government Finance Statistics (GFS) data. The recording of specific government transactions in the Polish national accounts and EDP notification was also discussed during the visit.

First, local government data sources, in particular their consistency, were discussed. Eurostat appreciated the completeness and timeliness of the data but highlighted the need of assuring consistency between different data sources (e.g. between budgetary reporting and financial statements).

Next, EDP notification tables and EDP relating questionnaire (April 2011 reporting) were analysed in detail. It was concluded that the Polish statistical authorities will investigate, among others, the interest accruals adjustments for local government, the sharp fall in reimbursement of loans in 2010, and the low level of stocks of actual social contributions at the end of 2010.

Concerning the issues of sectoral classification, the discussion focused on railway companies and municipal enterprises. In particular, it was agreed that PKP PR (a regional transport company) would be closely monitored by National Statistical Institute (GUS), with a possible reclassification to general government by January 2012. GUS will also analyse the statistical classification of the largest ten municipal enterprises and develop a strategy for a rolling review of the statistical classification of municipal enterprises.

Particular attention was given to Bank Gospodarstwa Krajowego (BGK), Poland's only state-bank. A discussion was held on the autonomy of the bank and its current classification as a financial intermediary. It covered the analysis of the bank's main operations, the special-purpose funds managed by the bank and recent legislative changes in its Charter. It was concluded that GUS, with assistance of the National Bank of Poland, will provide to Eurostat a document analysing the statistical issues associated with BGK.

Furthermore, compliance with the rules established by the MGDD and subject to other Eurostat guidance was examined, e.g. capital injections, privatization proceeds and government guarantees. Further work on capital injections will cover transactions into PKP PLK and LOT Cargo SA. In view of the inconsistencies observed, the Polish statistical authorities will record all transfers of privatization proceeds from central government to non-central government units as non-financial transactions (current transfers). Concerning guarantees, GUS will examine the issue of recording of receivables for guarantee calls and will report to Eurostat in due time.

Finally, the new Public-Private Partnership project for another stretch of the A1 motorway (Tuszyn-Pyrzowice) was discussed. The Ministry of Infrastructure provided some basic information on the project and agreed to transmit to GUS all documentation necessary for statistical analysis. It was concluded that GUS will request Eurostat for an ex-ante consultation on the statistical recording of this project.

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Poland on 5-6 September 2011.

The delegation of Eurostat was headed by Mr. John Verrinder, Head of Unit C-4 "Excessive Deficit Procedure II" at Eurostat. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. Poland was represented by the National Statistical Institute (Główny Urząd Statystyczny – GUS), the Ministry of Finance (MoF), the National Central Bank (Narodowy Bank Polski – NBP), as well as, for the specific items of the agenda, by representatives of various government departments and of the Bank Gospodarstwa Krajowego (BGK).

With regard to procedural arrangements, Eurostat indicated that the *Main conclusions and action points* would be sent to Poland for review within days. Then, within weeks, the *Provisional findings* would be sent to Poland for review. After this, *Final Findings* would be sent to Poland and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat also appreciated that all conclusions and action points from the previous EDP dialogue visit held in 2009 were successfully implemented by the Polish statistical authorities.

1. Review of statistical capacity issues

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

Introduction

In Poland, government finance statistics issues are regularly discussed in the meetings of the General Government Statistics Working Group (GGSWG) - an inter-institutional group involving GUS, MoF and NBP. GGSWG is formally an advisory body chaired by GUS and its decisions require the formal consent of GUS management. The annual reports of its activities are presented to the management of the institutions involved. Prior to the dialogue visit, GUS had sent to Eurostat the 2010 annual report of GGSWG activities.

Discussion

Eurostat enquired about any organisational changes in the work of GGSWG and asked about the range of issues discussed in the meetings. In particular, it was interested to know whether any periodic work plans are prepared in advance.

The Polish statistical authorities explained that there had been no significant changes in the functioning of the GGSWG. Further, GUS explained that the meetings cover both methodological and compilation issues relating to elaboration of EDP and government finance statistics data. It highlighted that an annual work programme for the working group is set up, but meetings frequently cover issues arising from ad-hoc needs. GUS informed that three GGSWG meetings took place in 2010 and covered, among others, the new law on

Public Finance, the special-purpose funds managed by the BGK, and the reform of the pension system.

Eurostat enquired about the procedures for the quality control of source data used for the EDP process in Poland. GUS explained that the Supreme Audit Office (*Najwyższa Izba Kontroli - NIK*) is entitled to audit all central government and local government administrative units. The results of the controls undertaken are published on the NIK website and are presented annually to the Parliament. Also, the controlling activities of the 16 Regional Accounting Offices (*Regionalne Izby Obrachunkowe - RIO*), that are supervisory bodies over the local government entities, were highlighted.

Eurostat asked about the existence of any legal mandate or a protocol/memorandum of understanding that would formalise EDP statistical reporting in Poland. In particular, Eurostat enquired about the data transmission arrangements between the GUS, MoF and NBP and the scheduling for the transmission of upstream data.

GUS explained that all these elements were clarified in the **Statistical Survey Program of Official Statistics** and agreed to send to Eurostat a copy of relevant documents.¹

Findings and conclusions

Eurostat appreciated the information provided, in particular the reports from GGSWG meetings. Eurostat also welcomed the manual on “General Government Sector Statistics” prepared in the framework of the GGSWG in 2010, which provides extensive information on the process of compilation of government sector statistics in Poland.

Action point 1: GUS will provide Eurostat with a copy of the documents establishing the General Government Statistics Working Group.

1.2. EDP Inventory

Introduction

GUS provided an update of the Inventory along with the April 2011 EDP Notification. Compared to the previous version of the Inventory (September 2009), new general government entities had been entered in the annex. Furthermore, GUS had provided its input on four chapters of the pilot EDP inventory - military expenditure, transactions with the central bank, capital injections in public corporations and Public-Private Partnerships (PPPs).

Discussion

Eurostat enquired in more detail about the new entities that had been included into the general government sector. GUS explained that most changes resulted from the new Law on Public Finance that came into force on January 1st 2010. The new Law significantly re-organises the functioning of many establishments, e.g. state auxiliary units, local budgetary units, etc., while introducing new organisation forms such as executive agencies and budget institutions. Regarding the special-purpose funds, the new Law changes the rules of their functioning and only allows for state special-purpose funds that do not have the status of separate legal entities. The current existing funds with the status of legal entity will be gradually transformed into state special-purpose funds with a separate bank account under the

¹ GUS provided the relevant information in September 2011.

responsibility of the relevant Ministry. Also in this context, a decision was taken by the GGSWG to re-classify most of special-purpose funds managed by Bank Gospodarstwa Krajowego (BGK) into the general government sector. GUS explained that at the moment there are only a few special-purpose funds left that are classified outside the general government sector, the biggest being the National Housing Fund (*Krajowy Fundusz Mieszkaniowy*). It was highlighted that this fund, however, was formally liquidated in 2009 and its tasks were taken over by Bank Gospodarstwa Krajowego.

Furthermore, the status of two other special purpose funds presented in the annex was clarified. It was confirmed by GUS that the State Veteran Fund ceased its activities in 2007 and the Alimony Fund had been in the process of liquidation since 2004. They are presented in the annex solely for information purposes.

Point 7.2.2 of the Inventory on *Borderline cases regarding the classification of some goods as military goods or as other equipment used by military forces* was discussed. GUS explained that the borderline issue concerned the classification of multi-use units in the system of national accounts. It thus does not concern the application of rules of Eurostat Manual on Government Deficit and Debt regarding the classification of military expenditure and remains without impact on the government deficit and the debt.

Findings and conclusions

Eurostat welcomed the GUS explanation regarding the changes introduced in the Inventory. Whereas Eurostat appreciated the Polish participation in the piloting of the new EDP inventory, it encouraged further work and asked if further parts could be provided.

Action point 2: GUS will complete further parts of the pilot EDP inventory (super-dividends and EU flows) by end-November 2011.²

Action point 3: GUS will update the EDP inventory for pension reforms by April 2012.

1.3. Source data characteristics and revision policy

1.3.1. Source data for central government, local government and social security funds

Introduction

During previous EDP visits, the source data availability was extensively reviewed and it was concluded that the source data situation is satisfactory in Poland. However, some problems with the availability of detailed data sources for certain tables of the EDP Questionnaire (in particular for government guarantees, debt cancellations and Public-Private partnerships) were addressed by the Polish authorities. Furthermore, given the increasing level of debt of local government, the data sources for this sub-sector are of particular interest for the EDP purposes.

Discussion

GUS explained that there had not been any recent major changes in the data sources. Eurostat enquired about any potential problems with the availability of detailed data sources for the tables mentioned above. GUS replied that data sources for public and private partnerships are

² Completed.

now available and informed that data on debt cancellations are obtained from the budgetary reports. Nevertheless, Eurostat encouraged GUS to improve data coverage on government guarantees and debt cancellations in the EDP Questionnaire.

GUS recalled the information provided prior to the visit on Local Government data sources. It states that *budgetary reports of local government entities are collected and compiled by the Ministry of Finance and then they are passed on to the CSO together with the "Report on State Budget Execution". Balance sheets and profit and loss accounts of cultural institutions are collected and compiled by the CSO. Data for local health care institutions are provided by the Ministry of Health. Data for health care institutions and cultural institutions for the first notification is based on estimates.*" During the meeting, the Ministry of Finance confirmed and further elaborated on this information, describing the good completeness and timeliness of local government data.

Particular attention was paid to the late arrival of local government data for the first EDP notification after the end of the year (usually around a week before the end of March). Eurostat invited the Polish authorities to reflect on this timing issue and possibly make improvements.

The issue of consistency of data sources was raised. Eurostat enquired whether the National Audit Office regularly controls consistency between budgetary reporting and financial reports. GUS suggested that it would investigate further the auditing procedure regarding the consistency of various data sources.

Findings and conclusions

Eurostat appreciated the thorough information provided by the Polish authorities regarding the data sources, also for the local government. In the context of several accounting systems used, Eurostat highlighted the need of assuring consistency between different data sources.

Action point 4: The Polish authorities will make efforts to bring forward the availability of source data for Local Governments for the April 2012 EDP notification, and will inform Eurostat of progress by the April 2012 notification.

Action point 5: The Polish authorities will confirm if the Polish audit authorities check the consistency of government accounting data, notably between budgetary reporting and financial statements, such as balance sheet items, and will report back to Eurostat by end-November 2011.³

1.3.2. Revision policy

Introduction

Apart from a large revision that took place in 2007, there have been relatively few revisions in Poland since the April 2004 EDP Notification.

Discussion

The Polish authorities explained that the revision in the April 2007 EDP Notification that resulted in the increase in deficit for 2003-2005 was related to the reclassification of funded pension schemes outside the general government. A discussion on revision analysis followed, where Eurostat informed the Polish authorities about its work in this field.

³ Completed. GUS provided the relevant information.

Findings and conclusions

GUS explained that it performs analyses of revisions between consecutive EDP notifications for particular periods, but does not perform analyses covering comparisons of revisions over a long time series. Eurostat encourages such revision analyses to be implemented on a national level as well.

Action point 6: Eurostat will provide GUS with a file of EDP revision data, and GUS will provide any appropriate comments to Eurostat by end-January 2012.

2. Follow-up of the last EDP dialogue visit to Poland (6-7 July 2009)

All of the action points from the previous dialogue visit have been completed.

3. Analysis of the April 2011 EDP notification

3.1. Examination of the EDP notification tables

Introduction

Poland twice revised its data in the April 2011 EDP Notification exercise. The final EDP notification tables were received on April 11th 2011 and the final version of the Questionnaire on April 14th 2011. Compared with the October 2010 notification, revisions to past years were observed for the central government deficit in 2009 (increase of the deficit by 0.1% due to a neutralizing recording of a sale of property rights) and for consolidated interest (increase of general government expenditure on interest by 0.09% due to swaps). Two requests for clarifications were exchanged with GUS in order to obtain further explanations.

Discussion

Eurostat enquired about the reasons for revising the data during the April 2011 EDP Notification. The Polish authorities explained that it was due to the late availability of local government data, limited human resources, as well as the results of data quality analysis. Eurostat asked for more details regarding the revisions in ESA table 2 for 2009 in two transactions: D.41 Interest on PLN 1,230 million and in D.7 PAY on PLN 176 million. GUS assured that the revision of the consolidated interest data (D.41) was related only to the swap transactions. Regarding the D.7 PAY revision, GUS asked for more time to investigate this issue.

Findings and conclusions

Action point 7: GUS will investigate the reason for the PLN 176 million revision in D7 PAY for 2009 in the April 2011 ESA Table 2 data, and will inform Eurostat, by end-September 2011.⁴

⁴ Completed. GUS clarified that the revision was due to the adjustment of ESA table 2 to EDP after revision of data on interest for swaps and on financial transaction included in working balance (sale of the PKO BP SA rights issue).

a) EDP Tables 2A-2D

Eurostat enquired about the substantial increase in forecast receivables shown in EDP Table 2A. The Polish authorities explained this increase as a consequence of the application of the new Law on Public Finance and the inclusion of EU flows in the working balance and a corresponding correction under "Other accounts receivable". The discussion on the treatment and the presentation of the EU flows in the context of this legislative change continued – please see point 4.3.8 for a summary.

Next, the time series 2007-2010 for the difference between interest paid and interest accrued for central and local government shown in EDP Tables 2A and 2C was analysed. Eurostat pointed out that for central government the difference between interest paid and interest accrued has been consistently negative whereas for the local government it has been reported as consistently positive.

A consistently negative difference between interest paid and interest accrued for central government was explained by a representative of the Ministry of Finance by the use of discount instruments and a rising national debt. The large figure for 2010 was explained by a large sale of discount instruments that will generate cash outflows in future years. Eurostat welcomed this explanation and asked GUS to further investigate the time series for local government and to report its findings to Eurostat.

Further, Eurostat enquired about the observed accumulation of other accounts receivable in EDP Table 2C under item "output" – payments for market and non-market output delivered by government to other sectors. In particular, questions were raised about the type of local government units contributing to this economic effect. GUS agreed to investigate this issue and report its results to Eurostat.

Finally, the recording of debt assumptions for guarantees under the adjustments line in table 2A was discussed. GUS agreed to investigate this issue and align its statistical treatment with the guarantee arrangements in Poland (whether cash settlement of calls or debt assumption).

Action point 8: The Polish authorities will investigate why interest accruals adjustments for Local Government are consistently positive, and will report to Eurostat by April 2012.

Action point 9: The Polish authorities will identify which Local Government units are contributing to the substantial rise in other accounts receivable for output in 2010, and will establish the reason for such rises (if concentrated in certain units), informing Eurostat by end-December 2011.⁵

Action point 10: At the October 2011 EDP Notification, GUS will alter the recording of guarantee calls in EDP Table 2A to ensure that it is appropriate for the guarantee arrangements in Poland (whether cash settlement of calls or debt assumption).⁶

⁵ Completed.

⁶ Completed. The information about guarantee calls has been deleted from table 2A since in Poland, when a guarantee is called, there is a cash payment included in the working balance.

b) EDP Tables 3A-3E

Eurostat enquired about the fall in repayment of loans (F.4) in 2010 as reported in EDP Table 3A. Eurostat also noted that the repayment of loans to Central Government fell substantially in 2010 according to data in EDP Table 3B. After the discussion about the potential reasons for the situation, GUS asked for time to investigate this issue closer and provide an explanation to Eurostat at a later stage.

Eurostat raised a question about the decrease of PLN 225 million for Central Government reported under "Other volume changes in financial liabilities" in EDP tables 3A and 3B. GUS answered that it is a write-off of central government claims. As a write-off does not explain the difference between the change in debt and the deficit and as it is not related to liabilities, it was agreed that it should not appear under this entry.

Action point 11: The Polish authorities will establish the reason for the sharp fall in 2010 in reimbursements of loans (as reported in EDP Tables 3A and 3B), and will inform Eurostat by end-September 2011.⁷

Action point 12: GUS will remove the PLN 225 million other volume changes adjustment for 2010 in EDP Tables 3A and 3B in the October 2011 EDP notification.⁸

c) EDP Tables 4

Eurostat noted that the table was reported empty and that at least GNI data could be reported.

3.2. Statistical discrepancies in EDP tables

Introduction

The statistical discrepancy for general government in EDP Table 3A significantly increased in 2010 compared to previous years (from 27 to 1,493 million PLN). For local government in EDP Table 3D, a similar trend was recorded with the statistical discrepancy growing from 78 to 776 million PLN.

Discussion

In the document provided by GUS prior to the mission, the statistical discrepancy was explained by the use of estimates for health care institutions, cultural institutions and public universities due to the lack of financial statements of these institutions for the spring notifications. GUS explained that the discrepancies were expected to be reduced for the October 2011 EDP Notification when the final statements of the institutions in question would be available.

Findings and conclusions

A discussion on the potential reasons for the growing statistical discrepancies took place. The Polish statistical authorities confirmed that they base their estimates on historical data and forecasts. Eurostat noted that if the estimates are believed to cause statistical discrepancies,

⁷ Completed. GUS clarified that in 2010 there were reimbursements of loans, which were not included in the April 2011 EDP notification. Data were updated in tables 3A and 3B of the October 2011 EDP notification.

⁸ Completed.

efforts should be made to improve the quality of these estimates. Eurostat suggested that one way to improve these estimates would be to use financial accounts data if they are reasonable.

Action point 13: In compiling estimates for Health and other units for the April 2012 EDP notification, GUS will also analyse financial data (including the statistical discrepancy) to test the plausibility of the estimates.

3.3. Other EDP related tables

a) Questionnaire relating to the EDP tables

Introduction

The final Questionnaire relating to the EDP tables was received on April 14th 2011. The information provided in the Questionnaire which was sent with the April 2011 notification was consistent with the EDP notification tables.

Discussion

A few mainly presentation related issues were briefly discussed. In particular, Eurostat pointed out the large amount reported in the item "Other unspecified items" in table 4.1.1. Other accounts receivable reported in EDP table 3A and missing information in the item "Adjustments". GUS confirmed that the receivables of EU flows are reported on a net basis (there are only receivables reported from EU flows, no payables). Eurostat highlighted the lack of the split of military expenditure into other accounts receivable and payable. Also, Table 5 was discussed in the context of a significant decrease of the stock of actual social contributions. Finally, the issue of a discrepancy between Table 8.1 (claims) and financial accounts was raised. After the discussion, GUS agreed to undertake the actions presented below.

Findings and conclusions

Action point 14: All entries in other accounts receivable referring to balancing and statistical discrepancy will be reported by GUS at the October EDP notification in EDP Questionnaire table 4.1.1 in the relevant rows (15/16).⁹

Action point 15: GUS will split military expenditure into other accounts receivable and payable in all EDP tables for the October 2011 EDP notification.¹⁰

Action point 16: GUS will check the low reported level of stocks of actual social contributions at end-2010 reported in EDP questionnaire Table 5, and will make any necessary amendments by the October 2011 EDP notification.¹¹

Action point 17: GUS will complete the work on reconciling data for EDP Questionnaire Table 8.1 (claims) with financial accounts, thereby allowing the table to be further completed, by April 2012. However, if it is not possible improvements will be implemented in the October 2012 EDP notification.

⁹ Completed.

¹⁰ Completed.

¹¹ Completed. The data in the EDP questionnaire table 5 have been revised.

b) Tables on the financial turmoil

No government interventions in banks or public companies in the context of the crisis have been reported by the Polish government.

c) Table on intergovernmental lending

Poland did not take part in any intergovernmental lending to other EU governments

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government sector in national accounts: application of market / non-market rule

Introduction

In Poland, sectorisation of units is discussed in the meetings of the working group GGSWG, which is chaired by GUS and the final decisions are taken by GUS. Presently, there is a need for a close monitoring of the railway companies and health care institutions.

Eurostat received an analysis of the market/non-market nature (in terms of the 50% rule) for all railway companies for the last four years (2007-2010). For 10 out of the 11 railway companies the sales over production costs ratio were reported to exceed 50% for the whole period from 2007 to 2010. However, for one company - PKP PR (Przewozy Regionalne), a regional transport company - this ratio was slightly less than 50% for the last two years. As to health care institutions, no changes in classification were signalled by the Polish statistical authorities.

Discussion

The discussion under this point of the agenda focused mainly on railway companies. GUS assured that it will closely monitor PKP PR and will reclassify the body in the general government sector if the sales to production cost ratio is still below the 50% threshold in 2011, based on information available in early 2012.

Eurostat enquired about other local government public corporations with respect to statistical classification: municipal transport companies (in particular ZTM – Zakład Transport Miejskiego), water utilities companies, electricity operators and the Warsaw underground. Further, Eurostat stressed that the statistical classification of public corporations should be regularly reviewed and encouraged GUS to undertake a regular analysis of municipal enterprises in the context of their statistical classification.

GUS replied that in the past many of these public corporations were part of the budgetary central and local government, but they were later reclassified outside the general government sector as many of them had their legal status changed. GUS believed that these companies did not receive significant government subsidies.

Findings and conclusions

Action point 18: GUS will monitor the results of PKP PR and will take a decision on the statistical classification of the unit by end-January 2012, informing Eurostat of its decision and the underlying rationale.

Action point 19: GUS will analyse the statistical classification of the largest 10 municipal enterprises (in the largest Polish communes), including ZTM, and will report its conclusions to Eurostat by end-December 2011.¹²

Action point 20: GUS will develop a strategy for a rolling review of the statistical classification of municipal enterprises, to ensure that each enterprise is examined at least every 4 years, and will report on its strategy to Eurostat by end-December 2011.¹³

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

Introduction

GUS applies the one month time-adjusted cash method for recording in national accounts of both direct and indirect taxes. However, the final settlement amount of direct taxes are calculated and paid by taxpayers in April of the following year. In addition, important tax reliefs were introduced during 2001-2008.

Discussion

Eurostat enquired how the aspects presented above are taken into account in the one-month time-adjusted cash method. GUS explained that the tax refunds are treated on a cash basis. It stressed however, that according to the thorough analysis conducted in the past in cooperation with Eurostat, the method is appropriate and no further adjustments are necessary. Eurostat took note and added that if the government changes the timing of refunds, corrections should be made and Eurostat would like to be informed.

Findings and conclusions

GUS explained that it applies a one month time-adjusted cash method for both direct and indirect taxes, whereas tax refunds are recorded on cash basis. In case of any major changes in the timing of refunds, which might require a change in approach, Eurostat should be informed.

4.2.2. Interest

Introduction

During the April 2011 EDP Notification, the data for consolidated interest were revised

Discussion

Eurostat enquired about the method used by GUS for the consolidation of interest. GUS explained their approach to consolidation of interest and the data sources used. Simplified, the

¹² Completed.

¹³ Completed.

expenditure and revenues positions are analysed and counterparts are identified in the subsectors, allowing consolidation.

Findings and conclusions

Eurostat took note of the explanation regarding the consolidation of interest.

4.3. Recording of specific government transactions

4.3.1. Capital injections, super-dividends, privatisations

Introduction

During previous EDP missions issues relating to the recording of capital injections were extensively discussed with GUS, leading to some reclassifications. In particular, all capital injections undertaken by local government were reclassified in the April 2009 EDP Notification as capital transfer expenditure, due to non-availability of detailed information which would enable their national accounts analysis by GUS. Prior to the mission, GUS provided Eurostat with the following documents: a breakdown by company of "Other capital injections" for 2009 and 2010 (relating to the Questionnaire, Table 10.2, block B), a detailed explanation of the split of the total amount of distributions paid to government by the National Bank of Poland (relating to the Questionnaire, table 10.2) and a note describing all relevant transactions related to the privatisation of Bank Pekao SA in 2009 (relating to the Questionnaire, table 10.2).

Discussion

Eurostat appreciated the extensive information provided by GUS and asked whether the Ministry of Treasury is the sole body conducting capital injections. GUS explained that apart from the Ministry of Treasury, the Ministry of Infrastructure and the Ministry of Economy can also make capital injections.

Further, the breakdown by company of "Other capital injections" for 2009 and 2010 (table 10.2 of the EDP Questionnaire, block B) was analysed. Eurostat pointed out that the biggest capital injection was related to the loss-making company PKP PLK (*Polskie Linie Kolejowe*), a railway infrastructure company, which would mean that it would be more appropriate to record it as a capital expenditure and not as an equity transaction. Eurostat enquired about the profitability of the remaining companies. GUS confirmed that all other companies were profitable. However, it appeared that one of the companies on the list, LOT Cargo SA, was a newly established company. Eurostat invited GUS to look at the business plan of the company in order to determine if a sufficient rate of return was expected from the capital injection.

GUS informed that they did not have a possibility to review the business plan, however the representatives of the Ministry of Economy assured that they had analysed the business plan of LOT Cargo SA and that it was economically viable.

Next, Eurostat enquired about any transactions related to privatisations, such as forgiveness of loans, restructuring of pension schemes, transfers of assets, etc. The Polish authorities (neither GUS nor the Ministry of Economy) were not aware of any such transactions. However, this issue needs to be further investigated as, if such transactions do exist, they must be correctly recorded in the accounts.

Recording of transfers of privatisation proceeds to a Social Security unit – the Demographic Fund - was extensively discussed. Currently, they are presented as a financial transaction between the Central Government and the Social Security subsector. It was concluded that all transfers of privatisation proceeds to non-Central Government units should be recorded as non-financial transactions.

Findings and conclusions

Action point 21: GUS will confirm if the 2009 capital injection into PKP PLK has been recorded as a capital transfer in EDP data and will make any necessary corrections to EDP questionnaire table 10.2 for the October 2011 EDP notification.¹⁴

Action point 22: GUS will quickly obtain a copy of the business plan for LOT Cargo, and will confirm if the plan shows a projected market rate of return on the State's capital injection. Should the business plan not be made available, the 2010 capital injection into LOT Cargo shall be recorded as a capital transfer.¹⁵

Action point 23: The Polish authorities will check that the recording of possible transactions associated with privatisation (for example, transfers of assets) is comprehensive and appropriate, informing Eurostat by end-November 2011.¹⁶

Action point 24: GUS will record all transfers of privatisation proceeds to non-Central Government units as non-financial transactions (current transfers). If possible, the revisions will be made for all years in the October 2011 EDP Notification, however if this is not possible, the revisions will be made in the April 2012 EDP notification.

4.3.2. Government guarantees

Introduction

The issue of the recording of government guarantees has been discussed with the Polish authorities in the past. It seems that calls and repayments are recorded in both non-financial accounts (expenditure/revenue) as well as in financial accounts (acquisition of a claim and its repayment).

Prior to the meeting, GUS provided a full list of guarantees for beneficiaries not part of the General Government sector (banks, power stations, companies building motorways, housing cooperatives, railways).

Discussion

Eurostat enquired about any changes in the recording of government guarantees. GUS confirmed that the guarantee calls can give rise to the acquisition of receivables. Eurostat took note of the explanations by GUS concerning their recording of government guarantees. Eurostat is of the opinion that recording guarantee calls both as expenditure and as an acquisition of a claim is inappropriate and could lead to statistical discrepancies. Therefore,

¹⁴ Completed. GUS confirmed that the 2009 capital injection into PKP PLK had been recorded as a capital transfer in EDP data and made necessary corrections to EDP questionnaire table 10.2 for the October 2011 EDP Notification.

¹⁵ Completed. GUS obtained a copy of the business plan and a description of the transaction

¹⁶ Completed. GUS confirmed the absence of any transactions related to the privatisation such as forgiveness of loans, restructuring of pensions schemes, transfers of assets, etc.

Eurostat encouraged GUS to reconsider its recording of guarantee calls and comply with the Manual on Government Deficit and Debt.

In answer to Eurostat question, GUS informed that it received information from the Ministry of Finance regarding calls on guarantees. Eurostat also enquired about any cases of repeated calls. GUS informed that there were no cases of two or more calls on guarantees.

Eurostat analysed the above mentioned list of guarantees. It highlighted the big amounts of guarantees granted for loans given to PKP PLK (*Polskie Linie Kolejowe*), a railway infrastructure company, and the state-owned bank Bank Gospodarstwa Krajowego. The European Investment Bank was by far the biggest beneficiary of these guarantees.

Findings and conclusions

Action point 25: GUS will examine the issue of recording of receivables for guarantee calls, and will report back to Eurostat by end-December 2011.¹⁷

4.3.3. Debt assumptions/debt cancellations/write-offs

Some minor revisions are expected for the next notification concerning the recording of debt assumptions and write-offs, which were already discussed under an earlier agenda point relating to the corresponding EDP tables.

4.3.4. Sale of property rights in PKO to Bank Gospodarstwa Krajowego (BGK)

Introduction

In 2009 a sale of property rights in PKO Bank Polski by the Treasury to BGK took place for an amount of approximately PLN 1.4 billion. As this is considered as a financial transaction, the revenue from this sale, previously recorded in the working balance, has been neutralised through the item '*Equities, sales*' under '*Financial instruments included in the working balance*'.

Discussion

Eurostat enquired in more detail about the nature of the property rights and the appropriate statistical classification of this transaction was discussed. In particular, Eurostat asked how the value of the property rights was determined. The Polish authorities confirmed that the property rights were sold in a public offer at a market price.

Findings and conclusions

Following an explanation of the Polish authorities, it was concluded that these rights were call options and it would be more appropriate to treat them in statistical accounts as financial derivatives and not as equity. The Polish authorities agreed to correct the recording for the notification in October 2011.

¹⁷ Completed. GUS investigated the recording of guarantee calls and repayments and reported that they are currently recorded as receivables in financial accounts. This treatment will be revised.

4.3.5. Bank Gospodarstwa Krajowego (BGK)

Introduction

Bank Gospodarstwa Krajowego is Poland's only state bank. The BGK is the government's primary partner specialised in supporting government social and economic programmes and in servicing the public finance sector.

Prior to the meeting, GUS provided Eurostat with a note presenting the activities of this bank. In 2009 and 2010, several significant developments took place in the Charter and operations of the bank. During the dialogue visit, Eurostat was seeking to obtain better understanding of their character and the impact on the statistical recording. This in particular concerned:

- Main activities of the bank and the character of the special purpose funds,
- The re-capitalisation of the bank in 2009,
- Statistical classification of different funds managed by the BGK,
- Legislative amendments in the Charter and the Act on the BGK.

Discussion

a) Main activities of the bank and the character of the special purpose funds

Eurostat launched the discussion by inviting the representatives of the BGK to shortly present the Bank's main activities and recent developments in its operations.

BGK's representatives focused on their main task, to support the government-sponsored social and economic programmes enhancing entrepreneurship and infrastructure at national, regional and local levels. It was highlighted that BGK's responsibilities resulting from this role are mostly performed as so-called assignments sponsored by state authorities (*działalność zlecona*). Under these assignments the Bank manages and operates funds established at or entrusted or transferred to the Bank. By virtue of law, the Bank maintains separate accounting records and prepares separate reports on operations for such funds. There are two types of funds currently managed by BGK:

- Funds which are exposed to credit risk (so-called *credit funds*) – recognised in the Bank's balance sheet and income statement:
 - The Municipal Investment Development Fund (*Fundusz Rozwoju Inwestycji Komunalnych - FRIK*);
 - The Inland Waterway Fund (*Fundusz Żeglugi Śródlądowej - FZŚ*).
- Funds related to the management of financial flows (so-called *flow-funds*), which are not recognised in the Bank's balance sheet and income statement:
 - The National Road Fund (*Krajowy Fundusz Drogowy - KFD*),
 - The Railway Fund (*Fundusz Komunalny - FK*),
 - The Building Insulation and Repair Fund (*Fundusz Termomodernizacji i Remontów - FTiR*),
 - The Housing Assistance Loan (*Fundusz Dopłat - FD*),
 - The Student Loan Fund (*Fundusz Pożyczek i Dopłat Studenckich - FPiKS*).

Another important objective of the Bank is to support public finance entities (including local government), enterprises in selected industries, and small and medium-sized enterprises.

In addition to operations typical for commercial banks, the Bank's own operations also include government-assigned activities. These are typically undertaken under special programmes and are governed by agreements between the state institutions sponsoring the particular activity and BGK. One of them is the Housing Development Support Programme. In the past this activity was under the National Housing Fund (*Krajowy Fundusz Mieszkaniowy*), a *credit fund*, but it was liquidated as of May 31st 2009 (see below) and its activities were taken over by the BGK. The goal of this programme is to advance preferential loans for housing development and the associated technical infrastructure. Eurostat enquired more in detail about the character of this activity and its impact on BGK's own funds.

Eurostat enquired in depth about the method of reporting the activities of the *flow-funds*. The BGK representatives informed about the heterogeneous ways of reporting the *flow-funds* activities. They re-confirmed that *flow-funds* activities are not included in the Bank's Annual Report i.e. balance sheet and income statement. However, they are included in the reports sent to the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*) and to the Central Bank of Poland. It was highlighted that this reporting approach was accepted by the external auditors. At the moment, the Polish Financial Supervision Authority is investigating this duality in the reporting of the bank's activities and will advise BGK on best practice for the future.

The Central Bank of Poland explained that all activities of BGK (including the managed funds) are classified in the monetary statistics in the financial accounts. The Central Bank of Poland confirmed that it regards BGK as a financial intermediary.

b) The re-capitalisation of the bank in 2009

The representatives of BGK confirmed that on the May 31st 2009, three special purpose funds (operating until then within the Bank's structure) were dissolved. These were the National Housing Fund (*Krajowy Fundusz Mieszkaniowy*), the National Credit Surety Fund (*Krajowy Fundusz Poręczeń Kredytowych*) and EU Surety Fund (*Fundusz Poręczeń Unijnych*). The separate accounts of those funds were closed and their net assets, along with their financial results, were allocated to the BGK's registered capital, which raised its value from 1.626 billion PLN in 2008 to 5.184 billion PLN in 2009.

Eurostat raised a question about the major financial transaction that followed at the time of the re-capitalisation. BGK purchased from the Polish Treasury (see point 4.3.4) the property rights in another bank PKO Bank Polski for approximately PLN 1.4 billion. The rights were then transformed into shares (for approximately PLN 2.6 billion), which gave BGK a 10.25% share in the PKO Bank Polski. The BGK representatives assured that these two transactions were not linked.

c) Statistical classification of different funds managed by the BGK

To conclude this part of the discussion, the issue of the statistical classification of the special purpose funds was raised and Eurostat invited GUS to provide its insight on this subject. GUS explained that all the *flow-funds* are at present classified in the general government and are excluded from the financial corporations sector. Such a classification was introduced in 2009 following the entering into force of the new Law on Public Finance. According to this law, a great majority of the special-purpose funds ceased to operate as independent legal entities and thus a change in classification was made.

The *credit-funds*, the Municipal Investment Development Fund (FRIK) and the Inland Waterway Fund (FZŚ) are also classified within the general government sector.

d) Legislative amendments in the Charter and the Act on BGK

The next point of the discussion was devoted to the numerous legislative changes that took place in 2010 and early 2011 in the Charter and the Act on BGK.

The changes concerned in particular the expansion of BGK's banking and other activities, the extension of the scope of sureties that may be granted by the Bank, and the change of the rules governing the distribution of the Bank's annual net profit. In addition, it was established that the Bank may not declare bankruptcy and that the State Treasury is to assume the Bank's assets and liabilities if the Bank is wound up. In addition, the minister competent for public finance is required to ensure that the amount of the Bank's equity is sufficient to guarantee execution of the Bank's responsibilities and that the Bank's funds are sufficient to maintain its payment liquidity standards.

In addition, as a consequence of the new Law on Public Finance, there were additional changes, which also affected the Bank's operations.

The BGK representatives assured Eurostat that the above amendments were in order to complete the statutory set-up of the bank and bring it into line with the practice and the legal provisions used for privately owned banks. The statutory changes were mostly aimed at clarifying the bank's situation for the financial markets and thus improving the credit rating of the bank.

In the follow-up of the discussion, GUS informed that it had already held a meeting with the BGK representatives to discuss the impact of the recent developments on the autonomy of decision of the Bank, in particular the independence of the bank in the decision making process. GUS explained that it had established that BGK has economic autonomy when it comes to its core banking activities, however some more consideration should be given to the assigned activities of the bank (notably the National Housing Programme).

Findings and conclusions

Eurostat and the Polish authorities discussed statistical issues relating to BGK, in particular to its activities, its funds and the involvement of the government. The BGK representatives provided comprehensive explanations of the activities of the institution.

Action point 26: GUS, with the assistance of the National Bank of Poland, will provide to Eurostat by end-November 2011 a document analysing statistical issues associated with BGK, notably (i) an analysis of its autonomy of decision, (ii) a rationale for its treatment as a financial intermediary, (iii) the statistical classification of credit risk funds managed by BGK, including the Housing Agency, and (iv) the statistical classification of other activities undertaken by BGK under government mandate. GUS will further investigate the classification of a 2009 capital injection into BGK (arising from fund liquidation), reporting to Eurostat by end-November 2011.¹⁸

¹⁸ Completed.

4.3.6. Military equipment expenditure

Introduction

By default, military expenditure in Poland is recorded on a delivery basis, in compliance with the relevant Eurostat decision.

Discussion

Eurostat raised a question about a recording in Table 4.2.2 in the Questionnaire, where military expenditure accrual adjustments are reported on a net basis.

Findings and conclusions

For the October 2011 EDP Notification, Eurostat invited GUS to provide a split of military expenditure into receivables and payables. Please see Action Point 15.

4.3.7. Recording of financial derivatives

Introduction

At the request of Eurostat, a note describing the recording of financial derivatives in EDP tables 2 and 3 was provided by GUS before the visit.

Discussion

A few questions were raised during the meeting in order to clarify some of the entries in the tables provided. In addition, GUS raised a question on recording of gains and losses on foreign exchange swaps.

Findings and conclusions

Action point 27: Eurostat will confirm to the Polish authorities, within days, the treatment of gains and losses on foreign exchange swaps (whether interest or revaluation), and advise on recording of the swaps in the ESA balance sheet.¹⁹

4.3.8. Recording of EU flows

Introduction

Under this point, two issues were raised: the change of recording of the EU flows for the year 2010 and the EUR/PLN exchange rate holding gains/losses on EU funds.

Discussion

a) Recording of EU flows

For the years 2007-2009, EU flows are included in the *working balance* of the Table 2A and 2C. The starting line of the Table 2A corresponds for these years to an item voted in the Parliament. For the April 2011 EDP notification part of the EU flows was excluded for 2010 data from the *working balance*.

EU transfers should have no impact on government deficit/surplus, thus the difference between revenues and expenditure of EU amounts is then registered in line *Other accounts*

¹⁹ Completed.

receivable with negative "-" or positive "+" sign. In EDP Tables 3 these amounts are recorded in the line *Other financial assets* with negative "-" or positive "+" sign as increase or decrease of receivables.

Prior to the meeting, GUS provided to Eurostat a note on the recording of EU flows in the EDP notification tables that explained the change of the recording. GUS informed that it was linked with the new Law on Public Finance. From 2010, according to the new law, there are two elements of the working balance: working balance of the state budget and (new) working balance of the EU funds budget. For the parliamentary voting procedure, both budgets are added up. In 2010, GUS decided to exclude the EU funds working balance from the starting line of EDP Tables 2A and 2C since it was not able to conduct proper adjustments in order to eliminate EU funds impact on the government deficit. During the meeting, GUS confirmed the above information and assured that it is investigating the issue and would change the recording to make it in line with previous years for the EDP October 2011 Notification.

Eurostat enquired about the adjustments for EU flows reported for 2010 in lines *Other accounts receivable* in tables 2A and 2C and *Other financial assets* in tables 3. GUS clarified that this is the correction for EU flows that are still recorded in cash balance of state budget and not reflected in the balance of the EU funds budget.

b) EUR/PLN exchange rate holding gains / losses on EU funds

Eurostat enquired about the recording of holding gains/losses relating to EU flows due to exchange rate movements. The issue was raised in the context of the significant weakening of the Polish currency against the Euro in 2009. In 2009 there were some holding gains/losses but in 2010 the reported amount is 0. Eurostat asked GUS for further investigation regarding this entry.

The Polish statistical authorities informed that holding gains/losses were recorded in a separate paragraph in the budgetary reporting and that they were subsequently treated as a financial transaction in the national accounts.

Action point 28: GUS will check if the impact of the PLN/EUR conversion mechanism for EU funds in 2010 was really zero, and if so establish why, reporting to Eurostat by end-September 2011.²⁰

4.3.9. PPP contracts, securitisation and sale and leaseback operations

Introduction

A revised law on Public-Private Partnerships (PPPs) was passed at the end of 2008, replacing the law from 2005 that turned out to be ineffective. The Polish authorities indicated that numerous infrastructure projects, mainly roads, are considered to be undertaken in the coming years as PPPs. Currently, as reported in Table 11 of the Questionnaire, there are three PPPs ongoing in Poland: Motorway A1 Gdańsk to Grudziądz, Motorway A1 Grudziądz to Toruń and Motorway A2 Świecko to Nowy Tomyśl.

²⁰ Completed. GUS checked the impact of the PLN/EUR conversion mechanism for EU funds in 2010. There were expenditures due to holding losses. Negative exchange rate differences are classified as expenditure of the state budget, influencing the working balance.

Discussion

Eurostat enquired about any potential changes in the classification of the ongoing PPPs. GUS confirmed that they are classified on balance sheet and there is no indication that their classification would change.

Next, GUS informed that the Polish government is currently working on a new PPP for another stretch of motorway A1, from Tuszyn to Pyrzowice (approximately 180 km). GUS invited the representatives of the Ministry of Infrastructure to provide more details about this project.

A representative of Ministry of Infrastructure explained that in fact this project dates back to 2007. It was also then planned as PPP, however constructed differently, but failed to advance due to the unfavourable market situation. The work on the current proposal is well advanced and is now being consulted within the Polish administration.

The project is being prepared as an availability-based project (a private partner takes the construction and the availability risk and the government takes the demand risk). Eurostat was informed that, according to the Polish legislation, there must be tolls on the highways. The Ministry of Infrastructure informed that, in this project, the level of tolls will be set by the government and all revenues from tolls will be sent to the government (more precisely to the National Road Fund). The simulations show that the toll revenues may exceed 50% of availability payments.

Findings and conclusions

Eurostat took note of the information. It was agreed that the Ministry of Infrastructure will transmit all necessary documentation to GUS, which will ask Eurostat for ex-ante advice on the recording of the PPP project. Eurostat replied that it would provide its preliminary view, as the project was not yet signed.

GUS confirmed that no securitisation transactions and no sale and lease-back operations had taken place in Poland.

Action point 29: GUS will write to Eurostat with a statistical analysis of the planned A1 PPP project, using information provided by the Ministry of Infrastructure, and Eurostat will assure a timely response.²¹

4.4. Reform of the pension system

Introduction

In May 2011, an amendment of the Polish pension system took place. Part of the 2nd pillar contributions are now diverted to the 1st pillar and are going to be entered on so-called "sub-accounts" that are subject to indexation by the rate of nominal GDP growth. The Polish Social Security Institution (ZUS) acknowledges the accumulation of future pension rights in the name of individual participants. The rights accumulated by the individuals may be inherited by their heirs in the case of death.

²¹ Completed.

The "sub-accounts" are not actually funded – the contributions are not ring-fenced in financial instruments (deposits, equity, bonds). Moreover, ZUS will not show liabilities for the "sub-accounts" in its own financial statements and it will not show a corresponding claim on government for the resources to pay future pensions.

On 12 May 2011 Eurostat provided a preliminary opinion on the appropriate statistical recording of the amendment of the Polish pension scheme based on the existing rules of Eurostat Decision on the classification of funded pension schemes in case of government responsibility or guarantee, ESA 95, the Manual on Government Deficit and Debt (MGDD), and SNA 2008. Eurostat is of the opinion that the sub-accounts should be classified within the general government sector and no liabilities should be recorded.

Discussion

In the context of the preliminary Eurostat opinion on the appropriate statistical treatment of this amendment, Eurostat enquired about any additional potential changes in the law or the schedule for the implementation of the appropriate recording.

GUS explained that the law was in force and there were no additional changes envisaged at the moment. It re-confirmed that the pension scheme amendment would be reflected in the April 2012 EDP notification and would follow the Eurostat guidance on statistical recording.

Findings and conclusions

Eurostat took note of the information provided and welcomed the fact that the April 2012 EDP Notification will follow the Eurostat guidance.

5. Other issues

5.1. ESA95 Transmission programme

Introduction

There are still some discrepancies between the quarterly and annual financial accounts of general government.

Discussion

Eurostat enquired about the difficulties in ensuring alignment of quarterly and annual financial accounts of general government with data reported in the EDP tables. NBP explained that it was due to the need for adjustments/ balancing of accounts for the whole economy.

Findings and conclusions

Eurostat encouraged work between GUS, the Ministry of Finance and NBP to improve the consistency between quarterly and annual financial accounts of general government and EDP data.

5.2. Any other issues

Introduction

At the end of the meeting two additional issues were briefly discussed – the sale of Assigned Amount Units in 2009 and the ongoing preparations for the 2012 European football championship, to be held jointly with Ukraine.

Discussion

In 2009 Poland sold Assigned Amount Units for PLN 24 million. GUS informed that this had been treated in national accounts as market output (P.11). Eurostat explained that under forthcoming guidance it would be recorded as a sale of non-financial non-produced assets.

Eurostat asked about the financing of all the investments (building of new infrastructure and renovation of existing facilities) related to the 2012 European football championship. The Polish authorities explained that funding for these preparations was provided by the state and was therefore included in government deficit and debt data.

Findings and conclusions

Eurostat took note of the information provided by the Polish authorities.

Annex 1

List of participants of the EDP dialogue visit to Poland of 5-6 September 2011

Name	Institution	Department
John Verrinder Luca Ascoli Giovanna Dabbico Małgorzata Szczęśna Viktor Popov	EUROSTAT	
Bartosz Przywara	DG ECFIN	
Linda Kezber	ECB	
Halina Dmochowska – Vice President Maria Jeznach – Director Olga Leszczyńska – Luberek – Deputy Director Jan Krawczyński - Deputy Director Anita Perzyna Małgorzata Borejko Jerzy Krysta Mariusz Madejski ----- Renata Bielak – Director	GUS	National Accounts Division Analyses and Comprehensive Studies Division
Janusz Jabłonowski Bartosz Piotrowski Tomasz Jędrzejowicz ----- Marcin Kitala	NBP	Department of Statistics Economic Institute
Iwona Fudała-Poradzińska Andrzej Szpak Bożena Borecka ----- Agnieszka Rutkowska ----- Marek Szczerbak Beniamin Kocoń ----- Oktawiusz Szubart ----- Marianna Borowska – Deputy Director Karolina Burzyńska	MoF	Financial Policy, Analysis and Statistics Department Guarantee Department Public Debt Department International Department Local Government Finances Department
Piort Siwek Monika Kacprzyk-Wojdyga Marcin Staszewski	Ministry of Treasury	Department of European Integration and State Aid
Dariusz Brzozowski	Ministry of Economy	
Sławomir Siewko Dorota Miziołek	General Directorate for National Roads and Motorways	
Jarosław Waszkiewicz - Director Elżbieta Maj Magdalena Kossowska Krzysztof Walczak	Ministry of Infrastructure	
Krystyna Chlebowska - Director Sławomir Giersberg Michał Czaiński - Deputy Director Adam Oracz	BGK	